

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended
September 30, 2016

(This page intentionally left blank.)

CITY OF WALLER, TEXAS

TABLE OF CONTENTS

September 30, 2016

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	16
Fund Financial Statements	
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Proprietary Funds Financial Statements:	
Statement of Net Position – Proprietary Funds	27
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	31
Notes to Financial Statements	33
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	57
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	59
Schedule of Contributions – Texas Municipal Retirement System	61
<u>SCHEDULES</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	65
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	67

(This page intentionally left blank.)



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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity 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, schedule of changes in net pension 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 schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The schedules are the responsibility of management and were derived from and relate 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 schedules are 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
July 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page intentionally left blank.)

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

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 – Most of the City's basic 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. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. Business-Type Activities – These are the City's services that involve a fee for those services. These services include the City's gas, water, and sewer 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 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, 2016

The City adopts an annual appropriated budget for its general fund, debt service fund, and special revenue fund. Budgetary comparison schedules have been provided for the general fund, debt service fund, and special revenue 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 and wastewater collection/treatment operations and gas operations. The proprietary fund financial statements provide separate information for the respective enterprise funds. 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, this 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 a schedule of changes in net pension liability and related ratios and a 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 \$9,122,737 at year end.

A large portion of the City's net position, 51 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, 2016

STATEMENT OF NET POSITION:

The following tables reflect the condensed State of Net Position:

	2016			Total Primary Government
	Governmental Activities	Business-Type Activities	Reconciliation	
Current and other assets	\$ 3,394,853	\$ 1,386,887	\$ -	\$ 4,781,740
Capital assets, net	2,946,382	5,774,835	-	8,721,217
Total Assets	6,341,235	7,161,722	-	13,502,957
Deferred outflows - pension	251,917	26,571	-	278,488
Deferred charge on refunding	10,428	-	-	10,428
Total Deferred Outflows of Resources	262,345	26,571	-	288,916
Long-term liabilities	4,237,179	27,408	-	4,264,587
Other liabilities	203,444	124,162	-	327,606
Total Liabilities	4,440,623	151,570	-	4,592,193
Deferred inflows - pension	71,425	5,518	-	76,943
Total Deferred Inflows of Resources	71,425	5,518	-	76,943
Net Position:				
Net investment in capital assets	889,600	5,774,835	(2,055,804)	4,608,631
Restricted	913,937	-	-	913,937
Unrestricted	287,995	1,256,370	2,055,804	3,600,169
Total Net Position	\$ 2,091,532	\$ 7,031,205	\$ -	\$ 9,122,737
	2015			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 2,569,260	\$ 1,280,081	\$ -	\$ 3,849,341
Capital assets, net	2,134,803	5,845,571	-	7,980,374
Total Assets	4,704,063	7,125,652	-	11,829,715
Deferred outflows - pension	82,304	-	-	82,304
Total Deferred Outflows of Resources	82,304	-	-	82,304
Long-term liabilities	3,627,898	73,239	-	3,701,137
Other liabilities	161,780	103,401	-	265,181
Total Liabilities	3,789,678	176,640	-	3,966,318
Deferred inflows - pension	16,760	-	-	16,760
Total Deferred Outflows of Resources	16,760	-	-	16,760
Net Position:				
Net investment in capital assets	821,087	5,790,121	(2,321,654)	4,289,554
Restricted	733,778	-	-	733,778
Unrestricted	(574,936)	1,158,891	2,321,654	2,905,609
Total Net Position	\$ 979,929	\$ 6,949,012	\$ -	\$ 7,928,941

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

A portion of the primary government's net position, \$913,937, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$3,600,169, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City increased \$1,193,798 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	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 1,092,917	\$ 983,511	\$ 1,456,205	\$ 1,502,137	\$ 2,549,122	\$ 2,485,648
Capital grants and contributions	683,682	699,451	-	-	683,682	699,451
General revenues:						
Property taxes	1,042,750	932,064	-	-	1,042,750	932,064
Sales taxes	1,655,429	1,487,935	-	-	1,655,429	1,487,935
Franchise taxes	282,705	254,058	-	-	282,705	254,058
Investment income	13,048	3,379	9,258	2,527	22,306	5,906
Other revenues	22,492	10,315	-	-	22,492	10,315
Total Revenues	<u>4,793,023</u>	<u>4,370,713</u>	<u>1,465,463</u>	<u>1,504,664</u>	<u>6,258,486</u>	<u>5,875,377</u>
Expenses						
General government	926,101	690,952	-	-	926,101	690,952
Public safety	1,055,570	1,300,053	-	-	1,055,570	1,300,053
Code enforcement	261,664	223,169	-	-	261,664	223,169
Public works	1,217,133	828,101	-	-	1,217,133	828,101
Culture and recreation	223,997	198,546	-	-	223,997	198,546
Interest and fiscal agent fees	97,155	96,255	-	-	97,155	96,255
Gas	-	-	256,296	320,439	256,296	320,439
Water and sewer	-	-	1,026,772	1,164,377	1,026,772	1,164,377
Total Expenses	<u>3,781,620</u>	<u>3,337,076</u>	<u>1,283,068</u>	<u>1,484,816</u>	<u>5,064,688</u>	<u>4,821,892</u>
Increase in Net Position Before Transfers	1,011,403	1,033,637	182,395	19,848	1,193,798	1,053,485
Transfers in (out)	100,200	(348,271)	(100,200)	348,271	-	-
Change in Net Position	1,111,603	685,366	82,195	368,119	1,193,798	1,053,485
Beginning net position	979,929	294,563	6,949,010	6,580,891	7,928,939	6,875,454
Ending Net Position	<u>\$ 2,091,532</u>	<u>\$ 979,929</u>	<u>\$ 7,031,205</u>	<u>\$ 6,949,010</u>	<u>\$ 9,122,737</u>	<u>\$ 7,928,939</u>

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Overall, governmental activities revenues increased \$422,310. Sales tax revenue increased \$167,494 due to more economic activity. Property tax revenue increased \$110,686 due to higher appraised values. Charges for services increased \$109,406 due to an increase in permits issued and an increase in municipal court revenues related to an increase in citations issued. Governmental activities expenses increased \$444,544, primarily due to an increase in professional services, insurance premiums, and noncapital projects.

Overall, business-type activities revenues were comparable to the prior year increasing \$39,201 or less than three percent. Business-type activities expenses decreased \$201,748 due to a decrease in utility costs, compensated absences expense, supplies, contracted services, and 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 \$3,064,738. Of the total governmental fund balance, \$14,472 is nonspendable in the form of inventory and \$913,937 is restricted for debt service, enabling legislation, capital projects, and special projects. \$28,351 is assigned for future projects for economic development. The remaining balance of \$2,107,978 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 \$2,107,978. 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 66 percent of total general expenditures. General fund revenues increased \$412,486 compared to the prior year largely due to increases in property tax revenues from an increase the appraised values of properties within the City, sales tax from an increase in economic activity, permit revenues from an increase in construction related permits, and fines and forfeitures from an increase in citations issued. Expenditures decreased \$151,913 compared to the prior year due mainly to decreases in capital outlay expenditures and personnel costs.

The debt service fund has a total fund balance of \$188,004, 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 \$1,552.

The capital projects fund has a fund balance of \$368,244, all of which is restricted for capital projects. The net increase in fund balance of \$56,868 was primarily due to the result of more revenue from impact fees and project contributions than capital outlay expenditures.

Proprietary Funds – The City's gas and water and sewer funds operating revenues exceeded expenses by \$174,910. Nonoperating revenue was \$9,258, which was from investment revenue. Interest expense from capital leases was \$1,773. The gas and water and sewer funds also transferred \$268,397 to repay the general fund. The water and sewer fund also had capital contributions from the capital projects fund of \$168,197.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund reported a positive revenue budget variance of \$81,997. This variance is primarily due to more sales tax, franchise and other taxes, and fines and forfeiture revenues than expected. Total expenditures had a positive budget variance of \$744,421 from the final budget due mainly to less expenditures than anticipated in the general government function.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$8,721,217 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 \$4,090,447. Of this amount, \$760,000 was general obligation bonds debt, \$2,370,000 was certificates of obligation debt, \$850,000 was tax notes debt, and \$110,447 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.

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.

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 2,736,353	\$ 1,206,984	\$ -	\$ 3,943,337
Due to(from) others	123,343	-		123,343
Receivables (net of allowance for uncollectible)	520,685	127,865	-	648,550
Inventory	14,472	52,038	-	66,510
	3,394,853	1,386,887	-	4,781,740
Noncurrent assets:				
Nondepreciable capital assets	179,740	780,432	-	960,172
Net depreciable capital assets	2,766,642	4,994,403	-	7,761,045
	2,946,382	5,774,835	-	8,721,217
Total Assets	6,341,235	7,161,722	-	13,502,957
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pension	251,917	26,571	-	278,488
Deferred charge on refunding	10,428	-	-	10,428
Total Deferred Outflows of Resources	262,345	26,571	-	288,916
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	188,484	60,196	-	248,680
Customer deposits	-	63,966	-	63,966
Accrued interest payable	14,960	-	-	14,960
	203,444	124,162	-	327,606
Noncurrent liabilities:				
Net pension liability	47,517	19,680	-	67,197
Due within one year	404,866	6,955	-	411,821
Due in more than one year	3,784,796	773	-	3,785,569
	4,237,179	27,408	-	4,264,587
Total Liabilities	4,440,623	151,570	-	4,592,193
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pension	71,425	5,518	-	76,943
<u>Net Position</u>				
Net investment in capital assets	889,600	5,774,835	(2,055,804)	4,608,631
Restricted for:				
Debt service	188,004	-	-	188,004
Enabling legislation	224,914	-	-	224,914
Capital projects	368,244	-	-	368,244
Special projects	132,775	-	-	132,775
Unrestricted	287,995	1,256,370	2,055,804	3,600,169
Total Net Position	\$ 2,091,532	\$ 7,031,205	\$ -	\$ 9,122,737

See Notes to Financial Statements.

<u>Component Unit</u>
\$ 1,413,655
-
104,711
-
<u>1,518,366</u>
-
-
-
<u>1,518,366</u>
-
-
-
-
20,329
-
-
<u>20,329</u>
-
10,366
1,152
<u>11,518</u>
<u>31,847</u>
-
-
-
-
-
1,486,519
<u>\$ 1,486,519</u>

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 926,101	\$ 572,365	\$ -
Public safety	1,055,570	236,527	-
Code enforcement	261,664	226,349	-
Public works	1,217,133	-	683,682
Culture and recreation	223,997	57,676	-
Interest and fees on debt	97,155	-	-
Total Governmental Activities	3,781,620	1,092,917	683,682
Business-Type Activities			
Gas	256,296	388,512	-
Water and sewer	1,026,772	1,067,693	-
Total Business-Type Activities	1,283,068	1,456,205	-
Total Primary Government	\$ 5,064,688	\$ 2,549,122	\$ 683,682
Component Unit			
Waller Economic Development Corporation	\$ 321,929	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales tax
 - Franchise 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
\$ (353,736)	\$ -	\$ (353,736)	\$ -
(819,043)	-	(819,043)	-
(35,315)	-	(35,315)	-
(533,451)	-	(533,451)	-
(166,321)	-	(166,321)	-
(97,155)	-	(97,155)	-
<u>(2,005,021)</u>	<u>-</u>	<u>(2,005,021)</u>	<u>-</u>
-	132,216	132,216	-
-	40,921	40,921	-
-	173,137	173,137	-
<u>(2,005,021)</u>	<u>173,137</u>	<u>(1,831,884)</u>	<u>-</u>
-	-	-	(321,929)
1,042,750	-	1,042,750	-
1,655,429	-	1,655,429	551,810
282,705	-	282,705	-
13,048	9,258	22,306	2,366
22,492	-	22,492	-
100,200	(100,200)	-	-
<u>3,116,624</u>	<u>(90,942)</u>	<u>3,025,682</u>	<u>554,176</u>
1,111,603	82,195	1,193,798	232,247
979,929	6,949,010	7,928,939	1,254,272
<u>\$ 2,091,532</u>	<u>\$ 7,031,205</u>	<u>\$ 9,122,737</u>	<u>\$ 1,486,519</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2016

	General	Debt Service	Capital Projects	Special Revenue
<u>Assets</u>				
Cash and cash equivalents	\$ 2,002,005	\$ 64,661	\$ 368,244	\$ 301,443
Investments	-	123,343	-	-
Taxes receivables, net	54,482	38,441	-	-
Other receivables	360,102	-	-	67,660
Inventory	14,472	-	-	-
Total Assets	\$ 2,431,061	\$ 226,445	\$ 368,244	\$ 369,103
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 177,070	\$ -	\$ -	\$ 11,414
Total Liabilities	177,070	-	-	11,414
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	54,483	38,441	-	-
Unavailable revenue - garbage collections	48,707	-	-	-
	103,190	38,441	-	-
<u>Fund Balances</u>				
Nonspendable	14,472	-	-	-
Restricted for:				
Debt service	-	188,004	-	-
Enabling legislation	-	-	-	224,914
Capital projects	-	-	368,244	-
Special projects	-	-	-	132,775
Assigned:				
Future economic development projects	28,351	-	-	-
Unassigned	2,107,978	-	-	-
Total Fund Balances	2,150,801	188,004	368,244	357,689
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,431,061	\$ 226,445	\$ 368,244	\$ 369,103

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 2,736,353
123,343
92,923
427,762
14,472
\$ 3,394,853

\$ 188,484
188,484

92,924
48,707
141,631

14,472

188,004
224,914
368,244
132,775

28,351
2,107,978
3,064,738

\$ 3,394,853

(This page intentionally left blank.)

CITY OF WALLER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Total fund balances for governmental funds		\$ 3,064,738
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	179,740	
Capital assets - net depreciable	<u>2,766,642</u>	2,946,382
Long-term liabilities and deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental funds.		
Net pension liability	(47,517)	
Deferred outflows - pension	251,917	
Deferred inflows - pension	<u>(71,425)</u>	132,975
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		141,631
Some liabilities, including bonds payable, net pension liability, and compensated absences are not reported as liabilities in the governmental funds.		
Deferred charge on refunding	10,428	
Accrued interest payable	(14,960)	
Noncurrent liabilities due in one year	(404,866)	
Noncurrent liabilities due in more than one year	<u>(3,784,796)</u>	(4,194,194)
Net Position of Governmental Activities		<u><u>\$ 2,091,532</u></u>

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, 2016

	General	Debt Service	Capital Projects	Special Revenue
Revenues				
Property taxes	\$ 702,094	\$ 314,269	\$ -	\$ -
Sales tax	1,655,429	-	-	-
Franchise and local taxes	153,548	-	-	129,157
Licenses and permits	226,349	-	-	-
Fines and forfeitures	228,640	-	-	7,887
Charges for services	549,376	-	-	-
Intergovernmental	56,703	-	-	311,727
Investment income	10,414	1,127	1,507	-
Other revenue	22,492	-	315,252	57,676
Total Revenues	3,605,045	315,396	316,759	506,447
Expenditures				
Current:				
General government	899,143	-	-	-
Public safety	1,046,347	-	-	-
Code enforcement	259,365	-	-	-
Public works	829,675	-	-	-
Culture and recreation	69,554	-	-	153,079
Miscellaneous expenses	-	-	-	9,296
Capital outlay	-	-	1,109,891	247,564
Debt Service:				
Principal	62,651	225,000	-	-
Interest and fiscal charges	7,994	88,844	-	-
Total Expenditures	3,174,729	313,844	1,109,891	409,939
Excess (Deficiency) of Revenues Over (Under) Expenditures	430,316	1,552	(793,132)	96,508
Other Financing Sources				
Transfers in	268,397	-	-	-
Bond proceeds	-	-	850,000	-
Total Other Financing Sources	268,397	-	850,000	-
Net Change in Fund Balances	698,713	1,552	56,868	96,508
Beginning fund balances	1,452,088	186,452	311,376	261,181
Ending Fund Balances	\$ 2,150,801	\$ 188,004	\$ 368,244	\$ 357,689

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,016,363
1,655,429
282,705
226,349
236,527
549,376
368,430
13,048
395,420
4,743,647

899,143
1,046,347
259,365
829,675
222,633
9,296
1,357,455

287,651
96,838
5,008,403

(264,756)

268,397
850,000
1,118,397

853,641
2,211,097
\$ 3,064,738

(This page intentionally left blank.)

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, 2016

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

Net changes in fund balances - total governmental funds	\$	853,641
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		970,047
Depreciation expense		(158,468)
Revenues that do not provide current financial resources are not reported as revenues in the funds.		
Deferred inflows of resources - unavailable revenue		49,376
Change in pension activity does not affect the fund balance on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. These changes in pension activity that affect the City's net position are as follows:		
Net pension liability		(165,050)
Deferred outflows - pension		181,530
Deferred inflows - pension		(54,665)
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.		
Bonds issued		(850,000)
Amortization of bond premiums		2,727
Change in deferred inflows of resources from refunded bonds		(1,489)
Change in compensated absences		(2,142)
Principal expenditures		287,651
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		<u>(1,555)</u>
Change in Net Position of Governmental Activities	\$	<u>1,111,603</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2016

	Gas	Water and Sewer	Total Funds
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 900,508	\$ 306,476	\$ 1,206,984
Receivables, net	24,974	102,891	127,865
Inventory	21,301	30,737	52,038
Total Current Assets	946,783	440,104	1,386,887
Noncurrent assets			
Capital assets:			
Nondepreciable	-	780,432	780,432
Net depreciable capital assets	74,527	4,919,876	4,994,403
Total Noncurrent Assets	74,527	5,700,308	5,774,835
Total Assets	1,021,310	6,140,412	7,161,722
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pension	-	26,571	26,571
<u>Liabilities</u>			
Current liabilities			
Accounts payable and accrued liabilities	2,022	58,174	60,196
Customer deposits	19,451	44,515	63,966
Compensated absences	-	6,955	6,955
Total Current Liabilities	21,473	109,644	131,117
Noncurrent liabilities			
Net pension liability	-	19,680	19,680
Compensated absences	-	773	773
Total Noncurrent Liabilities	-	20,453	20,453
Total Liabilities	21,473	130,097	151,570
<u>Deferred Inflows of Resources</u>			
Deferred inflows - pension	-	5,518	5,518
<u>Net Position</u>			
Net investment in capital assets	74,527	5,700,308	5,774,835
Unrestricted	925,310	331,060	1,256,370
Total Net Position	\$ 999,837	\$ 6,031,368	\$ 7,031,205

See Notes to Financial Statements.

(This page intentionally left blank.)

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

For the Year Ended September 30, 2016

	Gas	Water and Sewer	Total Funds
<u>Operating Revenues</u>			
Charges for services	\$ 388,512	\$ 1,066,680	\$ 1,455,192
Other revenue	-	1,013	1,013
Total Operating Revenues	388,512	1,067,693	1,456,205
<u>Operating Expenses</u>			
Costs of sales and services	243,131	688,613	931,744
Depreciation	13,122	336,429	349,551
Total Operating Expenses	256,253	1,025,042	1,281,295
Operating Income	132,259	42,651	174,910
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	4,818	4,440	9,258
Interest expense	(43)	(1,730)	(1,773)
Total Nonoperating Revenues	4,775	2,710	7,485
Income Before Contributions and Transfers	137,034	45,361	182,395
Capital contributions	30,165	138,032	168,197
Transfers	(124,210)	(144,187)	(268,397)
Change in Net Position	42,989	39,206	82,195
Beginning net position	956,848	5,992,162	6,949,010
Ending Net Position	\$ 999,837	\$ 6,031,368	\$ 7,031,205

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2016

	Gas	Water and Sewer	Total Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 372,036	\$ 1,004,571	\$ 1,376,607
Payments to suppliers and employees	(241,979)	(633,948)	(875,927)
Net Cash Provided by Operating Activities	130,057	370,623	500,680
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers	(124,210)	(144,187)	(268,397)
Net Cash (Used) by Noncapital Financing Activities	(124,210)	(144,187)	(268,397)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	-	(110,619)	(110,619)
Interest expense	(43)	(1,730)	(1,773)
Principal payments	-	(55,450)	(55,450)
Net Cash (Used) by Capital and Related Financing Activities	(43)	(167,799)	(167,842)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	4,818	4,440	9,258
Net Cash Provided by Investing Activities	4,818	4,440	9,258
Net Increase in Cash and Cash Equivalents	10,622	63,077	73,699
Beginning cash and cash equivalents	889,886	243,399	1,133,285
Ending Cash and Cash Equivalents	\$ 900,508	\$ 306,476	\$ 1,206,984
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 132,259	\$ 42,651	\$ 174,910
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	13,122	336,429	349,551
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(16,476)	(63,122)	(79,598)
Inventories	5,057	41,434	46,491
Deferred outflows - pension	-	(26,571)	(26,571)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(6,616)	22,957	16,341
Compensated absences	(8)	(10,053)	(10,061)
Net pension liability	-	19,680	19,680
Deferred inflows - pension	-	5,518	5,518
Customer deposits	2,719	1,700	4,419
Net Cash Provided by Operating Activities	\$ 130,057	\$ 370,623	\$ 500,680
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ 30,165	\$ 138,032	\$ 168,197

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

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: public safety to include police and volunteer fire departments, highways and streets, sanitation, culture and recreation, public improvements, and general administration.

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 Corporation 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, 2016

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 activities of the primary government and its component units. *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 certain legally separate *component units* 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. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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 and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, code enforcement, public works, culture and recreation, and principal and interest for capital leases. 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 major fund for reporting purposes.

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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted or designated for specified activities. The special revenue fund is considered a major fund for reporting purposes.

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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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 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 taxes, 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

In accordance with GASB Statement No. 31, "*Accounting and Reporting for Certain Investments and External Investment Pools*", the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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).

4. 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 government 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 estimated fair market 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.

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

5. 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. The City has four items that qualify for reporting in this category. 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. Deferred charges have been recognized as a result of differences between projected and actual investment earnings of the pension plans assets. This amount is deferred and amortized over a period of five years. Deferred charges have also been recognized for changes in actuarial assumptions. This amount is deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between expected and actual economic experience on the pension plan liability. This amount is deferred and amortized over the average of the expected service lives of pension plan members. 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. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

6. 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.

7. 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 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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. 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.

9. 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.

10. 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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

11. 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.

12. 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' s 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.

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 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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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 (GAAP), 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 as defined by the charter is the object and purpose stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year.

A. Expenditures in Excess of Appropriations

For the year ended September 30, 2016, expenditures exceeded appropriations at the legal level of control as follows:

General Fund – Public Safety	\$13,775
General Fund – Public Works	\$ 4,087
General Fund – Culture and Recreation	\$ 2,492

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 123,343	0.08
External investment pools	744,973	0.00
Total fair value	\$ 868,316	
Portfolio weighted average maturity		0.01

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, 2016, the City's investment in TexPool was rated "AAAm" by Standard & Poor's. 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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2016, 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.

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 nonmajor governmental funds in the aggregate, and the enterprise fund, including the applicable allowances for uncollectible accounts:

	General	Debt Service	Special Revenue	Gas	Water/Sewer	Component Unit
Property taxes	\$ 54,482	\$ 38,441	\$ -	\$ -	\$ -	\$ -
Sales taxes	315,854	-	-	-	-	104,711
Accounts	46,607	-	12,281	36,655	158,178	-
Allowance	(9,195)	-	-	(11,681)	(55,287)	-
Intergovernmental	6,836	-	55,379	-	-	-
	<u>\$ 414,584</u>	<u>\$ 38,441</u>	<u>\$ 67,660</u>	<u>\$ 24,974</u>	<u>\$ 102,891</u>	<u>\$ 104,711</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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	-	106,440	-	106,440
Total capital assets not being depreciated	73,300	106,440	-	179,740
Other capital assets:				
Infrastructure	2,777,870	-	-	2,777,870
Buildings	746,423	816,578	-	1,563,001
Vehicles	541,372	47,029	-	588,401
Equipment	474,276	-	-	474,276
Total other capital assets	4,539,941	863,607	-	5,403,548
Less accumulated depreciation for:				
Infrastructure	(1,570,919)	(63,524)	-	(1,634,443)
Buildings	(272,879)	(16,560)	-	(289,439)
Vehicles	(306,330)	(46,574)	-	(352,904)
Equipment	(328,310)	(31,810)	-	(360,120)
Total accumulated depreciation	(2,478,438)	(158,468)	-	(2,636,906)
Other capital assets, net	2,061,503	705,139	-	2,766,642
Governmental Activities Capital Assets, Net	\$ 2,134,803	\$ 811,579	\$ -	2,946,382
		Plus unspent bond proceeds		16,529
		Less associated debt		(2,083,739)
		Plus deferred charge on refunding		10,428
		Net Investment in Capital Assets		\$ 889,600

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	\$ 6,167
Public safety	42,265
Public works	109,398
Cultural and recreation	638
Total Governmental Activities Depreciation Expense	\$ 158,468

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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	625,729	138,032	-	763,761
Total capital assets not being depreciated	<u>642,400</u>	<u>138,032</u>	<u>-</u>	<u>780,432</u>
Other capital assets:				
Building	92,434	-	-	92,434
Water/sewer system	8,260,500	84,277	-	8,344,777
Gas system	248,055	-	-	248,055
Equipment	529,716	30,165	-	559,881
Vehicles	66,117	26,341	-	92,458
Total other capital assets	<u>9,196,822</u>	<u>140,783</u>	<u>-</u>	<u>9,337,605</u>
Less accumulated depreciation for:				
Building	(53,059)	(2,089)	-	(55,148)
Water/sewer system	(3,287,430)	(273,048)	-	(3,560,478)
Gas system	(210,436)	(1,636)	-	(212,072)
Equipment	(381,537)	(66,551)	-	(448,088)
Vehicles	(61,189)	(6,227)	-	(67,416)
Total accumulated depreciation	<u>(3,993,651)</u>	<u>(349,551)</u>	<u>-</u>	<u>(4,343,202)</u>
Other capital assets, net	5,203,171	490,334	-	4,994,403
Business-Type Activities Capital Assets, Net	<u>\$ 5,845,571</u>	<u>\$ 628,366</u>	<u>\$ -</u>	<u>\$ 5,774,835</u>

Depreciation was charged to business-type functions as follows:

Gas	\$ 13,122
Water/Sewer	336,429
Total Business-Type Activities Depreciation Expense	<u>\$ 349,551</u>

D. Long-Term Debt

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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Permanent Improvement Bonds, Series 2004	4.30-5.00%	\$ 760,000
Certificates of Obligation		
Certificates of Obligation, Series 2012	2.00%	2,370,000
Tax Notes		
Tax Notes, Series 2016	1.67-4.03%	850,000
Total Bonds, Certificates of Obligation, and Tax Notes		<u>3,980,000</u>
Construction Advance	5.75%	110,447
Total General Long-Term Debt		<u>\$ 4,090,447</u>

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		Certificates of Obligation		Tax Note		Construction Advance	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 135,000	\$ 16,036	\$ 90,000	\$ 61,525	\$ 110,000	\$ 13,277	\$ 7,332	\$ 7,736
2018	130,000	13,188	95,000	59,725	120,000	11,356	7,765	7,303
2019	105,000	10,445	95,000	57,825	120,000	9,352	8,223	6,844
2020	100,000	8,229	100,000	55,925	120,000	7,348	8,709	6,359
2021	100,000	6,119	105,000	53,925	125,000	5,302	9,223	5,845
2022-2026	190,000	5,905	600,000	235,500	255,000	4,300	54,953	20,385
2027-2031	-	-	750,000	149,850	-	-	14,242	3,813
2032-2035	-	-	535,000	32,550	-	-	-	-
Total	<u>\$ 760,000</u>	<u>\$ 59,922</u>	<u>\$ 2,370,000</u>	<u>\$ 706,825</u>	<u>\$ 850,000</u>	<u>\$ 59,079</u>	<u>\$ 110,447</u>	<u>\$ 66,429</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. 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, it could result in a substantial liability to the City. The City engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

E. Interfund Transactions

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

Transfer In	Transfer Out	Amounts
General Fund	Water and Sewer Fund	\$ 144,187
General Fund	Gas Fund	124,210
		\$ 268,397

Amounts transferred from the water and sewer fund and the gas fund to the general fund are related to their portion of certain governmental expenditures.

F. Fund Equity

As of September 30, 2016, \$224,914 of the City's total fund balance is restricted by enabling legislation.

G. Restatement of Fund Balance/Net Position

Beginning fund balance has been restated in the general fund to account for previously unrecognized deferred inflows of resources related to uncollected garbage receivables. Beginning fund balance in the special revenue fund has been restated to account for an unrecognized prior year accrual.

The beginning net position was restated as follows:

	General	Special Revenue	Governmental Activities
Prior year ending fund balance/net position as reported	\$ 1,477,806	\$ 235,950	\$ 980,416
Restatement: Deferred inflows - garbage collections	(25,718)	-	(25,718)
Restatement: Special revenue accrual	-	25,231	25,231
Current year beginning fund balance/net position as reported	\$ 1,452,088	\$ 261,181	\$ 979,929

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 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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

B. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (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.tmrs.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>2016</u>	<u>2015</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, 2016

Employees Covered by Benefit Terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to, but not yet receiving, benefits	13
Active employees	29
Total	60

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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 3.92 percent and 4.25 percent in calendar years 2016 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$52,440, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015 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, 2015 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 Disabled Retiree 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 projects 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, 2016

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. 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 weighing the expected future real rates of return by the target 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic 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%	6.10%
Core Fixed Income	10.00%	1.00%
Non-core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

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, 2016

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 132,493	\$ -	\$ 132,493
Interest	195,980	-	195,980
Difference between expected and actual experience	(81,153)	-	(81,153)
Changes of assumptions	76,719	-	76,719
Contributions - employer	-	63,296	(63,296)
Contributions - employee	-	74,434	(74,434)
Net investment income	-	4,374	(4,374)
Benefit payments, including refunds of employee contributions	(225,930)	(225,930)	-
Administrative expense	-	(2,664)	2,664
Other changes	-	(131)	131
Net Changes	98,109	(86,621)	184,730
Balance at December 31, 2014	2,846,434	2,963,967	(117,533)
Balance at December 31, 2015	\$ 2,944,543	\$ 2,877,346	\$ 67,197

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 percent, 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	\$ 376,000	\$ 67,197	\$ (195,334)

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, 2016, the City recognized net pension expense of \$87,712.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

At September 30, 2016, 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	\$ -	\$ 76,943
Changes in actuarial assumptions	56,895	-
Net difference between projected and actual investment earnings	184,286	-
Contributions subsequent to the measurement date	37,307	-
Total	\$ 278,488	\$ 76,943

\$37,307 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 net pension liability for the fiscal year ending September 30, 2017. 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
2017	\$ 38,355
2018	38,371
2019	46,892
2020	40,620
Total	\$ 164,238

C. Other Post Employment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

The City also participates in the cost sharing multiple-employer 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 City 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 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); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the pension trust fund. For the year ended September 30, 2016, the City offered the supplemental death benefit to both active and retired employees.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Contributions

The City contributes to the SDBF at a contractually required rate 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.

The City's contributions to TMRS SDBF for the fiscal years ended 2016, 2015, and 2014 were \$750, \$701, and \$534, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years ended are shown below.

	2016	2015	2014
Annual req. contrib. (rate)	0.06%	0.05%	0.04%
Actual contribution made	0.06%	0.05%	0.04%
Percentage of ARC contrib.	100.00%	100.00%	100.00%

D. Chapter 380 Economic Development Agreement

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. The City has entered into Chapter 380 Economic Development Agreements (the "Agreements") with one large business. This business agreed to establish and maintain an office in the City that generates substantial taxable sales. The Agreements are for a term of 15 years. The City will remit back to the business 75 percent (of the one percent collected by the City) of the sales tax revenues generated by this business. During the current fiscal year, the City collected \$429,876 in sales taxes from the sales of this business and recorded expenditures of \$165,369.

E. Infrastructure Funding Agreement

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 business noted in the previous note 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.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

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

GENERAL FUND

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 632,079	\$ 702,094	\$ 702,094	\$ -
Sales tax	1,329,704	1,609,654	1,655,429	45,775
Franchise and other taxes	125,000	125,000	153,548	28,548
Licenses and permits	72,700	228,016	226,349	(1,667)
Fines and forfeitures	140,000	201,087	228,640	27,553
Charges for services	566,200	557,197	549,376	(7,821)
Intergovernmental	45,000	60,000	56,703	(3,297)
Investment income	500	15,000	10,414	(4,586)
Other revenue	17,500	25,000	22,492	(2,508)
Total Revenues	2,928,683	3,523,048	3,605,045	81,997
Expenditures				
Current:				
General government	732,669	1,663,918	899,143	764,775
Public safety	1,205,541	1,032,572	1,046,347	(13,775) *
Code enforcement	219,236	259,365	259,365	-
Public works	854,186	825,588	829,675	(4,087) *
Culture and recreation	96,771	67,062	69,554	(2,492) *
Debt Service:				
Principal	-	62,651	62,651	-
Interest and fiscal charges	-	7,994	7,994	-
Total Expenditures	3,108,403	3,919,150	3,174,729	744,421
Excess (Deficiency) of Revenues Over (Under) Expenditures	(179,720)	(396,102)	430,316	826,418
Other Financing Sources				
Transfers in	268,397	1,165,226	268,397	(896,829)
Total Other Financing Sources	268,397	1,165,226	268,397	(896,829)
Change in Fund Balance	\$ 88,677	\$ 769,124	698,713	\$ (70,411)
Beginning fund balance			1,452,088	
Ending Fund Balance			\$ 2,150,801	

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.

(This page intentionally left blank.)

CITY OF WALLER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2016

	Measurement Year*	
	2014	2015
Total Pension Liability		
Service cost	\$ 107,477	\$ 132,493
Interest (on the total pension liability)	190,319	195,980
Difference between expected and actual experience	(33,536)	(81,153)
Change of assumptions	-	76,719
Benefit payments, including refunds of employee contributions	(165,870)	(225,930)
Net Change in Total Pension Liability	<u>98,390</u>	<u>98,109</u>
Beginning total pension liability	<u>2,748,044</u>	<u>2,846,434</u>
Ending Total Pension Liability	<u><u>\$ 2,846,434</u></u>	<u><u>\$ 2,944,543</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 60,449	\$ 63,296
Contributions - employee	67,345	74,434
Net investment income	162,554	4,374
Benefit payments, including refunds of employee contributions	(165,870)	(225,930)
Administrative expense	(1,697)	(2,664)
Other	(140)	(131)
Net Change in Plan Fiduciary Net Position	<u>122,641</u>	<u>(86,621)</u>
Beginning plan fiduciary net position	<u>2,841,326</u>	<u>2,963,967</u>
Ending Plan Fiduciary Net Position	<u><u>\$ 2,963,967</u></u>	<u><u>\$ 2,877,346</u></u>
Net Pension Liability (Asset)	<u><u>\$ (117,533)</u></u>	<u><u>\$ 67,197</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	104.13%	97.72%
Covered Employee Payroll	\$ 1,346,908	\$ 1,488,686
City's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-8.73%	4.51%

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

(This page intentionally left blank.)

CITY OF WALLER, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2016

	Fiscal Year*		
	2014	2015	2016
Actuarially determined contribution	\$ 63,068	\$ 63,059	\$ 52,440
Contributions in relation to the actuarially determined contribution	63,068	63,059	52,440
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,335,275	\$ 1,465,534	\$ 1,308,850
Contributions as a percentage of covered covered employee payroll	4.72%	4.30%	4.01%

*Only three years of information is currently available. The City will build this schedule over the next seven-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 2015 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.

(This page intentionally left blank.)

SCHEDULES

(This page intentionally left blank.)

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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 314,126	\$ 314,269	\$ 314,269	\$ -
Investment income	623	1,127	1,127	-
Total Revenues	314,749	315,396	315,396	-
<u>Expenditures</u>				
Principal	225,000	225,000	225,000	-
Interest and fiscal charges	84,175	113,795	88,844	24,951
Total Expenditures	309,175	338,795	313,844	24,951
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,574	(23,399)	1,552	24,951
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	(799,773)	-	799,773
Bond proceeds	-	850,000	-	(850,000)
Total Other Financing Sources	-	50,227	-	(50,227)
Change in Fund Balance	\$ 5,574	\$ 26,828	1,552	\$ (25,276)
Beginning fund balance			186,452	
Ending Fund Balance			\$ 188,004	

(This page intentionally left blank.)

CITY OF WALLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
For the Year Ended September 30, 2016

	Original Budgeted Amounts	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Franchise and local taxes	\$ 89,000	\$ 89,000	\$ 129,157	\$ 40,157
Fines and forfeitures	7,585	7,585	7,887	302
Intergovernmental	-	312,347	311,727	(620)
Other revenue	60,500	60,500	57,676	(2,824)
Total Revenues	<u>157,085</u>	<u>469,432</u>	<u>506,447</u>	<u>37,015</u>
Expenditures				
Culture and recreation	301,139	154,000	153,079	921
Miscellaneous expenses	4,200	10,000	9,296	704
Capital outlay	-	276,085	247,564	28,521
Total Expenditures	<u>305,339</u>	<u>440,085</u>	<u>409,939</u>	<u>30,146</u>
Change in Fund Balance	<u>\$ (148,254)</u>	<u>\$ 29,347</u>	96,508	<u>\$ 67,161</u>
Beginning fund balance			<u>261,181</u>	
Ending Fund Balance			<u>\$ 357,689</u>	

(This page intentionally left blank.)