

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

**For the Year Ended
September 30, 2019**

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CITY OF WALLER, TEXAS

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September 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Waller, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Waller, Texas (the "City"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 14, 2020

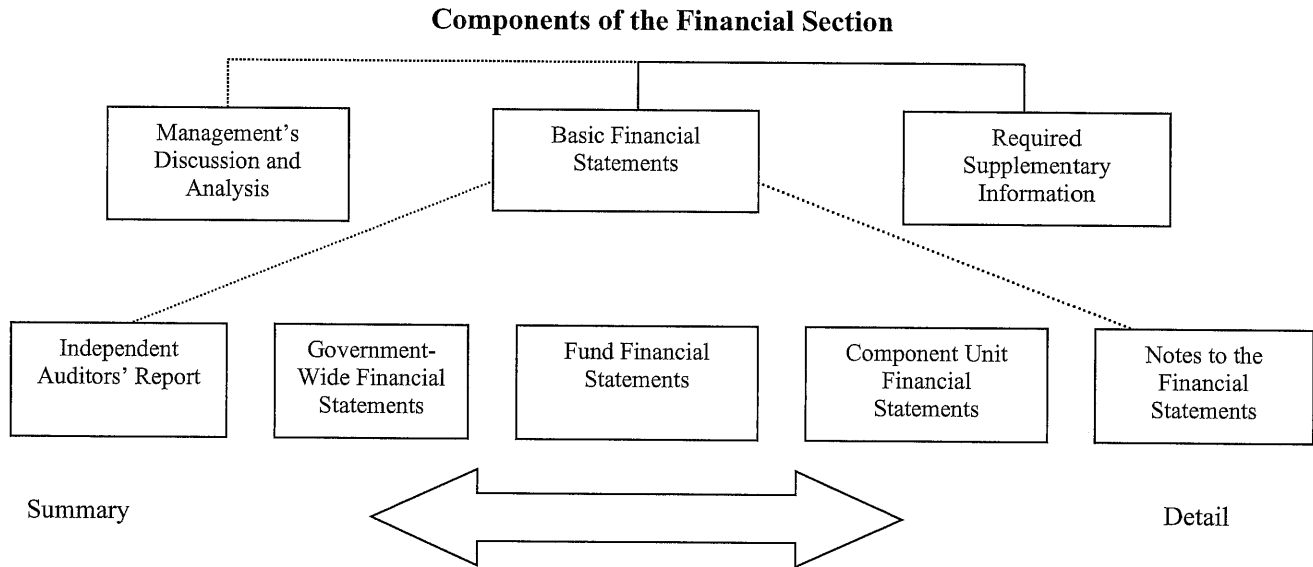
MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended September 30, 2019

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Waller (the "City") for the year ending September 30, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – The City's tax supported services are reported here, including general government, public safety, code enforcement, public works, and culture and recreation. Interest payments on the City's debt are also reported here. Property tax, sales tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's gas, water, and wastewater services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation (EDC) for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the capital projects fund, and a special revenue fund.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment operations, and gas operations. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment operations and gas operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment liability and related ratios and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows exceeded liabilities and deferred inflows by \$14,729,354 at year end.

A large portion of the City's net position, 41 percent, reflects its investments in capital assets (e.g. land, City hall, police station, drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

STATEMENT OF NET POSITION:

The following tables reflect the condensed Statement of Net Position:

	2019			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 13,016,167	\$ 1,747,472	\$ -	\$ 14,763,639
Noncurrent assets	7,968,969	6,077,535	-	14,046,504
Total Assets	20,985,136	7,825,007	-	28,810,143
Deferred outflows - pensions	198,888	24,139	-	223,027
Deferred outflows - OPEB	692	-	-	692
Deferred charge on refunding	5,959	-	-	5,959
Total Deferred Outflows of Resources	205,539	24,139	-	229,678
Long-term liabilities	13,011,183	35,875	-	13,047,058
Other liabilities	1,102,473	131,099	-	1,233,572
Total Liabilities	14,113,656	166,974	-	14,280,630
Deferred inflows - pensions	25,637	126	-	25,763
Deferred inflows - OPEB	4,074	-	-	4,074
Total Deferred Inflows of Resources	29,711	126	-	29,837
Net Position:				
Net investment in capital assets	4,249,403	6,077,535	(4,343,951)	5,982,987
Restricted	1,196,431	-	-	1,196,431
Unrestricted	1,601,474	1,604,511	4,343,951	7,549,936
Total Net Position	\$ 7,047,308	\$ 7,682,046	\$ -	\$ 14,729,354
	2018			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 15,185,242	\$ 1,332,490	\$ -	\$ 16,517,732
Noncurrent assets	3,817,211	5,998,773	-	9,815,984
Total Assets	19,002,453	7,331,263	-	26,333,716
Deferred outflows - pensions	60,146	6,266	-	66,412
Deferred outflows - OPEB	6,479	-	-	6,479
Deferred charge on refunding	7,449	-	-	7,449
Total Deferred Outflows of Resources	74,074	6,266	-	80,340
Long-term liabilities	13,371,400	7,223	-	13,378,623
Other liabilities	539,647	104,623	-	644,270
Total Liabilities	13,911,047	111,846	-	14,022,893
Deferred inflows - pensions	121,554	11,056	-	132,610
Total Deferred Inflows of Resources	121,554	11,056	-	132,610
Net Position:				
Net investment in capital assets	4,374,723	5,995,530	(4,595,946)	5,774,307
Restricted	585,366	-	-	585,366
Unrestricted	83,837	1,219,097	4,595,946	5,898,880
Total Net Position	\$ 5,043,926	\$ 7,214,627	\$ -	\$ 12,258,553

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

A portion of the primary government's net position, \$1,196,431, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$7,549,936, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City increased \$2,470,801 during the year due.

A reconciliation is used to move the debt associated with business-type activities for capital assets to the unrestricted net position to give a better picture of the total primary government unrestricted net position.

STATEMENT OF ACTIVITIES:

The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 1,483,734	\$ 1,329,396	\$ 1,957,090	\$ 1,643,814	\$ 3,440,824	\$ 2,973,210
Operating grants and contribution	63,574	68,507	-	-	63,574	68,507
Capital grants and contributions	421,703	292,978	-	-	421,703	292,978
General revenues:						
Property taxes	1,644,955	1,498,279	-	-	1,644,955	1,498,279
Sales taxes	2,311,032	2,008,760	-	-	2,311,032	2,008,760
Franchise fees	309,526	266,551	-	-	309,526	266,551
Investment income	317,679	152,774	43,699	52,092	361,378	204,866
Other revenues	8,393	34,600	-	-	8,393	34,600
Total Revenues	6,560,596	5,651,845	2,000,789	1,695,906	8,561,385	7,347,751
Expenses						
General government	1,113,046	1,300,379	-	-	1,113,046	1,300,379
Public safety	1,434,865	1,407,304	-	-	1,434,865	1,407,304
Code enforcement	247,248	188,000	-	-	247,248	188,000
Public works	1,038,049	648,108	-	-	1,038,049	648,108
Culture and recreation	168,311	381,171	-	-	168,311	381,171
Interest and fiscal agent fees	421,337	250,239	-	-	421,337	250,239
Gas	-	-	378,975	445,919	378,975	445,919
Water and sewer	-	-	1,288,753	1,218,736	1,288,753	1,218,736
Total Expenses	4,422,856	4,175,201	1,667,728	1,664,655	6,090,584	5,839,856
Increase in Net Position Before Transfers	2,137,740	1,476,644	333,061	31,251	2,470,801	1,507,895
Transfers in (out)	(134,358)	(343,841)	134,358	343,841	-	-
Change in Net Position	2,003,382	1,132,803	467,419	375,092	2,470,801	1,507,895
Beginning net position	5,043,926	3,911,123	7,214,627	6,839,535	12,258,553	10,750,658
Ending Net Position	\$ 7,047,308	\$ 5,043,926	\$ 7,682,046	\$ 7,214,627	\$ 14,729,354	\$ 12,258,553

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

Overall, governmental activities revenues increased \$908,751. Charges for services increased \$154,338 largely due to an increase in building permits revenue as a result of an increase in development within the City. Revenue from capital grants and contribution increased \$128,725 primarily due to an increase in expenses from grant-related projects. Property tax revenue increased \$146,676 mainly due to higher appraised values and an increase in the tax rate. Sales tax revenue increased \$302,272 due to an increase in taxable sales within the City. Investment income increased \$164,905 mostly due to more funds being invested and interest rate increases. Governmental activities expenses increased \$247,655 primarily due to increases in public works from higher maintenance costs and in interest and fees on debt as a result of the prior year issuance of long-term debt. Expenses also increased due to the increase in the net pension liability.

Overall, business-type activities revenues increased \$304,883 mainly due to an increase in charges for services as a result of an increase in water, sewer, and gas consumption, and an increase in monthly gas rates. Business-type activities expenses increased \$3,073 mostly due to an increase in personnel costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined fund balance of \$11,830,213. Of the total governmental fund balance, \$12,005 is nonspendable in the form of inventory and \$5,855,420 is restricted for debt service, enabling legislation, and capital projects. \$132,083 is assigned for future projects for economic development, while \$20,000 is assigned for street projects/fleet reserve. The remaining balance of \$5,810,705 is unassigned.

The general fund is the chief operating fund of the City. At the end of the current year, the unassigned and total fund balance of the general fund was \$5,810,705. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 158 percent of total general expenditures. General fund revenues increased \$529,533 compared to the prior year largely due to increases in sales tax revenues from an increase in taxable sales within the City, an increase in building permits issued, and an increase in investment earnings. Expenditures increased \$385,509 compared to the prior year due mainly to increases in contracted services, development fees, and economic development incentives.

The debt service fund has a total fund balance of \$463,641, all of which is restricted for payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$328,241 primarily as a result of other financing sources related to interfund transfers from the general fund.

The capital projects fund has a fund balance of \$4,658,989, all of which is restricted for capital projects. The net decrease in fund balance of \$4,541,878 was primarily due to an increase in construction projects.

The special revenue fund has a fund balance of \$732,790, all of which is restricted for enabling legislation. The net increase of \$236,550 was the result an increase in restricted revenues and transfers in from the general fund.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

Proprietary Funds – The City's gas and water and sewer funds operating revenues exceeded expenses by \$289,362. Nonoperating revenue was \$43,699, which was comprised entirely of investment income. The gas and water and sewer funds also transferred \$303,000 to repay the general fund. The water and sewer fund had capital contributions from the capital projects fund of \$403,859.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund reported a positive revenue budget variance of \$167,296. This variance is primarily due to more sales tax than expected. Total expenditures had a negative budget variance of \$26,076 from the final budget due mainly to more expenditures than anticipated in public works.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$14,046,504 in a variety of capital assets and infrastructure (net of accumulated depreciation).

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds, certificates of obligation, tax notes, and construction advances of \$12,511,902. Of this amount, \$7,065,000 was general obligation bonds debt, \$4,920,000 was certificates of obligation debt, \$500,000 was tax notes debt, and \$26,902 was construction advances.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City is experiencing a period of growth. Property values are increasing, commercial development continues, property and sales tax revenues are expanding, and the City is thriving.

Management for the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the timely preparation of financial statements in conformity with generally accepted accounting principles.

The City adopted a fiscal year 2019-2020 general fund expenditure budget of \$4,124,476, which is an increase of 3 percent from the prior year budget. The City budgeted for fiscal year 2019-2020 general fund revenues of \$4,538,629, which is an increase of 6 percent. The City approved a 2019-2020 Maintenance and Operation tax rate of \$0.3194 and an Interest and Sinking tax rate of \$0.1852 for total of \$0.5046 per \$100 of property valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Secretary, City of Waller, P.O. Box 239, Waller, Texas, 77484.

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BASIC FINANCIAL STATEMENTS

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

September 30, 2019

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 7,544,415	\$ 1,463,654	\$ -	\$ 9,008,069
Restricted cash and cash equivalents	4,699,488	38,686	-	4,738,174
Investments	127,030	-	-	127,030
Receivables (net of allowance for uncollectible)	633,229	182,434	-	815,663
Inventory	12,005	62,698	-	74,703
	13,016,167	1,747,472	-	14,763,639
Noncurrent assets:				
Nondepreciable capital assets	5,215,439	815,330	-	6,030,769
Net depreciable capital assets	2,753,530	5,262,205	-	8,015,735
	7,968,969	6,077,535	-	14,046,504
Total Assets	20,985,136	7,825,007	-	28,810,143
Deferred Outflows of Resources				
Deferred outflows - pensions	198,888	24,139	-	223,027
Deferred outflows - OPEB	692	-	-	692
Deferred charge on refunding	5,959	-	-	5,959
Total Deferred Outflows of Resources	205,539	24,139	-	229,678
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	1,033,343	92,413	-	1,125,756
Customer deposits	-	38,686	-	38,686
Accrued interest payable	69,130	-	-	69,130
	1,102,473	131,099	-	1,233,572
Noncurrent liabilities:				
Net pension liability	75,600	28,071	-	103,671
Total OPEB liability	111,778	-	-	111,778
Due within one year	601,916	7,024	-	608,940
Due in more than one year	12,221,889	780	-	12,222,669
	13,011,183	35,875	-	13,047,058
Total Liabilities	14,113,656	166,974	-	14,280,630
Deferred Inflows of Resources				
Deferred inflows - pensions	25,637	126	-	25,763
Deferred inflows - OPEB	4,074	-	-	4,074
Total Deferred Inflows of Resources	29,711	126	-	29,837
Net Position				
Net investment in capital assets	4,249,403	6,077,535	(4,343,951)	5,982,987
Restricted for:				
Debt service	463,641	-	-	463,641
Enabling legislation	732,790	-	-	732,790
Unrestricted	1,601,474	1,604,511	4,343,951	7,549,936
Total Net Position	\$ 7,047,308	\$ 7,682,046	\$ -	\$ 14,729,354

See Notes to Financial Statements.

**Component
Unit**

\$ 2,653,064

-

-

146,589

-

2,799,653

-

-

-

2,799,653

-

-

-

-

14,290

-

-

14,290

-

-

14,513

1,613

16,126

30,416

-

-

-

2,769,237

\$ 2,769,237

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,113,046	\$ 598,538	\$ 63,574	\$ -
Public safety	1,434,865	629,125	-	-
Code enforcement	247,248	177,843	-	-
Public works	1,038,049	-	-	389,916
Culture and recreation	168,311	78,228	-	31,787
Interest and fees on debt	421,337	-	-	-
Total Governmental Activities	4,422,856	1,483,734	63,574	421,703
Business-Type Activities				
Gas	378,975	644,550	-	-
Water and sewer	1,288,753	1,312,540	-	-
Total Business-Type Activities	1,667,728	1,957,090	-	-
Total Primary Government	\$ 6,090,584	\$ 3,440,824	\$ 63,574	\$ 421,703
Component Unit				
Waller Economic Development Corporation	\$ 317,347	\$ -	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales tax
 - Franchise fees and local taxes
- Investment income
- Other revenue
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (450,934)	\$ -	\$ (450,934)	\$ -
(805,740)	-	(805,740)	-
(69,405)	-	(69,405)	-
(648,133)	-	(648,133)	-
(58,296)	-	(58,296)	-
(421,337)	-	(421,337)	-
<u>(2,453,845)</u>	<u>-</u>	<u>(2,453,845)</u>	<u>-</u>
-	265,575	265,575	-
-	23,787	23,787	-
-	289,362	289,362	-
<u>(2,453,845)</u>	<u>289,362</u>	<u>(2,164,483)</u>	<u>-</u>
-	-	-	(317,347)
1,644,955	-	1,644,955	-
2,311,032	-	2,311,032	769,996
309,526	-	309,526	-
317,679	43,699	361,378	58,229
8,393	-	8,393	-
<u>(134,358)</u>	<u>134,358</u>	<u>-</u>	<u>-</u>
<u>4,457,227</u>	<u>178,057</u>	<u>4,635,284</u>	<u>828,225</u>
2,003,382	467,419	2,470,801	510,878
5,043,926	7,214,627	12,258,553	2,258,359
<u>\$ 7,047,308</u>	<u>\$ 7,682,046</u>	<u>\$ 14,729,354</u>	<u>\$ 2,769,237</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2019

	General	Debt Service	Capital Projects	Special Revenue
<u>Assets</u>				
Cash and cash equivalents	\$ 5,824,507	\$ 336,654	\$ 507,439	\$ 875,815
Restricted cash and cash equivalents	-	-	4,699,488	-
Investments	-	127,030	-	-
Taxes receivables, net	55,067	31,585	-	-
Other receivables	508,597	-	-	37,980
Inventory	12,005	-	-	-
Total Assets	\$ 6,400,176	\$ 495,269	\$ 5,206,927	\$ 913,795
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 304,357	\$ 43	\$ 547,938	\$ 181,005
Total Liabilities	304,357	43	547,938	181,005
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	55,066	31,585	-	-
Unavailable revenue - garbage collections	65,960	-	-	-
	121,026	31,585	-	-
<u>Fund Balances</u>				
Nonspendable	12,005	-	-	-
Restricted for:				
Debt service	-	463,641	-	-
Enabling legislation	-	-	-	732,790
Capital projects	-	-	4,658,989	-
Assigned:				
Future economic development projects	132,083	-	-	-
Street/fleet reserve	20,000	-	-	-
Unassigned	5,810,705	-	-	-
Total Fund Balances	5,974,793	463,641	4,658,989	732,790
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,400,176	\$ 495,269	\$ 5,206,927	\$ 913,795

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 7,544,415
4,699,488
127,030
86,652
546,577
12,005
\$ 13,016,167

\$ 1,033,343
1,033,343

86,651
65,960
152,611

12,005
463,641
732,790
4,658,989
132,083
20,000
5,810,705
11,830,213
\$ 13,016,167

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CITY OF WALLER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2019

Total fund balances for governmental funds		\$ 11,830,213
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - nondepreciable	5,215,439	
Capital assets - net depreciable	2,753,530	7,968,969
Long-term liabilities and deferred outflows and deferred inflows related to the net pension asset and total OPEB liability are not reported in the governmental funds.		
Net pension liability	(75,600)	
Total OPEB liability	(111,778)	
Deferred outflows - pensions	198,888	
Deferred outflows - OPEB	692	
Deferred inflows - pensions	(25,637)	
Deferred inflows - OPEB	(4,074)	(17,509)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		152,611
Some liabilities, including bonds payable, and compensated absences are not reported as liabilities in the governmental funds.		
Deferred charge on refunding	5,959	
Accrued interest payable	(69,130)	
Noncurrent liabilities due in one year	(601,916)	
Noncurrent liabilities due in more than one year	(12,221,889)	(12,886,976)
Net Position of Governmental Activities		\$ 7,047,308

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2019

	General	Debt Service	Capital Projects	Special Revenue
Revenues				
Property taxes	\$ 1,137,667	\$ 567,016	\$ -	\$ -
Sales tax	2,311,032	-	-	-
Franchise fees and local taxes	153,163	-	-	156,363
Licenses and permits	177,843	-	-	-
Fines and forfeitures	585,841	-	-	43,284
Charges for services	532,578	-	-	-
Intergovernmental	63,574	-	-	251,760
Investment income	146,960	69,598	100,679	442
Other revenue	40,180	-	138,156	78,228
Total Revenues	5,148,838	636,614	238,835	530,077
Expenditures				
Current:				
General government	1,082,280	-	-	-
Public safety	1,326,015	-	-	71,821
Code enforcement	243,137	-	-	-
Public works	834,906	-	-	-
Culture and recreation	55,807	-	-	87,112
Grant expenditures	-	-	-	264,469
Capital outlay	106,355	-	4,642,783	-
Debt Service:				
Principal	32,059	384,750	-	-
Interest and fiscal charges	2,580	467,631	-	-
Total Expenditures	3,683,139	852,381	4,642,783	423,402
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,465,699	(215,767)	(4,403,948)	106,675
Other Financing Sources (Uses)				
Transfers in	265,103	544,008	1,680	131,555
Transfers out	(531,555)	-	(139,610)	(1,680)
Total Other Financing Sources (Uses)	(266,452)	544,008	(137,930)	129,875
Net Change in Fund Balances	1,199,247	328,241	(4,541,878)	236,550
Beginning fund balances	4,775,546	135,400	9,200,867	496,240
Ending Fund Balances	\$ 5,974,793	\$ 463,641	\$ 4,658,989	\$ 732,790

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,704,683
2,311,032
309,526
177,843
629,125
532,578
315,334
317,679
256,564
6,554,364

1,082,280
1,397,836
243,137
834,906
142,919
264,469
4,749,138

416,809
470,211
9,601,705

(3,047,341)

942,346
(672,845)
269,501

(2,777,840)

14,608,053
\$ 11,830,213

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CITY OF WALLER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$ (2,777,840)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	4,580,719
Depreciation expense	(241,315)

Revenues that do not provide current financial resources are not reported as revenues in the funds.

Deferred inflows of resources - unavailable revenue	6,232
---	-------

Changes in pension and OPEB activity do not affect the fund balances on the statement of revenues, expenditures, and changes in fund balances for the governmental funds.

These changes in pension and OPEB activity that affect the City's net position are as follows:

Net pension asset	(263,246)
Total OPEB liability	1,930
Deferred outflows - pensions	227,038
Deferred outflows - OPEB	(3)
Deferred inflows - pensions	7,621
Deferred inflows - OPEB	(9,858)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of bond premiums	10,657
Change in deferred inflows of resources from refunded bonds	(1,490)
Change in compensated absences	6,421
Principal expenditures	416,809

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Accrued interest	39,707
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Change in Net Position of Governmental Activities	\$ 2,003,382
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See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2019

	Gas	Water and Sewer	Total Proprietary Funds
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 702,656	\$ 760,998	\$ 1,463,654
Restricted cash and cash equivalents	12,076	26,610	38,686
Receivables, net	36,442	145,992	182,434
Inventory	32,217	30,481	62,698
Total Current Assets	783,391	964,081	1,747,472
Noncurrent assets			
Capital assets:			
Nondepreciable	-	815,330	815,330
Net depreciable capital assets	249,153	5,013,052	5,262,205
Total Noncurrent Assets	249,153	5,828,382	6,077,535
Total Assets	1,032,544	6,792,463	7,825,007
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pensions	-	24,139	24,139
<u>Liabilities</u>			
Current liabilities			
Accounts payable and accrued liabilities	23,863	68,550	92,413
Customer deposits	12,076	26,610	38,686
Compensated absences	3,084	3,940	7,024
Total Current Liabilities	39,023	99,100	138,123
Noncurrent liabilities			
Net pension liability	-	28,071	28,071
Compensated absences	343	437	780
Total Noncurrent Liabilities	343	28,508	28,851
Total Liabilities	39,366	127,608	166,974
<u>Deferred Inflows of Resources</u>			
Deferred inflows - pensions	-	126	126
<u>Net Position</u>			
Net investment in capital assets	249,153	5,828,382	6,077,535
Unrestricted	744,025	860,486	1,604,511
Total Net Position	\$ 993,178	\$ 6,688,868	\$ 7,682,046

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Gas	Water and Sewer	Total Proprietary Funds
<u>Operating Revenues</u>			
Charges for services	\$ 644,550	\$ 1,311,839	\$ 1,956,389
Other revenue	-	701	701
Total Operating Revenues	644,550	1,312,540	1,957,090
<u>Operating Expenses</u>			
Costs of sales and services	355,636	990,238	1,345,874
Depreciation	23,339	298,515	321,854
Total Operating Expenses	378,975	1,288,753	1,667,728
Operating Income	265,575	23,787	289,362
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	21,041	22,658	43,699
Total Nonoperating Revenues	21,041	22,658	43,699
Income Before Contributions and Transfers	286,616	46,445	333,061
Capital contributions	-	403,859	403,859
Transfers in	7,230	26,269	33,499
Transfers out	(168,851)	(134,149)	(303,000)
Change in Net Position	124,995	342,424	467,419
Beginning net position	868,183	6,346,444	7,214,627
Ending Net Position	\$ 993,178	\$ 6,688,868	\$ 7,682,046

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Gas	Water and Sewer	Total Proprietary Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 643,765	\$ 1,290,567	\$ 1,934,332
Payments to suppliers and employees	(358,043)	(958,755)	(1,316,798)
Net Cash Provided by Operating Activities	285,722	331,812	617,534
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in	7,230	26,269	33,499
Transfers out	(168,851)	(134,149)	(303,000)
Net Cash (Used) by Noncapital Financing Activities	(161,621)	(107,880)	(269,501)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	-	3,243	3,243
Net Cash Provided by Capital and Related Financing Activities	-	3,243	3,243
<u>Cash Flows from Investing Activities</u>			
Interest on investments	21,041	22,658	43,699
Net Cash Provided by Investing Activities	21,041	22,658	43,699
Net Increase in Cash and Cash Equivalents	145,142	249,833	394,975
Beginning cash and cash equivalents	569,590	537,775	1,107,365
Ending Cash and Cash Equivalents	\$ 714,732	\$ 787,608	\$ 1,502,340
Ending Cash and Cash Equivalents			
Unrestricted cash and cash equivalents	\$ 702,656	\$ 760,998	\$ 1,463,654
Restricted cash and cash equivalents	12,076	26,610	38,686
	\$ 714,732	\$ 787,608	\$ 1,502,340
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 265,575	\$ 23,787	\$ 289,362
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	23,339	298,515	321,854
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(785)	(21,973)	(22,758)
Inventories	(8,376)	11,127	2,751
Deferred outflows - pensions	-	(17,873)	(17,873)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	10,071	24,982	35,053
Compensated absences	(520)	1,101	581
Net pension liability	-	28,071	28,071
Deferred inflows - pensions	-	(10,930)	(10,930)
Customer deposits	(3,582)	(4,995)	(8,577)
Net Cash Provided by Operating Activities	\$ 285,722	\$ 331,812	\$ 617,534
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ -	\$ 403,859	\$ 403,859

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Waller, Texas (the “City”) was incorporated under the laws of the State of Texas on October 16, 1947. The City is a general law city that operates under a council-mayor form of government. The City Council is the principal legislative body of the City.

The City provides the following services: general government, public safety, code enforcement, public works, and culture and recreation.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The component unit listed below, although legally separate, is considered part of the reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Waller Economic Development Corporation

The Waller Economic Development Corporation (WEDC) has been included in the reporting entity as a discretely presented component unit.

The WEDC was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the WEDC shall be conveyed to the City. The operations of the WEDC are presented as a governmental fund type. Separate financial statements of the WEDC may be obtained from the City Secretary.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's gas and water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenue include local property taxes, sales tax, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, code enforcement, public works, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a nonmajor fund for reporting purposes, but the City has elected to present it as major due to its significance.

The *capital projects fund* is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

The *special revenue fund* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund is considered a major fund for reporting purposes.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

The City reports the following enterprise funds:

The *enterprise funds* are used to account for the operations that provide gas, water, and sewer operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The gas and water and sewer funds are considered major funds for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

3. Inventories

The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased (i.e., the first-in/first-out method).

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the capital projects fund are restricted by bond covenants for repayment of debt and to finance construction projects. Restricted assets of the enterprise funds are restricted for customer deposits.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles and equipment	5 to 10 years
System infrastructure	30 to 40 years
Buildings	20 to 50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and garbage collections. These amounts are deferred and recognized as an inflows of resources in the period that the amounts becomes available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

13. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during October of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles, except for the capital projects fund which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were not made for the year ended September 30, 2019.

Expenditures in Excess of Appropriations

For the year ended September 30, 2019, expenditures exceeded appropriations at the legal level of control as follows:

General Fund		
Public Works	\$	26,076

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2019, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 127,030	0.07
External investment pools	242,635	0.00
Total fair value	<u>\$ 369,665</u>	
Portfolio weighted average maturity		0.03

Credit risk. State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent. As of September 30, 2019, the City's investment in TexPool was rated "AAAm" by Standard & Poor's.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2019, market values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rated TexPool “AAAm”. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool’s liquidity.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

B. Receivables

Amounts are aggregated into a single accounts receivable line (net of allowance for uncollectibles) for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the special revenue fund, the enterprise funds, and the component unit, including the applicable allowances for uncollectible accounts:

	General	Debt Service	Special Revenue	Gas	Water/Sewer	Component Unit
Property taxes	\$ 55,067	\$ 31,585	\$ -	\$ -	\$ -	\$ -
Sales taxes	451,994	-	-	-	-	146,589
Accounts	67,907	-	21,402	51,001	215,755	-
Intergovernmental	1,938	-	16,578	-	-	-
Allowance	(13,242)	-	-	(14,559)	(69,763)	-
	<u>\$ 563,664</u>	<u>\$ 31,585</u>	<u>\$ 37,980</u>	<u>\$ 36,442</u>	<u>\$ 145,992</u>	<u>\$ 146,589</u>

C. Capital Assets

A summary of changes in capital assets for governmental activities for the year end is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 73,300	\$ -	\$ -	\$ 73,300
Construction in progress	661,893	4,480,246	-	5,142,139
Total capital assets not being depreciated	<u>735,193</u>	<u>4,480,246</u>	<u>-</u>	<u>5,215,439</u>
Other capital assets:				
Infrastructure	2,884,310	-	-	2,884,310
Buildings	1,813,001	-	-	1,813,001
Vehicles	617,515	65,320	-	682,835
Equipment	658,243	35,153	-	693,396
Total other capital assets	<u>5,973,069</u>	<u>100,473</u>	<u>-</u>	<u>6,073,542</u>
Less accumulated depreciation for:				
Infrastructure	(1,769,474)	(68,847)	-	(1,838,321)
Buildings	(432,779)	(74,994)	-	(507,773)
Vehicles	(423,591)	(53,538)	-	(477,129)
Equipment	(452,853)	(43,936)	-	(496,789)
Total accumulated depreciation	<u>(3,078,697)</u>	<u>(241,315)</u>	<u>-</u>	<u>(3,320,012)</u>
Other capital assets, net	<u>2,894,372</u>	<u>(140,842)</u>	<u>-</u>	<u>2,753,530</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,629,565</u>	<u>\$ 4,339,404</u>	<u>\$ -</u>	<u>7,968,969</u>
		Plus unspent bond proceeds		4,699,488
		Less associated debt		(8,425,013)
		Plus deferred charge on refunding		5,959
		Net Investment in Capital Assets		<u>\$ 4,249,403</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

All capital assets constructed or paid for with funds of the component unit are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

General government	\$	41,041
Public safety		91,690
Public works		83,767
Cultural and recreation		24,817
Total Governmental Activities Depreciation Expense	\$	<u>241,315</u>

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 16,671	\$ -	\$ -	\$ 16,671
Construction in progress	1,117,900	403,859	(723,100)	798,659
Total capital assets not being depreciated	<u>1,134,571</u>	<u>403,859</u>	<u>(723,100)</u>	<u>815,330</u>
Other capital assets:				
Building	92,434	-	-	92,434
Water/sewer system	8,614,473	723,100	-	9,337,573
Gas system	430,888	-	-	430,888
Equipment	606,970	-	-	606,970
Vehicles	118,620	-	-	118,620
Total other capital assets	<u>9,863,385</u>	<u>723,100</u>	<u>-</u>	<u>10,586,485</u>
Less accumulated depreciation for:				
Building	(59,326)	(2,089)	-	(61,415)
Water/sewer system	(4,104,848)	(288,622)	-	(4,393,470)
Gas system	(228,525)	(10,566)	-	(239,091)
Equipment	(526,714)	(13,077)	-	(539,791)
Vehicles	(83,013)	(7,500)	-	(90,513)
Total accumulated depreciation	<u>(5,002,426)</u>	<u>(321,854)</u>	<u>-</u>	<u>(5,324,280)</u>
Other capital assets, net	4,860,959	401,246	-	5,262,205
Business-Type Activities Capital Assets, Net	<u>\$ 5,995,530</u>	<u>\$ 805,105</u>	<u>\$ (723,100)</u>	<u>\$ 6,077,535</u>

Depreciation was charged to business-type functions as follows:

Gas	\$	23,339
Water/Sewer		298,515
Total Business-Type Activities Depreciation Expense	\$	<u>321,854</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds:					
Series 2018	\$ 6,675,000	\$ -	\$ -	\$ 6,675,000	\$ 125,000
Direct borrowing/placement					
Series 2014 refunding	494,750	-	104,750	390,000	100,000
Total general obligation bonds	<u>7,169,750</u>	<u>-</u>	<u>104,750</u>	<u>7,065,000</u> (1)	<u>225,000</u>
Certificates of obligation:					
Series 2012	2,185,000	-	95,000	2,090,000	100,000
Series 2017	2,895,000	-	65,000	2,830,000	70,000
Total certificates of obligation	<u>5,080,000</u>	<u>-</u>	<u>160,000</u>	<u>4,920,000</u> (2)	<u>170,000</u>
Tax notes:					
Series 2016 - Direct borrowing/placement	620,000	-	120,000	500,000 *	120,000
Construction advance - Direct borrowing/placement	58,961	-	32,059	26,902 **	26,902
Other liabilities:					
Premiums	267,719	-	10,657	257,062 (3)	10,657
Net pension liability (asset)	(187,646)	263,246	-	75,600	-
Total OPEB liability	113,708	-	1,930	111,778	-
Compensated absences	61,262	17,090	23,511	54,841	49,357
Total Governmental Activities	<u>\$ 13,183,754</u>	<u>\$ 280,336</u>	<u>\$ 452,907</u>	<u>\$ 13,011,183</u>	<u>\$ 601,916</u>
				<u>\$ 12,409,267</u>	
				\$ 6,675,000 *	
				390,000 **	
				<u>\$ 7,065,000</u> (1)	
				\$ 1,065,900 *	
				3,854,100 **	
				<u>\$ 4,920,000</u> (2)	
				\$ 184,113 *	
				72,949 **	
				<u>\$ 257,062</u> (3)	
				\$ 8,425,013	
				<u>\$ 4,343,951</u>	

* Debt associated with governmental activities capital assets

** Debt associated with business-type activities capital assets

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Net pension liability (asset)	\$ (3,243)	\$ 31,314	\$ -	\$ 28,071	\$ -
Compensated absences	7,223	4,076	3,495	7,804	7,024
Total Business-Type Activities	\$ 3,980	\$ 35,390	\$ 3,495	\$ 35,875	\$ 7,024
				Long-term liabilities due in more than one year	\$ 28,851
					Amounts Due Within One Year
Component Unit:					
Compensated absences	\$ 14,772	\$ 1,821	\$ 467	\$ 16,126	\$ 14,513
				Long-term liabilities due in more than one year	\$ 1,613

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
General Operating Refunding Bonds, Series 2014	2.11%	\$ 390,000
General Obligation Bonds, Series 2018	3.75-5.00%	6,675,000
Certificates of Obligation		
Certificates of Obligation, Series 2012	2.00-3.00%	2,090,000
Certificates of Obligation, Series 2017	3.00-3.50%	2,830,000
Tax Notes		
Tax Notes, Series 2016	1.67%	500,000
Total Bonds, Certificates of Obligation, and Tax Notes		12,485,000
Construction Advance	5.75%	26,902
Total General Long-Term Debt		\$ 12,511,902

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

The annual requirements to amortize bond and certificate debt issues outstanding at year end were as follows:

Year Ending Sept. 30	Long-Term Debt					
	General Obligation Bonds					
	General Obligation Bonds Series 2018		(Direct borrowing/placement) Series 2014 Refunding		Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 125,000	\$ 260,631	\$ 100,000	\$ 8,229	\$ 170,000	\$ 146,788
2021	130,000	254,381	100,000	6,119	175,000	142,688
2022	135,000	247,881	95,000	4,009	185,000	138,488
2023	145,000	241,131	95,000	2,005	195,000	134,038
2024	150,000	233,881	-	-	205,000	129,338
2025-2029	835,000	1,067,106	-	-	1,165,000	559,638
2030-2034	985,000	888,706	-	-	1,470,000	369,563
2035-2039	1,200,000	682,693	-	-	785,000	183,610
2040-2044	1,545,000	440,650	-	-	570,000	40,600
2045-2048	1,425,000	136,500	-	-	-	-
Total	\$ 6,675,000	\$ 4,453,560	\$ 390,000	\$ 20,362	\$ 4,920,000	\$ 1,844,751

Year Ending Sept. 30	Long-Term Debt			
	Tax Notes		Construction Advance	
	(Direct borrowing/placement)		(Direct borrowing/placement)	
	Principal	Interest	Principal	Interest
2020	\$ 120,000	\$ 7,348	\$ 26,902	\$ 694
2021	125,000	5,302	-	-
2022	125,000	3,215	-	-
2023	130,000	1,086	-	-
Total	\$ 500,000	\$ 16,951	\$ 26,902	\$ 694

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds, certificates of obligation, and tax notes are from taxes levied on all taxable property located within the City. Repayment of the construction advance is from sales tax revenues. The City is not obligated in any manner for special assessment debt.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

E. Interfund Transactions

Transfers between the primary government funds during the year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
General Fund	Capital Projects Fund	\$ 103
General Fund	Water and Sewer Fund	134,149
General Fund	Gas Fund	130,851
Debt Service Fund	General Fund	400,000
Debt Service Fund	Capital Projects Fund	106,008
Debt Service Fund	Gas Fund	38,000
Capital Projects Fund	Special Revenue Fund	1,680
Special Revenue Fund	General Fund	131,555
Water and Sewer Fund	Capital Projects Fund	26,269
Gas Fund	Capital Projects Fund	7,230
		<u>\$ 975,845</u>

Amounts transferred from the water and sewer fund, gas fund, and the capital projects fund to the general fund are related to their portion of certain governmental expenditures. Amounts transferred from the general fund, capital projects fund, and the gas fund to the debt service fund are related to their portion of debt expenditures. Amounts transferred from the special revenue fund to the capital projects fund are to fund a portion of capital project costs. Amounts transferred from the general fund to the special revenue fund are related to certain projects. Amounts transferred from the capital projects fund to the water and sewer fund and gas fund are related to the excess project funds on completed projects.

F. Fund Equity

As of September 30, 2019, \$732,790 of the City's total fund balance is restricted by enabling legislation.

G. Restricted Assets

As of September 30, 2019, the City held restricted cash and cash equivalents in the capital projects fund, the gas fund, and the water and sewer fund for the following purposes:

	<u>Capital Projects</u>	<u>Gas</u>	<u>Water and Sewer</u>
Customer deposits	\$ -	\$ 12,076	\$ 26,610
Bond proceeds	4,699,488	-	-
Total	<u>\$ 4,699,488</u>	<u>\$ 12,076</u>	<u>\$ 26,610</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

B. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the “Board”). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member’s deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2019</u>	<u>2018</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to, but not yet receiving, benefits	21
Active employees	34
Total	76

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.49 percent and 4.16 percent in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$67,246, which were more than the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability / (Asset) (A) - (B)
Changes for the year:			
Service cost	\$ 144,728	\$ -	\$ 144,728
Interest	210,854	-	210,854
Difference between expected and actual experience	(15,954)	-	(15,954)
Contributions - employer	-	67,340	(67,340)
Contributions - employee	-	79,784	(79,784)
Net investment income	-	(100,016)	100,016
Benefit payments, including refunds of employee contributions	(216,270)	(216,270)	-
Administrative expense	-	(1,940)	1,940
Other changes	-	(100)	100
Net Changes	123,358	(171,202)	294,560
Balance at December 31, 2017	3,159,529	3,350,418	(190,889)
Balance at December 31, 2018	\$ 3,282,887	\$ 3,179,216	\$ 103,671

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75%, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability (Asset)	\$ 439,343	\$ 103,671	\$ (180,578)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$98,037.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 25,763
Net difference between projected and actual investment earnings	174,265	-
Contributions subsequent to the measurement date	48,762	-
Total	\$ 223,027	\$ 25,763

\$48,762 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2020	\$ 44,335
2021	16,112
2022	22,821
2023	65,234
Total	\$ 148,502

C. Other Postemployment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2018 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to, but not yet receiving, benefits	3
Active employees	34
Total	54

Total OPEB Liability

The City's total OPEB liability of \$111,778 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.71%*
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

Changes in the Total OPEB Liability

	Total OPEB Liability
Changes for the year:	
Service cost	\$ 5,744
Interest	3,843
Difference between expected and actual experience	(3,887)
Changes of assumptions	(6,673)
Benefit payments	(957)
Net Changes	(1,930)
Beginning balance	113,708
Ending Balance	\$ 111,778

The discount rate increased from 3.31 percent to 3.71 percent to reflect the Fidelity Index's 20-Year Municipal GO AA Index rate as of December 31, 2018. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's Total OPEB Liability	\$ 129,474	\$ 111,778	\$ 97,552

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the City recognized OPEB expense of \$8,886.

The City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 2,993
Changes in actuarial assumptions	-	1,081
Contributions subsequent to the measurement date	692	-
Total	\$ 692	\$ 4,074

\$692 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2020.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u> <u>September 30</u>	<u>OPEB Expense</u> <u>Amount</u>
2020	\$ 700
2021	700
2022	1,824
2023	850
Total	\$ 4,074

D. Chapter 380 Economic Development Agreements/Tax Abatement Agreement

1. Chapter 380 Agreements

Chapter 380, *Miscellaneous Provisions Relating to Municipal Planning and Development*, of the Texas Local Government Code provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs to promote state or local economic development and to stimulate business and commercial activity in the municipality.

Buc-ee's, Ltd.

The City has entered into a Chapter 380 Economic Development Agreement (the "Agreement") with Buc-ee's, Ltd. (the "Company"). The Company agreed to establish and maintain an office in the City that generates substantial taxable sales. The Company agreed to construct a retail store at least 33,000 square feet in size in addition to creating a minimum of 120 jobs no later than 36 months following the opening of the store. The Agreement is for a term of 15 years. The City will remit back to the Company 75 percent (of the one percent collected by the City) of the sales tax revenues generated by this Company. During the current fiscal year, the City collected \$568,370 in sales taxes from the sales of this business and recorded expenditures of \$207,831.

The City also agreed to construct a water line to the store. The Company agreed to advance \$215,000 to the City to be repaid by the City at a rate of 5.75 percent per annum. The repayments shall consist of one-eighth of one percent of sales tax revenue generated by the Company and remitted to the City each month. This repayment shall be paid monthly during the 15-year term of this Agreement. Once the reimbursable advance by the Company for the construction of the water line, plus interest, has been reimbursed by the City, payments shall cease and the parties shall have no further obligations under the Agreement. All payments made by the City to the Company for reimbursable costs shall be applied to the payments of accrued but unpaid interest on the outstanding balance of reimbursable costs first and then to the payment of all or any portion of the balance then outstanding second.

The City entered into an infrastructure funding agreement (the "Agreement") with the WEDC in which the WEDC agreed to dedicate one-half of all sales tax generated by the Company for a period not to exceed 15 years. The City has agreed to use all funds granted by the WEDC for the sole purpose of developing and constructing the infrastructure projects described in the Agreement or other infrastructure projects specifically approved by the WEDC Board of Directors and City Council.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

AFGlobal Corporation, LLC

On June 17, 2019, the City entered into a Chapter 380 Economic Development Agreement (the “Agreement”) with AFGlobal Corporation, LLC (the “Company”). The Company agreed to certain property improvements while continuously occupying and using the improvements to produce oil and gas equipment. The Company will have and maintain on the property at least 150 full-time employees. Lastly, the Company will make every effort to maintain a minimum of \$20 million in appraised inventory on their property.

The City agreed to pay the Company, for a period of three years commencing on the effective date of the Agreement, an amount of money equal to 50% of the amount of ad valorem property taxes actually paid by the Company and received by the City for improvements to the property. If the City terminates the Agreement because of the Company’s default or breach of any provision as permitted by the Agreement, the Company will immediately reimburse the City for all payments the City has made to the Company. No payments were made by the City during fiscal year 2019 related to this agreement.

Alegacy Development, LLC

On July 15, 2019, the City entered into a Chapter 380 Economic Development Agreement (the “Agreement”) with Alegacy Development, LLC (the “Company”). The Company agreed to improvements constructed for the benefit of Laney Directional Drilling. If the Company completes construction of the improvements by December 31, 2019, payment will be based upon property taxes actually paid for tax years 2020, 2021, and 2022. If improvements are completed after January 1, 2020, payments will be based upon property taxes actually paid for tax years 2021, 2022, and 2023. The appraised value of the improvements constructed by the Company shall be an amount in excess of \$2,000,000.

The City agreed to pay the Company, for a period of three years, an amount of money equal to the amount of ad valorem property taxes actually paid by the Company and received by the City, derived from the improvements to the leased premises, for the tax years 2020, 2021, and 2022, or tax years 2021, 2022, and 2023. The beginning tax year for payments to the Company will depend upon the date of completion of improvements. “Improvements” shall mean the buildings, structures, and associated betterments for the commercial and industrial operations of Laney Directional Drilling, specifically a two-story building, a covered storage area, and shop, totaling approximately 34,290 square feet, constructed or expanded by the Company on the leased premises. If the City terminates the Agreement because of the Company’s default or breach of any provision as permitted by the Agreement, the Company will immediately reimburse the City for all payments the City has made to the Company.

Wolff Companies, LLC

On September 16, 2019, the EDC entered into a Chapter 380 Economic Development Agreement (the “Agreement”) with Wolff Companies LLC (the “Company”). The Company agreed to construct commercial/industrial park(s) and single family residential units. The estimated cost of the construction is \$1,009,669. Prior to receipt of payments from the EDC, the Company shall provide a contractor’s closing statement or other documentation acceptable to the EDC verifying the cost of construction of the project facilities. The Company also agreed to construct the extension of Beacon Hill Boulevard, and entrance and exit ramps.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

The EDC also agreed to reimburse the Company for one-half the cost of construction of the facilities, not to exceed \$500,000. The project will be constructed in two stages. For stage one, the EDC will reimburse the Company one-half the construction costs of certain project facilities, as outlined in the Agreement, up to a maximum of \$250,000. Payment of the funds is contingent upon the Company's completion of the construction of Beacon Hill Boulevard from Owens Road to the Utility Extension and the tying-in of the utility trunk line. For stage two, the EDC will reimburse the Company one-half the construction costs of certain project facilities, as outlined in the Agreement, up to a maximum of \$250,000. Payment of the funds is contingent upon the Company's construction of entrance and exit ramps to enable the property's access to and from US 290 and/or FM 362.

The EDC is under no obligation to make payments for reimbursement of costs until completion of each stage. If the EDC terminates the Agreement because of the Company's default or breach of any provision as permitted by the Agreement, the Company will immediately reimburse the EDC for all payments the EDC has made to the Company. In the event of termination of this Agreement after completion of the construction of stage one or stage two project facilities, the Company shall be entitled to retain those grant funds previously paid to the Company by the EDC.

2. Tax Abatement Agreement

The City entered into a tax abatement agreement (the "Agreement") with Burckhardt Compression (US), Inc. (the "Company") as authorized by the Property Redevelopment and Tax Abatement Act, Chapter 312 of the Texas Tax Code. The Agreement was subsequently amended on May 9, 2018. The City created a tax abatement reinvestment zone known as the Reinvestment Zone No. 1-TA. The term of the Agreement is through December 31, 2020. The City agreed to a property tax abatement equal to 100 percent of the taxable value on the improvements constructed or expanded and the tangible personal property located thereon subsequent to the date hereof during the first year of the Agreement and a property tax abatement equal to 60 percent during the second through fifth years of the Agreement. If the certified appraised value of the property is less than the certified appraised value as of January 1, 2015 for any year during the term of the Agreement, the abatement shall not apply. The Company agreed to improvements having a certified appraised value of not less than \$3,953,000 and tangible personal property having a total cost of not less than \$4,618,000. The Company agreed to maintain the property through December 31, 2020. The Company also agreed to employ not less than 35 full-time employees and maintain this increased employment level during the remainder of the term of the Agreement. If the Company subsequently fails to employ 90% of the agreed upon number of employees (32 employees) for any year going forward of the Agreement, then the City may reduce the percentage of tax abatement for such taxable year relative to the number of employees required to be employed by the Company for such taxable year. As of September 30, 2019, no funds have been abated to the Company.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WALLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,007,000	\$ 1,137,667	\$ 1,137,667	\$ -
Sales tax	1,950,000	2,223,639	2,311,032	87,393
Franchise fees and other taxes	141,000	141,000	153,163	12,163
Licenses and permits	82,000	177,843	177,843	-
Fines and forfeitures	351,175	564,528	585,841	21,313
Charges for services	374,800	532,578	532,578	-
Intergovernmental	37,500	37,500	63,574	26,074
Investment income	10,000	139,587	146,960	7,373
Other revenue	27,200	27,200	40,180	12,980
Total Revenues	3,980,675	4,981,542	5,148,838	167,296
Expenditures				
Current:				
General government	1,081,360	1,082,280	1,082,280	-
Public safety	1,419,905	1,326,015	1,326,015	-
Code enforcement	262,598	243,137	243,137	-
Public works	801,817	808,830	834,906	(26,076) *
Culture and recreation	75,786	55,807	55,807	-
Capital outlay	146,500	106,355	106,355	-
Debt Service:				
Principal	32,059	32,059	32,059	-
Interest and fiscal charges	2,580	2,580	2,580	-
Total Expenditures	3,822,605	3,657,063	3,683,139	(26,076)
Excess of Revenues Over Expenditures	158,070	1,324,479	1,465,699	141,220
Other Financing Sources (Uses)				
Transfers in	265,000	265,103	265,103	-
Transfers (out)	(200,000)	(415,003)	(531,555)	(116,552)
Total Other Financing Sources (Uses)	65,000	(149,900)	(266,452)	(116,552)
Change in Fund Balance	\$ 223,070	\$ 1,174,579	1,199,247	\$ 24,668
Beginning fund balance			4,775,546	
Ending Fund Balance			\$ 5,974,793	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

CITY OF WALLER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2019

	Measurement Year*			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	\$ 107,477	\$ 132,493	\$ 125,064	\$ 130,525
Interest (on the total pension liability)	190,319	195,980	196,181	203,628
Difference between expected and actual experience	(33,536)	(81,153)	(22,342)	(35,472)
Change of assumptions	-	76,719	-	-
Benefit payments, including refunds of employee contributions	(165,870)	(225,930)	(201,383)	(181,215)
Net Change in Total Pension Liability	<u>98,390</u>	<u>98,109</u>	<u>97,520</u>	<u>117,466</u>
Beginning total pension liability	<u>2,748,044</u>	<u>2,846,434</u>	<u>2,944,543</u>	<u>3,042,063</u>
Ending Total Pension Liability	<u><u>\$ 2,846,434</u></u>	<u><u>\$ 2,944,543</u></u>	<u><u>\$ 3,042,063</u></u>	<u><u>\$ 3,159,529</u></u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 60,449	\$ 63,296	\$ 51,823	\$ 63,564
Contributions - employee	67,345	74,434	66,101	70,784
Net investment income	162,554	4,374	194,353	413,613
Benefit payments, including refunds of employee contributions	(165,870)	(225,930)	(201,383)	(181,215)
Administrative expense	(1,697)	(2,664)	(2,196)	(2,145)
Other	(140)	(131)	(118)	(109)
Net Change in Plan Fiduciary Net Position	<u>122,641</u>	<u>(86,621)</u>	<u>108,580</u>	<u>364,492</u>
Beginning plan fiduciary net position	<u>2,841,326</u>	<u>2,963,967</u>	<u>2,877,346</u>	<u>2,985,926</u>
Ending Plan Fiduciary Net Position	<u><u>\$ 2,963,967</u></u>	<u><u>\$ 2,877,346</u></u>	<u><u>\$ 2,985,926</u></u>	<u><u>\$ 3,350,418</u></u>
Net Pension Liability (Asset)	<u><u>\$ (117,533)</u></u>	<u><u>\$ 67,197</u></u>	<u><u>\$ 56,137</u></u>	<u><u>\$ (190,889)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	104.13%	97.72%	98.15%	106.04%
Covered Payroll	\$ 1,346,908	\$ 1,488,686	\$ 1,322,025	\$ 1,415,675
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	-8.73%	4.51%	4.25%	-13.48%

* Only five years of information is currently available. The City will build this schedule over the next five-year period.

Measurement Year*
2018

\$ 144,728
210,854

(15,954)
-

(216,270)
123,358

3,159,529
\$ 3,282,887

\$ 67,340
79,784
(100,016)

(216,270)
(1,940)
(100)
(171,202)

3,350,418
\$ 3,179,216
\$ 103,671

96.84%

\$ 1,595,682

6.50%

CITY OF WALLER, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2019

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 63,068	\$ 63,059	\$ 52,440	\$ 60,138
Contributions in relation to the actuarially determined contribution	63,068	63,059	52,440	60,138
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,335,275	\$ 1,465,534	\$ 1,308,850	\$ 1,386,384
Contributions as a percentage of covered covered payroll	4.30%	4.30%	4.01%	4.34%

*Only six years of information is currently available. The City will build this schedule over the next four-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market, 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2018 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

Fiscal Year*	
2018	2019
\$ 67,108	\$ 63,442
67,108	67,246
\$ -	\$ (3,804)
<u>\$ 1,556,283</u>	<u>\$ 1,590,779</u>
4.31%	4.23%

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CITY OF WALLER, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
For the Year Ended September 30, 2019

	Measurement Year*	
	2017	2018
Total OPEB Liability		
Service cost	\$ 4,530	\$ 5,744
Interest (on the total OPEB liability)	3,801	3,843
Difference between expected and actual experience	-	(3,887)
Change of assumptions	7,511	(6,673)
Benefit payments**	(849)	(957)
Net Change in Total OPEB Liability	<u>14,993</u>	<u>(1,930)</u>
Beginning total OPEB liability	<u>98,715</u>	<u>113,708</u>
Ending Total OPEB Liability	<u>\$ 113,708</u>	<u>\$ 111,778</u>
Covered Payroll	\$ 1,415,675	\$ 1,595,682
Total OPEB Liability as a Percentage of Covered Payroll	8.03%	7.01%

*Only two years of information is currently available. The City will build this schedule over the next eight-year period.

**Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Required Supplementary Information:

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.71%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

Change in assumptions is the annual change in the municipal bond index rate.

There were no benefit changes during the year.

SCHEDULE

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CITY OF WALLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Property taxes	\$ 578,505	\$ 567,016	\$ 567,016	\$ -
Investment income	50,000	69,313	69,598	285
Total Revenues	<u>628,505</u>	<u>636,329</u>	<u>636,614</u>	<u>285</u>
<u>Expenditures</u>				
Principal	385,000	385,000	384,750	250
Interest and fiscal charges	476,504	476,504	467,631	8,873
Total Expenditures	<u>861,504</u>	<u>861,504</u>	<u>852,381</u>	<u>9,123</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(232,999)</u>	<u>(225,175)</u>	<u>(215,767)</u>	<u>9,408</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	238,000	238,000	544,008	306,008
Total Other Financing Sources	<u>238,000</u>	<u>238,000</u>	<u>544,008</u>	<u>306,008</u>
Change in Fund Balance	<u>\$ 5,001</u>	<u>\$ 12,825</u>	328,241	<u>\$ 315,416</u>
Beginning fund balance			<u>135,400</u>	
Ending Fund Balance			<u>\$ 463,641</u>	

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