ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended September 30, 2008



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Waller, Texas (the "City"), as of September 30, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis on pages 5 through 12, budgetary comparison information on page 45, and pension information on page 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bell Harris & Associates, LLLP

Belt Harris & Associates, LLLP Certified Public Accountants Houston, Texas April 29, 2009





MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
September 30, 2008

The purpose of the Managements' 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, 2008. 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 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.

Components of the Financial Section Management's Basic Financial Required Discussion and Statements Supplementary Analysis Information Independent Notes to the Government-Fund Financial Component Unit Auditors' Report Financial Statements Wide Financial Financial Statements Statements Statements Summary Detail

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 a 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2008

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into two classes of activities:

- 1. Governmental Activities Most of the City's basic services are reported here, including general government. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
- 2. Business-Type Activities Services involving a fee for those services. These services, the City's gas, water, and sewer are reported here.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation being the City of Waller. 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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2008

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

Proprietary Funds

The City maintains one type of proprietary fund, enterprise funds, to account for all "business like" activities. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the respective enterprise funds.

Notes to Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. Assets exceeded liabilities by \$4,027,161 at year end.

A large portion of the City's net assets, 37%, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2008

SUMMARY STATEMENT OF NET ASSETS

nn / 1

										Total					
		Gover	amen	tal		Busine	ss-T	ype	Primary						
		Acti	vities			Acti	vitie	5	Government						
		2008	·	2007		2008		2007		2008		2007			
Current and other assets	\$	1,487,298	\$	1,022,944	\$	1,320,499	\$	1,248,858	\$	2,807,797	\$	2,271,802			
Capital assets, net		319,171		655,529		3,530,256		3,840,490		3,849,427		4,496,019			
Total Assets		1,806,469		1,678,473		4,850,755		5,089,348		6,657,224		6,767,821			
Long-term liabilities		2,134,997		2,444,814		218,796		240,617		2,353,793		2,685,431			
Other liabilities		145,990		61,958		130,280		124,870		276,270		186,828			
Total Liabilities		2,280,987		2,506,772		349,076		365,487		2,630,063		2,872,259			
Net Assets:															
Invested in capital assets,															
net of related debt		(1,815,826)		(1,960,319)		3,311,459		3,558,042		1,495,633		1,597,723			
Restricted		191,259		179,732		_		-		191,259		179,732			
Unrestricted		1,150,049		952,288		1,190,220		1,165,819		2,340,269		2,118,107			
Total Net Assets	\$	(474,518)	\$	(828,299)	\$	4,501,679	\$	4,723,861	\$	4,027,161	\$	3,895,562			

A portion of the primary government's net assets, 191,259, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$2,340,269, may be used to meet the City's ongoing obligation to citizens and creditors.

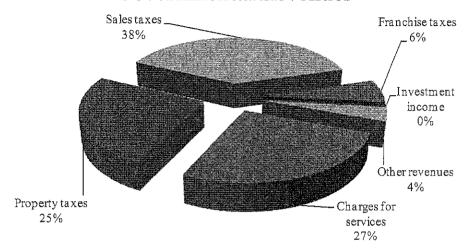
CITY OF WALLER, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued September 30, 2008

CHANGES IN NET ASSETS

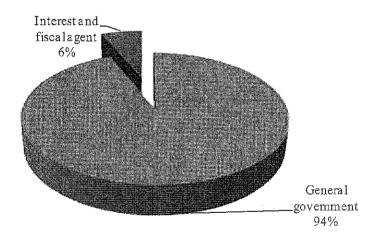
	Govern Acti	I	Busine Acti	ss-Ty	•	Total Primary Government				
	2008		2007	2008		2007	2008			2007
Revenues										
Program revenues:										
Charges for services	\$ 532,821	\$	459,532	\$ 1,348,052	\$	1,367,285	\$	1,880,873	\$	1,826,817
General revenues:										
Property taxes	499,101		419,110	-		-		499,101		419,110
Sales taxes	770,211		741,894	-		-		770,211		741,894
Franchise taxes	124,913		117,763	-		-		124,913		117,763
Investment income	619		968	8,843		6,705		9,462		7,673
Other revenues	78,062		51,423	 1,199		<u>-</u>		79,261		51,423
Total Revenues	2,005,727		1,790,690	 1,358,094		1,373,990		3,363,821		3,164,680
Expenses										
General government	1,546,920		1,409,723	**				1,546,920		1,409,723
Interest and fiscal agent										
fees on long-term debt	105,026		118,938	-		y		105,026		118,938
Gas	-		м	776,840		610,169		776,840		610,169
Water and sewer	-		-	803,436		654,886		803,436		654,886
Total Expenses	1,651,946		1,528,661	 1,580,276		1,265,055		3,232,222		2,793,716
Increase (Decrease) in Net Assets										
Before Transfers	353,781		262,029	(222,182)		108,935		131,599		370,964
Transfers	-		2,506	 -		(2,506)		_		_ .
Change in Net Assets	353,781		264,535	(222,182)		106,429		131,599		370,964
Beginning Net Assets	(828,299)	·	(1,092,834)	 4,723,861		4,617,432		3,895,562	h	3,524,598
Ending Net Assets	\$ (474,518)	\$	(828,299)	\$ 4,501,679	\$	4,723,861	\$	4,027,161	\$	3,895,562

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2008

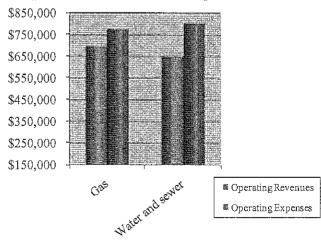
Governmental Revenues



Governmental Expenses



Business-Type Activities - Revenues and Expenses



MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2008

Governmental and Business-Type Activities

The City reported an increase in sales tax during the year due to the increased development within the City in Governmental Activities. The City also reported increases in natural gas consumption, which was passed onto to the consumer resulting in increases in revenue and expenses related to natural gas in business-type activities.

Debt related to the purchase of capital assets being recorded in the water/sewer and gas funds is being recorded as governmental activity debt rather than business-type activities debt. The result is a negative net asset balance within the governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$1,269,690. Of this, \$172,954 is designated for capital projects.

There was an increase in the combined fund balance of \$254,665 over the prior year. The increase was attributable to slightly higher revenues in every category.

The general fund reported an increase in fund balance due to the increase in all tax categories.

The debt service fund reported an increase in fund balance due to an increase in property tax revenue.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

<u>Capital Assets</u> - At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$319,171 and \$3,530,256, 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.

<u>Long-Term Debt</u> - At the end of the current year, the City had total long-term debt in governmental activities of \$2,134,997.

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'S DISCUSSION AND ANALYSIS, Continued
September 30, 2008

Management for the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the timely preparation of financial statements in conformity with generally accepted accounting principles. Thus, in future fiscal periods, it is the Mayor and Council's objective to support staff in acquiring and implementing management and financial software (for fund accounting, utility billing, municipal court, and public safety) sufficient to satisfy these requirements, and meet the customer-service demands that accompany the City's expansion.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

September 30, 2008

		P						
	Go	vernmental	Bu	siness-Type			C	mponent
		Activities		Activities		Total		Unit
Assets							,	The state of the s
Current assets:								
Cash and cash equivalents	\$	1,165,659	\$	1,244,846	\$	2,410,505	\$	951,600
Receivables (net of allowance for								
uncollectible)		287,786		40,528		328,314		46,431
Internal balances		33,853		(33,853)		-		_
Inventory		-		68,978		68,978		
		1,487,298		1,320,499		2,807,797		998,031
Capital assets:								
Non-depreciable		39,799		87,624		127,423		_
Net depreciable capital assets		279,372		3,442,632		3,722,004		
		319,171		3,530,256		3,849,427		
Total Assets	,	1,806,469		4,850,755		6,657,224		998,031
Liabilities								
Current liabilities:								
Accounts payable and								
accrued liabilities		129,958		51,429		181,387		42,844
Customer deposits		ŕ		78,851		78,851		
Accrued interest payable		16,032		-		16,032		-
• •		145,990		130,280		276,270		42,844
Noncurrent liabilities:		· · · · · · · · · · · · · · · · · · ·			-		-	
Due within one year		189,923		22,913		212,836		-
Due in more than one year		1,945,074		195,883		2,140,957		-
		2,134,997		218,796		2,353,793		_
Total Liabilities		2,280,987		349,076		2,630,063		42,844
Net Assets								
Invested in capital assets, net								
of related debt		(1,815,826)		3,311,459		1,495,633		-
Restricted for:								
Debt service		191,259		-		191,259		-
Unrestricted		1,150,049		1,190,220		2,340,269		955,187
Total Net Assets	\$	(474,518)	\$	4,501,679	\$	4,027,161	\$	955,187

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

					Program Revenues
Functions/Programs			Expenses	C	Charges for Services
Primary Government					
Governmental Activities					
General government		\$	1,546,920	\$	532,821
Interest and fees on debt			105,026		_
Total	Governmental Activities	<u> </u>	1,651,946		532,821
Business-Type Activities					
Gas			776,840		697,634
Water and Sewer			803,436		650,418
Total	Business-Type Activities		1,580,276		1,348,052
To	tal Primary Government	\$	3,232,222	\$	1,880,873
Component Unit					
Waller Economic Development Corporation		\$	105,101	\$	-

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

Net (Expense) Revenue and Changes in Net Assets

]	rima	ry Governme	nt							
G	overnmental	Bı	ısiness-Type		-	(Component				
	Activities		Activities		Total	Unit					
				•							
\$	(1,014,099)	\$	-	\$	(1,014,099)	\$	-				
	(105,026)	•	_	•	(105,026)	7	_				
	(1,119,125)		•		(1,119,125)		_				
	_		(79,206)		(79,206)		_				
	_		(153,018)		(153,018)						
			(232,224)		(232,224)						
	(1,119,125)		(232,224)		(1,351,349)						
	-		-		-		(105,101)				
				•							
	499,101		-		499,101		-				
	770,211		-		770,211		256,737				
	124,913		-		124,913		_				
	619		8,843		9,462		24,699				
	78,062		1,199		79,261		5,589				
	1,472,906		10,042		1,482,948		287,025				
	353,781		(222,182)		131,599		181,924				
	(828,299)		4,723,861		3,895,562		773,263				
\$	(474,518)	\$	4,501,679	\$	4,027,161	\$	955,187				

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2008

		Major Gover	nmer			Nonmajor	Total		
		General		Debt Service		Capital Projects	Go	vernmental Funds	
Assets									
Cash and cash equivalents	\$	877,613	\$	148,945	\$	139,101	\$	1,165,659	
Receivables, net		229,440		58,346		-		287,786	
Due from other funds		-		-		33,853		33,853	
Total Assets	\$	1,107,053	\$	207,291	\$	172,954	\$	1,487,298	
Liabilities									
Accounts payable and									
accrued liabilities	\$	129,958	\$	_	\$	_	\$	129,958	
Deferred revenue	Ψ	29,304	Ψ	58,346	Ψ	_	Ψ.	87,650	
Total Liabilities		159,262		58,346				217,608	
	<u></u>							217,000	
Fund Balances									
Reserved for:									
Debt service		_		148,945		-		148,945	
Designated for capital projects		-		_		172,954		172,954	
Unreserved and undesignated		947,791		-		w		947,791	
Total Fund Balances		947,791		148,945	, <u>.</u>	172,954		1,269,690	
Total Liabilities and Fund Balances	\$	1,107,053	\$	207,291	\$	172,954			
Adjustments for the Statement of Net Assets:									
Capital assets used in governmental activities	are no	t current financ	ial						
resources and therefore not reported in the									
Capital assets - non-depreciable	J - 1 - 1 - 1				\$	39,799			
Capital assets - net depreciable					·	279,372			
					_			319,171	
Other long-term assets are not available to par	y for c	urrent-period							
expenditures and therefore are deferred in the	he gov	ernmental fund	S.					87,650	
Some liabilities, including bonds payable, are	not re	ported as liabili	ties						
in the governmental funds.									
Accrued interest payable					\$	(16,032)			
Non-current liabilities due in one year						(189,923)			
Non-current liabilities due in more than	n one y	ear				(1,945,074)		(*	
	70.T ·						Φ.	(2,151,029)	
	Net A	Assets of Gove	rnme	ntal Activities			\$	(474,518)	

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

For the Year Ended September 30, 2008

		Major Gover:	nmen	tal Funds	Nonmajor		Total		
				Debt	Capital	G	overnmental		
		General		Service	Projects		Funds		
Revenues									
Property taxes	\$	235,832	\$	259,517	\$ -	\$	495,349		
Sales tax		770,211		-	-		770,211		
Franchise and local taxes		124,913		-			124,913		
Licenses and permits		40,230		-	-		40,230		
Fines and forfeitures		85,950		-	-		85,950		
Charges for services		406,641			-		406,641		
Investment income		619		-	-		619		
Other revenue		66,555		-	11,507		78,062		
Total Revenues		1,730,951		259,517	11,507		2,001,975		
Expenditures									
Current:									
General government		1,525,172		-	128		1,525,300		
Debt Service:									
Principal		-		150,000	-		150,000		
Interest and fiscal charges		_		105,994	-		105,994		
Total Expenditures		1,525,172		255,994	128		1,781,294		
Excess (Deficiency) of Revenues									
Over (Under) Expenditures		205,779		3,523	11,379	<u></u>	220,681		
Other Financing Sources (Uses)									
Lease proceeds		33,984		_			33,984		
Total Other Financing Sources		33,984		-			33,984		
Net Change in Fund Balance		239,763		3,523	11,379		254,665		
Beginning fund balances		708,028		145,422	161,575		1,015,025		
Ending Fund Balances	\$	947,791	\$	148,945	\$ 172,954	\$	1,269,690		

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, 2008

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

Net changes in fund balances - total governmental funds	\$	254,665
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		66,585
Depreciation expense		(123,091)
Revenues that do not provide current financial resources are not reported as revenues in the funds.		
Deferred revenue		3,752
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 lease proceeds		(33,984)
Principal expenditures		184,886
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Accrued interest	<u></u>	968
Change in Net Assets of Governmental Activities	\$	353,781

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

September 30, 2008

		Gas		Water and Sewer	 Total
Assets				,	
Current Assets					
Cash and cash equivalents	\$	478,290	\$	766,556	\$ 1,244,846
Receivables, net		11,263		29,265	40,528
Inventory		29,959		39,019	68,978
Total Current Assets		519,512	<u> </u>	834,840	 1,354,352
Noncurrent Assets					
Capital assets:					
Non-depreciable		-		87,624	87,624
Net depreciable capital assets		116,634		3,325,998	3,442,632
Total Noncurrent Assets		116,634		3,413,622	 3,530,256
Total Assets		636,146		4,248,462	4,884,608
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities		23,941		27,488	51,429
Due to other funds		-		33,853	33,853
Customer deposits		26,228		52,623	78,851
Total Current Liabilities		50,169	-	113,964	 164,133
Noncurrent Liabilities					
Due within one year		-		22,913	22,913
Due in more than one year		-		195,883	195,883
Total Noncurrent Liabilities		_		218,796	 218,796
Total Liabilities		50,169		332,760	 382,929
Net Assets					
Invested in capital assets		116,634		3,194,825	3,311,459
Unrestricted		469,343		720,877	1,190,220
Total Net Assets	\$	585,977	\$	3,915,702	\$ 4,501,679

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

For the Year Ended September 30, 2008

		Gas	7	Water and Sewer		Total
Operating Revenues	+					
Charges for services	\$	697,634	\$	648,808	\$	1,346,442
Other services		-		1,610		1,610
Total Operating Revenues		697,634		650,418	·	1,348,052
Operating Expenses						
Costs of sales and services		762,648		653,004		1,415,652
Depreciation		14,192		150,432		164,624
Total Operating Expenses	·	776,840	h	803,436		1,580,276
Operating (Loss)	<u> </u>	(79,206)		(153,018)		(232,224)
Nonoperating Revenues						
Investment income		5,543		3,300		8,843
Gain on sale of asset		1,199		-		1,199
Total Nonoperating Revenues		6,742	,	3,300		10,042
Change in Net Assets		(72,464)		(149,718)		(222,182)
Beginning net assets		658,441		4,065,420		4,723,861
Ending Net Assets	\$	585,977	\$	3,915,702	\$	4,501,679

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Year Ended September 30, 2008

		Gas	7	Vater and Sewer		Total
Cash Flows from Operating Activities	,					
Receipts from customers	\$	723,727	\$	687,068	\$	1,410,795
Payments to suppliers and employees		(748,730)		(645,310)		(1,394,040)
Net Cash Provided (Used) by Operating Activities		(25,003)		41,758		16,755
Cash Flows from Capital and Related						
Financing Activities						
Gain on sale of capital assets		1,199		_		1,199
Net Cash (Used) by Capital	h			· · · · · · · · · · · · · · · · · · ·	,	
and Related Financing Activities		1,199				1,199
Cash Flows from Investing Activities						
Interest on investments		5,543		3,300		8,843
Net Cash Provided by Investing Activities		5,543		3,300		8,843
Net Increase (Decrease) in Cash and Cash Equivalents	н	(18,261)		45,058		26,797
Beginning cash and cash equivalents		496,551	\$	721,498		1,218,049
Ending Cash and Cash Equivalents	¢	479 200	\$	766 556	ø	1 244 946
Ending Cash and Cash Equivalents	φ	478,290	Ф	766,556	\$	1,244,846
Reconciliation of Operating Income (Loss)						
to Net Cash Provided (Used) by Operating Activities						
Operating (Loss)	\$	(79,206)	\$	(153,018)	\$	(232,224)
Adjustments to reconcile operating						
income to net cash provided						
by operating activities:						
Depreciation		14,192		150,432		164,624
Changes in Operating Assets and Liabilities:						
(Increase) Decrease in:						
Accounts receivable		26,093		36,650		62,743
Inventories		9,531		(4,757)		4,774
Increase (Decrease) in:				•		•
Accounts payable and accrued liablities		11,979		10,023		22,002
Customer deposits		(7,592)		2,428		(5,164)
Net Cash Provided (Used) by Operating Activities	\$	(25,003)	\$	41,758	\$	16,755

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

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 department, highway and streets, sanitation, culture-recreation, public improvements, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Waller Economic Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Waller Economic Development Corporation

Waller Economic Development Corporation (WEDC) has been included in the reporting entity as a discretely presented component unit.

The Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the City Secretary.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2008

B. Financial Statement Presentation

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

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

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

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

C. Government-Wide and Fund Financial Statements

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

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

Governmental Funds

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

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales, and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Funds

The capital projects funds is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The expansions capital projects fund is reported as a nonmajor fund.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

The proprietary fund types used by the City include the following:

Enterprise Funds

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

D. Measurement Focus and Basis of Accounting

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

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

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

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

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

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

The statements of net assets, statements of activities, and financial statements of proprietary fund types are presented on the accounting 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.

NOTES TO FINANCIAL STATEMENTS (Continued) For the Year Ended September 30, 2008

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

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

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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

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

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

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statement. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

Property taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at 1% per month, but the penalty remains at a maximum of 12% until paid.

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

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased (i.e., the first-in/first-out (FIFO) method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) and are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government, as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

	Esumated
Asset Description	Useful Life
Vehicles and equipment	5 to 10 years
System infrastructure	30 to 40 years
Buildings	20 to 50 years

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of bonds payable and capital lease obligations.

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

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

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

6. Fund Equity

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

7. Estimates

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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, 2008, market values of pledged securities and FDIC insurance totaled \$2,754,610 and bank balances were \$2,438,977.

B. Receivables

The following comprise receivable balances at year end:

	General	_De	Debt Service		Gas	Water/Sewer	
Property taxes	\$ 29,304	\$	58,346	\$		\$	-
Sales taxes	139,293		<u></u>		_		_
Accounts	-		_		18,263		47,265
Intergovernmental	30,000		_		<u>u</u>		-
Franchise	63,606		_		_		-
Allowance			_		(7,000)		(18,000)
	\$ 262,203	\$	58,346	\$	11,263	\$	29,265

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

C. Capital Assets

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

	Primary Government							
	Beginning Balance	Increa ses	(Decreases)	Ending Balance				
Governmental Activities:	···							
Capital assets not being depreciated:								
Land	\$ 39,799	9 \$ -	\$ -	\$ 39,799				
Total capital assets not								
being depreciated	39,799	-	<u> </u>	39,799				
Other capital assets:								
Infrastructure	1,507,395	-	-	1,507,395				
Buildings	315,500		w	315,500				
Vehicles	117,835	66,585	-	184,420				
Equip ment	229,629	_	-	229,629				
Total other capital assets	2,170,359	66,585		2,236,944				
Less accumulated depreciation for:								
Infrastructure	(1,356,655	5) (75,370)	-	(1,432,025)				
Buildings	(262,568	(8,647)	-	(271,215)				
Vehicles	(81,629	(15,074)	-	(96,703)				
Equip ment	(133,629	(24,000)	-	(157,629)				
Total accumulated depreciation	(1,834,481	(123,091)		(1,957,572)				
Other capital assets, net	335,878	(56,506)	_	279,372				
Totals	\$ 375,677	\$ (56,506)	\$ -	\$ 319,171				
			Less associated debt	(2,134,997)				
]	invested in capital asse	ts, net of related debt	\$ (1,815,826)				

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

\$ 123,091

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2008

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

	Beginning Balance	Increases	Increases (Decreases)	
Business-type activities:	· · · · · · · · · · · · · · · · · · ·			
Capital assets not being depreciated:				
Land	\$ 87,624	\$ -	\$ -	\$ 87,624
Total capital assets not				
being depreciated	87,624		-	87,624
Other capital assets:				
Water/sewer system	4,978,916	-	-	4,978,916
Gas system	496,502	-	_	496,502
Equip ment	171,488		_	171,488
Total other capital assets	5,646,906	-	-	5,646,906
Less accumulated depreciation for:				
Water/sewer system	(1,550,456)	(142,524)	-	(1,692,980)
Gas system	(378,560)	(11,884)	-	(390,444)
Equipment	(110,634)	(10,216)	-	(120,850)
Total accumulated depreciation	(2,039,650)	(164,624)	-	(2,204,274)
Other capital assets, net	3,607,256	(164,624)		3,442,632
Totals	\$ 3,694,880	\$ (164,624)	\$	\$ 3,530,256
		Less	s associated debt	(218,796)
	Invested in	a capital assets, ne	t of related debt	\$ 3,311,460

Depreciation was charged to business-type functions as follows:

Gas Water/Sewer	\$ 150,432
w ater/sewer	 14,192
Total Business-Type Activities Depreciation Expense	\$ 164,624

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

D. Long-Term Debt

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

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

	;	Beginning Balance	A	dditions	R	eductions		Ending Balance		Amounts Due within One Year
Governmental Activities:										
Bonds, notes and other										
payables:										
General obligation bonds	\$	1,395,000	\$	-	\$	40,000	\$	1,355,000	* \$	30,000
Certificates of obligation		795,000		-		110,000		685,000	*	125,000
Obligations under capital								-		•
leases		95,899		33,984		34,886		94,997	*	34,923
Total Governmental Activities	\$	2,285,899	\$	33,984	\$	1 84,886	\$	2,134,997	\$	189,923
Long-term liabilities due in more than one y	ear		,				\$	1,945,074		
* Debt associated with capital assets									=	
Business-type Activities:										
Obligations under capital										
leases	\$	240,617	\$	<u>-</u>	\$	21,821	\$	\$218,796	* \$	22,913
Long-term liabilities due in more than one y	ear						\$	195,883	:	
#T-1							_		=	

^{*} Debt associated with capital assets

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

Interest		
Rates		Balance
4.5 - 5.375%	\$	685,000
1.75 - 4.40%		1,355,000
	\$	2,040,000
	Rates 4.5 - 5.375%	Rates 4.5 - 5.375% \$

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

Year			
Ending		Capital Leases	
Sept. 30	Principal	Interest	Total
2009	\$ 57,837	\$ 15,874	\$ 73,711
2010	61,143	12,569	73,712
2011	48,249	9,104	57,353
2012	26,524	7,328	33,852
2013	27,851	6,002	33,853
2014	29,243	4,609	33,852
2015	30,705	3,147	33,852
2016	32,241	1,612	33,853
Total	\$ 313,793	\$ 60,245	\$ 374,038

Equipment acquired under current capital lease obligations was a total of \$98,070 net of accumulated depreciation.

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

Year	Certifi	Certificates of General Obligation					
Ending	Oblig	gation	Box	nds			
Sept. 30	Principal	Interest	Principal	Interest	Total		
2009	\$ 125,000	\$ 35,900	\$ 30,000	\$ 62,432	\$ 253,332		
2010	125,000	29,525	40,000	61,458	255,983		
2011	135,000	23,025	35,000	60,057	253,082		
2012	150,000	15,938	30,000	58,745	254,683		
2013	150,000	8,062	40,000	57,545	255,607		
2014	-	-	165,000	55,905	220,905		
2015	-	-	145,000	48,810	193,810		
2016	-	-	125,000	42,285	167,285		
2017			125,000	36,535	161,535		
2018	-	-	120,000	30,660	150,660		
2019	-	-	100,000	24,900	124,900		
2020	-	-	100,000	20,000	120,000		
2021	-	-	100,000	15,000	115,000		
2022	-	-	100,000	10,000	110,000		
2023			100,000	5,000	105,000		
Total	\$ 685,000	\$ 112,450	\$1,355,000	\$ 589,332	\$ 2,741,782		

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

E. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The City restated beginning net assets for the water fund from \$4,077,538 to 4,065,420 for additional debt and capital assets from prior years.

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2008

The following is a list of fund balance reserved or designated recognized by the City:

Debt Service Fund
Reserved for debt service \$ 148,945

Nonmajor Other Governmental Funds
Designated for construction \$ 172,954

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,539 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements, which exceeded coverage amounts for the past three fiscal years.

B. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which 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.

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2008

Contributions

The contribution rate for the employees is five percent, and the City's matching ratio is currently one to one, both as adopted by City Council. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

Future Funding Requirements

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$115,180 and the funded ratio would have been 91.5%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of seven percent would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a seven percent IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in

NOTES TO FINANCIAL STATEMENTS (Continued) For the Year Ended September 30, 2008

increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009 actuarial valuation.

All assumptions for the 12/31/07 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The following is a summary of the actuarial assumptions:

> Actuarial Cost Method Projected Unit Credit Amoritization Method Level % of Payroll Remaining Amortization Period 25 Years - Closed period Asset Valuation Method Amortized cost

Investment Rate of Return 7%

Projected Salary Increases Varies by age and service

Includes Inflation at 3.5% Cost of Living Adjustments 0.0%

	 2008	 2007	2006		
Annual Req. Contrib. (ARC)	\$ 38,656	\$ 36,794	\$	32,983	
Contributions Made	\$ 38,656	\$ 36,794	\$	32,983	
NPO at the End of Period	\$ 	\$ -	\$	-	

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2008 With Comparative Totals for the Year Ended September 30, 2007

			2008			
	Original and Final Budget		Actual	Variance with Final Budget Positive (Negative)		2007 Actual
Revenues						
Property taxes	\$	244,800	\$ 235,832	\$ (8,968)	\$	202,635
Sales tax		1,050,000	770,211	(279,789)		758,581
Franchise and other taxes		121,000	124,913	3,913		126,097
Licenses and permits		25,000	40,230	15,230		46,622
Fines and forfeitures		55,000	85,950	30,950		38,267
Charges for services		349,600	406,641	57,041		356,404
Contributions		75,000	_	(75,000)		-
Investment income		-	619	619		896
Other revenue		65,000	66,555	1,555		9,981
Total Revenues		1,985,400	1,730,951	(254,449)		1,539,483
Expenditures Current:						
General government		1,994,014	 1,525,172	 468,842	,	1,415,666
Total Expenditures		1,994,014	 1,525,172	 468,842		1,415,666
Other Financing Sources						
Lease proceeds			 33,984	 33,984		<u>-</u>
Total Other	-	,		_		
Financing Sources			 33,984	 33,984		
Change in Fund Balance	\$	(8,614)	\$ 239,763	\$ 248,377	\$	123,817
Beginning fund balance			 708,028			
Ending Fund Balance			\$ 947,791			

Notes to Required Supplementary Information:

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

SCHEDULE OF FUNDING PROGRESS-TEXAS MUNICIPAL RETIREMENT SYSTEM

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

Fiscal Year	2008		2007	2006	2005	 2004
Actuarial Valuation Date	12/31/2007		12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial Value of Assets	\$ 1,235,292	\$	1,170,058	\$ 1,143,807	\$ 1,040,494	\$ 1,025,918
Actuarial Accrued Liability	\$ 1,293,918	\$	1,330,651	\$ 1,287,176	\$ 1,173,282	\$ 1,151,658
Percentage Funded	95.5%		87.9%	88.9%	88.7%	89.1%
Unfunded Actuarial						
Accrued Liability	\$ 58,626	\$	160,593	\$ 143,369	\$ 132,788	\$ 125,740
Annual Covered Payroll	\$ 747,021	\$	688,015	\$ 676,673	\$ 679,634	\$ 643,488
Unfunded Actuarial Accrued Liability						
(UAAL) % of Covered Payroll	7.8%		23.3%	21.2%	19.5%	19.5%
Net Pension Obligation (NPO)						
at the Beginning of Period	\$ _	\$	-	\$ -	\$ -	\$ _
Annual Req. Contrib. (ARC)	\$ 38,656	\$	36,794	\$ 32,983	\$ 35,554	\$ 33,506
Contributions Made	\$ 38,656	\$	36,794	\$ 32,983	\$ 35,554	\$ 33,506
NPO at the End of Period	\$ _	S		\$ _	\$ _	\$ -

SCHEDULES

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL DEBT SERVICE FUND

For the Year Ended September 30, 2008 With Comparative Totals for the Year Ended September 30, 2007

	2008						
	Original and Final Budget			Actual	Variance with Final Budget Positive (Negative)		2007 Actual
Revenues							
Property taxes	\$	261,775	\$	259,517	\$	(2,258)	\$ 253,160
Investment income				•			 5,576
Total Revenues		261,775		259,517		(2,258)	 258,736
Expenditures							
Principal Principal		150,000		150,000		-	140,000
Interest and fiscal charges		111,775		105,994		5,781	111,934
Total Expenditures		261,775		255,994		5,781	 251,934
Revenues Over							
(Under) Expenditures	\$			3,523	\$	3,523	\$ 6,802
Beginning fund balance				145,422			
Ending Fund Balance			\$	148,945			