

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended
September 30, 2015

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CITY OF WALLER, TEXAS

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September 30, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Waller, Texas (the "City") as of and for the year ended September 30, 2015, 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.

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Opinions

In our opinion, the basic 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, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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
February 3, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

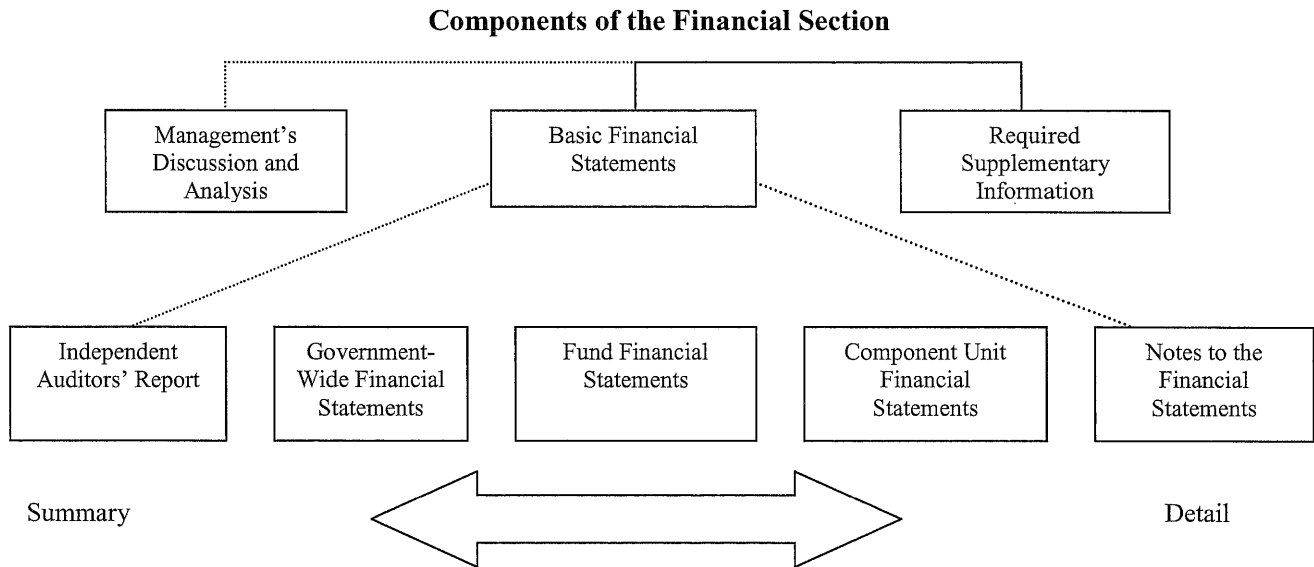
CITY OF WALLER, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Waller (the "City") for the year ending September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

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

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

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal 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 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, 2015

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. 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, schedule of changes in net pension liability and related ratios, and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets exceeded liabilities by \$7,929,428 at year end.

A large portion of the City's net position, 54 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, 2015

SUMMARY STATEMENT OF NET POSITION

	2015			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 2,569,747	\$ 1,280,081	\$ -	\$ 3,849,828
Capital assets, net	2,134,803	5,845,571	-	7,980,374
Total Assets	4,704,550	7,125,652	-	11,830,202
Deferred outflows - pensions	70,387	-	-	70,387
Deferred charge on refunding	11,917	-	-	11,917
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 - pensions	16,760	-	-	16,760
Total Deferred Inflows 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	(574,449)	1,158,891	2,321,654	2,906,096
Total Net Position	\$ 980,416	\$ 6,949,012	\$ -	\$ 7,929,428
	2014			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 2,345,675	\$ 1,359,384	\$ -	\$ 3,705,059
Capital assets, net	2,013,091	5,493,380	-	7,506,471
Total Assets	4,358,766	6,852,764	-	11,211,530
Deferred outflows - pensions	58,935	-	-	58,935
Total Deferred Outflows of Resources	58,935	-	-	58,935
Long-term liabilities	3,936,823	149,378	-	4,086,201
Other liabilities	185,828	122,495	-	308,323
Total Liabilities	4,122,651	271,873	-	4,394,524
Net Position:				
Net investment in capital assets	614,077	5,362,160	(2,604,883)	3,371,354
Restricted	791,098	-	-	791,098
Unrestricted	(1,110,125)	1,218,731	2,604,883	2,713,489
Total Net Position	\$ 295,050	\$ 6,580,891	\$ -	\$ 6,875,941

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

A portion of the primary government's net position, \$733,778, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,906,096, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City increased slightly during the year due to positive net operating results.

There was an increase in the beginning net position of \$138,810 due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.H to the financial statements.

In the current fiscal year, GASB Statement No. 68 and No. 71 require the City to recognize a net pension asset and deferred outflows/inflows of resources as discussed in note IV.B. to the financial statements. The changes in the net pension asset and deferred outflows/inflows of resources increased the City's net position by \$32,350 during the current fiscal year.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 983,511	\$ 846,360	\$ 1,502,137	\$ 1,594,653	\$ 2,485,648	\$ 2,441,013
Capital grants and contributions	699,451	261,129	-	161,200	699,451	422,329
General revenues:						
Property taxes	932,064	792,961	-	-	932,064	792,961
Sales taxes	1,487,935	1,241,014	-	-	1,487,935	1,241,014
Franchise taxes	254,058	209,191	-	-	254,058	209,191
Investment income	3,379	14,569	2,529	1,323	5,908	15,892
Other revenues	10,315	48,437	-	-	10,315	48,437
Total Revenues	4,370,713	3,413,661	1,504,666	1,757,176	5,875,379	5,170,837
Expenses						
General government	690,952	678,424	-	-	690,952	678,424
Public safety	1,300,053	1,211,312	-	-	1,300,053	1,211,312
Code enforcement	223,169	147,640	-	-	223,169	147,640
Public works	828,101	861,389	-	-	828,101	861,389
Culture and recreation	198,546	174,037	-	-	198,546	174,037
Interest and fiscal agent fees	96,255	105,459	-	-	96,255	105,459
Gas	-	-	320,439	407,478	320,439	407,478
Water and sewer	-	-	1,164,377	944,663	1,164,377	944,663
Total Expenses	3,337,076	3,178,261	1,484,816	1,352,141	4,821,892	4,530,402
Increase in Net Position Before Transfers	1,033,637	235,400	19,850	405,035	1,053,487	640,435
Transfers in (out)	(348,271)	(576,687)	348,271	576,687	-	-
Change in Net Position	685,366	(341,287)	368,121	981,722	1,053,487	640,435
Beginning net position	295,050	636,337	6,580,891	5,599,169	6,875,941	6,235,506
Ending Net Position	\$ 980,416	\$ 295,050	\$ 6,949,012	\$ 6,580,891	\$ 7,929,428	\$ 6,875,941

Overall, governmental activities revenues increased \$957,052. Sales tax revenue increased \$246,921 due to more economic activity. Property tax revenue increased \$139,103 due to higher appraised values. There was also a significant increase in capital contributions primarily due to the Alegacy projects to annex sewer lines with the City. Governmental activities expenses increased \$158,815, primarily due to an increase in salary expenses in public safety.

Overall, business-type activities revenues decreased \$252,510, largely due to the decreases in capital contributions and charges for services. Business-type activities expenses increased \$132,675 due to an increase in expenses to treat the water and sewer plant.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

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 \$2,211,584. Of the total governmental fund balance, \$24,985 is nonspendable in the form of inventory and \$733,778 is restricted for debt service, enabling legislation, capital projects, and special projects. \$22,846 is assigned for future projects for economic development. The remaining balance of \$1,429,975 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 \$1,429,975. 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 44 percent of total general expenditures. The general fund demonstrated an overall increase of \$293,482 as a result of interfund transfers from the water and sewer, capital projects, and nonmajor special revenue funds.

The debt service fund has a total fund balance of \$186,452, all of which is restricted for payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$8,388.

The capital projects fund has a fund balance of \$311,376, all of which is restricted for capital projects. The net increase in fund balance of \$28,816 was primarily due to the result of more revenue from capital contributions than expenditures for capital outlay for street drainage and water system.

Proprietary Funds – The City's gas and water and sewer funds operating revenues exceeded expenses by \$22,721. Nonoperating revenue was \$2,529, which was from investments and intergovernmental revenue. Interest expense from capital leases was \$5,400. The gas and water and sewer funds also transferred \$243,712 to repay the general fund. The water and sewer fund also had capital contributions from the capital projects fund of \$591,983.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year, the general fund had total revenues of \$3,192,559, a positive budget variance of \$450,326 from the final budget. This variance is primarily due to higher sales tax revenue than expected. Total expenditures had a positive budget variance of \$19,472 from the final budget.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$2,134,803 and \$5,845,571, respectively, 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.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

LONG-TERM DEBT

At the end of the current year, the City had total long-term debt in governmental activities of \$3,627,898 and business-type activities of \$73,239.

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.

BASIC FINANCIAL STATEMENTS

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 2,050,581	\$ 1,133,285	\$ -	\$ 3,183,866
Receivables (net of allowance for uncollectible)	376,648	48,267	-	424,915
Inventory	24,985	98,529	-	123,514
	2,452,214	1,280,081	-	3,732,295
Noncurrent assets:				
Net pension asset	117,533	-	-	117,533
Non-depreciable capital assets	73,300	642,400	-	715,700
Net depreciable capital assets	2,061,503	5,203,171	-	7,264,674
	2,252,336	5,845,571	-	8,097,907
Total Assets	4,704,550	7,125,652	-	11,830,202
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	70,387	-	-	70,387
Deferred charge on refunding	11,917	-	-	11,917
Total Deferred Outflows of Resources	82,304	-	-	82,304
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	148,375	43,854	-	192,229
Customer deposits	-	59,547	-	59,547
Accrued interest payable	13,405	-	-	13,405
	161,780	103,401	-	265,181
Noncurrent liabilities:				
Due within one year	268,180	71,460	-	339,640
Due in more than one year	3,359,718	1,779	-	3,361,497
	3,627,898	73,239	-	3,701,137
Total Liabilities	3,789,678	176,640	-	3,966,318
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	16,760	-	-	16,760
<u>Net Position</u>				
Net investment in capital assets	821,087	5,790,121	(2,321,654)	4,289,554
Restricted for:				
Debt service	186,452	-	-	186,452
Enabling legislation	224,914	-	-	224,914
Capital projects	311,376	-	-	311,376
Special projects	11,036	-	-	11,036
Unrestricted	(574,449)	1,158,891	2,321,654	2,906,096
Total Net Position	\$ 980,416	\$ 6,949,012	\$ -	\$ 7,929,428

See Notes to Financial Statements.

**Component
Unit**

\$ 1,195,985

86,225

-

1,282,210

-

-

-

-

1,282,210

-

-

-

27,938

-

-

27,938

-

-

-

27,938

-

-

-

-

-

1,254,272

\$ 1,254,272

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 690,952	\$ 598,072	\$ -
Public safety	1,300,053	171,532	-
Code enforcement	223,169	129,008	-
Public works	828,101	-	699,451
Culture and recreation	198,546	84,899	-
Interest and fees on debt	96,255	-	-
Total Governmental Activities	3,337,076	983,511	699,451
Business-Type Activities			
Gas	320,439	492,875	-
Water and sewer	1,164,377	1,009,262	-
Total Business-Type Activities	1,484,816	1,502,137	-
Total Primary Government	\$ 4,821,892	\$ 2,485,648	\$ 699,451
Component Unit			
Waller Economic Development Corporation	\$ 589,277	\$ -	\$ -
		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
\$ (92,880)	\$ -	\$ (92,880)	\$ -
(1,128,521)	-	(1,128,521)	-
(94,161)	-	(94,161)	-
(128,650)	-	(128,650)	-
(113,647)	-	(113,647)	-
(96,255)	-	(96,255)	-
<u>(1,654,114)</u>	<u>-</u>	<u>(1,654,114)</u>	<u>-</u>
-	172,436	172,436	-
-	(155,115)	(155,115)	-
-	17,321	17,321	-
<u>(1,654,114)</u>	<u>17,321</u>	<u>(1,636,793)</u>	<u>-</u>
-	-	-	(589,277)
932,064	-	932,064	-
1,487,935	-	1,487,935	495,855
254,058	-	254,058	-
3,379	2,529	5,908	-
10,315	-	10,315	-
<u>(348,271)</u>	<u>348,271</u>	<u>-</u>	<u>-</u>
<u>2,339,480</u>	<u>350,800</u>	<u>2,690,280</u>	<u>495,855</u>
685,366	368,121	1,053,487	(93,422)
295,050	6,580,891	6,875,941	1,347,694
<u>\$ 980,416</u>	<u>\$ 6,949,012</u>	<u>\$ 7,929,428</u>	<u>\$ 1,254,272</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	Major Governmental Funds			Nonmajor Special Revenue
	General	Debt Service	Capital Projects	
<u>Assets</u>				
Cash and cash equivalents	\$ 1,316,180	\$ 187,075	\$ 311,376	\$ 235,950
Taxes receivables, net	51,347	40,907	-	-
Other receivables	284,394	-	-	-
Inventory	24,985	-	-	-
Total Assets	\$ 1,676,906	\$ 227,982	\$ 311,376	\$ 235,950
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 147,752	\$ 623	\$ -	\$ -
Total Liabilities	147,752	623	-	-
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	51,348	40,907	-	-
<u>Fund Balances</u>				
Nonspendable	24,985	-	-	-
Restricted for:				
Debt service	-	186,452	-	-
Enabling legislation	-	-	-	224,914
Capital projects	-	-	311,376	-
Special projects	-	-	-	11,036
Assigned:				
Future economic development projects	22,846	-	-	-
Unassigned	1,429,975	-	-	-
Total Fund Balances	1,477,806	186,452	311,376	235,950
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,676,906	\$ 227,982	\$ 311,376	\$ 235,950

**Total
Governmental
Funds**

\$ 2,050,581
92,254
284,394
24,985
\$ 2,452,214

\$ 148,375
148,375

92,255

24,985

186,452
224,914
311,376
11,036

22,846
1,429,975
2,211,584

\$ 2,452,214

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CITY OF WALLER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2015

Total fund balances for governmental funds		\$ 2,211,584
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 - non-depreciable	73,300	
Capital assets - net depreciable	2,061,503	2,134,803
Long-term assets, deferred outflows, and deferred inflows related to the net pension asset are not reported in the governmental funds.		
Net pension asset	117,533	
Deferred outflows - pension	70,387	
Deferred inflows - pension	(16,760)	171,160
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		92,255
Some liabilities, including bonds payable, net pension liabilities, and compensated absences are not reported as liabilities in the governmental funds.		
Deferred charge on refunding	11,917	
Accrued interest payable	(13,405)	
Non-current liabilities due in one year	(268,180)	
Non-current liabilities due in more than one year	(3,359,718)	
Net Position of Governmental Activities		(3,629,386)
		\$ 980,416

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, 2015

	Major Governmental Funds			Nonmajor Special Revenue
	General	Debt Service	Capital Projects	
Revenues				
Property taxes	\$ 626,909	\$ 318,259	\$ -	\$ -
Sales tax	1,487,935	-	-	-
Franchise and local taxes	132,949	-	-	121,109
Licenses and permits	129,008	-	-	-
Fines and forfeitures	160,345	-	-	11,187
Charges for services	598,072	-	-	-
Intergovernmental	45,692	-	341,111	-
Investment income	1,334	1,152	893	-
Other revenue	10,315	-	312,648	84,899
Total Revenues	3,192,559	319,411	654,652	217,195
Expenditures				
Current:				
General government	708,436	-	-	-
Public safety	1,399,809	-	-	-
Code enforcement	224,908	-	-	-
Public works	722,287	-	-	-
Culture and recreation	57,584	-	-	140,873
Miscellaneous expenses	-	-	-	4,070
Capital outlay	153,084	-	591,983	-
Debt Service:				
Principal	50,030	240,000	-	-
Interest and fiscal charges	10,504	87,799	-	-
Total Expenditures	3,326,642	327,799	591,983	144,943
Excess (Deficiency) of Revenues Over (Under) Expenditures	(134,083)	(8,388)	62,669	72,252
Other Financing Sources (Uses)				
Transfers in	427,565	-	-	-
Transfers out	-	-	(33,853)	(150,000)
Total Other Financing Sources (Uses)	427,565	-	(33,853)	(150,000)
Net Change in Fund Balances	293,482	(8,388)	28,816	(77,748)
Beginning fund balances	1,184,324	194,840	282,560	313,698
Ending Fund Balances	\$ 1,477,806	\$ 186,452	\$ 311,376	\$ 235,950

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 945,168
1,487,935
254,058
129,008
171,532
598,072
386,803
3,379
407,862
4,383,817

708,436
1,399,809
224,908
722,287
198,457
4,070
745,067

290,030
98,303
4,391,367

(7,550)

427,565
(183,853)
243,712

236,162

1,975,422
\$ 2,211,584

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, 2015

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

Net changes in fund balances - total governmental funds	\$	236,162
<p>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.</p>		
Capital outlay		282,223
Depreciation expense		(160,511)
<p>Revenues that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred inflows of resources - unavailable revenue		(13,104)
<p>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:</p>		
Net pension asset		24,251
Deferred outflows		24,859
Deferred inflows		(16,760)
<p>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.</p>		
Amortization of bond premiums		2,727
Change in deferred inflows of resources from refunded bonds		(1,490)
Change in compensated absences		16,168
Principal expenditures		290,030
<p>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.</p>		
Accrued interest		811
Change in Net Position of Governmental Activities	\$	<u>685,366</u>

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2015

	Gas	Water and Sewer	Total Funds
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 889,886	\$ 243,399	\$ 1,133,285
Receivables, net	8,498	39,769	48,267
Inventory	26,358	72,171	98,529
Total Current Assets	924,742	355,339	1,280,081
Noncurrent assets			
Capital assets:			
Non-depreciable	-	642,400	642,400
Net depreciable capital assets	57,484	5,145,687	5,203,171
Total Noncurrent Assets	57,484	5,788,087	5,845,571
Total Assets	982,226	6,143,426	7,125,652
<u>Liabilities</u>			
Current liabilities			
Accounts payable and accrued liabilities	8,637	35,217	43,854
Customer deposits	16,732	42,815	59,547
Capital leases	-	55,450	55,450
Compensated absences	7	16,003	16,010
Total Current Liabilities	25,376	149,485	174,861
Noncurrent liabilities			
Compensated absences	1	1,778	1,779
Total Noncurrent Liabilities	1	1,778	1,779
Total Liabilities	25,377	151,263	176,640
<u>Net Position</u>			
Net investment in capital assets	57,484	5,732,637	5,790,121
Unrestricted	899,365	259,526	1,158,891
Total Net Position	\$ 956,849	\$ 5,992,163	\$ 6,949,012

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

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

For the Year Ended September 30, 2015

	Gas	Water and Sewer	Total Funds
<u>Operating Revenues</u>			
Charges for services	\$ 492,875	\$ 1,008,062	\$ 1,500,937
Other revenue	-	1,200	1,200
Total Operating Revenues	492,875	1,009,262	1,502,137
<u>Operating Expenses</u>			
Costs of sales and services	309,430	827,658	1,137,088
Depreciation	10,968	331,360	342,328
Total Operating Expenses	320,398	1,159,018	1,479,416
Operating Income (Loss)	172,477	(149,756)	22,721
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	1,313	1,216	2,529
Interest expense	(41)	(5,359)	(5,400)
Total Nonoperating Revenues (Expenses)	1,272	(4,143)	(2,871)
Income (Loss) Before Contributions and Transfers	173,749	(153,899)	19,850
Capital contributions	-	591,983	591,983
Transfers	(124,210)	(119,502)	(243,712)
Change in Net Position	49,539	318,582	368,121
Beginning net position	907,310	5,673,581	6,580,891
Ending Net Position	\$ 956,849	\$ 5,992,163	\$ 6,949,012

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	Gas	Water and Sewer	Total Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 499,237	\$ 1,012,010	\$ 1,511,247
Payments to suppliers and employees	(336,063)	(820,488)	(1,156,551)
Net Cash Provided by Operating Activities	163,174	191,522	354,696
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers	(124,210)	(119,502)	(243,712)
Net Cash (Used) by Noncapital Financing Activities	(124,210)	(119,502)	(243,712)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	-	(102,536)	(102,536)
Interest expense	(41)	(5,359)	(5,400)
Principal payments	-	(75,770)	(75,770)
Net Cash (Used) by Capital and Related Financing Activities	(41)	(183,665)	(183,706)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	1,313	1,216	2,529
Net Cash Provided by Investing Activities	1,313	1,216	2,529
Net Increase (Decrease) in Cash and Cash Equivalents	40,236	(110,429)	(70,193)
Beginning cash and cash equivalents	849,650	353,828	1,203,478
Ending Cash and Cash Equivalents	\$ 889,886	\$ 243,399	\$ 1,133,285
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ 172,477	\$ (149,756)	\$ 22,721
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	10,968	331,360	342,328
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	6,362	2,748	9,110
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(24,242)	8,719	(15,523)
Compensated absences	(883)	514	(369)
Customer deposits	(1,508)	(2,063)	(3,571)
Net Cash Provided by Operating Activities	\$ 163,174	\$ 191,522	\$ 354,696
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ -	\$ 591,983	\$ 591,983

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

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 Waller Economic Development Corporation, 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, 2015

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 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, 2015

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, used to account for the receipt and expenditure of funds received from specific revenue sources within the City, is considered a nonmajor 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/sewer funds are considered major funds for reporting purposes.

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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, 2015

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 (FIFO) 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.

Asset Description	Estimated Useful Life
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 three 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. 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, 2015

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 two items that qualify 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. These amounts are 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, paving assessments, and ambulance fees. 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, 2015

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.

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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 and 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

The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) 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 September 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.

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 fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

connecting new customers to the system. Operating expenses for the enterprise fund 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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 122,216	0.08
External investment pools	2,124,836	0.00
Total fair value	<u>\$ 2,247,052</u>	
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, 2015, 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 deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2015, 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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Gas</u>	<u>Water/Sewer</u>
Property taxes	\$ 51,347	\$ 40,907	\$ -	\$ -
Sales taxes	258,676	-	-	-
Accounts	25,718	-	16,668	89,487
Allowance	-	-	(8,170)	(49,718)
	<u>\$ 335,741</u>	<u>\$ 40,907</u>	<u>\$ 8,498</u>	<u>\$ 39,769</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 73,300	\$ -	\$ -	\$ 73,300
Total capital assets not being depreciated	<u>73,300</u>	<u>-</u>	<u>-</u>	<u>73,300</u>
Other capital assets:				
Infrastructure	2,777,870	-	-	2,777,870
Buildings	593,339	153,084	-	746,423
Vehicles	442,249	99,123	-	541,372
Equipment	444,260	30,016	-	474,276
Total other capital assets	<u>4,257,718</u>	<u>282,223</u>	<u>-</u>	<u>4,539,941</u>
Less accumulated depreciation for:				
Infrastructure	(1,507,395)	(63,524)	-	(1,570,919)
Buildings	(259,622)	(13,257)	-	(272,879)
Vehicles	(255,901)	(50,429)	-	(306,330)
Equipment	(295,009)	(33,301)	-	(328,310)
Total accumulated depreciation	<u>(2,317,927)</u>	<u>(160,511)</u>	<u>-</u>	<u>(2,478,438)</u>
Other capital assets, net	1,939,791	121,712	-	2,061,503
Governmental Activities Capital Assets, Net	<u>\$ 2,013,091</u>	<u>\$ 121,712</u>	<u>\$ -</u>	<u>\$ 2,134,803</u>
			Less associated debt	(1,313,716)
			Net Investment in Capital Assets	<u>\$ 821,087</u>

All capital assets constructed or paid for with funds of the component units 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	45,991
Public works	107,715
Cultural and recreation	638
	<u>\$ 160,511</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2015:

	Balance	Increases	(Decreases)	Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 16,671	\$ -	\$ -	\$ 16,671
Construction in progress	33,745	591,984	-	625,729
Total capital assets not being depreciated	50,416	591,984	-	642,400
Other capital assets:				
Building	92,434	-	-	92,434
Water/sewer system	8,157,965	102,535	-	8,260,500
Gas system	248,055	-	-	248,055
Equipment	529,716	-	-	529,716
Vehicles	66,117	-	-	66,117
Total other capital assets	9,094,287	102,535	-	9,196,822
Less accumulated depreciation for:				
Building	(50,153)	(2,906)	-	(53,059)
Water/sewer system	(3,016,505)	(270,925)	-	(3,287,430)
Gas system	(208,800)	(1,636)	-	(210,436)
Equipment	(317,141)	(64,396)	-	(381,537)
Vehicles	(58,724)	(2,465)	-	(61,189)
Total accumulated depreciation	(3,651,323)	(342,328)	-	(3,993,651)
Other capital assets, net	5,442,964	444,863	-	5,203,171
Business-Type Activities Capital Assets, Net	\$ 5,493,380	\$ 1,036,847	\$ -	5,845,571
				(55,450)
Net Investment in Capital Assets				\$ 5,790,121

Depreciation was charged to business-type functions as follows:

Gas	\$ 10,968
Water/Sewer	331,360
Total Business-Type Activities Depreciation Expense	\$ 342,328

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

Description	Interest Rates	Balance
<u>Governmental Activities</u>		
General Obligation Bonds		
Permanent Improvement Bonds, Series 2004	4.30-5.00%	\$ 900,000
Certificates of Obligation		
Certificates of Obligation, Series 2012	2.000%	2,455,000
Total Bonds and Certificates of Obligation		<u>3,355,000</u>
Capital Leases		
2011 John Deere Tractor/Mower	2.990%	20,775
2011 Ford F750 Dump Truck	2.990%	14,462
Total Capital Leases		<u>35,237</u>
Construction Advance	5.750%	<u>137,861</u>
Total General Long-Term Debt		<u>\$ 3,528,098</u>
<u>Business-Type Activities</u>		
Capital Leases		
Water Storage Tank	4.000%	\$ 23,210
WISD-GST	5.000%	32,240
Total General Long-Term Debt		<u>\$ 55,450</u>

Equipment acquired under current capital lease obligations was a total of \$125,365, net of accumulated depreciation, of \$57,372, in governmental activities and \$494,063, net of accumulated depreciation of \$407,359, in business-type activities.

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		Construction Advance	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 140,000	\$ 18,990	\$ 85,000	\$ 63,225	\$ 7,332	\$ 7,736
2017	135,000	16,036	90,000	61,525	7,765	7,303
2018	130,000	13,188	95,000	59,725	8,223	6,844
2019	105,000	10,445	95,000	57,825	8,709	6,359
2020	100,000	8,229	100,000	55,925	9,223	5,845
2021-2025	290,000	12,133	575,000	247,625	54,953	20,385
2026-2030	-	-	715,000	170,650	41,656	3,813
2031-2034	-	-	700,000	53,550	-	-
Total	<u>\$ 900,000</u>	<u>\$ 79,021</u>	<u>\$ 2,455,000</u>	<u>\$ 770,050</u>	<u>\$ 137,861</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.

The City received \$155,632 as a construction advance in 2013. The City will be required to make monthly payments over a 15-year period at an interest rate of 5.75 percent. After 15 years, any

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

outstanding principal will be forgiven. Payments may only be made using “incentive project sales tax revenue,” which is one-eighth of one percent of sales tax revenue collected by the City from the party that advanced the funds. All monthly payments are applied first to outstanding interest and second to outstanding principal.

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending Sept. 30	Capital Leases			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 35,237	\$ 1,062	\$ 55,450	\$ 2,077

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.

E. Operating Lease

The City is committed under a noncancelable operating lease for a building used by the police department. Future minimum operating lease commitments are as follows:

Year Ending September 30,	Amount
2016	\$ 12,600

Rent expenditures were \$52,586 for the year ended September 30, 2015.

F. 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	\$ 119,502
	Gas Fund	124,210
	Capital Projects Fund	33,853
	Nonmajor Special Revenue Fund	150,000
		<u>\$ 427,565</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

G. Fund Equity

As of September 30, 2015, \$224,914 of the City’s total fund balance is restricted by enabling legislation.

H. Restatement of Net Position

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for a net pension asset as of the measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year September 30, 2014.

The beginning net position was restated as follows:

	Governmental Activities
Prior year ending net position as reported	\$ 156,240
Restatement - Net pension asset	93,282
Restatement - Deferred outflows	45,528
Current year beginning net position as reported	\$ 295,050

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 which exceeded coverage amounts for the past three fiscal years.

B. Pension Plans

Plan Description

The City participates as one of 860 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.tmr.com.

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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 payments 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:

	2015	2014
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, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	10
Active employees	28
Total	55

Contributions

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

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.79 percent and 4.53 percent in calendar

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended August 30, 2015 were \$63,068 and were equal to the required contributions.

Net Pension Liability/Asset

The City's Net Pension Asset (NPA) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the NPA was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, 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 Table, 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 Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.

The long-term expected rate of return on pension plan investments is seven percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was seven 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.

Changes in the Net Pension Asset

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Asset (A) - (B)</u>
Changes for the year:			
Service cost	\$ 107,477	\$ -	\$ 107,477
Interest	190,319	-	190,319
Change of benefit terms	-	-	-
Difference between expected and actual experience	(33,536)	-	(33,536)
Changes of assumptions	-	-	-
Contributions - employer	-	60,449	(60,449)
Contributions - employee	-	67,345	(67,345)
Net investment income	-	162,554	(162,554)
Benefit payments, including refunds of employee contributions	(165,870)	(165,870)	-
Administrative expense	-	(1,697)	1,697
Other changes	-	(140)	140
Net Changes	<u>98,390</u>	<u>122,641</u>	<u>(24,251)</u>
Balance at December 31, 2013	<u>2,748,044</u>	<u>2,841,326</u>	<u>(93,282)</u>
Balance at December 31, 2014	<u><u>\$ 2,846,434</u></u>	<u><u>\$ 2,963,967</u></u>	<u><u>\$ (117,533)</u></u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Sensitivity of the NPA to Changes in the Discount Rate

The following presents the NPA of the City, calculated using the discount rate of seven percent, as well as what the City's NPA would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension (Asset)/Liability	\$ 198,611	\$ (117,533)	\$ (384,857)

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.tmrs.com.

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

For the fiscal year ended August 31, 2015, the City recognized pension expense of \$32,275.

At August 31, 2015, 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	\$ -	\$ 16,760
Difference between projected and actual investment earnings	21,803	-
Contributions subsequent to the measurement date	48,584	-
Total	\$ 70,387	\$ 16,760

\$48,584 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of the NPA for the fiscal year ending August 31, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2016	\$ (1,120)
2017	(1,104)
2018	7,267
Total	\$ 5,043

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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, 2015, the City offered the supplemental death benefit to both active and retired employees.

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 2015, 2014, and 2013 were \$701, \$534, and \$646, respectively, which equaled the required contributions each year. The City’s contribution rates for the past three years ended are shown below.

	2015	2014	2013
Annual req. contrib. (rate)	0.05%	0.04%	0.04%
Actual contribution made	0.05%	0.04%	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 \$184,484 in sales taxes from the sales of this business and recorded expenditures of \$146,356.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

E. Infrastructure Funding Agreement

The City entered into an 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. The City collected \$341,111 for the purpose of infrastructure projects.

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 570,557	\$ 570,557	\$ 626,909	\$ 56,352
Sales tax	1,253,986	1,253,986	1,487,935	233,949
Franchise and other taxes	128,100	128,100	132,949	4,849
Licenses and permits	59,590	59,590	129,008	69,418
Fines and forfeitures	131,450	131,450	160,345	28,895
Charges for services	549,950	549,950	598,072	48,122
Intergovernmental	37,500	37,500	45,692	8,192
Investment income	500	500	1,334	834
Other revenue	10,600	10,600	10,315	(285)
Total Revenues	<u>2,742,233</u>	<u>2,742,233</u>	<u>3,192,559</u>	<u>450,326</u>
Expenditures				
Current:				
General government	721,977	708,445	708,436	9
Public safety	1,243,758	1,416,978	1,399,809	17,169
Code enforcement	196,540	225,905	224,908	997
Public works	718,800	722,868	722,287	581
Culture and recreation	58,029	58,300	57,584	716
Capital outlay	-	153,084	153,084	-
Debt Service:				
Principal	43,107	50,030	50,030	-
Interest and fiscal charges	2,360	10,504	10,504	-
Total Expenditures	<u>2,984,571</u>	<u>3,346,114</u>	<u>3,326,642</u>	<u>19,472</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(242,338)	(603,881)	(134,083)	469,798
Other Financing Sources (Uses)				
Transfers in	268,397	268,397	427,565	159,168
Total Other Financing Sources	<u>268,397</u>	<u>268,397</u>	<u>427,565</u>	<u>159,168</u>
Change in Fund Balance	<u>\$ 26,059</u>	<u>\$ (335,484)</u>	<u>\$ 293,482</u>	<u>\$ 628,966</u>
Beginning fund balance			<u>1,184,324</u>	
Ending Fund Balance			<u>\$ 1,477,806</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF WALLER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Measurement Year*
	2014
Total Pension Liability	
Service cost	\$ 107,477
Interest (on the Total Pension Liability)	190,319
Difference between expected and actual experience	(33,536)
Benefit payments, including refunds of employee contributions	(165,870)
Net Change in Total Pension Liability	98,390
Beginning total pension liability	2,748,044
Ending Total Pension Liability	\$ 2,846,434
Plan Fiduciary Net Position	
Contributions - employer	\$ 60,449
Contributions - employee	67,345
Net investment income	162,554
Benefit payments, including refunds of employee contributions	(165,870)
Administrative expense	(1,697)
Other	(140)
Net Change in Plan Fiduciary Net Position	122,641
Beginning plan fiduciary net position	2,841,326
Ending Plan Fiduciary Net Position	\$ 2,963,967
Net Pension (Asset)	\$ (117,533)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.13%
Covered Employee payroll	\$ 1,335,275
City's Net Pension Asset as a Percentage of Covered Employee Payroll	8.80%

* Only one year of information is currently available. The City will build this schedule over the next nine year period.

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CITY OF WALLER, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Fiscal Year*
	2015
Actuarially determined contribution	\$ 63,068
Contributions in relation to the actuarially determined contribution	63,068
Contribution deficiency (excess)	\$ -
 Covered employee payroll	 \$ 1,335,275
Contributions as a percentage of covered covered employee payroll	4.72%

*Only one year of information is currently available. The City will build this schedule over the next nine 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	26 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.5% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	Experience - based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
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.

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SCHEDULES

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CITY OF WALLER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 310,627	\$ 310,627	\$ 318,259	\$ 7,632
Investment income	-	-	1,152	1,152
Total Revenues	<u>310,627</u>	<u>310,627</u>	<u>319,411</u>	<u>8,784</u>
<u>Expenditures</u>				
Principal	240,000	240,000	240,000	-
Interest and fiscal charges	89,191	89,191	87,799	1,392
Total Expenditures	<u>329,191</u>	<u>329,191</u>	<u>327,799</u>	<u>1,392</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(18,564)</u>	<u>(18,564)</u>	<u>(8,388)</u>	<u>10,176</u>
Change in Fund Balance	<u>\$ (18,564)</u>	<u>\$ (18,564)</u>	<u>\$ (8,388)</u>	<u>\$ 10,176</u>
Beginning fund balance			<u>194,840</u>	
Ending Fund Balance			<u>\$ 186,452</u>	

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, 2015

	<u>Original Budgeted Amounts</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Franchise and local taxes	\$ 82,000	\$ 127,421	\$ 121,109	\$ (6,312)
Fines and forfeitures	8,085	10,630	11,187	557
Other revenue	500	72,020	84,899	12,879
Total Revenues	<u>90,585</u>	<u>210,071</u>	<u>217,195</u>	<u>7,124</u>
<u>Expenditures</u>				
Culture and recreation	-	188,862	140,873	47,989
Miscellaneous expenses	4,200	4,338	4,070	268
Total Expenditures	<u>4,200</u>	<u>193,200</u>	<u>144,943</u>	<u>48,257</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	86,385	16,871	72,252	55,381
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	(150,000)	(150,000)	-
Total Other Financing (Uses)	<u>-</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
Change in Fund Balance	<u>\$ 86,385</u>	<u>\$ (133,129)</u>	<u>(77,748)</u>	<u>\$ 55,381</u>
Beginning fund balance			<u>313,698</u>	
Ending Fund Balance			<u>\$ 235,950</u>	

