

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended
September 30, 2010

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CITY OF WALLER, TEXAS

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For the Year Ended September 30, 2010

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INDEPENDENT AUDITORS' REPORT

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

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 remaining fund information of the City of Waller, Texas (the "City") as of September 30, 2010 and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, and schedules of funding progress are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

BELT HARRIS PECHACEK, L.L.P.

Belt Harris Pechacek, L.L.P.
Certified Public Accountants
Houston, Texas
May 31, 2011

Providing Governmental & Nonprofit Audits Sealed with Excellence

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

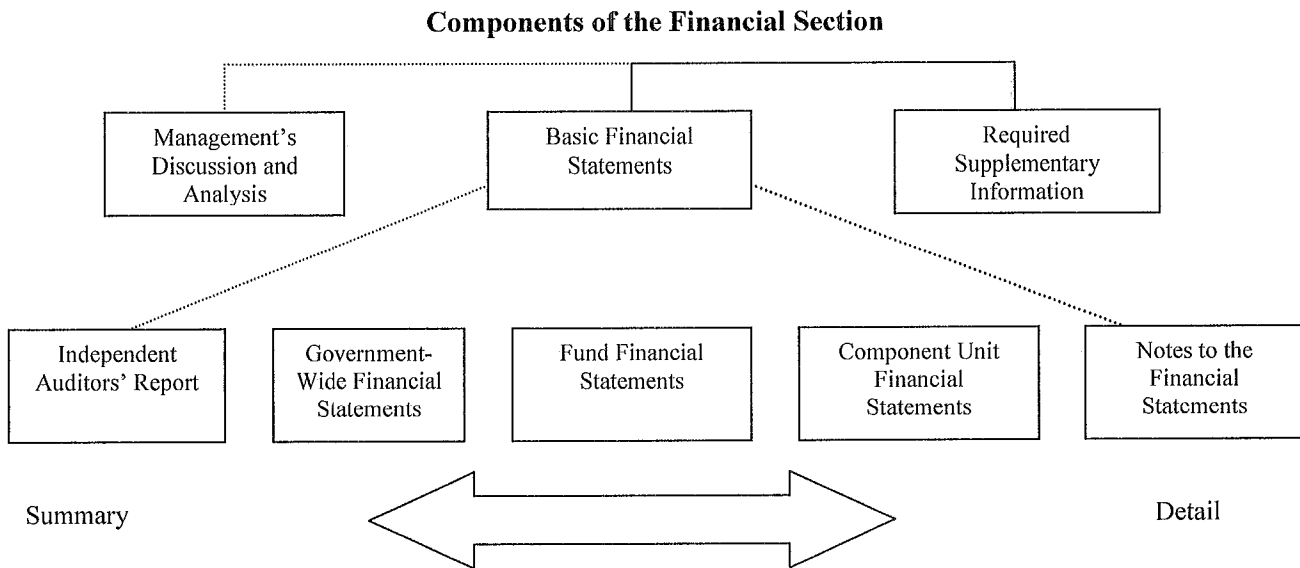
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CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended September 30, 2010

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, 2010. 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. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

The table of contents presented at the beginning of this report provides an overview of the structure of the City's report, as well as the page numbers where the respective sections can be located within the report, as more fully described below.



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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 Assets 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, 2010

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in the net assets 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 Assets 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. 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.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

The City adopts an annual appropriated budget for its general fund and debt service fund. A budgetary comparison schedule has been provided for the general fund and debt service fund to demonstrate compliance with this budget.

Proprietary Funds

The City maintains one type of proprietary fund, enterprise funds, 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.

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.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and a schedule of funding progress for the Texas Municipal Retirement System.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. Assets exceeded liabilities by \$4,565,038 at year end.

A large portion of the City's net assets, 36%, 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, 2010

SUMMARY STATEMENT OF NET ASSETS

	2010			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 1,805,755	\$ 1,455,975	\$ -	\$ 3,261,730
Capital assets, net	197,663	3,621,809	-	3,819,472
Total Assets	2,003,418	5,077,784	-	7,081,202
Long-term liabilities	1,783,069	481,144	-	2,264,213
Other liabilities	170,806	81,145	-	251,951
Total Liabilities	1,953,875	562,289	-	2,516,164
Net Assets:				
Invested in capital assets, net of related debt	227,753	3,140,665	(1,720,000)	1,648,418
Restricted	237,142	-	-	237,142
Unrestricted	(415,352)	1,374,830	1,720,000	2,679,478
Total Net Assets	\$ 49,543	\$ 4,515,495	\$ -	\$ 4,565,038
	2009			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 1,648,894	\$ 1,496,727	\$ -	\$ 3,145,621
Capital assets, net	289,448	3,779,215	-	4,068,663
Total Assets	1,938,342	5,275,942	-	7,214,284
Long-term liabilities	1,946,695	481,144	-	2,427,839
Other liabilities	102,904	82,475	-	185,379
Total Liabilities	2,049,599	563,619	-	2,613,218
Net Assets:				
Invested in capital assets, net of related debt	227,753	3,298,071	(1,885,000)	1,640,824
Restricted	160,434	-	-	160,434
Unrestricted	(499,444)	1,414,252	1,885,000	2,799,808
Total Net Assets	\$ (111,257)	\$ 4,712,323	\$ -	\$ 4,601,066

A portion of the primary government's net assets, \$237,142, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,679,478, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City slightly decreased during the year. This decrease is the result of the downturn in the economy having a local effect in the City, which resulted in lower revenues during the year. A reconciliation column has been added to the Statement of Net Assets to account for the long term debt reported in the governmental activities related to capital assets in the business-type activities.

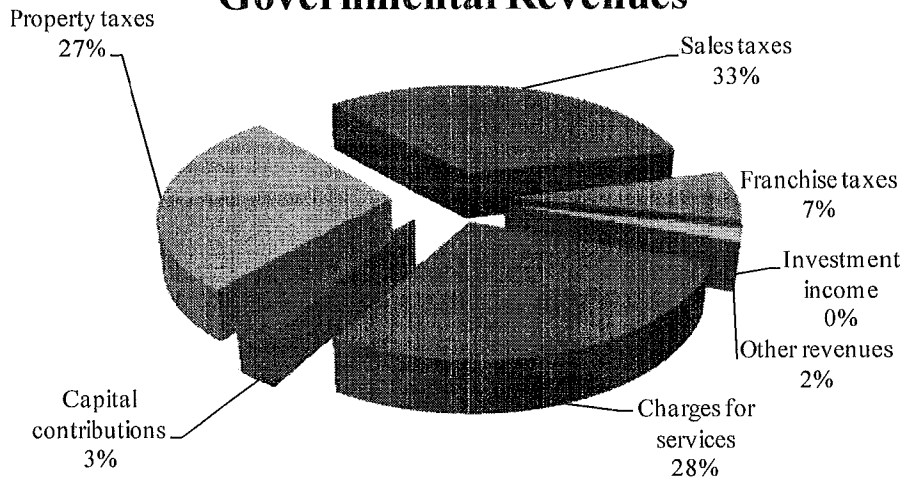
CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

CHANGES IN NET ASSETS

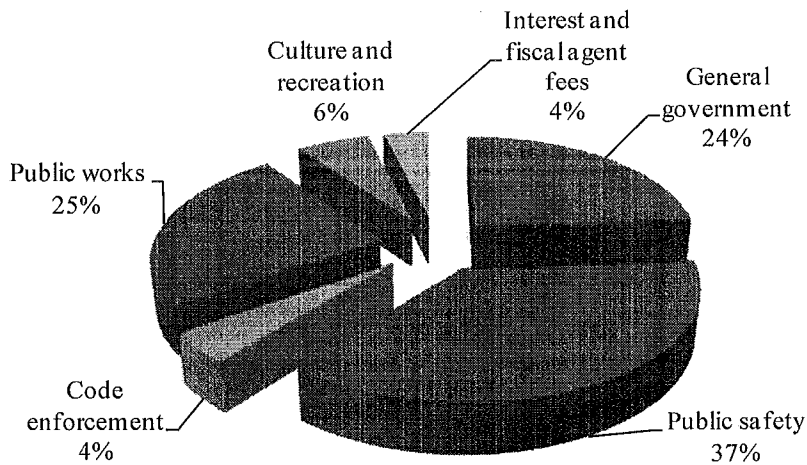
	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 629,284	\$ 718,245	\$ 1,469,889	\$ 1,356,130	\$ 2,099,173	\$ 2,074,375
Capital contributions	61,841	55,411	-	-	61,841	55,411
General revenues:						
Property taxes	619,574	576,299	-	-	619,574	576,299
Sales taxes	741,666	797,007	-	-	741,666	797,007
Franchise taxes	163,338	167,659	-	-	163,338	167,659
Investment income	2,819	31,874	2,815	3,105	5,634	34,979
Other revenues	43,313	153,145	-	-	43,313	153,145
Total Revenues	2,261,835	2,499,640	#NAME?	1,359,235	3,734,539	3,858,875
Expenses						
General government	559,735	593,679	-	-	559,735	593,679
Public safety	851,199	806,997	-	-	851,199	806,997
Code enforcement	105,813	19,964	-	-	105,813	19,964
Public works	572,868	616,954	-	-	572,868	616,954
Culture and recreation	142,059	102,475	-	-	142,059	102,475
Interest and fiscal agent fees	90,657	103,341	29,182	19,348	119,839	122,689
Gas	-	-	456,257	419,049	456,257	419,049
Water and sewer	-	-	962,797	653,096	962,797	653,096
Total Expenses	2,322,331	2,243,410	1,448,236	1,091,493	3,770,567	3,334,903
Increase (Decrease) in Net Assets						
Before Transfers	(60,496)	256,230	#NAME?	267,742	(36,028)	523,972
Transfers	221,296	57,099	(221,296)	(57,099)	-	-
Change in Net Assets	160,800	313,329	#NAME?	210,643	(36,028)	523,972
Beginning Net Assets	(111,257)	(424,586)	4,712,323	4,501,680	4,601,066	4,077,094
Ending Net Assets	\$ 49,543	\$ (111,257)	\$ #NAME?	\$ 4,712,323	\$ 4,565,038	\$ 4,601,066

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended September 30, 2010

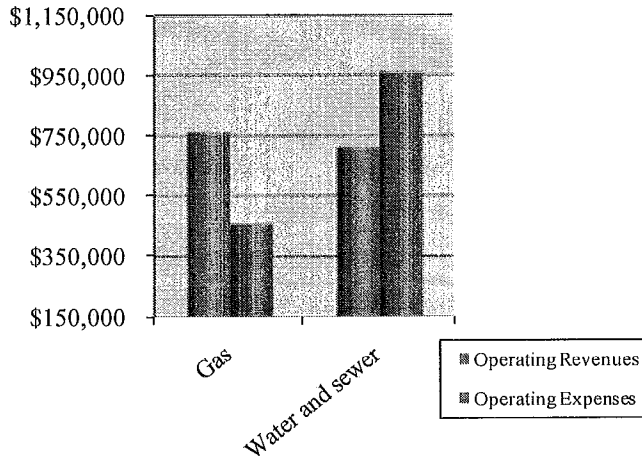
Governmental Revenues



Governmental Expenses



Business-Type Activities - Revenues and Expenses



CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

Governmental and Business-Type Activities

The City reported a decrease in property tax during the year due to the economic downturn within the City in governmental activities. The City also reported increases in water purchases, which resulted in decreases in net assets related to water/sewer in business-type activities.

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 unreserved 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 \$1,542,141. Of this, \$186,598 is designated for capital projects, \$170,766 is reserved for debt service, and \$79,922 is reserved for special projects.

There was an increase in the combined fund balance of \$79,852 over the prior year. The increase was attributable to slightly higher revenues in every category.

The general fund reported an increase in fund balance due to the transfers received from the enterprise funds.

The debt service fund reported an increase in fund balance due to revenues exceeding debt payments during the 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 \$1,802,700, a negative budget variance of \$130,077 from the final budget. This variance is primarily due to franchise fees, sales taxes, and licenses and permits less than expected revenues during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$197,663 and \$3,621,808, 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 the notes to the financial statements.

Long-Term Debt - At the end of the current year, the City had total long-term debt in governmental activities of \$1,783,069 and business-type activities of \$410,838.

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

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

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. Thus, in future fiscal periods, it is the Mayors and Council's objective to support staff in acquiring and implementing management and financial software (for fund accounting, utility billing, municipal court, and public safety) sufficient to satisfy these requirements, and meet the customer service demands that accompany the City's expansion.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF WALLER, TEXAS

STATEMENT OF NET ASSETS

September 30, 2010

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,432,483	\$ 1,326,336	\$ -	\$ 2,758,819
Investments	126,564	-	-	126,564
Receivables (net of allowance for uncollectible)	246,708	36,261	-	282,969
Inventory	-	93,378	-	93,378
	1,805,755	1,455,975	-	3,261,730
Capital assets:				
Non-depreciable	39,799	87,624	-	127,423
Net depreciable capital assets	157,864	3,534,185	-	3,692,049
	197,663	3,621,809	-	3,819,472
Total Assets	2,003,418	5,077,784	-	7,081,202
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	157,260	3,096	-	160,356
Customer deposits	-	78,049	-	78,049
Due to primary government	-	-	-	-
Accrued interest payable	13,546	-	-	13,546
	170,806	81,145	-	251,951
Noncurrent liabilities:				
Due within one year	207,536	-	-	207,536
Due in more than one year	1,575,533	481,144	-	2,056,677
	1,783,069	481,144	-	2,264,213
Total Liabilities	1,953,875	562,289	-	2,516,164
Net Assets (Deficit)				
Invested in capital assets, net of related debt	227,753	3,140,665	(1,720,000)	1,648,418
Restricted for:				
Debt service	237,142	-	-	237,142
Unrestricted	(415,352)	1,374,830	1,720,000	2,679,478
Total Net Assets	\$ 49,543	\$ 4,515,495	\$ -	\$ 4,565,038

See Notes to Financial Statements.

<u>Component Unit</u>
\$ 1,059,197
-
43,254
-
<u>1,102,451</u>
-
-
-
<u>1,102,451</u>
873
-
-
-
<u>873</u>
-
-
-
<u>873</u>
-
-
1,101,578
<u>\$ 1,101,578</u>

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 559,735	\$ 452,408	\$ -
Public safety	851,199	113,348	-
Code enforcement	105,813	26,883	-
Public works	572,868	-	-
Culture and recreation	142,059	36,645	61,841
Interest and fees on debt	90,657	-	-
Total Governmental Activities	2,322,331	629,284	61,841
Business-Type Activities			
Gas	456,257	760,294	-
Water and sewer	962,797	709,595	-
Interest and fees on debt	29,182	-	-
Total Business-Type Activities	1,448,236	1,469,889	-
Total Primary Government	\$ 3,770,567	\$ 2,099,173	\$ 61,841
Component Unit			
Waller Economic Development Corporation	\$ 146,416	\$ -	\$ -

General Revenues:

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

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (107,327)	\$ -	\$ (107,327)	\$ -
(737,851)	-	(737,851)	-
(78,930)	-	(78,930)	-
(572,868)	-	(572,868)	-
(43,573)	-	(43,573)	-
(90,657)	-	(90,657)	-
<u>(1,631,206)</u>	<u>-</u>	<u>(1,631,206)</u>	<u>-</u>
-	304,037	304,037	-
-	(253,202)	(253,202)	-
-	(29,182)	(29,182)	-
-	21,653	21,653	-
<u>(1,631,206)</u>	<u>21,653</u>	<u>(1,609,553)</u>	<u>-</u>
-	-	-	(146,416)
619,574	-	619,574	-
741,666	-	741,666	247,222
163,338	-	163,338	-
2,819	2,815	5,634	-
43,313	-	43,313	-
221,296	(221,296)	-	-
<u>1,792,006</u>	<u>(218,481)</u>	<u>1,573,525</u>	<u>247,222</u>
160,800	(196,828)	(36,028)	100,806
(111,257)	4,712,323	4,601,066	1,000,772
<u>\$ 49,543</u>	<u>\$ 4,515,495</u>	<u>\$ 4,565,038</u>	<u>\$ 1,101,578</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2010

	Major Governmental Funds		Nonmajor Governmental Funds	
	General	Debt Service	Capital Projects	Special Revenue
Assets				
Cash and cash equivalents	\$ 1,110,265	\$ 55,698	\$ 186,598	\$ 79,922
Investments	11,496	115,068	-	-
Receivables, net	184,686	62,022	-	-
Total Assets	\$ 1,306,447	\$ 232,788	\$ 186,598	\$ 79,922
Liabilities				
Accounts payable and accrued liabilities	\$ 157,260	\$ -	\$ -	\$ -
Deferred revenue	44,332	62,022	-	-
Total Liabilities	201,592	62,022	-	-
Fund Balances				
Reserved for:				
Debt service	-	170,766	-	-
Special projects	-	-	-	79,922
Designated for capital projects	-	-	186,598	-
Unreserved and undesignated	1,104,855	-	-	-
Total Fund Balances	1,104,855	170,766	186,598	79,922
Total Liabilities and Fund Balances	\$ 1,306,447	\$ 232,788	\$ 186,598	\$ 79,922

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	\$ 39,799
Capital assets - net depreciable	<u>157,864</u>

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	\$ (13,546)
Non-current liabilities due in one year	(207,536)
Non-current liabilities due in more than one year	<u>(1,575,533)</u>

Net Assets of Governmental Activities

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,432,483
126,564
246,708
\$ 1,805,755

\$ 157,260
106,354
263,614

170,766
79,922
186,598
1,104,855
1,542,141

197,663

106,354

(1,796,615)
\$ 49,543

CITY OF WALLER, TEXAS

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

For the Year Ended September 30, 2010

	Major Governmental Funds		Nonmajor Governmental Funds	
	General	Debt Service	Capital Projects	Special Revenue
Revenues				
Property taxes	\$ 350,884	\$ 260,871	\$ -	\$ -
Sales tax	741,666	-	-	-
Franchise and local taxes	106,014	-	-	57,324
Licenses and permits	26,883	-	-	-
Fines and forfeitures	103,999	-	-	9,349
Charges for services	452,408	-	-	-
Intergovernmental	-	-	-	61,841
Investment income	279	2,540	-	-
Other revenue	20,567	-	22,746	36,645
Total Revenues	1,802,700	263,411	22,746	165,159
Expenditures				
Current:				
General government	407,294	-	33,853	-
Public safety	903,431	-	-	-
Code enforcement	105,813	-	-	-
Public works	572,868	-	-	-
Culture and recreation	45,854	-	-	96,205
Debt Service:				
Principal	-	165,000	-	-
Interest and fiscal charges	-	91,945	-	-
Total Expenditures	2,035,260	256,945	33,853	96,205
Excess (Deficiency) of Revenues Over (Under) Expenditures	(232,560)	6,466	(11,107)	68,954
Other Financing Sources (Uses)				
Transfers	221,296	-	-	-
Debt issued	26,803	-	-	-
Total Other Financing Sources	248,099	-	-	-
Net Change in Fund Balance	15,539	6,466	(11,107)	68,954
Beginning fund balances	1,089,316	164,300	197,705	10,968
Ending Fund Balances	\$ 1,104,855	\$ 170,766	\$ 186,598	\$ 79,922

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 611,755
741,666
163,338
26,883
113,348
452,408
61,841
2,819
79,958
2,254,016

441,147
903,431
105,813
572,868
142,059

165,000
91,945
2,422,263

(168,247)

221,296
26,803
248,099

79,852

1,462,289
\$ 1,542,141

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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, 2010

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

Net changes in fund balances - total governmental funds	\$	79,852
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		26,803
Depreciation expense		(118,588)
<p>Revenues that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue		7,819
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Debt issued		(26,803)
Principal expenditures		190,429
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Accrued interest		<u>1,288</u>
Change in Net Assets of Governmental Activities	\$	<u>160,800</u>

See Notes to Financial Statements.

CITY OF WALLER, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2010

	Gas	Water and Sewer	Total
<u>Assets</u>			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 774,756	\$ 551,580	\$ 1,326,336
Receivables, net	2,170	34,091	36,261
Inventory	29,864	63,514	93,378
Total Current Assets	806,790	649,185	1,455,975
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	-	87,624	87,624
Net depreciable capital assets	137,891	3,396,294	3,534,185
Total Noncurrent Assets	137,891	3,483,918	3,621,809
Total Assets	944,681	4,133,103	5,077,784
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Customer deposits	22,981	55,068	78,049
Total Current Liabilities	23,353	57,792	81,145
<u>Noncurrent Liabilities</u>			
Due within one year			-
Due in more than one year	8,305	472,839	481,144
Total Noncurrent Liabilities	8,305	472,839	481,144
Total Liabilities	31,658	530,631	562,289
<u>Net Assets</u>			
Invested in capital assets, net of related debt	129,586	3,011,079	3,140,665
Unrestricted	783,437	591,393	1,374,830
Total Net Assets	\$ 913,023	\$ 3,602,472	\$ 4,515,495

See Notes to Financial Statements.

CITY OF WALLER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010

	<u>Gas</u>	<u>Water and Sewer</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for services	\$ 760,294	\$ 708,224	\$ 1,468,518
Other revenue	-	1,371	1,371
Total Operating Revenues	<u>760,294</u>	<u>709,595</u>	<u>1,469,889</u>
<u>Operating Expenses</u>			
Costs of sales and services	442,831	818,816	1,261,647
Depreciation	13,426	143,981	157,407
Total Operating Expenses	<u>456,257</u>	<u>962,797</u>	<u>1,419,054</u>
Operating Income	<u>304,037</u>	<u>(253,202)</u>	<u>50,835</u>
<u>Nonoperating Revenues</u>			
Investment income	1,786	1,029	2,815
Interest expense	(6,000)	(23,182)	(29,182)
Total Nonoperating Revenues	<u>(4,214)</u>	<u>(22,153)</u>	<u>(26,367)</u>
Income Before Transfers	299,823	(275,355)	24,468
Transfers	(110,648)	(110,648)	(221,296)
Change in Net Assets	189,175	(386,003)	(196,828)
Beginning net assets	723,848	3,988,475	4,712,323
Ending Net Assets	<u>\$ 913,023</u>	<u>\$ 3,602,472</u>	<u>\$ 4,515,495</u>

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2010

	Gas	Water and Sewer	Total
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 769,045	\$ 710,956	\$ 1,480,001
Payments to suppliers and employees	(453,860)	(836,717)	(1,290,577)
Net Cash Provided by Operating Activities	315,185	(125,761)	189,424
<u>Cash Flows from Capital and Related</u>			
<u>Financing Activities</u>			
Capital lease payments	(6,001)	(23,182)	(29,183)
Net Cash (Used) by Capital and Related Financing Activities	(6,001)	(23,182)	(29,183)
<u>Cash Flows from Investing Activities</u>			
Transfers	(110,648)	(110,648)	(221,296)
Interest on investments	1,786	1,029	2,815
Net Cash Provided (Used) by Investing Activities	(108,862)	(109,619)	(218,481)
Net Increase in Cash and Cash Equivalents	200,322	(258,562)	(58,240)
Beginning cash and cash equivalents	574,434	\$ 810,142	1,384,576
Ending Cash and Cash Equivalents	\$ 774,756	\$ 551,580	\$ 1,326,336
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ 304,037	\$ (253,202)	\$ 50,835
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	13,426	143,981	157,407
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	8,751	1,361	10,112
Inventories	(6,075)	(21,525)	(27,600)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	372	2,724	3,096
Customer deposits	(5,326)	900	(4,426)
Net Cash Provided by Operating Activities	\$ 315,185	\$ (125,761)	\$ 189,424
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ -	\$ -	\$ -

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2010

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-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

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 Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the City Secretary.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain requirements of the statement include:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City’s activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt**—This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

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. 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 major fund for reporting purposes.

Capital Projects Fund

The capital projects funds 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 expansions capital projects fund is reported as a nonmajor 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.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

(GASB) and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include the following:

Enterprise Funds

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

D. Measurement Focus and Basis of Accounting

The government-wide Statements of Net Assets and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, 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. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

The Statements of Net Assets, Statements of Activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

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.

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

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

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

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivable and payables are classified as "due to/from component unit/primary government". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

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 1% per month, but the penalty remains at a maximum of 12% until paid.

A penalty of 6% and interest of 1% is added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12% on July 1 of each year, with interest continuing to increase at 1% per month until the account is paid. An additional penalty of 15% is added in July for attorney costs. The City allows discounts for payments made in October, November, and December every year.

3. Inventories and Prepaid Items

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). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) and are recognized as expenditures when utilized.

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

5. 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 Assets. The long-term debt consists primarily of bonds payable and capital lease obligations.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment 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, discounts and issuance costs 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. Issuance costs are reported as deferred charges.

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 payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Estimates

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt 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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 328,694	0.05
External investment pools	<u>1,179,786</u>	0.00
Total fair value	<u>\$ 1,508,480</u>	
Portfolio weighted average maturity		0.01

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. The City invested \$1,179,786 in TexPool at year end.

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.

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, 2010, market values of pledged securities and FDIC insurance exceeded bank balances.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Gas	Water/Sewer
Property taxes	\$ 44,331	\$ 62,022	\$ -	\$ -
Sales taxes	129,762	-	-	-
Accounts	-	-	10,340	52,091
Franchise	10,593	-	-	-
Allowance	-	-	(8,170)	(18,000)
	<u>\$ 184,686</u>	<u>\$ 62,022</u>	<u>\$ 2,170</u>	<u>\$ 34,091</u>

C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 39,799	\$ -	\$ -	\$ 39,799
Total capital assets not being depreciated	<u>39,799</u>	<u>-</u>	<u>-</u>	<u>39,799</u>
Other capital assets:				
Infrastructure	1,507,395	-	-	1,507,395
Buildings	336,534	-	-	336,534
Vehicles	249,022	26,803	-	275,825
Equipment	229,629	-	-	229,629
Total other capital assets	<u>2,322,580</u>	<u>26,803</u>	<u>-</u>	<u>2,349,383</u>
Less accumulated depreciation for:				
Infrastructure	(1,411,493)	(75,370)	-	(1,486,863)
Buildings	(316,026)	(526)	-	(316,552)
Vehicles	(137,863)	(27,332)	-	(165,195)
Equipment	(207,549)	(15,360)	-	(222,909)
Total accumulated depreciation	<u>(2,072,931)</u>	<u>(118,588)</u>	<u>-</u>	<u>(2,191,519)</u>
Other capital assets, net	249,649	(91,785)	-	157,864
Totals	<u>\$ 289,448</u>	<u>\$ (91,785)</u>	<u>\$ -</u>	<u>\$ 197,663</u>
			Less associated debt	(63,069)
			Invested in capital assets, net of related debt	<u>\$ 134,594</u>

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

Depreciation was charged to governmental functions as follows:

General government	<u>\$ 118,588</u>
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CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 87,624	\$ -	\$ -	\$ 87,624
Total capital assets not being depreciated	<u>87,624</u>	<u>-</u>	<u>-</u>	<u>87,624</u>
Other capital assets:				
Water/sewer system	5,356,780	-	-	5,356,780
Gas system	502,372	-	-	502,372
Equipment	<u>214,687</u>	<u>-</u>	<u>-</u>	<u>214,687</u>
Total other capital assets	<u>6,073,839</u>	<u>-</u>	<u>-</u>	<u>6,073,839</u>
Less accumulated depreciation for:				
Water/sewer system	(1,819,044)	(132,365)	-	(1,951,409)
Gas system	(395,601)	(12,080)	-	(407,681)
Equipment	<u>(167,603)</u>	<u>(12,962)</u>	<u>-</u>	<u>(180,565)</u>
Total accumulated depreciation	<u>(2,382,248)</u>	<u>(157,407)</u>	<u>-</u>	<u>(2,539,655)</u>
Other capital assets, net	<u>3,691,591</u>	<u>(157,407)</u>	<u>-</u>	<u>3,534,184</u>
Totals	<u>\$ 3,779,215</u>	<u>\$ (157,407)</u>	<u>\$ -</u>	<u>\$ 3,621,808</u>
			Less associated debt	<u>(410,838)</u>
			Invested in capital assets, net of related debt	<u>\$ 3,210,969</u>

Depreciation was charged to business-type functions as follows:

Gas	\$ 13,426
Water/Sewer	<u>143,981</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 157,407</u>

D. Long-Term Debt

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

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 1,325,000	\$ -	\$ 40,000	\$ 1,285,000 **	\$ 35,000
Certificates of obligation	560,000	-	125,000	435,000 **	135,000
Obligations under capital leases	61,695	26,803	25,429	63,069 *	37,536
Total Governmental Activities	<u>\$ 1,946,695</u>	<u>\$ 26,803</u>	<u>\$ 190,429</u>	<u>\$ 1,783,069</u>	<u>\$ 207,536</u>
Long-term liabilities due in more than one year				<u>\$ 1,575,533</u>	
* Debt associated with governmental activities capital assets				<u>\$ 63,069</u>	
** Debt associated with business-type activities capital assets				<u>\$ 1,720,000</u>	
Business-type Activities:					
Obligations under capital leases	<u>\$ 481,144</u>	<u>\$ -</u>	<u>\$ 70,305</u>	<u>\$ 410,838 **</u>	<u>\$ 71,056</u>
Long-term liabilities due in more than one year				<u>\$ 339,782</u>	
** Debt associated with business-type activities capital assets				<u>\$ 410,838</u>	

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

Description	Interest Rates	Balance
Certificates of Obligations		
Series 1998	4.5 - 5.375%	\$ 435,000
Permanent Improvement Bonds		
Series 2004	1.75 - 4.40%	1,285,000
Total General Long-Term Debt		<u>\$ 1,720,000</u>

Year Ending Sept. 30	Capital Leases					
	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 37,536	\$ 3,264	\$ 40,800	\$ 71,056	\$ 17,664	\$ 88,720
2012	25,533	1,503	27,036	66,522	14,681	81,203
2013	-	-	-	69,483	11,720	81,203
2014	-	-	-	72,558	8,645	81,203
2015	-	-	-	75,770	5,433	81,203
2016	-	-	-	55,450	2,077	57,527
Total	<u>\$ 63,069</u>	<u>\$ 4,766</u>	<u>\$ 67,836</u>	<u>\$ 410,838</u>	<u>\$ 60,220</u>	<u>\$ 471,058</u>

Equipment acquired under current capital lease obligations was a total of \$474,130 net of accumulated depreciation of \$103,314 in business-type activities and \$75,838 net of accumulated depreciation of \$92,367 in governmental activities.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

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

Year Ending Sept. 30	Long-Term Debt			
	Certificates of Obligation		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 135,000	\$ 23,025	\$ 35,000	\$ 60,057
2012	150,000	15,938	30,000	58,745
2013	150,000	8,062	40,000	57,545
2014	-	-	165,000	55,905
2015	-	-	145,000	48,810
2016	-	-	125,000	42,285
2017	-	-	125,000	36,535
2018	-	-	120,000	30,660
2019	-	-	100,000	24,900
2020	-	-	100,000	20,000
2021	-	-	100,000	15,000
2022	-	-	100,000	10,000
2023	-	-	100,000	5,000
Total	\$ 435,000	\$ 47,025	\$ 1,285,000	\$ 465,442

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.

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 2,539 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), one of 833 administered by 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 Required Supplementary Information (RSI) for TMRS. The report also provides

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at www.TMRS.com. 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>2010</u>	<u>2009</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (city to employee)	1.5 to 1	1 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25 100% Repeating,	60/5, 0/25 100% Repeating,
Updated service credit	Transfers	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%, 150%, or 200%) 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 24-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, 2008 valuation is

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

effective for rates beginning January 2010). The annual pension cost and the net pension obligation (asset) are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual Req. Contrib. (ARC)	\$ 64,965	\$ 37,427	\$ 38,656
Contributions Made	\$ 64,965	\$ 37,427	\$ 38,656
NPO at the End of Period	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarial Valuation Date	12/31/2009	12/31/2008	12/31/2007
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	23 Years - Closed period	24 Years - Closed period	25 Years - Closed period
Asset Valuation Method	10-yr Smoothed Market	Amortized cost	Amortized cost
Investment Rate of Return	7.5%	7.5%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00% 0%	3.00% 0%	3.00% 0%

	<u>2010</u>
Actuarial Valuation Date	12/31/2009
Actuarial Value of Assets	\$ 1,332,927
Actuarial Accrued Liability	\$ 1,580,182
Percentage Funded	84.4%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 247,255
Annual Covered Payroll	\$ 877,484
UAAL as a Percentage of Covered Payroll	28.2%

The schedule of funding progress, presented as Required Supplementary Information 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 of benefits.

C. Other Post Employment Benefits

TMRS - Supplemental Death Benefit 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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2010

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, 2010, 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 contribution rate to the TMRS SDBF, for the retiree portion, for the year ended September 30, 2010 is shown below.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual Req. Contrib. (Rate)	0.06%	0.05%	0.09%	0.06%
Actual Contribution Made Percentage of ARC Contrib.	0.06%	0.05%	0.09%	0.06%
	100.00%	100.00%	100.00%	100.00%

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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, 2010

	2010			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 302,464	\$ 302,464	\$ 350,884	\$ 48,420
Sales tax	800,000	800,000	741,666	(58,334)
Franchise and other taxes	109,820	127,820	106,014	(21,806)
Licenses and permits	88,450	113,450	26,883	(86,567)
Fines and forfeitures	68,000	75,000	103,999	28,999
Charges for services	413,150	413,150	452,408	39,258
Investment income	660	660	279	(381)
Other revenue	16,600	16,600	20,567	3,967
Total Revenues	1,799,144	1,849,144	1,802,700	(46,444)
Expenditures				
Current:				
General government	449,315	427,362	407,294	20,068
Public safety	906,533	904,319	903,431	888
Code enforcement	-	106,533	105,813	720
Public works	577,042	576,885	572,868	4,017
Culture and recreation	42,863	48,654	45,854	2,800
Total Expenditures	1,975,753	2,063,753	2,035,260	28,493
Other Financing Sources				
Transfers in	211,188	211,188	221,296	10,108
Debt issued	-	-	26,803	26,803
Total Other Financing Sources	211,188	211,188	248,099	36,911
Change in Fund Balance	\$ 34,579	\$ (3,421)	\$ 15,539	\$ 18,960
Beginning fund balance			1,089,316	
Ending Fund Balance			\$ 1,104,855	

Notes to Required Supplementary Information:

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

CITY OF WALLER, TEXAS
SCHEDULE OF FUNDING PROGRESS-
TEXAS MUNICIPAL RETIREMENT SYSTEM

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>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial Valuation Date	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Actuarial Value of Assets	\$ 1,332,927	\$ 1,321,233	\$ 1,235,292	\$ 1,170,058	\$ 1,143,807
Actuarial Accrued Liability	\$ 1,580,182	\$ 1,380,532	\$ 1,293,918	\$ 1,330,651	\$ 1,287,176
Percentage Funded	84.4%	95.7%	95.5%	87.9%	88.9%
Unfunded Actuarial					
Accrued Liability	\$ 247,255	\$ 59,299	\$ 58,626	\$ 160,593	\$ 143,369
Annual Covered Payroll	\$ 877,484	\$ 748,750	\$ 747,021	\$ 688,015	\$ 676,673
Unfunded Actuarial Accrued Liability					
(UAAL) % of Covered Payroll	28.2%	7.9%	7.8%	23.3%	21.2%
Net Pension Obligation (NPO)					
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 64,965	\$ 37,427	\$ 38,656	\$ 36,794	\$ 32,983
Contributions Made	\$ 64,965	\$ 37,427	\$ 38,656	\$ 36,794	\$ 32,983
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<u>2005</u>	
	12/31/2004
\$	1,040,494
\$	1,173,282
	88.7%
\$	132,788
\$	679,634
	19.5%
\$	-
\$	35,554
\$	35,554
\$	-

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