

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF WALLER, TEXAS**

For the Year Ended  
September 30, 2012

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# CITY OF WALLER, TEXAS

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September 30, 2012

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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 and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic 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 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 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 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 remaining fund information of the City as of September 30, 2012, 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 ("GAAP") in the United States of America.

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Governmental  
Audit Quality Center

The Management's Discussion and Analysis, budgetary comparison information and schedules of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
December 18, 2012

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

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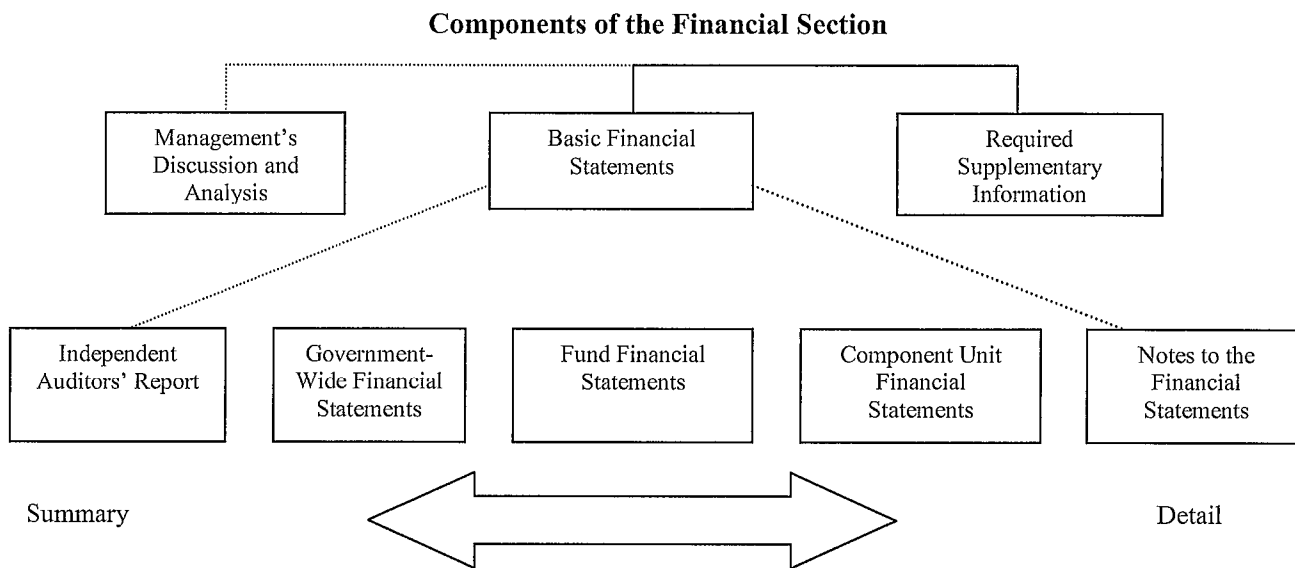


**CITY OF WALLER, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2012

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, 2012. 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, 2012**

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, 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.

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

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

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

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

**CITY OF WALLER, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2012**

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.

**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 a budgetary comparison schedule 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 \$5,501,922 at year end.

A large portion of the City's net assets, 46 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, 2012

**SUMMARY STATEMENT OF NET ASSETS**

|  | 2012                       |                             |                | Total<br>Primary<br>Government |
|--|----------------------------|-----------------------------|----------------|--------------------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Reconciliation |                                |
| Current and other assets                           | \$ 1,883,569               | \$ 1,357,241                | \$ -           | \$ 3,240,810                   |
| Capital assets, net                                | 556,240                    | 3,923,978                   | -              | 4,480,218                      |
| <b>Total Assets</b>                                | <b>2,439,809</b>           | <b>5,281,219</b>            | <b>-</b>       | <b>7,721,028</b>               |
| Long-term liabilities                              | 1,605,534                  | 403,593                     | -              | 2,009,127                      |
| Other liabilities                                  | 91,921                     | 118,058                     | -              | 209,979                        |
| <b>Total Liabilities</b>                           | <b>1,697,455</b>           | <b>521,651</b>              | <b>-</b>       | <b>2,219,106</b>               |
| Net assets:  |                            |                             |                |                                |
| Invested in capital assets,<br>net of related debt | 383,177                    | 3,534,006                   | (1,370,000)    | 2,547,183                      |
| Restricted   | 549,618                    | -                           | -              | 549,618                        |
| Unrestricted                                       | (190,441)                  | 1,225,562                   | 1,370,000      | 2,405,121                      |
| <b>Total Net Assets</b>                            | <b>\$ 742,354</b>          | <b>\$ 4,759,568</b>         | <b>\$ -</b>    | <b>\$ 5,501,922</b>            |
|  | 2011                       |                             |                |                                |
|  | Governmental<br>Activities | Business-Type<br>Activities | Reconciliation | Total<br>Primary<br>Government |
| Current and other assets                           | \$ 2,020,287               | \$ 1,609,255                | \$ -           | \$ 3,629,542                   |
| Capital assets, net                                | 211,298                    | 3,832,422                   | -              | 4,043,720                      |
| <b>Total Assets</b>                                | <b>2,231,585</b>           | <b>5,441,677</b>            | <b>-</b>       | <b>7,673,262</b>               |
| Long-term liabilities                              | 1,665,427                  | 531,656                     | -              | 2,197,083                      |
| Other liabilities                                  | 93,840                     | 102,086                     | -              | 195,926                        |
| <b>Total Liabilities</b>                           | <b>1,759,267</b>           | <b>633,742</b>              | <b>-</b>       | <b>2,393,009</b>               |
| Net assets:  |                            |                             |                |                                |
| Invested in capital assets,<br>net of related debt | 180,181                    | 3,315,152                   | (1,550,000)    | 1,945,333                      |
| Restricted   | 309,750                    | -                           | -              | 309,750                        |
| Unrestricted                                       | (17,613)                   | 1,492,783                   | 1,550,000      | 3,025,170                      |
| <b>Total Net Assets</b>                            | <b>\$ 472,318</b>          | <b>\$ 4,807,935</b>         | <b>\$ -</b>    | <b>\$ 5,280,253</b>            |

A portion of the primary government's net assets, \$549,618, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,405,121, 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 decreased while total expenses increased. 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, 2012

**CHANGES IN NET ASSETS**

|  | Governmental      |                   | Business-Type       |                     | Total               |                     |
|--|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
|  | Activities        |                   | Activities          |                     | Primary             |                     |
|  | 2012              | 2011              | 2012                | 2011                | 2012                | 2011                |
| <b>Revenues</b>                          |                   |                   |                     |                     |                     |                     |
| Program revenues:                        |                   |                   |                     |                     |                     |                     |
| Charges for services                     | \$ 714,512        | \$ 686,360        | \$ 1,227,040        | \$ 1,486,069        | \$ 1,941,552        | \$ 2,172,429        |
| Capital grants and contributions         | 236,696           | 282,797           | -                   | -                   | 236,696             | 282,797             |
| General revenues:                        |                   |                   |                     |                     |                     |                     |
| Property taxes                           | 721,758           | 653,331           | -                   | -                   | 721,758             | 653,331             |
| Sales taxes                              | 856,838           | 809,564           | -                   | -                   | 856,838             | 809,564             |
| Franchise taxes                          | 179,538           | 150,302           | -                   | -                   | 179,538             | 150,302             |
| Investment income                        | 10,908            | 31,078            | 1,498               | 91                  | 12,406              | 31,169              |
| Other revenues                           | 15,387            | 33,512            | -                   | -                   | 15,387              | 33,512              |
| <b>Total Revenues</b>                    | <b>2,735,637</b>  | <b>2,646,944</b>  | <b>1,228,538</b>    | <b>1,486,160</b>    | <b>3,964,175</b>    | <b>4,133,104</b>    |
| <b>Expenses</b>                          |                   |                   |                     |                     |                     |                     |
| General government                       | 465,088           | 447,472           | -                   | -                   | 465,088             | 447,472             |
| Public safety                            | 931,103           | 862,958           | -                   | -                   | 931,103             | 862,958             |
| Code enforcement                         | 116,685           | 157,974           | -                   | -                   | 116,685             | 157,974             |
| Public works                             | 724,579           | 593,174           | -                   | -                   | 724,579             | 593,174             |
| Culture and recreation                   | 178,723           | 140,185           | -                   | -                   | 178,723             | 140,185             |
| Interest and fiscal agent fees           | 76,647            | 86,062            | -                   | -                   | 76,647              | 86,062              |
| Gas                                      | -                 | -                 | 351,390             | 434,116             | 351,390             | 434,116             |
| Water and sewer                          | -                 | -                 | 898,291             | 846,350             | 898,291             | 846,350             |
| <b>Total Expenses</b>                    | <b>2,492,825</b>  | <b>2,287,825</b>  | <b>1,249,681</b>    | <b>1,280,466</b>    | <b>3,742,506</b>    | <b>3,568,291</b>    |
| <b>Increase (Decrease) in Net Assets</b> |                   |                   |                     |                     |                     |                     |
| <b>Before Transfers</b>                  | 242,812           | 359,119           | (21,143)            | 205,694             | 221,669             | 564,813             |
| Transfers                                | 27,224            | 232,978           | (27,224)            | (232,978)           | -                   | -                   |
| <b>Change in Net Assets</b>              | 270,036           | 592,097           | (48,367)            | (27,284)            | 221,669             | 564,813             |
| Beginning net assets                     | 472,318           | (119,779)         | 4,807,935           | 4,835,219           | 5,280,253           | 4,715,440           |
| <b>Ending Net Assets</b>                 | <b>\$ 742,354</b> | <b>\$ 472,318</b> | <b>\$ 4,759,568</b> | <b>\$ 4,807,935</b> | <b>\$ 5,501,922</b> | <b>\$ 5,280,253</b> |

**CITY OF WALLER, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2012

**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.

**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 \$1,698,975. Of the total governmental fund balance, \$549,618 is restricted for debt service and special projects. The remaining balance of \$1,149,357 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 \$1,149,357. 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 45 percent of total general expenditures. The general fund demonstrated an overall increase of \$38,647 as a result of increased property tax revenues from an increase in the property tax rates.

The debt service fund has a total fund balance of \$191,956, all of which is restricted for payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$14,624. This increase can be primarily attributed to a larger amount of property tax revenue as noted above.

**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 \$2,130,811, a positive budget variance of \$12,006 from the final budget. This variance is due to more interest revenue than expected. Total expenditures had a negative budget variance of \$192,584 from the final budget. This variance is due to the capital outlay related to three new capital leases in the current 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 \$556,240 and \$3,923,978, 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.

**CITY OF WALLER, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended September 30, 2012

**Long-Term Debt** – At the end of the current year, the City had total long-term debt in governmental activities of \$1,605,534 and business-type activities of \$403,593.

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

**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.

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***BASIC FINANCIAL STATEMENTS***

# CITY OF WALLER, TEXAS

## STATEMENT OF NET ASSETS

September 30, 2012

|  | Primary Government         |                             |                | Total        |
|--|----------------------------|-----------------------------|----------------|--------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Reconciliation |              |
| <b>Assets</b>                                    |                            |                             |                |              |
| Current assets:                                  |                            |                             |                |              |
| Cash and cash equivalents                        | \$ 1,617,219               | \$ 1,220,848                | \$ -           | \$ 2,838,067 |
| Receivables (net of allowance for uncollectible) | 266,350                    | 34,364                      | -              | 300,714      |
| Inventory  | -                          | 102,029                     | -              | 102,029      |
|  | 1,883,569                  | 1,357,241                   | -              | 3,240,810    |
| Capital assets:                                  |                            |                             |                |              |
| Non-depreciable                                  | 39,799                     | 87,624                      | -              | 127,423      |
| Net depreciable capital assets                   | 516,441                    | 3,836,354                   | -              | 4,352,795    |
|  | 556,240                    | 3,923,978                   | -              | 4,480,218    |
| <b>Total Assets</b>                              | 2,439,809                  | 5,281,219                   | -              | 7,721,028    |
| <b>Liabilities</b>                               |                            |                             |                |              |
| Current liabilities:                             |                            |                             |                |              |
| Accounts payable and accrued liabilities         | 81,224                     | 38,708                      | -              | 119,932      |
| Customer deposits                                | -                          | 79,350                      | -              | 79,350       |
| Accrued interest payable                         | 10,697                     | -                           | -              | 10,697       |
|  | 91,921                     | 118,058                     | -              | 209,979      |
| Noncurrent liabilities:                          |                            |                             |                |              |
| Due within one year                              | 297,262                    | 139,221                     | -              | 436,483      |
| Due in more than one year                        | 1,308,272                  | 264,372                     | -              | 1,572,644    |
|  | 1,605,534                  | 403,593                     | -              | 2,009,127    |
| <b>Total Liabilities</b>                         | 1,697,455                  | 521,651                     | -              | 2,219,106    |
| <b>Net Assets (Deficit)</b>                      |                            |                             |                |              |
| Invested in capital assets, net of related debt  | 383,177                    | 3,534,006                   | (1,370,000)    | 2,547,183    |
| Restricted for:                                  |                            |                             |                |              |
| Debt service                                     | 191,956                    | -                           | -              | 191,956      |
| Special projects                                 | 357,662                    | -                           | -              | 357,662      |
| Unrestricted                                     | (190,441)                  | 1,225,562                   | 1,370,000      | 2,405,121    |
| <b>Total Net Assets</b>                          | \$ 742,354                 | \$ 4,759,568                | \$ -           | \$ 5,501,922 |

See Notes to Financial Statements.

| <u>Component<br/>Unit</u> |
|---------------------------|
| \$ 980,032                |
| 49,223                    |
| -                         |
| 1,029,255                 |
| -                         |
| -                         |
| -                         |
| 1,029,255                 |
| 3,156                     |
| -                         |
| -                         |
| 3,156                     |
| -                         |
| -                         |
| -                         |
| 3,156                     |
| -                         |
| -                         |
| -                         |
| 1,026,099                 |
| \$ 1,026,099              |

# CITY OF WALLER, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

| Functions/Programs                      | Expenses            | Program Revenues        |  |
|---|---------------------|-------------------------|--|
|   |                     | Charges for<br>Services | Capital<br>Grants and<br>Contributions |
| <b>Primary Government</b>               |                     |                         |  |
| <b>Governmental Activities</b>          |                     |                         |  |
| General government                      | \$ 465,088          | \$ 488,142              | \$ 75,024                              |
| Public safety                           | 931,103             | 145,362                 | -                                      |
| Code enforcement                        | 116,685             | 42,133                  | -                                      |
| Public works                            | 724,579             | -                       | -                                      |
| Culture and recreation                  | 178,723             | 38,875                  | 161,672                                |
| Interest and fees on debt               | 76,647              | -                       | -                                      |
| <b>Total Governmental Activities</b>    | <b>2,492,825</b>    | <b>714,512</b>          | <b>236,696</b>                         |
| <b>Business-Type Activities</b>         |                     |                         |  |
| Gas                                     | 351,390             | 440,483                 | -                                      |
| Water and sewer                         | 898,291             | 786,557                 | -                                      |
| <b>Total Business-Type Activities</b>   | <b>1,249,681</b>    | <b>1,227,040</b>        | <b>-</b>                               |
| <b>Total Primary Government</b>         | <b>\$ 3,742,506</b> | <b>\$ 1,941,552</b>     | <b>\$ 236,696</b>                      |
| <b>Component Unit</b>                   |                     |                         |  |
| Waller Economic Development Corporation | \$ 211,704          | \$ -                    | \$ -                                   |

**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**

| <b>Primary Government</b>          |                                     |                     |                           |
|------------------------------------|-------------------------------------|---------------------|---------------------------|
| <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>        | <b>Component<br/>Unit</b> |
| \$ 98,078                          | \$ -                                | \$ 98,078           | \$ -                      |
| (785,741)                          | -                                   | (785,741)           | -                         |
| (74,552)                           | -                                   | (74,552)            | -                         |
| (724,579)                          | -                                   | (724,579)           | -                         |
| 21,824                             | -                                   | 21,824              | -                         |
| (76,647)                           | -                                   | (76,647)            | -                         |
| <u>(1,541,617)</u>                 | <u>-</u>                            | <u>(1,541,617)</u>  | <u>-</u>                  |
| -                                  | 89,093                              | 89,093              | -                         |
| -                                  | (111,734)                           | (111,734)           | -                         |
| -                                  | (22,641)                            | (22,641)            | -                         |
| <u>(1,541,617)</u>                 | <u>(22,641)</u>                     | <u>(1,564,258)</u>  | <u>-</u>                  |
| -                                  | -                                   | -                   | (211,704)                 |
| 721,758                            | -                                   | 721,758             | -                         |
| 856,838                            | -                                   | 856,838             | 285,324                   |
| 179,538                            | -                                   | 179,538             | -                         |
| 10,908                             | 1,498                               | 12,406              | 1,071                     |
| 15,387                             | -                                   | 15,387              | -                         |
| 27,224                             | (27,224)                            | -                   | -                         |
| <u>1,811,653</u>                   | <u>(25,726)</u>                     | <u>1,785,927</u>    | <u>286,395</u>            |
| 270,036                            | (48,367)                            | 221,669             | 74,691                    |
| 472,318                            | 4,807,935                           | 5,280,253           | 951,408                   |
| <u>\$ 742,354</u>                  | <u>\$ 4,759,568</u>                 | <u>\$ 5,501,922</u> | <u>\$ 1,026,099</u>       |

# CITY OF WALLER, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2012

|  | Major Governmental Funds |                   | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------|-------------------|-----------------------------------|--------------------------------|
|  | General                  | Debt<br>Service   |                                   |                                |
| <b>Assets</b>  |                          |                   |                                   |                                |
| Cash and cash equivalents  | \$ 1,067,083             | \$ 191,956        | \$ 358,180                        | \$ 1,617,219                   |
| Receivables, net   | 212,771                  | 53,579            | -                                 | 266,350                        |
| <b>Total Assets</b>  | <b>\$ 1,279,854</b>      | <b>\$ 245,535</b> | <b>\$ 358,180</b>                 | <b>\$ 1,883,569</b>            |
| <b>Liabilities</b>   |                          |                   |                                   |                                |
| Accounts payable and<br>accrued liabilities  | \$ 80,706                | \$ -              | \$ 518                            | \$ 81,224                      |
| Deferred revenue   | 49,791                   | 53,579            | -                                 | 103,370                        |
| <b>Total Liabilities</b>   | <b>130,497</b>           | <b>53,579</b>     | <b>518</b>                        | <b>184,594</b>                 |
| <b>Fund Balances</b>   |                          |                   |                                   |                                |
| Restricted for:  |                          |                   |                                   |                                |
| Debt service   | -                        | 191,956           | -                                 | 191,956                        |
| Special projects   | -                        | -                 | 357,662                           | 357,662                        |
| Unassigned   | 1,149,357                | -                 | -                                 | 1,149,357                      |
| <b>Total Fund Balances</b>   | <b>1,149,357</b>         | <b>191,956</b>    | <b>357,662</b>                    | <b>1,698,975</b>               |
| <b>Total Liabilities and Fund Balances</b>   | <b>\$ 1,279,854</b>      | <b>\$ 245,535</b> | <b>\$ 358,180</b>                 |                                |
| 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   |                          |                   | 516,441                           | 556,240                        |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.    |                          |                   |                                   |                                |
|  |                          |                   |                                   | 103,370                        |
| Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.                                      |                          |                   |                                   |                                |
| Accrued interest payable   |                          |                   | (10,697)                          |                                |
| Non-current liabilities due in one year  |                          |                   | (297,262)                         |                                |
| Non-current liabilities due in more than one year  |                          |                   | (1,308,272)                       |                                |
| <b>Net Assets of Governmental Activities</b>   |                          |                   |                                   | <b>(1,616,231)</b>             |
|  |                          |                   |                                   | <b>\$ 742,354</b>              |

See Notes to Financial Statements.

# CITY OF WALLER, TEXAS

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

For the Year Ended September 30, 2012

|  | Major Governmental Funds |                   | Nonmajor<br>Governmental<br>Fund | Total<br>Governmental<br>Funds |
|--|--------------------------|-------------------|----------------------------------|--------------------------------|
|  | General                  | Debt<br>Service   |                                  |                                |
| <b>Revenues</b>  |                          |                   |                                  |                                |
| Property taxes   | \$ 457,959               | \$ 268,805        | \$ -                             | \$ 726,764                     |
| Sales tax  | 856,838                  | -                 | -                                | 856,838                        |
| Franchise and local taxes  | 124,527                  | -                 | 55,011                           | 179,538                        |
| Licenses and permits   | 42,133                   | -                 | -                                | 42,133                         |
| Fines and forfeitures  | 136,381                  | -                 | 8,981                            | 145,362                        |
| Charges for services   | 488,142                  | -                 | -                                | 488,142                        |
| Intergovernmental  | -                        | -                 | 161,672                          | 161,672                        |
| Investment income  | 9,444                    | 1,464             | -                                | 10,908                         |
| Other revenue  | 15,387                   | -                 | 38,875                           | 54,262                         |
| <b>Total Revenues</b>  | <b>2,130,811</b>         | <b>270,269</b>    | <b>264,539</b>                   | <b>2,665,619</b>               |
| <b>Expenditures</b>  |                          |                   |                                  |                                |
| <b>Current:</b>  |                          |                   |                                  |                                |
| General government   | 422,319                  | -                 | -                                | 422,319                        |
| Public safety  | 1,095,254                | -                 | -                                | 1,095,254                      |
| Code enforcement   | 116,685                  | -                 | -                                | 116,685                        |
| Public works   | 794,568                  | -                 | 223,341                          | 1,017,909                      |
| Culture and recreation   | 53,368                   | -                 | 225,741                          | 279,109                        |
| <b>Debt Service:</b>   |                          |                   |                                  |                                |
| Principal  | 85,509                   | 180,000           | -                                | 265,509                        |
| Interest and fiscal charges  | 2,481                    | 75,645            | -                                | 78,126                         |
| <b>Total Expenditures</b>  | <b>2,570,184</b>         | <b>255,645</b>    | <b>449,082</b>                   | <b>3,274,911</b>               |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>(439,373)</b>         | <b>14,624</b>     | <b>(184,543)</b>                 | <b>(609,292)</b>               |
| <b>Other Financing Sources</b>                                       |                          |                   |                                  |                                |
| Transfers in   | 250,565                  | -                 | -                                | 250,565                        |
| Debt issued  | 227,455                  | -                 | -                                | 227,455                        |
| <b>Total Other Financing Sources</b>                                 | <b>478,020</b>           | <b>-</b>          | <b>-</b>                         | <b>478,020</b>                 |
| <b>Net Change in Fund Balances</b>                                   | <b>38,647</b>            | <b>14,624</b>     | <b>(184,543)</b>                 | <b>(131,272)</b>               |
| Beginning fund balances  | 1,110,710                | 177,332           | 542,205                          | 1,830,247                      |
| <b>Ending Fund Balances</b>  | <b>\$ 1,149,357</b>      | <b>\$ 191,956</b> | <b>\$ 357,662</b>                | <b>\$ 1,698,975</b>            |

See Notes to Financial Statements.

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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, 2012**

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

|   |    |           |
|---|----|-----------|
| Net changes in fund balances - total governmental funds | \$ | (131,272) |
|---|----|-----------|

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       |  | 409,550  |
| Depreciation expense |  | (64,608) |

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

|                  |  |         |
|------------------|--|---------|
| Deferred revenue |  | (5,006) |
|------------------|--|---------|

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.

|                                |  |           |
|--------------------------------|--|-----------|
| Capital leases issued          |  | (227,455) |
| Change in compensated absences |  | 21,839    |
| Principal expenditures         |  | 265,509   |

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 |  | 1,479 |
|------------------|--|-------|

|  |           |                |
|--|-----------|----------------|
|  | <b>\$</b> | <b>270,036</b> |
|--|-----------|----------------|

See Notes to Financial Statements.

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# CITY OF WALLER, TEXAS

## STATEMENT OF NET ASSETS

### PROPRIETARY FUNDS

September 30, 2012

|   | Gas        | Water and<br>Sewer | Total        |
|---|------------|--------------------|--------------|
| <b><u>Assets</u></b>                            |            |                    |              |
| <b>Current assets</b>                           |            |                    |              |
| Cash and cash equivalents                       | \$ 776,235 | \$ 444,613         | \$ 1,220,848 |
| Receivables, net                                | 3,516      | 30,848             | 34,364       |
| Inventory                                       | 37,460     | 64,569             | 102,029      |
| <b>Total Current Assets</b>                     | 817,211    | 540,030            | 1,357,241    |
| <b>Noncurrent assets</b>                        |            |                    |              |
| Capital assets:                                 |            |                    |              |
| Non-depreciable                                 | -          | 87,624             | 87,624       |
| Net depreciable capital assets                  | 210,035    | 3,626,319          | 3,836,354    |
| <b>Total Noncurrent Assets</b>                  | 210,035    | 3,713,943          | 3,923,978    |
| <b>Total Assets</b>                             | 1,027,246  | 4,253,973          | 5,281,219    |
| <b><u>Liabilities</u></b>                       |            |                    |              |
| <b>Current liabilities</b>                      |            |                    |              |
| Accounts payable and accrued liabilities        | 18,819     | 19,889             | 38,708       |
| Customer deposits                               | 22,835     | 56,515             | 79,350       |
| <b>Total Current Liabilities</b>                | 41,654     | 76,404             | 118,058      |
| <b>Noncurrent liabilities</b>                   |            |                    |              |
| Due within one year                             | 9,290      | 129,931            | 139,221      |
| Due in more than one year                       | 8,755      | 255,617            | 264,372      |
| <b>Total Noncurrent Liabilities</b>             | 18,045     | 385,548            | 403,593      |
| <b>Total Liabilities</b>                        | 59,699     | 461,952            | 521,651      |
| <b><u>Net Assets</u></b>                        |            |                    |              |
| Invested in capital assets, net of related debt | 210,035    | 3,323,971          | 3,534,006    |
| Unrestricted                                    | 757,512    | 468,050            | 1,225,562    |
| <b>Total Net Assets</b>                         | \$ 967,547 | \$ 3,792,021       | \$ 4,759,568 |

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, 2012

|  | Gas        | Water and<br>Sewer | Total        |
|--|------------|--------------------|--------------|
| <b><u>Operating Revenues</u></b>               |            |                    |              |
| Charges for services                           | \$ 440,483 | \$ 766,652         | \$ 1,207,135 |
| Other revenue                                  | -          | 19,905             | 19,905       |
| <b>Total Operating Revenues</b>                | 440,483    | 786,557            | 1,227,040    |
| <b><u>Operating Expenses</u></b>               |            |                    |              |
| Costs of sales and services                    | 339,212    | 679,293            | 1,018,505    |
| Depreciation                                   | 12,080     | 204,104            | 216,184      |
| <b>Total Operating Expenses</b>                | 351,292    | 883,397            | 1,234,689    |
| <b>Operating Income</b>                        | 89,191     | (96,840)           | (7,649)      |
| <b><u>Nonoperating Revenues (Expenses)</u></b> |            |                    |              |
| Investment income                              | 945        | 553                | 1,498        |
| Interest expense                               | (98)       | (14,894)           | (14,992)     |
| <b>Total Nonoperating Revenues (Expenses)</b>  | 847        | (14,341)           | (13,494)     |
| <b>Income Before Transfers</b>                 | 90,038     | (111,181)          | (21,143)     |
| Capital contributions                          | -          | 223,341            | 223,341      |
| Transfers                                      | (125,283)  | (125,282)          | (250,565)    |
| <b>Change in Net Assets</b>                    | (35,245)   | (13,122)           | (48,367)     |
| Beginning net assets                           | 1,002,792  | 3,805,143          | 4,807,935    |
| <b>Ending Net Assets</b>                       | \$ 967,547 | \$ 3,792,021       | \$ 4,759,568 |

See Notes to Financial Statements.

# CITY OF WALLER, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

For the Year Ended September 30, 2012

|   | Gas        | Water and<br>Sewer | Total        |
|---|------------|--------------------|--------------|
| <b><u>Cash Flows from Operating Activities</u></b>  |            |                    |              |
| Receipts from customers   | \$ 454,210 | \$ 820,543         | \$ 1,274,753 |
| Payments to suppliers and employees   | (345,884)  | (666,064)          | (1,011,948)  |
| <b>Net Cash Provided by Operating Activities</b>  | 108,326    | 154,479            | 262,805      |
| <b><u>Cash Flows from Noncapital Financing Activities</u></b>   |            |                    |              |
| Transfers   | (125,283)  | (125,282)          | (250,565)    |
| <b>Net Cash (Used) by Noncapital Financing Activities</b>   | (125,283)  | (125,282)          | (250,565)    |
| <b><u>Cash Flows from Capital and Related Financing Activities</u></b>                                |            |                    |              |
| Acquisition and construction of capital assets  | -          | (84,400)           | (84,400)     |
| Interest expense  | (98)       | (14,894)           | (14,992)     |
| Principal payments  | (9,116)    | (118,182)          | (127,298)    |
| <b>Net Cash (Used) by Capital<br/>and Related Financing Activities</b>                                | (9,214)    | (217,476)          | (226,690)    |
| <b><u>Cash Flows from Investing Activities</u></b>  |            |                    |              |
| Interest on investments   | 945        | 553                | 1,498        |
| <b>Net Cash Provided by Investing Activities</b>  | 945        | 553                | 1,498        |
| <b>Net (Decrease) in Cash and Cash Equivalents</b>  | (25,226)   | (187,726)          | (212,952)    |
| Beginning cash and cash equivalents   | 801,461    | 632,339            | 1,433,800    |
| <b>Ending Cash and Cash Equivalents</b>   | \$ 776,235 | \$ 444,613         | \$ 1,220,848 |
| <br><b>Reconciliation of Operating Income (Loss)<br/>to Net Cash Provided by Operating Activities</b> |            |                    |              |
| Operating income  | \$ 89,191  | \$ (96,840)        | \$ (7,649)   |
| Adjustments to reconcile operating<br>income to net cash provided<br>by operating activities:         |            |                    |              |
| Depreciation  | 12,080     | 204,104            | 216,184      |
| <b>Changes in Operating Assets and Liabilities:</b>   |            |                    |              |
| <b>(Increase) Decrease in:</b>  |            |                    |              |
| Accounts receivable   | 13,727     | 33,986             | 47,713       |
| Inventories   | (7,596)    | (1,055)            | (8,651)      |
| <b>Increase (Decrease) in:</b>  |            |                    |              |
| Accounts payable and accrued liabilities  | (2,673)    | 13,512             | 10,839       |
| Compensated absences  | (649)      | (116)              | (765)        |
| Customer deposits   | 4,246      | 888                | 5,134        |
| <b>Net Cash Provided by Operating Activities</b>  | \$ 108,326 | \$ 154,479         | \$ 262,805   |
| <br><b>Noncash Investing, Capital, and Financing Activities:</b>                                      |            |                    |              |
| Contributions of capital assets   | \$ -       | \$ 223,341         | \$ 223,341   |

See Notes to Financial Statements.

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# **CITY OF WALLER, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS**

For the Year Ended September 30, 2012

### **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, 2012**

**B. 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.

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, 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 major fund for reporting purposes.



**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**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 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 (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.

**C. 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

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2012**

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.

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.

**D. 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.

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2012**

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.

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 is 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. 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.

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**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. 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 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, 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.

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2012**

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**

Fund balances of governmental funds are classified as follows:

*Nonspendable fund balance* – represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

*Restricted fund balance* – represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

*Committed fund balance* – represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

*Assigned fund balance* – represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Assignments can be made at any time.

*Unassigned fund balance* – represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed, then assigned funds, and, finally, unassigned funds.

The City Council is the government's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**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.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with 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.

**A. Expenditures in Excess of Appropriations**

|                    |           |
|--------------------|-----------|
| General Fund       |           |
| General government | \$ 8,344  |
| Public safety      | \$ 40,376 |
| Public works       | \$136,047 |
| Debt service       | \$ 16,596 |

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2012, the City had the following investments:

| <u>Investment Type</u>              | <u>Fair Value</u>   | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|---------------------|--|
| Certificates of deposit             | \$ 130,041          | 0.10                                     |
| External investment pools           | 1,147,859           | 0.00                                     |
| Total fair value                    | <u>\$ 1,277,900</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 \$1,147,859 in TexPool at year end.

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

*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, 2012, market values of pledged securities and FDIC insurance exceeded bank balances.

**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 | \$ 49,790         | \$ 53,579           | \$ -            | \$ -               |
| Sales taxes    | 147,670           | -                   | -               | -                  |
| Accounts       | -                 | -                   | 11,686          | 73,390             |
| Franchise      | 15,311            | -                   | -               | -                  |
| Allowance      | -                 | -                   | (8,170)         | (42,542)           |
|                | <u>\$ 212,771</u> | <u>\$ 53,579</u>    | <u>\$ 3,516</u> | <u>\$ 30,848</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>                                     |                    |
| <b>Governmental Activities:</b>                   |                           |                   |  |                    |
| Capital assets not being depreciated:             |                           |                   |  |                    |
| Land  | \$ 39,799                 | \$ -              | \$ -   | \$ 39,799          |
| <b>Total capital assets not being depreciated</b> | <u>39,799</u>             | <u>-</u>          | <u>-</u>   | <u>39,799</u>      |
| Other capital assets:                             |                           |                   |  |                    |
| Infrastructure                                    | 1,507,395                 | -                 | -  | 1,507,395          |
| Buildings   | 295,386                   | 83,589            | -  | 378,975            |
| Vehicles  | 293,076                   | 225,575           | -  | 518,651            |
| Equipment   | 241,868                   | 100,386           | -  | 342,254            |
| <b>Total other capital assets</b>                 | <u>2,337,725</u>          | <u>409,550</u>    | <u>-</u>   | <u>2,747,275</u>   |
| Less accumulated depreciation for:                |                           |                   |  |                    |
| Infrastructure                                    | (1,507,395)               | -                 | -  | (1,507,395)        |
| Buildings   | (234,286)                 | (4,956)           | -  | (239,242)          |
| Vehicles  | (193,692)                 | (46,448)          | -  | (240,140)          |
| Equipment   | (230,853)                 | (13,204)          | -  | (244,057)          |
| <b>Total accumulated depreciation</b>             | <u>(2,166,226)</u>        | <u>(64,608)</u>   | <u>-</u>   | <u>(2,230,834)</u> |
| Other capital assets, net                         | 171,499                   | 344,942           | -  | 516,441            |
| <b>Totals</b>                                     | <u>\$ 211,298</u>         | <u>\$ 344,942</u> | <u>\$ -</u>  | <u>556,240</u>     |
|   |                           |                   | Less associated debt                                   | (173,063)          |
|   |                           |                   | <b>Invested in capital assets, net of related debt</b> | <u>\$ 383,177</u>  |

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

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>64,608</u> |
|--------------------|------------------|

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

|   | Beginning<br>Balance | Increases        | (Decreases)  | Ending<br>Balance   |
|---|----------------------|------------------|--|---------------------|
| <b>Business-Type Activities:</b>                  |                      |                  |  |                     |
| Capital assets not being depreciated:             |                      |                  |  |                     |
| Land  | \$ 87,624            | \$ -             | \$ -   | \$ 87,624           |
| <b>Total capital assets not being depreciated</b> | <b>87,624</b>        | <b>-</b>         | <b>-</b>   | <b>87,624</b>       |
| Other capital assets:                             |                      |                  |  |                     |
| Water/sewer system                                | 5,370,780            | 307,740          | -  | 5,678,520           |
| Gas system  | 502,372              | -                | -  | 502,372             |
| Equipment   | 626,175              | -                | -  | 626,175             |
| <b>Total other capital assets</b>                 | <b>6,499,327</b>     | <b>307,740</b>   | <b>-</b>   | <b>6,807,067</b>    |
| Less accumulated depreciation for:                |                      |                  |  |                     |
| Water/sewer system                                | (2,083,803)          | (133,704)        | -  | (2,217,507)         |
| Gas system  | (419,761)            | (12,080)         | -  | (431,841)           |
| Equipment   | (250,965)            | (70,400)         | -  | (321,365)           |
| <b>Total accumulated depreciation</b>             | <b>(2,754,529)</b>   | <b>(216,184)</b> | <b>-</b>   | <b>(2,970,713)</b>  |
| Other capital assets, net                         | 3,744,798            | 91,556           | -  | 3,836,354           |
| <b>Totals</b>                                     | <b>\$ 3,832,422</b>  | <b>\$ 91,556</b> | <b>\$ -</b>  | <b>3,923,978</b>    |
|   |                      |                  | Less associated debt                                   | (389,972)           |
|   |                      |                  | <b>Invested in capital assets, net of related debt</b> | <b>\$ 3,534,006</b> |

Depreciation was charged to business-type functions as follows:

|  |                   |
|--|-------------------|
| Gas  | \$ 12,080         |
| Water/Sewer  | 204,104           |
| <b>Total Business-Type Activities Depreciation Expense</b> | <b>\$ 216,184</b> |

**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, 2012

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.

|                                       | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Amounts<br/>Due Within<br/>One Year</u> |
|---------------------------------------|------------------------------|-------------------|-------------------|---------------------------|--|
| <b>Governmental Activities:</b>       |                              |                   |                   |                           |  |
| Bonds, notes and other payables:      |                              |                   |                   |                           |  |
| General obligation bonds              | \$ 1,250,000                 | \$ -              | \$ 30,000         | \$ 1,220,000              | \$ 40,000                                  |
| Certificates of obligation            | 300,000                      | -                 | 150,000           | 150,000                   | 150,000                                    |
| Obligations under capital leases      | 31,117                       | 227,455           | 85,509            | 173,063 *                 | 51,038                                     |
| Other liabilities:                    |                              |                   |                   |                           |  |
| Compensated absences                  | 84,310                       | 43,778            | 65,617            | 62,471                    | 56,224                                     |
| <b>Total Governmental Activities</b>  | <u>\$ 1,665,427</u>          | <u>\$ 271,233</u> | <u>\$ 331,126</u> | <u>\$ 1,605,534</u>       | <u>\$ 297,262</u>                          |
|                                       |                              |                   |                   | <u>\$ 1,308,272</u>       |  |
|                                       |                              |                   |                   | <u>\$ 173,063</u>         |  |
| <b>Business-Type Activities:</b>      |                              |                   |                   |                           |  |
| Obligations under capital leases      | \$ 517,270                   | \$ -              | \$ 127,298        | \$ 389,972 **             | \$ 126,962                                 |
| Compensated absences                  | 14,386                       | 11,440            | 12,205            | 13,621                    | 12,259                                     |
| <b>Total Business-Type Activities</b> | <u>\$ 531,656</u>            | <u>\$ 11,440</u>  | <u>\$ 139,503</u> | <u>\$ 403,593</u>         | <u>\$ 139,221</u>                          |
|                                       |                              |                   |                   | <u>264,372</u>            |  |
|                                       |                              |                   |                   | <u>\$ 389,972</u>         |  |

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

| <u>Description</u>                                | <u>Interest<br/>Rates</u> | <u>Balance</u>      |
|---|---------------------------|---------------------|
| <b>Governmental Activities</b>                    |                           |                     |
| <b>General Obligation Bonds</b>                   |                           |                     |
| Permanent Improvement Bonds, Series 2004          | 4.10-5.00%                | \$ 1,220,000        |
| <b>Certificates of Obligation</b>                 |                           |                     |
| Certificates of Obligation, Series 1998           | 5.375%                    | 150,000             |
| <b>Total Bonds and Certificates of Obligation</b> |                           | <u>1,370,000</u>    |
| <b>Capital Leases</b>                             |                           |                     |
| 2011 John Deere Tractor/Mower                     | 2.990%                    | 79,498              |
| 2011 Ford F750 Dump Truck                         | 2.990%                    | 55,371              |
| 2012 Chevrolet Tahoes (2)                         | 2.990%                    | 38,194              |
| <b>Total Capital Leases</b>                       |                           | <u>173,063</u>      |
| <b>Total General Long-Term Debt</b>               |                           | <u>\$ 1,543,063</u> |
| <b>Business-Type Activities</b>                   |                           |                     |
| <b>Capital Leases</b>                             |                           |                     |
| Water Storage Tank                                | 4.000%                    | \$ 153,221          |
| WISD-GST  | 5.000%                    | 120,039             |
| ARS   | 2.990%                    | 116,712             |
| <b>Total General Long-Term Debt</b>               |                           | <u>\$ 389,972</u>   |

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

Equipment acquired under current capital lease obligations was a total of \$540,607 net of accumulated depreciation of \$184,582 in business-type activities and \$349,117 net of accumulated depreciation of \$162,301 in governmental activities.

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

| Year<br>Ending<br>Sept. 30 | Long-Term Debt             |                 |                          |                   |
|----------------------------|----------------------------|-----------------|--------------------------|-------------------|
|                            | Certificates of Obligation |                 | General Obligation Bonds |                   |
|                            | Principal                  | Interest        | Principal                | Interest          |
| 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            |
| 2018-2022                  | -                          | -               | 520,000                  | 100,560           |
| 2023                       | -                          | -               | 100,000                  | 5,000             |
| <b>Total</b>               | <b>\$ 150,000</b>          | <b>\$ 8,062</b> | <b>\$ 1,220,000</b>      | <b>\$ 346,640</b> |

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

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

| Year<br>Ending<br>Sept. 30 | Capital Leases          |                  |                          |                  |
|----------------------------|-------------------------|------------------|--------------------------|------------------|
|                            | Governmental Activities |                  | Business-Type Activities |                  |
|                            | Principal               | Interest         | Principal                | Interest         |
| 2013                       | \$ 51,038               | \$ 5,219         | \$ 126,962               | \$ 15,268        |
| 2014                       | 52,583                  | 3,674            | 131,790                  | 10,441           |
| 2015                       | 34,206                  | 2,093            | 75,770                   | 5,433            |
| 2016                       | 35,236                  | 1,062            | 55,450                   | 2,077            |
| <b>Total</b>               | <b>\$ 173,063</b>       | <b>\$ 12,048</b> | <b>\$ 389,972</b>        | <b>\$ 33,219</b> |

**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<br>September 30, | Amount            |
|------------------------------|-------------------|
| 2013                         | \$ 50,400         |
| 2014                         | 50,400            |
| 2015                         | 50,400            |
| 2016                         | 12,600            |
| <b>Total</b>                 | <b>\$ 163,800</b> |

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

Rent expenditures were \$47,898 for the year ended September 30, 2012.

**F. Interfund Transactions**

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

| <b>Transfer Out</b>  | <b>Transfer In</b> | <b>Amounts</b> |
|----------------------|--------------------|----------------|
| Water and Sewer Fund | General Fund       | \$ 125,282     |
| Gas Fund             | General Fund       | 125,283        |
|                      |                    | \$ 250,565     |

**G. Fund Equity**

As of September 30, 2012, \$55,011 of the City’s total fund balance is restricted by enabling legislation.

**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), 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 the System. 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’s website at [www.TMRS.com](http://www.TMRS.com).

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

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>2012</u>                  | <u>2011</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<br>(expressed as ages/yrs of service) | 60/5, 0/25                   | 60/5, 0/25                   |
| Updated service credit  | 100% Repeating,<br>Transfers | 100% Repeating,<br>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, 2011 valuation is effective for rates beginning January 2013).

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, 2012

|                            | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|----------------------------|-------------|-------------|-------------|
| Annual req. contrib. (ARC) | \$ 53,914   | \$ 77,538   | \$ 64,965   |
| Contributions made         | 53,914      | 77,538      | 64,965      |
| NPO at the end of period   | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

|                               | <u>2012</u>               | <u>2011</u>               | <u>2010</u>               |
|-------------------------------|---------------------------|---------------------------|---------------------------|
| Actuarial valuation date      | 12/31/2011                | 12/31/2010                | 12/31/2009                |
| 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 | 24.5 Years - Closed       | 23.7 Years - Closed       | 23.4 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%                      | 7.5%                      |
| 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, 2011, the most recent actuarial valuation date, is presented as follows:

|   | <u>2012</u>  |
|---|--------------|
| Actuarial valuation date                    | 12/31/2011   |
| Actuarial value of assets                   | \$ 2,249,343 |
| Actuarial accrued liability                 | \$ 2,194,830 |
| Percentage funded                           | 102.5 %      |
| Unfunded actuarial accrued liability (UAAL) | \$ (54,513)  |
| Annual covered payroll                      | \$ 1,072,445 |
| UAAL as a percentage of covered payroll     | (5.1) %      |

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 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 benefits.

**CITY OF WALLER, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2012

**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, 2012, 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 2012, 2011, and 2010 were \$656, \$657, and \$526, respectively. The City's contribution rates for the retiree portion, for the years ended September 30, 2012, 2011, and 2010 are shown below.

|                             | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|-----------------------------|-------------|-------------|-------------|
| Annual req. contrib. (rate) | 0.05%       | 0.06%       | 0.06%       |
| Actual contribution made    | 0.05%       | 0.06%       | 0.06%       |
| Percentage of ARC contrib.  | 100.00%     | 100.00%     | 100.00%     |

**D. Subsequent Event**

On November 19, 2012, the City Council authorized the issuance of general obligation bonds, series 2012. The bonds will be issued in the amount of \$2,535,000 and the proceeds will be used to fund street, drainage, and water well projects.

***REQUIRED SUPPLEMENTARY INFORMATION***

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

For the Year Ended September 30, 2012

|  | Original<br>Budget  | Final<br>Budget   | Actual              | Variance<br>with Final<br>Budget<br>Positive<br>(Negative) |
|--|---------------------|-------------------|---------------------|--|
| <b>Revenues</b>                          |                     |                   |                     |  |
| Property taxes                           | \$ 452,435          | \$ 457,959        | \$ 457,959          | \$ -   |
| Sales tax                                | 795,000             | 854,095           | 856,838             | 2,743  |
| Franchise and other taxes                | 115,200             | 124,527           | 124,527             | -  |
| Licenses and permits                     | 58,900              | 42,133            | 42,133              | -  |
| Fines and forfeitures                    | 101,575             | 136,380           | 136,381             | 1  |
| Charges for services                     | 494,250             | 488,142           | 488,142             | -  |
| Investment income                        | 500                 | 209               | 9,444               | 9,235  |
| Other revenue                            | 75,802              | 15,360            | 15,387              | 27   |
| <b>Total Revenues</b>                    | <u>2,093,662</u>    | <u>2,118,805</u>  | <u>2,130,811</u>    | <u>12,006</u>  |
| <b>Expenditures</b>                      |                     |                   |                     |  |
| <b>Current:</b>                          |                     |                   |                     |  |
| General government                       | 450,484             | 413,975           | 422,319             | (8,344) *  |
| Public safety                            | 1,012,318           | 1,054,878         | 1,095,254           | (40,376) *   |
| Code enforcement                         | 141,030             | 125,464           | 116,685             | 8,779  |
| Public works                             | 770,761             | 658,521           | 794,568             | (136,047) *  |
| Culture and recreation                   | 48,240              | 53,368            | 53,368              | -  |
| <b>Debt Service:</b>                     |                     |                   |                     |  |
| Principal                                | 68,913              | 68,913            | 85,509              | (16,596) *   |
| Interest and fiscal charges              | 2,481               | 2,481             | 2,481               | -  |
| <b>Total Expenditures</b>                | <u>2,494,227</u>    | <u>2,377,600</u>  | <u>2,570,184</u>    | <u>(192,584)</u>   |
| <b>Other Financing Sources</b>           |                     |                   |                     |  |
| Transfers in                             | 250,565             | 250,565           | 250,565             | -  |
| Debt issued                              | -                   | -                 | 227,455             | 227,455  |
| <b>Total Other<br/>Financing Sources</b> | <u>250,565</u>      | <u>250,565</u>    | <u>478,020</u>      | <u>227,455</u>   |
| <b>Change in Fund Balance</b>            | <u>\$ (150,000)</u> | <u>\$ (8,230)</u> | \$ 38,647           | <u>\$ 46,877</u>   |
| Beginning fund balance                   |                     |                   | <u>1,110,710</u>    |  |
| <b>Ending Fund Balance</b>               |                     |                   | <u>\$ 1,149,357</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**

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.

| <b>Fiscal Year</b>                   | <u><b>2012</b></u> | <u><b>2011</b></u> | <u><b>2010</b></u> |
|--------------------------------------|--------------------|--------------------|--------------------|
| Actuarial valuation date             | 12/31/2011         | 12/31/2010         | 12/31/2009         |
| Actuarial value of assets            | \$ 2,249,343       | \$ 2,037,066       | \$ 1,332,927       |
| Actuarial accrued liability          | \$ 2,194,830       | \$ 2,045,899       | \$ 1,580,182       |
| Percentage funded                    | 102.5%             | 99.6%              | 84.4%              |
| Unfunded actuarial                   |                    |                    |                    |
| Accrued liability                    | \$ (54,513)        | \$ 8,833           | \$ 247,255         |
| Annual covered payroll               | \$ 1,072,445       | \$ 1,006,846       | \$ 877,484         |
| Unfunded actuarial accrued liability |                    |                    |                    |
| (UAAL) % of covered payroll          | (5.1) %            | 0.9 %              | 28.2 %             |
| Net pension obligation (NPO)         |                    |                    |                    |
| at the beginning of period           | \$ -               | \$ -               | \$ -               |
| Annual req. contrib. (ARC)           | 53,914             | 77,538             | 64,965             |
| Contributions made                   | 53,914             | 77,538             | 64,965             |
| <b>NPO at the End of Period</b>      | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

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***COMBINING STATEMENTS AND 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, 2012

|                               | 2012                            |                                 |            |  |
|-------------------------------|---------------------------------|---------------------------------|------------|--|
|                               | Original<br>Budgeted<br>Amounts | Original<br>and Final<br>Budget | Actual     | Variance<br>with Final<br>Budget<br>Positive<br>(Negative) |
| <b><u>Revenues</u></b>        |                                 |                                 |            |  |
| Property taxes                | \$ 267,674                      | \$ 268,805                      | \$ 268,805 | \$ -   |
| Investment income             | 2,000                           | 1,463                           | 1,464      | 1  |
| <b>Total Revenues</b>         | 269,674                         | 270,268                         | 270,269    | 1  |
| <b><u>Expenditures</u></b>    |                                 |                                 |            |  |
| Principal                     | 180,000                         | 180,000                         | 180,000    | -  |
| Interest and fiscal charges   | 75,683                          | 75,645                          | 75,645     | -  |
| <b>Total Expenditures</b>     | 255,683                         | 255,645                         | 255,645    | -  |
| <b>Change in Fund Balance</b> | \$ 13,991                       | \$ 14,623                       | 14,624     | \$ 1   |
| Beginning fund balance        |                                 |                                 | 177,332    |  |
| <b>Ending Fund Balance</b>    |                                 |                                 | \$ 191,956 |  |

# CITY OF WALLER, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

|  | <u>Capital<br/>Projects</u> | <u>Special<br/>Revenue</u> | <u>Total</u>      |
|--|-----------------------------|----------------------------|-------------------|
| <b><u>Assets</u></b>                       |                             |                            |                   |
| Cash and cash equivalents                  | \$ 190,172                  | \$ 168,008                 | \$ 358,180        |
| <b>Total Assets</b>                        | <b>\$ 190,172</b>           | <b>\$ 168,008</b>          | <b>\$ 358,180</b> |
| <b><u>Liabilities</u></b>                  |                             |                            |                   |
| Accounts payable                           | \$ -                        | \$ 518                     | \$ 518            |
| <b>Total Liabilities</b>                   | <b>-</b>                    | <b>518</b>                 | <b>518</b>        |
| <b><u>Fund Balances</u></b>                |                             |                            |                   |
| Restricted for special projects            | 190,172                     | 167,490                    | 357,662           |
| <b>Total Fund Balances</b>                 | <b>190,172</b>              | <b>167,490</b>             | <b>357,662</b>    |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 190,172</b>           | <b>\$ 168,008</b>          | <b>\$ 358,180</b> |



**CITY OF WALLER, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2012

|  | <u>Capital<br/>Projects</u> | <u>Special<br/>Revenue</u> | <u>Total</u>      |
|--|-----------------------------|----------------------------|-------------------|
| <b><u>Revenues</u></b>   |                             |                            |                   |
| Franchise and local taxes  | \$ -                        | \$ 55,011                  | \$ 55,011         |
| Fines and forfeitures  | -                           | 8,981                      | 8,981             |
| Intergovernmental  | -                           | 161,672                    | 161,672           |
| Other revenue  | 3,726                       | 35,149                     | 38,875            |
| <b>Total Revenues</b>  | <u>3,726</u>                | <u>260,813</u>             | <u>264,539</u>    |
| <b><u>Expenditures</u></b>   |                             |                            |                   |
| Public works   | 223,341                     | -                          | 223,341           |
| Culture and recreation   | -                           | 225,741                    | 225,741           |
| <b>Total Expenditures</b>  | <u>223,341</u>              | <u>225,741</u>             | <u>449,082</u>    |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>(219,615)</u>            | <u>35,072</u>              | <u>(184,543)</u>  |
| <b>Net Change in Fund Balances</b>                                   | <u>(219,615)</u>            | <u>35,072</u>              | <u>(184,543)</u>  |
| Beginning fund balances  | <u>409,787</u>              | <u>132,418</u>             | <u>542,205</u>    |
| <b>Ending Fund Balances</b>  | <u>\$ 190,172</u>           | <u>\$ 167,490</u>          | <u>\$ 357,662</u> |

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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, 2012

| 2012                          |                                 |                 |            |  |
|-------------------------------|---------------------------------|-----------------|------------|--|
|                               | Original<br>Budgeted<br>Amounts | Final<br>Budget | Actual     | Variance<br>with Final<br>Budget<br>Positive<br>(Negative) |
| <b>Revenues</b>               |                                 |                 |            |  |
| Franchise and local taxes     | \$ 48,800                       | \$ 55,011       | \$ 55,011  | \$ -   |
| Fines and forfeitures         | 8,175                           | 8,981           | 8,981      | -  |
| Intergovernmental             | 430,722                         | 161,673         | 161,672    | (1)  |
| Other revenue                 | 1,000                           | 35,151          | 35,149     | (2)  |
| <b>Total Revenues</b>         | 488,697                         | 260,816         | 260,813    | (3)  |
| <b>Expenditures</b>           |                                 |                 |            |  |
| Culture and recreation        | 438,714                         | 225,741         | 225,741    | -  |
| <b>Total Expenditures</b>     | 438,714                         | 225,741         | 225,741    | -  |
| <b>Change in Fund Balance</b> | \$ 49,983                       | \$ 35,075       | 35,072     | \$ (3)   |
| Beginning fund balance        |                                 |                 | 132,418    |  |
| <b>Ending Fund Balance</b>    |                                 |                 | \$ 167,490 |  |

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