

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended
September 30, 2013

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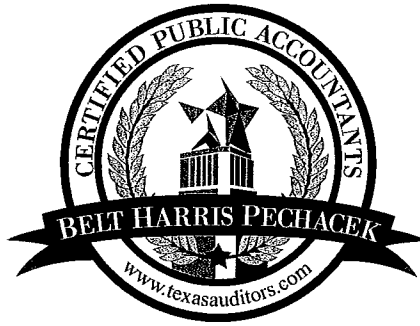
CITY OF WALLER, TEXAS

TABLE OF CONTENTS

September 30, 2013

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	16
Fund Financial Statements	
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Proprietary Funds Financial Statements:	
Statement of Net Position – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Notes to Financial Statements	29
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	51
Schedule of Funding Progress – Texas Municipal Retirement System	53
<u>SCHEDULES</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	57
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	59

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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, each major fund, and the aggregate remaining fund information of the City of Waller, Texas (the "City") as of and for the year ended September 30, 2013, 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.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

1304 South Front St.
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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

Opinions

In our opinion, the 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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, 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
December 17, 2013

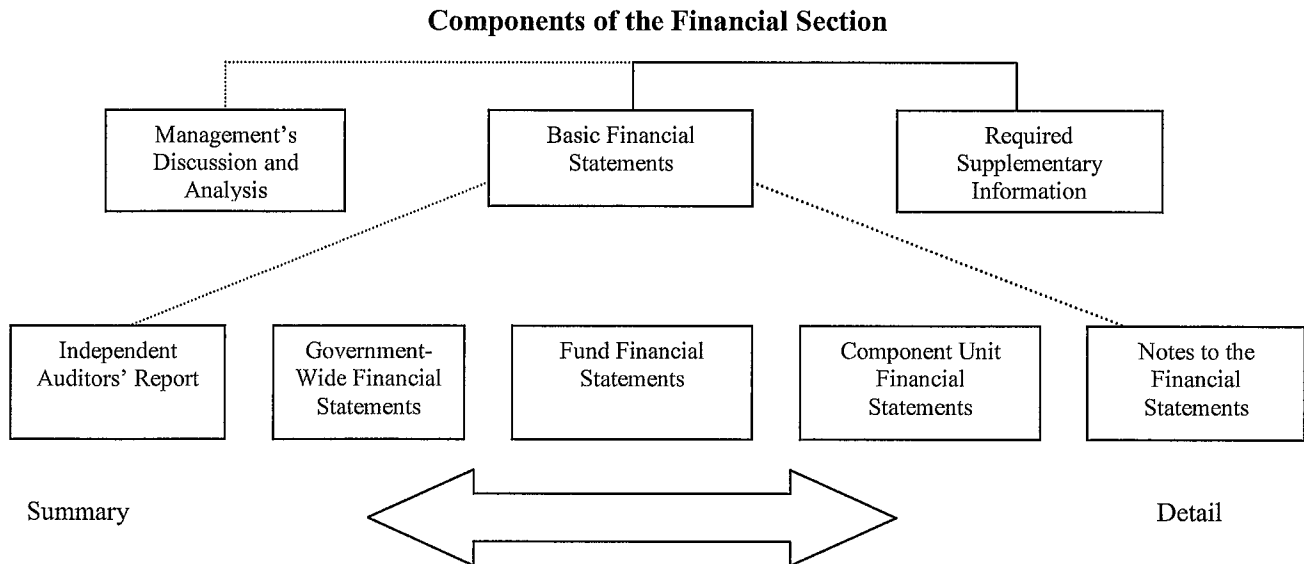
MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2013

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, 2013. 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.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

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.

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, which are reported here.

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*.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

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.

The City adopts an annual appropriated budget for its general fund, debt service fund, and special revenue fund. A budgetary comparison schedule has 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, to account for all "business-like" activities. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the respective enterprise funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of funding progress 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 \$6,096,696 at year end.

A large portion of the City's net position, 29 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, 2013

SUMMARY STATEMENT OF NET POSITION

	2013			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 4,218,645	\$ 1,358,097	\$ -	\$ 5,576,742
Capital assets, net	1,497,920	4,628,658	-	6,126,578
Total Assets	5,716,565	5,986,755	-	11,703,320
Long-term liabilities	4,128,079	273,739	-	4,401,818
Other liabilities	1,090,959	113,847	-	1,204,806
Total Liabilities	5,219,038	387,586	-	5,606,624
Net position:				
Net investment in capital				
assets	36,288	4,365,695	(2,605,847)	1,796,136
Restricted	1,858,737	-	-	1,858,737
Unrestricted	(1,397,498)	1,233,474	2,605,847	2,441,823
Total Net Position	\$ 497,527	\$ 5,599,169	\$ -	\$ 6,096,696
	2012			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 1,883,569	\$ 1,337,269	\$ -	\$ 3,220,838
Capital assets, net	556,240	3,968,173	-	4,524,413
Total Assets	2,439,809	5,305,442	-	7,745,251
Long-term liabilities	1,605,534	403,593	-	2,009,127
Other liabilities	91,921	118,058	-	209,979
Total Liabilities	1,697,455	521,651	-	2,219,106
Net position:				
Net investment in capital				
assets	383,177	3,534,006	(1,370,000)	2,547,183
Restricted	549,618	-	-	549,618
Unrestricted	(190,441)	1,249,785	1,370,000	2,429,344
Total Net Position	\$ 742,354	\$ 4,783,791	\$ -	\$ 5,526,145

A portion of the primary government's net position, \$1,858,737, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,441,823, 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. Compared to the prior year, total revenues increased \$563,494 as the result of an increase in revenues for charges for services, sales tax, and other revenues. Expenses increased by a minimal amount compared to the prior year. A reconciliation column has been added to the Statement of Net Position to account for the long-term debt reported in the governmental activities related to capital assets in the business-type activities.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

CHANGES IN NET POSITION

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 784,776	\$ 714,512	\$ 1,369,038	\$ 1,227,040	\$ 2,153,814	\$ 1,941,552
Capital grants and contributions	157,468	236,696	-	-	157,468	236,696
General revenues:						
Property taxes	773,790	721,758	-	-	773,790	721,758
Sales taxes	977,087	856,838	-	-	977,087	856,838
Franchise taxes	194,906	179,538	-	-	194,906	179,538
Investment income	29,194	10,908	1,676	1,498	30,870	12,406
Other revenues	239,734	15,387	-	-	239,734	15,387
Total Revenues	<u>3,156,955</u>	<u>2,735,637</u>	<u>1,370,714</u>	<u>1,228,538</u>	<u>4,527,669</u>	<u>3,964,175</u>
Expenses						
General government	388,429	465,088	-	-	388,429	465,088
Public safety	1,113,899	931,103	-	-	1,113,899	931,103
Code enforcement	138,012	116,685	-	-	138,012	116,685
Public works	826,000	724,579	-	-	826,000	724,579
Culture and recreation	183,532	178,723	-	-	183,532	178,723
Interest and fiscal agent fees	130,420	76,647	-	-	130,420	76,647
Gas	-	-	296,183	351,390	296,183	351,390
Water and sewer	-	-	880,643	898,291	880,643	898,291
Total Expenses	<u>2,780,292</u>	<u>2,492,825</u>	<u>1,176,826</u>	<u>1,249,681</u>	<u>3,957,118</u>	<u>3,742,506</u>
Increase (Decrease) in Net Position Before Transfers	376,663	242,812	193,888	(21,143)	570,551	221,669
Transfers in (out)	(621,490)	27,224	621,490	(27,224)	-	-
Change in Net Position	(244,827)	270,036	815,378	(48,367)	570,551	221,669
Beginning net position	742,354	472,318	4,783,791	4,832,158	5,526,145	5,304,476
Ending Net Position	<u>\$ 497,527</u>	<u>\$ 742,354</u>	<u>\$ 5,599,169</u>	<u>\$ 4,783,791</u>	<u>\$ 6,096,696</u>	<u>\$ 5,526,145</u>

Governmental and Business-Type Activities

The City reported a minimal increase in total revenues in governmental activities during the year due to a decrease in capital grants and contributions that were offset by increases in property taxes (due to higher tax rates), sales taxes, and franchise taxes. The City also reported a decrease in total revenues and expenses in business-type activities as a result of decreased water and gas consumption during the year due to more favorable weather conditions.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$3,038,545. Of the total governmental fund balance, \$24,985 is nonspendable in the form of inventory and \$1,858,737 is restricted for debt service, enabling legislation, capital projects and special projects. The remaining balance of \$1,154,823 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 \$1,154,823. 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 46 percent of total general expenditures. The general fund demonstrated an overall increase of \$30,451 as a result of an interfund transfer from the water and sewer fund.

The debt service fund has a total fund balance of \$164,509, 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 \$27,447. This decrease can be primarily attributed to an increase in scheduled debt service payments.

The capital projects fund has a fund balance of \$1,458,015, all of which is restricted for capital projects. The net increase in fund balance of \$1,267,843 was the result of a new bond issuance during the fiscal year.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year, the general fund had total revenues of \$2,333,899, a positive budget variance of \$42,533 from the final budget. This variance is due to higher sales tax revenue than expected. Total expenditures had a negative budget variance of \$15,531 from the final budget. This variance is due to higher general government and principal expenditures than expected.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$1,497,920 and \$4,628,658, 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, 2013

LONG-TERM DEBT

At the end of the current year, the City had total long-term debt in governmental activities of \$4,128,079 and business-type activities of \$273,739.

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 BUDGETS AND RATES

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.

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BASIC FINANCIAL STATEMENTS

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			Total
	Governmental Activities	Business-Type Activities	Reconciliation	
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 3,758,697	\$ 1,222,814	\$ -	\$ 4,981,511
Investments	119,794	-	-	119,794
Receivables (net of allowance for uncollectible)	315,169	36,754	-	351,923
Inventory	24,985	98,529	-	123,514
	4,218,645	1,358,097	-	5,576,742
Capital assets:				
Non-depreciable	889,354	592,407	-	1,481,761
Net depreciable capital assets	608,566	4,036,251	-	4,644,817
	1,497,920	4,628,658	-	6,126,578
Total Assets	5,716,565	5,986,755	-	11,703,320
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	1,071,275	48,033	-	1,119,308
Customer deposits	-	65,814	-	65,814
Accrued interest payable	19,684	-	-	19,684
	1,090,959	113,847	-	1,204,806
Noncurrent liabilities:				
Due within one year	287,501	141,411	-	428,912
Due in more than one year	3,840,578	132,328	-	3,972,906
	4,128,079	273,739	-	4,401,818
Total Liabilities	5,219,038	387,586	-	5,606,624
<u>Net Position</u>				
Net investment in capital assets	36,288	4,365,695	(2,605,847)	1,796,136
Restricted for:				
Debt service	164,509	-	-	164,509
Enabling legislation	235,578	-	-	235,578
Capital projects	1,458,015	-	-	1,458,015
Special projects	635	-	-	635
Unrestricted	(1,397,498)	1,233,474	2,605,847	2,441,823
Total Net Position	\$ 497,527	\$ 5,599,169	\$ -	\$ 6,096,696

See Notes to Financial Statements.

**Component
Unit**

\$ 1,076,472

-

62,100

-

1,138,572

-

-

-

1,138,572

7,814

-

-

7,814

-

-

-

7,814

-

-

-

-

-

1,130,758

\$ 1,130,758

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 388,429	\$ 528,093	\$ -
Public safety	1,113,899	135,689	-
Code enforcement	138,012	56,547	-
Public works	826,000	-	-
Culture and recreation	183,532	64,447	157,468
Interest and fees on debt	130,420	-	-
Total Governmental Activities	2,780,292	784,776	157,468
Business-Type Activities			
Gas	296,183	456,980	-
Water and sewer	880,643	912,058	-
Total Business-Type Activities	1,176,826	1,369,038	-
Total Primary Government	\$ 3,957,118	\$ 2,153,814	\$ 157,468
Component Unit			
Waller Economic Development Corporation	\$ 221,979	\$ -	\$ -

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
\$ 139,664	\$ -	\$ 139,664	\$ -
(978,210)	-	(978,210)	-
(81,465)	-	(81,465)	-
(826,000)	-	(826,000)	-
38,383	-	38,383	-
(130,420)	-	(130,420)	-
<u>(1,838,048)</u>	<u>-</u>	<u>(1,838,048)</u>	<u>-</u>
-	160,797	160,797	-
-	31,415	31,415	-
-	192,212	192,212	-
<u>(1,838,048)</u>	<u>192,212</u>	<u>(1,645,836)</u>	<u>-</u>
-	-	-	(221,979)
773,790	-	773,790	-
977,087	-	977,087	325,695
194,906	-	194,906	-
29,194	1,676	30,870	943
239,734	-	239,734	-
(621,490)	621,490	-	-
<u>1,593,221</u>	<u>623,166</u>	<u>2,216,387</u>	<u>326,638</u>
<u>(244,827)</u>	<u>815,378</u>	<u>570,551</u>	<u>104,659</u>
<u>742,354</u>	<u>4,783,791</u>	<u>5,526,145</u>	<u>1,026,099</u>
<u>\$ 497,527</u>	<u>\$ 5,599,169</u>	<u>\$ 6,096,696</u>	<u>\$ 1,130,758</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2013

	Major Governmental Funds			Nonmajor Governmental Funds
	General	Debt Service	Capital Projects	Special Revenue
Assets				
Cash and cash equivalents	\$ 1,085,180	\$ 44,990	\$ 2,391,814	\$ 236,713
Investments	-	119,794	-	-
Taxes receivables, net	54,361	54,464	-	-
Other receivables	206,344	-	-	-
Inventory	24,985	-	-	-
Total Assets	\$ 1,370,870	\$ 219,248	\$ 2,391,814	\$ 236,713
Liabilities				
Accounts payable and accrued liabilities	\$ 136,701	\$ 275	\$ 933,799	\$ 500
Total Liabilities	136,701	275	933,799	500
Deferred Inflows of Resources				
Unavailable revenue - property taxes	54,361	54,464	-	-
Fund Balances				
Nonspendable	24,985	-	-	-
Restricted for:				
Debt service	-	164,509	-	-
Enabling legislation	-	-	-	235,578
Capital projects	-	-	1,458,015	-
Special projects	-	-	-	635
Unassigned	1,154,823	-	-	-
Total Fund Balances	1,179,808	164,509	1,458,015	236,213
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,370,870	\$ 219,248	\$ 2,391,814	\$ 236,713
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				889,354
Capital assets - net depreciable				608,566
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.				
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.				
Accrued interest payable				(19,684)
Non-current liabilities due in one year				(287,501)
Non-current liabilities due in more than one year				(3,840,578)

Net Position of Governmental Activities

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 3,758,697
119,794
108,825
206,344
24,985
\$ 4,218,645

\$ 1,071,275
1,071,275

108,825

24,985
164,509
235,578
1,458,015
635
1,154,823
3,038,545

1,497,920

108,825

(4,147,763)
\$ 497,527

CITY OF WALLER, TEXAS

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

For the Year Ended September 30, 2013

	Major Governmental Funds			Nonmajor Governmental Funds
	General	Debt Service	Capital Projects	Special Revenue
	General	Debt Service	Capital Projects	Special Revenue
Revenues				
Property taxes	\$ 500,522	\$ 267,813	\$ -	\$ -
Sales tax	977,087	-	-	-
Franchise and local taxes	127,477	-	-	67,429
Licenses and permits	56,547	-	-	-
Fines and forfeitures	124,415	-	-	11,274
Charges for services	528,093	-	-	-
Intergovernmental	-	-	-	157,468
Investment income	9,328	1,303	18,563	-
Other revenue	10,430	-	229,304	64,447
Total Revenues	2,333,899	269,116	247,867	300,618
Expenditures				
Current:				
General government	468,648	-	-	-
Public safety	1,068,505	-	-	-
Code enforcement	138,012	-	-	-
Public works	763,992	-	135,665	-
Culture and recreation	53,876	-	-	129,656
Miscellaneous expenses	-	-	-	2,224
Grant expenditures	-	-	-	21,906
Capital outlay	15,754	-	1,546,373	78,109
Debt Service:				
Principal	59,771	190,000	-	-
Interest and fiscal charges	5,653	106,563	11,935	-
Bond issuance costs	-	-	36,686	-
Total Expenditures	2,574,211	296,563	1,730,659	231,895
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(240,312)	(27,447)	(1,482,792)	68,723
Other Financing Sources				
Transfers in	244,493	-	-	-
Loan proceeds	-	-	155,632	-
Capital lease proceeds	26,270	-	-	-
Bonds issued	-	-	2,535,000	-
Premium on bonds	-	-	60,003	-
Total Other Financing Sources	270,763	-	2,750,635	-
Net Change in Fund Balances	30,451	(27,447)	1,267,843	68,723
Beginning fund balances	1,149,357	191,956	190,172	167,490
Ending Fund Balances	\$ 1,179,808	\$ 164,509	\$ 1,458,015	\$ 236,213

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 768,335
977,087
194,906
56,547
135,689
528,093
157,468
29,194
304,181
3,151,500

468,648
1,068,505
138,012
899,657
183,532
2,224
21,906
1,640,236

249,771
124,151
36,686

4,833,328

(1,681,828)

244,493
155,632
26,270
2,535,000
60,003
3,021,398

1,339,570

1,698,975

\$ 3,038,545

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CITY OF WALLER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

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

Net changes in fund balances - total governmental funds	\$	1,339,570
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		1,028,946
Depreciation expense		(87,265)

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

Deferred inflows of resources - unavailable revenue		5,455
---	--	-------

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

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

Bonds issued		(2,535,000)
Bond issuance premiums		(60,003)
Amortization of bond premiums		2,726
Construction advance		(155,632)
Capital leases issued		(26,270)
Change in compensated absences		1,871
Principal expenditures		249,762

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

Accrued interest		(8,987)
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Change in Net Position of Governmental Activities	\$	(244,827)
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See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2013

	Gas	Water and Sewer	Total Funds
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 796,872	\$ 425,942	\$ 1,222,814
Receivables, net	10,601	26,153	36,754
Inventory	26,358	72,171	98,529
Total Current Assets	833,831	524,266	1,358,097
Noncurrent assets			
Capital assets:			
Non-depreciable	-	592,407	592,407
Net depreciable capital assets	80,261	3,955,990	4,036,251
Total Noncurrent Assets	80,261	4,548,397	4,628,658
Total Assets	914,092	5,072,663	5,986,755
<u>Liabilities</u>			
Current liabilities			
Accounts payable and accrued liabilities	19,375	28,658	48,033
Customer deposits	20,431	45,383	65,814
Capital leases	8,558	123,155	131,713
Compensated absences	400	9,298	9,698
Total Current Liabilities	48,764	206,494	255,258
Noncurrent liabilities			
Capital leases	-	131,250	131,250
Compensated absences	44	1,034	1,078
Total Noncurrent Liabilities	44	132,284	132,328
Total Liabilities	48,808	338,778	387,586
<u>Net Position</u>			
Net investment in capital assets	71,703	4,293,992	4,365,695
Unrestricted	793,581	439,893	1,233,474
Total Net Position	\$ 865,284	\$ 4,733,885	\$ 5,599,169

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, 2013

	Gas	Water and Sewer	Total Funds
<u>Operating Revenues</u>			
Charges for services	\$ 456,980	\$ 910,953	\$ 1,367,933
Other revenue	-	1,105	1,105
Total Operating Revenues	456,980	912,058	1,369,038
<u>Operating Expenses</u>			
Costs of sales and services	283,983	650,472	934,455
Depreciation	11,638	215,475	227,113
Total Operating Expenses	295,621	865,947	1,161,568
Operating Income	161,359	46,111	207,470
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	895	781	1,676
Interest expense	(562)	(14,696)	(15,258)
Total Nonoperating Revenues (Expenses)	333	(13,915)	(13,582)
Income Before Contributions and Transfers	161,692	32,196	193,888
Capital contributions	-	865,983	865,983
Transfers	(122,247)	(122,246)	(244,493)
Change in Net Position	39,445	775,933	815,378
Beginning net position	825,839	3,957,952	4,783,791
Ending Net Position	\$ 865,284	\$ 4,733,885	\$ 5,599,169

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2013

	Gas	Water and Sewer	Total Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 449,895	\$ 916,753	\$ 1,366,648
Payments to suppliers and employees	(295,114)	(662,868)	(957,982)
Net Cash Provided by Operating Activities	154,781	253,885	408,666
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers	(122,247)	(122,246)	(244,493)
Net Cash (Used) by Noncapital Financing Activities	(122,247)	(122,246)	(244,493)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	(3,600)	(18,015)	(21,615)
Interest expense	(562)	(14,696)	(15,258)
Principal payments	(8,630)	(118,380)	(127,010)
Net Cash (Used) by Capital and Related Financing Activities	(12,792)	(151,091)	(163,883)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	895	781	1,676
Net Cash Provided by Investing Activities	895	781	1,676
Net Increase (Decrease) in Cash and Cash Equivalents	20,637	(18,671)	1,966
Beginning cash and cash equivalents	776,235	444,613	1,220,848
Ending Cash and Cash Equivalents	\$ 796,872	\$ 425,942	\$ 1,222,814
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 161,359	\$ 46,111	\$ 207,470
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	11,638	215,475	227,113
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(7,085)	4,695	(2,390)
Inventories	(8,870)	(7,602)	(16,472)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	556	8,769	9,325
Compensated absences	(413)	(2,431)	(2,844)
Customer deposits	(2,404)	(11,132)	(13,536)
Net Cash Provided by Operating Activities	\$ 154,781	\$ 253,885	\$ 408,666
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ -	\$ 865,983	\$ 865,983

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

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 assets 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, 2013

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:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues 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 considered a major fund for reporting purposes.

Debt Service Fund

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Capital Projects Fund

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 reported as a major fund.

Special Revenue Fund

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 reported as a nonmajor fund for reporting purposes.

The City reports the following enterprise fund:

Enterprise Fund

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 enterprise funds, 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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

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

3. Inventories

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

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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 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. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes 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, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of bonds payable and capital lease obligations.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, 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.

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 interest earned in the debt service fund.

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 general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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).

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

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 15 percent is added in July for attorney costs. The City allows discounts for payments made in October, November, and December every year.

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 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 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 fiscal year. The legal level of control is the department in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

A. Expenditures in Excess of Appropriations

General Fund	
General government	\$ 5,076
Public works	\$ 1,285
Debt service - principal	\$ 8,725
Debt service – interest and fiscal charges	\$ 445
Debt Service Fund	
Interest and fiscal charges	\$ 43,016

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 131,350	0.10
External investment pools	1,058,196	0.00
Total fair value	<u>\$ 1,189,546</u>	
Portfolio weighted average maturity		0.01

Credit risk. State law and the City’s investment policy limits 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, 2013, the City’s investment in TexPool was rated AAAM by Standard and 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, 2013, market values of pledged securities and FDIC insurance exceeded bank balances.

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

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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. The City invested \$1,058,196 in TexPool at year end.

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	\$ 54,361	\$ 54,464	\$ -	\$ -
Sales taxes	185,852	-	-	-
Accounts	20,492	-	18,771	75,871
Allowance	-	-	(8,170)	(49,718)
	<u>\$ 260,705</u>	<u>\$ 54,464</u>	<u>\$ 10,601</u>	<u>\$ 26,153</u>

C. Capital Assets

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

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 73,300	\$ -	\$ -	\$ 73,300
Construction in progress	-	816,054	-	816,054
Total capital assets not being depreciated	<u>73,300</u>	<u>816,054</u>	<u>-</u>	<u>889,354</u>
Other capital assets:				
Infrastructure	1,507,395	-	-	1,507,395
Buildings	332,648	101,839	-	434,487
Vehicles	415,979	26,270	-	442,249
Equipment	359,477	84,783	-	444,260
Total other capital assets	<u>2,615,499</u>	<u>212,892</u>	<u>-</u>	<u>2,828,391</u>
Less accumulated depreciation for:				
Infrastructure	(1,507,395)	-	-	(1,507,395)
Buildings	(243,002)	(4,001)	-	(247,003)
Vehicles	(150,820)	(52,541)	-	(203,361)
Equipment	(231,343)	(30,723)	-	(262,066)
Total accumulated depreciation	<u>(2,132,560)</u>	<u>(87,265)</u>	<u>-</u>	<u>(2,219,825)</u>
Other capital assets, net	482,939	125,627	-	608,566
Governmental Activities Capital Assets, Net	<u>\$ 556,239</u>	<u>\$ 941,681</u>	<u>\$ -</u>	<u>1,497,920</u>
			Less associated debt	(1,461,632)
			Net Investment in Capital Assets	<u>\$ 36,288</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.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Depreciation was charged to governmental functions as follows:

General government		\$	2,652
Public safety			52,068
Public works			32,545
			\$ 87,265

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 16,671	\$ -	\$ -	\$ 16,671
Construction in progress	-	575,736	-	575,736
Total capital assets not being depreciated	16,671	575,736	-	592,407
Other capital assets:				
Building	92,434	-	-	92,434
Water/sewer system	6,223,594	300,026	-	6,523,620
Gas system	248,055	-	-	248,055
Equipment	517,881	11,835	-	529,716
Vehicles	66,117	-	-	66,117
Total other capital assets	7,148,081	311,861	-	7,459,942
Less accumulated depreciation for:				
Building	44,341	2,906	-	47,247
Water/sewer system	2,710,067	151,051	-	2,861,118
Gas system	205,528	1,636	-	207,164
Equipment	184,614	67,289	-	251,903
Vehicles	52,028	4,231	-	56,259
Total accumulated depreciation	3,196,578	227,113	-	3,423,691
Other capital assets, net	10,344,659	84,748	-	4,036,251
Business-Type Activities Capital Assets, Net	\$ 10,361,330	\$ 660,484	\$ -	4,628,658
			Less associated debt	(262,963)
			Net Investment in Capital Assets	\$ 4,365,695

Depreciation was charged to business-type functions as follows:

Gas		\$	11,638
Water/Sewer			215,475
Total Business-Type Activities Depreciation Expense			\$ 227,113

D. Long-Term Debt

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 1,220,000	\$ -	\$ 40,000	\$ 1,180,000 **	\$ 165,000
Certificates of obligation	150,000	2,535,000	150,000	2,535,000 (1)	-
Obligations under capital leases	173,063	26,270	59,762	139,571 *	61,226
Construction advance	-	155,632	-	155,632 **	6,735
Other liabilities:					
Premiums	-	60,003	2,727	57,276 (2)	-
Compensated absences	62,471	130,357	132,228	60,600	54,540
Total Governmental Activities	\$ 1,605,534	\$ 2,907,262	\$ 384,717	\$ 4,128,079	\$ 287,501
				Long-term liabilities due in more than one year \$ 3,840,578	
				Portion associated with governmental activities \$ 1,292,850 *	
				Portion associated with business-type activities 1,242,150 **	
				\$ 2,535,000 (1)	
				Portion associated with governmental activities \$ 29,211 *	
				Portion associated with business-type activities 28,065 **	
				\$ 57,276 (2)	
				* Debt associated with governmental activities capital assets \$ 1,461,632	
				** Debt associated with business-type activities capital assets \$ 2,605,847	
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Obligations under capital leases	\$ 389,972	\$ -	\$ 127,009	\$ 262,963 ***	\$ 131,713
Compensated absences	13,621	26,984	29,829	10,776	9,698
Total Business-Type Activities	\$ 403,593	\$ 26,984	\$ 156,838	\$ 273,739	\$ 141,411
				Long-term liabilities due in more than one year \$ 132,328	
				*** Debt associated with business-type activities capital assets \$ 262,963	

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Permanent Improvement Bonds, Series 2004	4.30-5.00%	\$ 1,180,000
Certificates of Obligation		
Certificates of Obligation, Series 2012	2.000%	2,535,000
Total Bonds and Certificates of Obligation		<u>3,715,000</u>
Capital Leases		
2011 John Deere Tractor/Mower	2.990%	60,511
2011 Ford F750 Dump Truck	2.990%	42,137
2012 Chevrolet Tahoes (2)	2.990%	19,378
2013 Ford F-150 Pickup Truck	2.990%	17,545
Total Capital Leases		<u>139,571</u>
Construction Advance	5.750%	155,632
Total General Long-Term Debt		<u>\$ 4,010,203</u>
Business-Type Activities		
Capital Leases		
Water Storage Tank	4.000%	\$ 111,618
WISD-GST	5.000%	92,189
ARS	2.990%	59,156
Total General Long-Term Debt		<u>\$ 262,963</u>

Equipment acquired under current capital lease obligations was a total of \$200,048 net of accumulated depreciation of \$59,945 in governmental activities and \$551,334 net of accumulated depreciation of \$130,645 in business-type activities.

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

Year Ending Sept. 30	Long-Term Debt					
	General Obligation Bonds		Certificates of Obligation		Construction Advance	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 165,000	\$ 55,905	\$ -	\$ 64,825	\$ 6,735	\$ 8,773
2015	145,000	48,810	80,000	64,825	7,133	8,376
2016	125,000	42,285	85,000	63,225	7,554	7,954
2017	125,000	36,535	90,000	61,525	8,000	7,508
2018	120,000	30,660	95,000	59,725	8,473	7,036
2019-2023	500,000	74,900	525,000	269,125	50,483	27,060
2024-2028	-	-	655,000	207,100	67,254	10,290
2029-2033	-	-	820,000	103,800	-	-
2034	-	-	185,000	5,550	-	-
Total	<u>\$ 1,180,000</u>	<u>\$ 289,095</u>	<u>\$ 2,535,000</u>	<u>\$ 899,700</u>	<u>\$ 155,632</u>	<u>\$ 76,997</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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.

During the fiscal year, the City received \$155,632 as a construction advance. 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 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
2014	\$ 61,226	\$ 4,198	\$ 131,713	\$ 10,448
2015	43,107	2,359	75,770	5,433
2016	35,238	1,062	55,480	2,077
Total	\$ 139,571	\$ 7,620	\$ 262,963	\$ 17,959

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
2014	\$ 50,400
2015	50,400
2016	12,600
Total	\$ 113,400

Rent expenditures were \$54,600 for the year ended September 30, 2013.

F. Interfund Transactions

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

Transfer Out	Transfer In	Amounts
Water and Sewer Fund	General Fund	\$ 122,246
Gas Fund	General Fund	122,247
		\$ 244,493

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

G. Fund Equity

As of September 30, 2012, \$235,578 of the City's total fund balance is restricted by enabling legislation.

Restatement of Net Position

The beginning net position for the gas fund has been restated due to the overstatement of prior year's net capital assets and inventory. The beginning net position for the water and sewer fund has been restated due to the understatement of prior year's net capital assets. The business-type activities net position has been restated to reflect the gas fund and water and sewer fund restatements noted above.

	<u>Gas</u>	<u>Water and Sewer</u>	<u>Business-Type Activities</u>
Prior year ending net position as reported	\$ 967,547	\$ 3,792,021	\$ 4,759,568
Net capital assets restatement	(121,736)	165,931	44,195
Inventory restatement	(19,972)	-	(19,972)
Current year beginning net position as reported	<u>\$ 825,839</u>	<u>\$ 3,957,952</u>	<u>\$ 4,783,791</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool 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

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and RSI for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677. In addition, the report is available on TMRS' website at www.TMRS.com.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

	<u>2013</u>	<u>2012</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as ages/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer financed monetary credits, with interest, were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as updated service credits and annuity increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2012 valuation is effective for rates beginning January 2014).

Three-year trend information for the annual pension cost (APC) is as follows:

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual req. contrib. (ARC)	\$ 51,985	\$ 53,914	\$ 77,538
Contributions made	51,985	53,914	77,538
NPO at the end of period	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial valuation date	12/31/2012	12/31/2011	12/31/2010
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining amortization period	24.6 Years - Closed	24.5 Years - Closed	23.7 Years - Closed
Asset valuation method	10-yr Smoothed Market	10-yr Smoothed Market	10-yr Smoothed Market
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.0%	3.0%	3.0%
Cost of living adjustments	0%	0%	0%

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

	<u>2013</u>
Actuarial valuation date	12/31/2012
Actuarial value of assets	\$ 2,451,325
Actuarial accrued liability	\$ 2,383,718
Percentage funded	102.8 %
Unfunded actuarial accrued liability (UAAL)	\$ (67,607)
Annual covered payroll	\$ 1,139,370
UAAL as a percentage of covered payroll	(5.9) %

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability benefits.

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 the Texas Municipal Retirement System (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, 2013, 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 2013, 2012, and 2011 were \$646, \$656, and \$657, respectively. The City's contribution rates for the retiree portion, for the years ended September 30, 2013, 2012, and 2011 are shown below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual req. contrib. (rate)	0.04%	0.05%	0.06%
Actual contribution made	0.04%	0.05%	0.06%
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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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 with one large business. This business agreed to establish and maintain an office in the City that generates substantial taxable sales. The agreement is 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 \$3,098 in sales taxes from the sales of this business and recorded expenditures of \$2,324.

E. Infrastructure Funding Agreement

The City entered into an agreement with the Waller Economic Development Corporation (WEDC) in which the WEDC agreed to dedicate one-half of all sales tax generated by the business noted above in the Chapter 380 agreement 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.

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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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 506,376	\$ 506,376	\$ 500,522	\$ (5,854)
Sales tax	930,000	938,455	977,087	38,632
Franchise and other taxes	125,500	125,500	127,477	1,977
Licenses and permits	56,600	56,600	56,547	(53)
Fines and forfeitures	111,350	118,950	124,415	5,465
Charges for services	508,250	532,085	528,093	(3,992)
Investment income	300	300	9,328	9,028
Other revenue	13,100	13,100	10,430	(2,670)
Total Revenues	<u>2,251,476</u>	<u>2,291,366</u>	<u>2,333,899</u>	<u>42,533</u>
Expenditures				
Current:				
General government	491,405	463,572	468,648	(5,076) *
Public safety	1,076,989	1,068,505	1,068,505	-
Code enforcement	162,998	138,012	138,012	-
Public works	640,322	762,707	763,992	(1,285) *
Culture and recreation	51,070	53,876	53,876	-
Capital outlay	-	15,754	15,754	-
Debt Service:				
Principal	61,130	51,046	59,771	(8,725) *
Interest and fiscal charges	4,257	5,208	5,653	(445) *
Total Expenditures	<u>2,488,171</u>	<u>2,558,680</u>	<u>2,574,211</u>	<u>(15,531)</u>
Other Financing Sources				
Transfers in	244,493	244,493	244,493	-
Debt issued	-	-	26,270	26,270
Total Other Financing Sources	<u>244,493</u>	<u>244,493</u>	<u>270,763</u>	<u>26,270</u>
Change in Fund Balance	<u>\$ 7,798</u>	<u>\$ (22,821)</u>	<u>\$ 30,451</u>	<u>\$ 53,272</u>
Beginning fund balance			<u>1,149,357</u>	
Ending Fund Balance			<u>\$ 1,179,808</u>	

Notes to Required Supplementary Information:

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

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CITY OF WALLER, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2013

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's schedule of funding progress.

Fiscal Year	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial valuation date	12/31/2012	12/31/2011	12/31/2010
Actuarial value of assets	\$ 2,451,325	\$ 2,249,343	\$ 2,037,066
Actuarial accrued liability	\$ 2,383,718	\$ 2,194,830	\$ 2,045,899
Percentage funded	102.8%	102.5%	99.6%
Unfunded actuarial accrued liability (UAAL)	\$ (67,607)	\$ (54,513)	\$ 8,833
Annual covered payroll	\$ 1,139,370	\$ 1,072,445	\$ 1,006,846
UAAL % of covered payroll	(5.9) %	(5.1) %	0.9 %
Net pension obligation (NPO) at the beginning of period	\$ -	\$ -	\$ -
Annual req. contrib. (ARC)	51,985	53,914	77,538
Contributions made	51,985	53,914	77,538
NPO at the End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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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, 2013

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Property taxes	\$ 270,208	\$ 267,813	\$ (2,395)
Investment income	1,500	1,303	(197)
Total Revenues	<u>271,708</u>	<u>269,116</u>	<u>(2,592)</u>
<u>Expenditures</u>			
Principal	190,000	190,000	-
Interest and fiscal charges	66,608	106,563	(39,955) *
Total Expenditures	<u>256,608</u>	<u>296,563</u>	<u>(39,955)</u>
 Change in Fund Balance	 <u>\$ 15,100</u>	 (27,447)	 <u>\$ (42,547)</u>
 Beginning fund balance		 <u>191,956</u>	
 Ending Fund Balance		 <u>\$ 164,509</u>	

Notes to Supplementary Information:

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

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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, 2013

	Original Budgeted Amounts	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Franchise and local taxes	\$ 53,000	\$ 67,428	\$ 67,429	\$ 1
Fines and forfeitures	8,325	11,815	11,274	(541)
Intergovernmental	56,890	157,468	157,468	-
Other revenue	36,500	64,449	64,447	(2)
Total Revenues	<u>154,715</u>	<u>301,160</u>	<u>300,618</u>	<u>(542)</u>
<u>Expenditures</u>				
Culture and recreation	95,356	129,656	129,656	-
Miscellaneous expenses	5,000	2,224	2,224	-
Grant expenditures	-	21,906	21,906	-
Capital outlay	-	78,109	78,109	-
Total Expenditures	<u>100,356</u>	<u>231,895</u>	<u>231,895</u>	<u>-</u>
Change in Fund Balance	<u>\$ 54,359</u>	<u>\$ 69,265</u>	68,723	<u>\$ (542)</u>
Beginning fund balance			<u>167,490</u>	
Ending Fund Balance			<u>\$ 236,213</u>	

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