

ANNUAL FINANCIAL REPORT

of the

CITY OF WALLER, TEXAS

For the Year Ended
September 30, 2018

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CITY OF WALLER, TEXAS

TABLE OF CONTENTS

September 30, 2018

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	7
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	18
Fund Financial Statements	
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Proprietary Funds Financial Statements:	
Statement of Net Position – Proprietary Funds	29
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	31
Statement of Cash Flows – Proprietary Funds	33
Notes to Financial Statements	35
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	63
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	65
Schedule of Contributions – Texas Municipal Retirement System	66
Schedule of Changes in Total OPEB Liability and Related Ratios – Texas Municipal Retirement System	69
<u>SCHEDULE</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	73

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Waller, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, and each major fund of the City as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

In 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
June 21, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

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

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – The City's tax supported 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. Property tax, sales tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's gas, water, and wastewater services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation (EDC) for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment operations, and gas operations. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment operations and gas operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment liability and related ratios and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows exceeded liabilities and deferred inflows by \$12,258,553 at year end.

A large portion of the City's net position, 47 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, 2018

STATEMENT OF NET POSITION:

The following tables reflect the condensed Statement of Net Position:

2018				
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 15,185,242	\$ 1,332,490	\$ -	\$ 16,517,732
Noncurrent assets	3,817,211	5,998,773	-	9,815,984
Total Assets	19,002,453	7,331,263	-	26,333,716
Deferred outflows - pensions	60,146	6,266	-	66,412
Deferred outflows - OPEB	6,479	-	-	6,479
Deferred charge on refunding	7,449	-	-	7,449
Total Deferred Outflows of Resources	74,074	6,266	-	80,340
Long-term liabilities	13,371,400	7,223	-	13,378,623
Other liabilities	539,647	104,623	-	644,270
Total Liabilities	13,911,047	111,846	-	14,022,893
Deferred inflows - pensions	121,554	11,056	-	132,610
Total Deferred Inflows of Resources	121,554	11,056	-	132,610
Net Position:				
Net investment in capital assets	4,374,723	5,995,530	(4,595,946)	5,774,307
Restricted	585,366	-	-	585,366
Unrestricted	83,837	1,219,097	4,595,946	5,898,880
Total Net Position	\$ 5,043,926	\$ 7,214,627	\$ -	\$ 12,258,553

2017				
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 4,740,916	\$ 1,316,316	\$ -	\$ 6,057,232
Noncurrent assets	3,294,954	5,653,206	-	8,948,160
Total Assets	8,035,870	6,969,522	-	15,005,392
Deferred outflows - pensions	199,034	19,953	-	218,987
Deferred outflows - OPEB	610	-	-	610
Deferred charge on refunding	8,939	-	-	8,939
Total Deferred Outflows of Resources	208,583	19,953	-	228,536
Long-term liabilities	3,972,860	26,871	-	3,999,731
Other liabilities	301,083	119,179	-	420,262
Total Liabilities	4,273,943	146,050	-	4,419,993
Deferred inflows - pensions	59,387	3,890	-	63,277
Total Deferred Inflows of Resources	59,387	3,890	-	63,277
Net Position:				
Net investment in capital assets	1,377,548	5,653,206	(1,850,359)	5,180,395
Restricted	1,076,839	-	-	1,076,839
Unrestricted	1,456,736	1,186,329	1,850,359	4,493,424
Total Net Position	\$ 3,911,123	\$ 6,839,535	\$ -	\$ 10,750,658

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

A portion of the primary government's net position, \$585,366, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$5,898,880, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City increased \$1,507,895 during the year due.

A reconciliation is used to move the debt associated with business-type activities for capital assets to the unrestricted net position to give a better picture of the total primary government unrestricted net position.

STATEMENT OF ACTIVITIES:

The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 1,329,396	\$ 1,145,094	\$ 1,643,814	\$ 1,395,654	\$ 2,973,210	\$ 2,540,748
Operating grants and contributions	68,507	162,123	-	-	68,507	162,123
Capital grants and contributions	292,978	350,756	-	-	292,978	350,756
General revenues:						
Property taxes	1,498,279	1,434,768	-	-	1,498,279	1,434,768
Sales taxes	2,008,760	2,014,712	-	-	2,008,760	2,014,712
Franchise fees	266,551	278,960	-	-	266,551	278,960
Investment income	152,774	25,298	52,092	24,324	204,866	49,622
Other revenues	34,600	48,327	-	-	34,600	48,327
Total Revenues	5,651,845	5,460,038	1,695,906	1,419,978	7,347,751	6,880,016
Expenses						
General government	1,300,379	1,120,164	-	-	1,300,379	1,120,164
Public safety	1,407,304	1,167,517	-	-	1,407,304	1,167,517
Code enforcement	188,000	263,458	-	-	188,000	263,458
Public works	648,108	830,565	-	-	648,108	830,565
Culture and recreation	381,171	232,395	-	-	381,171	232,395
Interest and fiscal agent fees	250,239	94,931	-	-	250,239	94,931
Gas	-	-	445,919	382,575	445,919	382,575
Water and sewer	-	-	1,218,736	1,062,385	1,218,736	1,062,385
Total Expenses	4,175,201	3,709,030	1,664,655	1,444,960	5,839,856	5,153,990
Increase (Decrease) in Net Position Before Transfers	1,476,644	1,751,008	31,251	(24,982)	1,507,895	1,726,026
Transfers in (out)	(343,841)	166,688	343,841	(166,688)	-	-
Change in Net Position	1,132,803	1,917,696	375,092	(191,670)	1,507,895	1,726,026
Beginning net position	3,911,123	1,993,427	6,839,535	7,031,205	10,750,658	9,024,632
Ending Net Position	\$ 5,043,926	\$ 3,911,123	\$ 7,214,627	\$ 6,839,535	\$ 12,258,553	\$ 10,750,658

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Overall, governmental activities revenues increased \$191,807. Charges for services increased \$184,302 largely due to an increase in municipal court revenue as a result of an increase in citations issued. Property tax revenue increased \$63,511 mainly due to higher appraised values. Investment income increased \$127,476 largely as a result of proceeds from the issuance of long-term debt. These increases in revenues were partially offset by a decrease in operating grants and contributions related to a decrease in contributions from the EDC. Governmental activities expenses increased \$466,171 primarily due to an increase in public safety due to an increase in personnel costs and an increase in interest and fees on debt as a result of issuance costs from the issuance of long-term debt. This was partially offset by a decrease in expenses related to professional services.

Overall, business-type activities revenues increased \$275,928 mainly due to an increase in charges for services as a result of an increase in water, sewer, and gas consumption. Business-type activities expenses increased \$219,695 due to an increase in repairs and maintenance.

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 \$14,608,053. Of the total governmental fund balance, \$38,080 is nonspendable in the form of inventory and \$9,786,233 is restricted for debt service, enabling legislation, and capital projects. \$17,639 is assigned for future projects for economic development, while \$20,000 is assigned for street projects/fleet reserve. The remaining balance of \$4,746,101 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 \$4,699,827. 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 143 percent of total general expenditures. General fund revenues increased \$42,678 compared to the prior year largely due to increases in municipal court revenues from an increase in citations issued. Expenditures decreased \$411,684 compared to the prior year due mainly to decreases in capital outlay expenditures, contracted services, and development fees.

The debt service fund has a total fund balance of \$135,400, all of which is restricted for payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$62,486 primarily as a result of an increase in principal and interest.

The capital projects fund has a fund balance of \$9,200,867, all of which is restricted for capital projects. The net increase in fund balance of \$8,771,777 was primarily due to proceeds from the issuance of long-term debt.

The special revenue fund has a fund balance of \$496,240, all of which is restricted for various purposes. The net increase of \$103,837 was the result of hotel occupancy tax and restricted court revenues in excess of related expenditures.

CITY OF WALLER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Proprietary Funds – The City's gas and water and sewer funds operating expenses exceeded revenues by \$20,841. Nonoperating revenue was \$52,092, which was comprised entirely of investment revenue. The gas and water and sewer funds also transferred \$169,530 to repay the general fund. The water and sewer fund had capital contributions from the capital projects fund of \$513,371.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund reported a positive revenue budget variance of \$1,160,780. This variance is primarily due to more property tax, sales tax, fines and forfeitures, and charges for services than expected. Total expenditures had a positive budget variance of \$468,062 from the final budget due mainly to less expenditures than anticipated in the general government, public safety, code enforcement, and public works.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds and business-type activities funds had invested \$9,625,095 in a variety of capital assets and infrastructure (net of accumulated depreciation).

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds, certificates of obligation, tax notes, and construction advances of \$12,928,711. Of this amount, \$7,169,750 was general obligation bonds debt, \$5,080,000 was certificates of obligation debt, \$620,000 was tax notes debt, and \$58,961 was construction advances.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City is experiencing a period of growth. Property values are increasing, commercial development continues, property and sales tax revenues are expanding, and the City is thriving.

Management for the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the timely preparation of financial statements in conformity with generally accepted accounting principles.

The City adopted a fiscal year 2018-2019 general fund expenditure budget of \$4,021,134, which is an increase of 9 percent from the prior year budget. The City budgeted for fiscal year 2018-2019 general fund revenues of \$4,245,675, which is an increase of 14 percent. The City approved a 2018-2019 Maintenance and Operation tax rate of \$0.3323 and an Interest and Sinking tax rate of \$0.1652 for total of \$0.4975 per \$100 of property valuation..

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 5,135,909	\$ 1,060,102	\$ -	\$ 6,196,011
Restricted cash and cash equivalents	9,338,193	47,263	-	9,385,456
Investments	125,519	-	-	125,519
Receivables (net of allowance for uncollectible)	542,443	159,676	-	702,119
Due from component unit	5,098	-	-	5,098
Inventory	38,080	65,449	-	103,529
	<u>15,185,242</u>	<u>1,332,490</u>	<u>-</u>	<u>16,517,732</u>
Noncurrent assets:				
Net pension asset	187,646	3,243	-	190,889
Nondepreciable capital assets	735,193	1,134,571	-	1,869,764
Net depreciable capital assets	2,894,372	4,860,959	-	7,755,331
	<u>3,817,211</u>	<u>5,998,773</u>	<u>-</u>	<u>9,815,984</u>
Total Assets	<u>19,002,453</u>	<u>7,331,263</u>	<u>-</u>	<u>26,333,716</u>
Deferred Outflows of Resources				
Deferred outflows - pensions	60,146	6,266	-	66,412
Deferred outflows - OPEB	6,479	-	-	6,479
Deferred charge on refunding	7,449	-	-	7,449
Total Deferred Outflows of Resources	<u>74,074</u>	<u>6,266</u>	<u>-</u>	<u>80,340</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	430,810	57,360	-	488,170
Customer deposits	-	47,263	-	47,263
Due to primary government	-	-	-	-
Accrued interest payable	108,837	-	-	108,837
	<u>539,647</u>	<u>104,623</u>	<u>-</u>	<u>644,270</u>
Noncurrent liabilities:				
Due within one year	478,721	6,501	-	485,222
Due in more than one year	12,892,679	722	-	12,893,401
	<u>13,371,400</u>	<u>7,223</u>	<u>-</u>	<u>13,378,623</u>
Total Liabilities	<u>13,911,047</u>	<u>111,846</u>	<u>-</u>	<u>14,022,893</u>
Deferred Inflows of Resources				
Deferred inflows - pensions	121,554	11,056	-	132,610
Net Position				
Net investment in capital assets	4,374,723	5,995,530	(4,595,946)	5,774,307
Restricted for:				
Debt service	135,400	-	-	135,400
Enabling legislation	449,966	-	-	449,966
Unrestricted	83,837	1,219,097	4,595,946	5,898,880
Total Net Position	<u>\$ 5,043,926</u>	<u>\$ 7,214,627</u>	<u>\$ -</u>	<u>\$ 12,258,553</u>

See Notes to Financial Statements.

**Component
Unit**

\$ 2,172,518
-
-
114,050
-
-
<u>2,286,568</u>
-
-
-
<u>-</u>
<u>2,286,568</u>
-
-
-
<u>-</u>
<u>-</u>
8,339
-
5,098
-
<u>13,437</u>
13,295
<u>1,477</u>
<u>14,772</u>
<u>28,209</u>
-
-
-
-
2,258,359
<u>\$ 2,258,359</u>

CITY OF WALLER, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,300,379	\$ 503,178	\$ 68,507	\$ -
Public safety	1,407,304	667,593	-	-
Code enforcement	188,000	92,014	-	-
Public works	648,108	-	-	292,728
Culture and recreation	381,171	66,611	-	250
Interest and fees on debt	250,239	-	-	-
Total Governmental Activities	4,175,201	1,329,396	68,507	292,978
Business-Type Activities				
Gas	445,919	490,285	-	-
Water and sewer	1,218,736	1,153,529	-	-
Total Business-Type Activities	1,664,655	1,643,814	-	-
Total Primary Government	\$ 5,839,856	\$ 2,973,210	\$ 68,507	\$ 292,978
Component Unit				
Waller Economic Development Corporation	\$ 238,917	\$ -	\$ -	\$ -

General Revenues:

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

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (728,694)	\$ -	\$ (728,694)	\$ -
(739,711)	-	(739,711)	-
(95,986)	-	(95,986)	-
(355,380)	-	(355,380)	-
(314,310)	-	(314,310)	-
(250,239)	-	(250,239)	-
<u>(2,484,320)</u>	<u>-</u>	<u>(2,484,320)</u>	<u>-</u>
-	44,366	44,366	-
<u>-</u>	<u>(65,207)</u>	<u>(65,207)</u>	<u>-</u>
<u>-</u>	<u>(20,841)</u>	<u>(20,841)</u>	<u>-</u>
<u>(2,484,320)</u>	<u>(20,841)</u>	<u>(2,505,161)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(238,917)</u>
1,498,279	-	1,498,279	-
2,008,760	-	2,008,760	668,868
266,551	-	266,551	-
152,774	52,092	204,866	29,160
34,600	-	34,600	-
<u>(343,841)</u>	<u>343,841</u>	<u>-</u>	<u>-</u>
<u>3,617,123</u>	<u>395,933</u>	<u>4,013,056</u>	<u>698,028</u>
1,132,803	375,092	1,507,895	459,111
3,911,123	6,839,535	10,750,658	1,799,248
<u>\$ 5,043,926</u>	<u>\$ 7,214,627</u>	<u>\$ 12,258,553</u>	<u>\$ 2,258,359</u>

CITY OF WALLER, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2018

	General	Debt Service	Capital Projects	Special Revenue
<u>Assets</u>				
Cash and cash equivalents	\$ 4,627,924	\$ 19,293	\$ -	\$ 488,692
Restricted cash and cash equivalents	-	-	9,338,193	-
Due from other funds	81,930	-	-	-
Investments	-	125,519	-	-
Taxes receivables, net	55,067	31,585	-	-
Other receivables	409,125	-	-	46,666
Due from component unit	5,098	-	-	-
Inventory	38,080	-	-	-
Total Assets	\$ 5,217,224	\$ 176,397	\$ 9,338,193	\$ 535,358
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 326,884	\$ 9,412	\$ 70,359	\$ 24,155
Due to other funds	-	-	66,967	14,963
Total Liabilities	326,884	9,412	137,326	39,118
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	55,066	31,585	-	-
Unavailable revenue - garbage collections	59,728	-	-	-
	114,794	31,585	-	-
<u>Fund Balances</u>				
Nonspendable	38,080	-	-	-
Restricted for:				
Debt service	-	135,400	-	-
Enabling legislation	-	-	-	449,966
Capital projects	-	-	9,200,867	-
Assigned:				
Future economic development projects	17,639	-	-	-
Street/fleet reserve	20,000	-	-	-
Unassigned	4,699,827	-	-	46,274
Total Fund Balances	4,775,546	135,400	9,200,867	496,240
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,217,224	\$ 176,397	\$ 9,338,193	\$ 535,358

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 5,135,909
9,338,193
81,930
125,519
86,652
455,791
5,098
38,080
\$ 15,267,172

\$ 430,810
81,930
512,740

86,651
59,728
146,379

38,080

135,400
449,966
9,200,867

17,639
20,000
4,746,101

14,608,053

\$ 15,267,172

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CITY OF WALLER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2018

Total fund balances for governmental funds		\$ 14,608,053
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - nondepreciable	735,193	
Capital assets - net depreciable	<u>2,894,372</u>	3,629,565
Long-term liabilities and deferred outflows and deferred inflows related to the net pension asset and total OPEB liability are not reported in the governmental funds.		
Net pension asset	187,646	
Total OPEB liability	(113,708)	
Deferred outflows - pensions	60,146	
Deferred outflows - OPEB	6,479	
Deferred inflows - pensions	<u>(121,554)</u>	19,009
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		146,379
Some liabilities, including bonds payable, and compensated absences are not reported as liabilities in the governmental funds.		
Deferred charge on refunding	7,449	
Accrued interest payable	(108,837)	
Noncurrent liabilities due in one year	(478,721)	
Noncurrent liabilities due in more than one year	<u>(12,778,971)</u>	(13,359,080)
Net Position of Governmental Activities		<u><u>\$ 5,043,926</u></u>

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, 2018

	General	Debt Service	Capital Projects	Special Revenue
Revenues				
Property taxes	\$ 1,084,533	\$ 425,467	\$ -	\$ -
Sales tax	2,008,760	-	-	-
Franchise fees and local taxes	146,604	-	-	119,947
Licenses and permits	92,014	-	-	-
Fines and forfeitures	634,054	-	-	33,539
Charges for services	495,094	-	-	-
Intergovernmental	68,507	-	-	191,743
Investment income	54,889	19,980	77,568	337
Other revenue	34,850	-	100,985	66,611
Total Revenues	4,619,305	445,447	178,553	412,177
Expenditures				
Current:				
General government	942,439	-	-	-
Public safety	1,307,146	-	-	19,602
Code enforcement	188,988	-	-	-
Public works	695,393	-	-	-
Culture and recreation	67,892	-	-	288,738
Capital outlay	64,801	-	823,977	-
Debt Service:				
Principal	26,728	400,000	-	-
Interest and fiscal charges	4,243	160,231	-	-
Bond issuance costs	-	-	387,511	-
Total Expenditures	3,297,630	560,231	1,211,488	308,340
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,321,675	(114,784)	(1,032,935)	103,837
Other Financing Sources (Uses)				
Transfers in	169,530	34,808	-	-
Transfers out	-	-	(34,808)	-
Bond proceeds	-	17,490	9,607,510	-
Premium on bonds	-	-	232,010	-
Total Other Financing Sources	169,530	52,298	9,804,712	-
Net Change in Fund Balances	1,491,205	(62,486)	8,771,777	103,837
Beginning fund balances	3,284,341	197,886	429,090	392,403
Ending Fund Balances	\$ 4,775,546	\$ 135,400	\$ 9,200,867	\$ 496,240

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,510,000
2,008,760
266,551
92,014
667,593
495,094
260,250
152,774
202,446
5,655,482

942,439
1,326,748
188,988
695,393
356,630
888,778

426,728
164,474
387,511

5,377,689

277,793

204,338
(34,808)
9,625,000
232,010

10,026,540

10,304,333

4,303,720

\$ 14,608,053

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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, 2018

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

Net changes in fund balances - total governmental funds	\$ 10,304,333
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	599,582
Depreciation expense	(264,971)
<p>Revenues that do not provide current financial resources are not reported as revenues in the funds.</p>	
Deferred inflows of resources - unavailable revenue	(3,637)
<p>Changes in pension and OPEB activity do not affect the fund balances on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. These changes in pension and OPEB activity that affect the City's net position are as follows:</p>	
Net pension asset	225,420
Total OPEB liability	(14,993)
Deferred outflows - pensions	(13,415)
Deferred outflows - OPEB	5,869
Deferred inflows - pensions	(187,640)
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	
Bonds issued	(9,625,000)
Premium on bonds	(232,010)
Amortization of bond premiums	10,659
Change in deferred inflows of resources from refunded bonds	(1,490)
Change in compensated absences	(1,698)
Principal expenditures	426,728
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Accrued interest	(94,934)
Change in Net Position of Governmental Activities	\$ 1,132,803

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2018

	Gas	Water and Sewer	Total Proprietary Funds
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 553,932	\$ 506,170	\$ 1,060,102
Restricted cash and cash equivalents	15,658	31,605	47,263
Receivables, net	35,657	124,019	159,676
Inventory	23,841	41,608	65,449
Total Current Assets	629,088	703,402	1,332,490
Noncurrent assets			
Net pension asset	-	3,243	3,243
Capital assets:			
Nondepreciable	-	1,134,571	1,134,571
Net depreciable capital assets	272,492	4,588,467	4,860,959
Total Noncurrent Assets	272,492	5,726,281	5,998,773
Total Assets	901,580	6,429,683	7,331,263
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pensions	-	6,266	6,266
<u>Liabilities</u>			
Current liabilities			
Accounts payable and accrued liabilities	13,792	43,568	57,360
Customer deposits	15,658	31,605	47,263
Compensated absences	3,552	2,949	6,501
Total Current Liabilities	33,002	78,122	111,124
Noncurrent liabilities			
Compensated absences	395	327	722
Total Noncurrent Liabilities	395	327	722
Total Liabilities	33,397	78,449	111,846
<u>Deferred Inflows of Resources</u>			
Deferred inflows - pensions	-	11,056	11,056
<u>Net Position</u>			
Net investment in capital assets	272,492	5,723,038	5,995,530
Unrestricted	595,691	623,406	1,219,097
Total Net Position	\$ 868,183	\$ 6,346,444	\$ 7,214,627

See Notes to Financial Statements.

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

For the Year Ended September 30, 2018

	Gas	Water and Sewer	Total Proprietary Funds
<u>Operating Revenues</u>			
Charges for services	\$ 490,285	\$ 1,153,260	\$ 1,643,545
Other revenue	-	269	269
Total Operating Revenues	490,285	1,153,529	1,643,814
<u>Operating Expenses</u>			
Costs of sales and services	426,899	929,996	1,356,895
Depreciation	19,020	288,740	307,760
Total Operating Expenses	445,919	1,218,736	1,664,655
Operating Income (Loss)	44,366	(65,207)	(20,841)
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	26,308	25,784	52,092
Total Nonoperating Revenues	26,308	25,784	52,092
Income (Loss) Before Contributions and Transfers	70,674	(39,423)	31,251
Capital contributions	-	513,371	513,371
Transfers	(97,436)	(72,094)	(169,530)
Change in Net Position	(26,762)	401,854	375,092
Beginning net position	894,945	5,944,590	6,839,535
Ending Net Position	\$ 868,183	\$ 6,346,444	\$ 7,214,627

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Gas	Water and Sewer	Total Proprietary Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 485,049	\$ 1,134,975	\$ 1,620,024
Payments to suppliers and employees	(429,974)	(959,388)	(1,389,362)
Net Cash Provided by Operating Activities	55,075	175,587	230,662
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers	(97,436)	(72,094)	(169,530)
Net Cash (Used) by Noncapital Financing Activities	(97,436)	(72,094)	(169,530)
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and construction of capital assets	(37,994)	(98,719)	(136,713)
Net Cash (Used) by Capital and Related Financing Activities	(37,994)	(98,719)	(136,713)
<u>Cash Flows from Investing Activities</u>			
Interest on investments	26,308	25,784	52,092
Net Cash Provided by Investing Activities	26,308	25,784	52,092
Net Increase (Decrease) in Cash and Cash Equivalents	(54,047)	30,558	(23,489)
Beginning cash and cash equivalents	623,637	507,217	1,130,854
Ending Cash and Cash Equivalents	\$ 569,590	\$ 537,775	\$ 1,107,365
 Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 44,366	\$ (65,207)	\$ (20,841)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	19,020	288,740	307,760
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	(5,236)	(18,554)	(23,790)
Inventories	248	(16,121)	(15,873)
Net pension asset	-	(21,606)	(21,606)
Deferred outflows - pensions	-	13,687	13,687
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(871)	7,564	6,693
Compensated absences	3,177	(4,462)	(1,285)
Deferred inflows - pensions	-	7,166	7,166
Customer deposits	(5,629)	(15,620)	(21,249)
Net Cash Provided by Operating Activities	\$ 55,075	\$ 175,587	\$ 230,662
 Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ -	\$ 513,371	\$ 513,371

See Notes to Financial Statements.

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CITY OF WALLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2018

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's gas and water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenue include local property taxes, sales tax, and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, code enforcement, public works, culture and recreation, and principal and interest for capital leases. The general fund is always considered a major fund for reporting purposes.

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

The *capital projects fund* is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

The *special revenue fund* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund is considered a

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

nonmajor fund for reporting purposes, but the City has elected to present it as major due to its significance.

The City reports the following enterprise funds:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

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

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

3. Inventories

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the capital projects fund are restricted by bond covenants for repayment of debt and to finance construction projects. Restricted assets of the enterprise funds are restricted for customer deposits.

5. 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 City 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 acquisition 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

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has five items that qualify for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have also been recognized for changes in actuarial assumptions related to the City's defined benefit pension and other postemployment benefits (OPEB) plans. These amounts are deferred and amortized over the average of the expected service lives of plan members. Deferred charges have been recognized for employer pension and OPEB plans contributions that were made subsequent to the measurement date through the end of the City's fiscal year. These amounts are deferred and recognized as a

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

reduction to the net pension asset/total OPEB liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between expected and actual economic experience on the pension plan liability. This amount is deferred and amortized over the average of the expected service lives of pension plan members. Deferred charges have been recognized as a result of differences between projected and actual investment earnings of the pension plan assets. This amount is deferred and amortized over a period of five years. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as inflows of resources in the period that the amounts become available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

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

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

12. 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, 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.

13. Pensions

For the purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

2. Property Taxes

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

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles, except for the capital projects fund which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2018.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 125,519	0.07
External investment pools	41,214	0.00
Total fair value	\$ 166,733	
Portfolio weighted average maturity		0.05

Credit risk. State law and the City’s investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent. As of September 30, 2018, the City’s investment in TexPool was rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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, 2018, market values of pledged securities and FDIC insurance exceeded bank balances.

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

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rated TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

B. Receivables

Amounts are aggregated into a single accounts receivable line (net of allowance for uncollectibles) for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the special revenue fund, the enterprise funds, and the component unit, including the applicable allowances for uncollectible accounts:

	<u>General</u>	<u>Debt Service</u>	<u>Special Revenue</u>	<u>Gas</u>	<u>Water/Sewer</u>	<u>Component Unit</u>
Property taxes	\$ 55,067	\$ 31,585	\$ -	\$ -	\$ -	\$ -
Sales taxes	358,580	-	-	-	-	114,050
Accounts	59,573	-	10,020	47,114	183,312	-
Intergovernmental	2,113	-	36,646	-	-	-
Allowance	(11,141)	-	-	(11,457)	(59,293)	-
	<u>\$ 464,192</u>	<u>\$ 31,585</u>	<u>\$ 46,666</u>	<u>\$ 35,657</u>	<u>\$ 124,019</u>	<u>\$ 114,050</u>

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 73,300	\$ -	\$ -	\$ 73,300
Construction in progress	139,270	522,623	-	661,893
Total capital assets not being depreciated	<u>212,570</u>	<u>522,623</u>	<u>-</u>	<u>735,193</u>
Other capital assets:				
Infrastructure	2,884,310	-	-	2,884,310
Buildings	1,813,001	-	-	1,813,001
Vehicles	617,515	-	-	617,515
Equipment	581,284	76,959	-	658,243
Total other capital assets	<u>5,896,110</u>	<u>76,959</u>	<u>-</u>	<u>5,973,069</u>
Less accumulated depreciation for:				
Infrastructure	(1,700,628)	(68,846)	-	(1,769,474)
Buildings	(357,984)	(74,795)	-	(432,779)
Vehicles	(353,106)	(70,485)	-	(423,591)
Equipment	(402,008)	(50,845)	-	(452,853)
Total accumulated depreciation	<u>(2,813,726)</u>	<u>(264,971)</u>	<u>-</u>	<u>(3,078,697)</u>
Other capital assets, net	3,082,384	(188,012)	-	2,894,372
Governmental Activities Capital Assets, Net	<u>\$ 3,294,954</u>	<u>\$ 334,611</u>	<u>\$ -</u>	<u>3,629,565</u>
		Plus unspent bond proceeds		9,338,193
		Less associated debt		(8,600,484)
		Plus deferred charge on refunding		7,449
		Net Investment in Capital Assets		<u>\$ 4,374,723</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

All capital assets constructed or paid for with funds of the component unit 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	\$	38,851
Public safety		99,664
Public works		101,639
Cultural and recreation		24,817
Total Governmental Activities Depreciation Expense	\$	<u>264,971</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 16,671	\$ -	\$ -	\$ 16,671
Construction in progress	793,101	513,370	(188,571)	1,117,900
Total capital assets not being depreciated	<u>809,772</u>	<u>513,370</u>	<u>(188,571)</u>	<u>1,134,571</u>
Other capital assets:				
Building	92,434	-	-	92,434
Water/sewer system	8,344,777	269,696	-	8,614,473
Gas system	422,388	8,500	-	430,888
Equipment	559,881	47,089	-	606,970
Vehicles	118,620	-	-	118,620
Total other capital assets	<u>9,538,100</u>	<u>325,285</u>	<u>-</u>	<u>9,863,385</u>
Less accumulated depreciation for:				
Building	(57,237)	(2,089)	-	(59,326)
Water/sewer system	(3,827,057)	(277,791)	-	(4,104,848)
Gas system	(218,066)	(10,459)	-	(228,525)
Equipment	(516,793)	(9,921)	-	(526,714)
Vehicles	(75,513)	(7,500)	-	(83,013)
Total accumulated depreciation	<u>(4,694,666)</u>	<u>(307,760)</u>	<u>-</u>	<u>(5,002,426)</u>
Other capital assets, net	4,843,434	633,045	-	4,860,959
Business-Type Activities Capital Assets, Net	<u>\$ 5,653,206</u>	<u>\$ 1,146,415</u>	<u>\$ (188,571)</u>	<u>\$ 5,995,530</u>

Depreciation was charged to business-type functions as follows:

Gas	\$	19,020
Water/Sewer		288,740
Total Business-Type Activities Depreciation Expense	\$	<u>307,760</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

D. Long-Term Debt

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

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. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 624,750	\$ 6,675,000	\$ 130,000	\$ 7,169,750 (1)	\$ 105,000
Certificates of obligation	2,280,000	2,950,000	150,000	5,080,000 (2)	160,000
Tax notes	740,000	-	120,000	620,000 *	120,000
Construction advance	85,689	-	26,728	58,961 **	27,928
Other liabilities:					
Premiums	46,368	232,010	10,659	267,719 (3)	10,657
Net pension liability (asset)	37,774	-	225,420	(187,646)	-
Total OPEB liability	98,715	14,993	-	113,708	-
Compensated absences	59,564	63,338	61,640	61,262	55,136
Total Governmental Activities	<u>\$ 3,972,860</u>	<u>\$ 9,935,341</u>	<u>\$ 724,447</u>	<u>\$ 13,183,754</u>	<u>\$ 478,721</u>
				<u>\$ 12,892,679</u>	
				\$ 6,675,000 *	
				494,750 **	
				<u>\$ 7,169,750 (1)</u>	
				\$ 1,114,350 *	
				3,965,650 **	
				<u>\$ 5,080,000 (2)</u>	
				\$ 191,134 *	
				76,585 **	
				<u>\$ 267,719 (3)</u>	
				<u>\$ 8,600,484</u>	
				<u>\$ 4,595,946</u>	

* Debt associated with governmental activities capital assets

** Debt associated with business-type activities capital assets

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Net pension liability (asset)	\$ 18,363	\$ -	\$ 21,606	\$ (3,243)	\$ -
Compensated absences	8,508	14,983	16,268	7,223	6,501
Total Business-Type Activities	<u>\$ 26,871</u>	<u>\$ 14,983</u>	<u>\$ 37,874</u>	<u>\$ 3,980</u>	<u>\$ 6,501</u>

Long-term liabilities due in more than one year \$ 722

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component Unit:					
Compensated absences	\$ 17,066	\$ 6,057	\$ 8,351	\$ 14,772	\$ 13,295

Long-term liabilities due in more than one year \$ 1,477

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

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
Governmental Activities		
General Obligation Bonds		
General Operating Refunding Bonds, Series 2014	4.30-5.00%	\$ 494,750
General Obligation Bonds, Series 2018	3.75-5.00%	6,675,000
Certificates of Obligation		
Certificates of Obligation, Series 2012	2.00%	2,185,000
Certificates of Obligation, Series 2017	3.00-3.50%	2,895,000
Tax Notes		
Tax Notes, Series 2016	1.67-4.03%	620,000
Total Bonds, Certificates of Obligation, and Tax Notes		<u>12,869,750</u>
Construction Advance	5.75%	<u>58,961</u>
Total General Long-Term Debt		<u>\$ 12,928,711</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

Year Ending Sept. 30	Long-Term Debt							
	General Obligation Bonds		Certificates of Obligation		Tax Notes		Construction Advance	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 105,000	\$ 314,514	\$ 160,000	\$ 150,638	\$ 120,000	\$ 9,352	\$ 27,928	\$ 2,662
2020	225,000	268,860	170,000	146,788	120,000	7,348	29,577	1,013
2021	230,000	260,500	175,000	142,688	125,000	5,302	1,456	7
2022	230,000	251,890	185,000	138,488	125,000	3,215	-	-
2023	239,750	243,027	195,000	134,038	130,000	1,086	-	-
2024-2028	805,000	1,100,806	1,115,000	590,613	-	-	-	-
2029-2033	955,000	926,906	1,405,000	411,713	-	-	-	-
2034-2038	1,150,000	725,406	930,000	213,748	-	-	-	-
2039-2043	1,485,000	494,481	745,000	66,675	-	-	-	-
2044-2048	1,745,000	201,938	-	-	-	-	-	-
Total	\$ 7,169,750	\$ 4,788,328	\$ 5,080,000	\$ 1,995,389	\$ 620,000	\$ 26,303	\$ 58,961	\$ 3,682

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.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

Certificates of Obligation

On October 18, 2017, the City issued Certificates of Obligation, Series 2017 (the "Certificates") in the amount of \$2,950,000 for the construction of improvements to and the equipment of the City's water and sewer system, the construction of improvements to and the equipment of the City's drainage facilities, and the cost of professional services incurred in connection therewith. The Certificates will mature on August 1, 2042 and have interest rates that range from 3.0 percent to 3.5 percent.

General Obligation Bonds

On June 14, 2018, the City issued General Obligation Bonds, Series 2018 (the "Bonds") in the amount of \$6,675,000 for the acquisition, design, construction, improvement, and equipment of a new City hall and an adjacent civic plaza to be located on City-owned property; and the acquisition, design, construction, improvements, renovation, equipment, and costs of issuance of the Waller

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Civic Center, which is located at 3007 Waller Street. The bonds will mature on August 1, 2048 and have interest rates that range from 3 percent to 5 percent.

E. Interfund Transactions

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
General Fund	Water and Sewer Fund	\$ 72,094
General Fund	Gas Fund	97,436
Debt Service Fund	Capital Projects Fund	34,808
		<u>\$ 204,338</u>

Amounts transferred from the water and sewer fund, gas fund, and the capital projects fund to the general fund and the debt service fund are related to their portion of certain governmental expenditures and accrued interest on debt issuances.

The composition of interfund balances as of year-end were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General Fund	Capital Projects Fund	\$ 66,967
General Fund	Special Revenue Fund	14,963
		<u>\$ 81,930</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Fund Equity

As of September 30, 2018, \$449,966 of the City's total fund balance is restricted by enabling legislation.

G. Restricted Assets

As of September 30, 2018, the City held restricted cash and cash equivalents in the capital projects fund, the gas fund, and the water and sewer fund for the following purposes:

	<u>Capital Projects</u>	<u>Gas</u>	<u>Water and Sewer</u>
Customer deposits	\$ -	\$ 15,658	\$ 31,605
Bond proceeds	9,338,193	-	-
Total	<u>\$ 9,338,193</u>	<u>\$ 15,658</u>	<u>\$ 31,605</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

H. Restatement of Net Position

Beginning net position for governmental activities was restated for the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75)*.

	Governmental Activities
Prior year ending net position	\$ 4,009,228
Total OPEB liability	(98,715)
Contributions subsequent to the measurement date (OPEB)	610
Beginning Net Position - Restated	\$ 3,911,123

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League’s Intergovernmental Risk Pools (the “Pool”). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

B. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the “Board”). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

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

	<u>2018</u>	<u>2017</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/ yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to, but not yet receiving, benefits	22
Active employees	31
Total	<u><u>74</u></u>

Contributions

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

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.74 percent and 4.49 percent in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$67,108, which were equal to the required contributions.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Net Pension Liability/(Asset)

The City's Net Pension Liability/(Asset) (NPL/(A)) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL/(A) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the NPL/(A)

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability / (Asset) (A) - (B)</u>
Changes for the year:			
Service cost	\$ 130,525	\$ -	\$ 130,525
Interest	203,628	-	203,628
Difference between expected and actual experience	(35,472)	-	(35,472)
Contributions - employer	-	63,564	(63,564)
Contributions - employee	-	70,784	(70,784)
Net investment income	-	413,613	(413,613)
Benefit payments, including refunds of employee contributions	(181,215)	(181,215)	-
Administrative expense	-	(2,145)	2,145
Other changes	-	(109)	109
Net Changes	<u>117,466</u>	<u>364,492</u>	<u>(247,026)</u>
Balance at December 31, 2016	3,042,063	2,985,926	56,137
Balance at December 31, 2017	<u>\$ 3,159,529</u>	<u>\$ 3,350,418</u>	<u>\$ (190,889)</u>

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Sensitivity of the NPL/(A) to Changes in the Discount Rate

The following presents the NPL/(A) of the City, calculated using the discount rate of 6.75%, as well as what the City's NPL/(A) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability (Asset)	\$ 132,607	\$ (190,889)	\$ (464,787)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the fiscal year ended September 30, 2018, the City recognized net pension expense of \$41,987.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 51,390
Changes in actuarial assumptions	17,247	-
Net difference between projected and actual investment earnings	-	81,220
Contributions subsequent to the measurement date	49,165	-
Total	\$ 66,412	\$ 132,610

\$49,165 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL (or increase to the NP(A)) for the fiscal year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2019	\$ (13,565)
2020	(15,583)
2021	(43,806)
2022	(42,409)
Total	\$ (115,363)

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

C. Other Postemployment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

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). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to, but not yet receiving, benefits	3
Active employees	31
Total	<u><u>51</u></u>

Total OPEB Liability

The City's total OPEB liability of \$113,708 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%*
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

	Total OPEB Liability
Changes for the year:	
Service cost	\$ 4,530
Interest	3,801
Changes of assumptions	7,511
Benefit payments*	(849)
	Net Changes
	14,993
Beginning balance	98,715
	Ending Balance
	\$ 113,708

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Total OPEB Liability	\$ 132,537	\$ 113,708	\$ 98,584

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$10,058.

The City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 5,784
Contributions subsequent to the measurement date	695
Total	\$ 6,479

\$695 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	OPEB Expense Amount
2019	\$ 1,727
2020	1,727
2021	1,727
2022	603
Total	\$ 5,784

D. Chapter 380 Economic Development Agreement/Tax Abatement Agreement

1. Chapter 380 Agreement

Chapter 380, *Miscellaneous Provisions Relating to Municipal Planning and Development*, of the Texas Local Government Code provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs to promote state or local economic development and to stimulate business and commercial activity in the municipality. The City has entered into a Chapter 380 Economic Development Agreement (the "Agreement") with Buc-ee's, Ltd. (the "Company"). The Company agreed to establish and maintain an office in the City that generates substantial taxable sales. The Company agreed to construct a

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

retail store at least 33,000 square feet in size in addition to creating a minimum of 120 jobs no later than 36 months following the opening of the store. The Agreement is for a term of 15 years. The City will remit back to the Company 75 percent (of the one percent collected by the City) of the sales tax revenues generated by this Company. During the current fiscal year, the City collected \$508,187 in sales taxes from the sales of this business and recorded expenditures of \$185,825.

The City also agreed to construct a water line to the store. The Company agreed to advance \$215,000 to the City to be repaid by the City at a rate of 5.75 percent per annum. The repayments shall consist of one-eighth of one percent of sales tax revenue generated by the Company and remitted to the City each month. This repayment shall be paid monthly during the 15-year term of this Agreement. Once the reimbursable advance by the Company for the construction of the water line, plus interest, has been reimbursed by the City, payments shall cease and the parties shall have no further obligations under the Agreement. All payments made by the City to the Company for reimbursable costs shall be applied to the payments of accrued but unpaid interest on the outstanding balance of reimbursable costs first and then to the payment of all or any portion of the balance then outstanding second.

The City entered into an infrastructure funding agreement (the "Agreement") with the WEDC in which the WEDC agreed to dedicate one-half of all sales tax generated by the Company for a period not to exceed 15 years. The City has agreed to use all funds granted by the WEDC for the sole purpose of developing and constructing the infrastructure projects described in the Agreement or other infrastructure projects specifically approved by the WEDC Board of Directors and City Council.

2. Tax Abatement Agreement

The City entered into a tax abatement agreement (the "Agreement") with Burckhardt Compression (US), Inc. (the "Company") as authorized by the Property Redevelopment and Tax Abatement Act, Chapter 312 of the Texas Tax Code. The Agreement was subsequently amended on May 9, 2018. The City created a tax abatement reinvestment zone known as the Reinvestment Zone No. 1-TA. The term of the Agreement is through December 31, 2020. The City agreed to a property tax abatement equal to 100 percent of the taxable value on the improvements constructed or expanded and the tangible personal property located thereon subsequent to the hereof during the first year of the Agreement and a property tax abatement equal to 60 percent during the second through fifth years of the Agreement. If the certified appraised value of the property is less than the certified appraised value as of January 1, 2015 for any year during the term of the Agreement, the abatement shall not apply. The Company agreed to improvements having a certified appraised value of not less than \$3,953,000 and tangible personal property having a total cost of not less than \$4,618,000. The Company agreed to maintain the property through December 31, 2020. The Company also agreed to employ not less than 35 full-time employees and maintain this increased employment level during the remainder of the term of the Agreement. If the Company subsequently fails to employ 90% of the agreed upon number of employees (32 employees) for any year going forward of the Agreement, then the City may reduce the percentage of tax abatement for such taxable year relative to the number of employees required to be employed by the Company for such taxable year. As of September 30, 2018, no funds have been abated to the Company.

CITY OF WALLER, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

E. Subsequent Events

Chapter 380 Agreement

On June 17, 2019, the City entered into a Chapter 380 Economic Development Agreement (the “Agreement”) with AFGlobal Corporation, LLC (the “Company”). The Company agreed to certain property improvements while continuously occupying and using the improvements to produce oil and gas equipment. The Company will have and maintain on the property at least 150 full time employees. Lastly, the Company will make every effort to maintain a minimum of \$20 million in appraised inventory on their property.

The City also agreed to pay the Company, for a period of three years commencing on the effective date of the Agreement, an amount of money equal to 50% of the amount of ad valorem property taxes actually paid by the Company and received by the City for improvements to the property. If the City terminates the Agreement because of the Company’s default or breach of any provision as permitted by the Agreement, the Company will immediately reimburse the City for all payments the City has made to the Company.

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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 911,000	\$ 911,000	\$ 1,084,533	\$ 173,533
Sales tax	1,735,000	1,735,000	2,008,760	273,760
Franchise fees and other taxes	131,000	131,000	146,604	15,604
Licenses and permits	81,850	81,850	92,014	10,164
Fines and forfeitures	201,175	201,175	634,054	432,879
Charges for services	348,350	348,350	495,094	146,744
Intergovernmental	37,500	37,500	68,507	31,007
Investment income	5,000	5,000	54,889	49,889
Other revenue	7,650	7,650	34,850	27,200
Total Revenues	<u>3,458,525</u>	<u>3,458,525</u>	<u>4,619,305</u>	<u>1,160,780</u>
Expenditures				
Current:				
General government	1,013,285	1,084,547	942,439	142,108
Public safety	1,289,343	1,379,881	1,307,146	72,735
Code enforcement	259,938	266,287	188,988	77,299
Public works	759,876	843,007	695,393	147,614
Culture and recreation	86,851	96,198	67,892	28,306
Capital outlay	57,515	64,801	64,801	-
Debt Service:				
Principal	26,728	26,728	26,728	-
Interest and fiscal charges	4,243	4,243	4,243	-
Total Expenditures	<u>3,497,779</u>	<u>3,765,692</u>	<u>3,297,630</u>	<u>468,062</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,254)	(307,167)	1,321,675	1,628,842
Other Financing Sources (Uses)				
Transfers in	265,000	265,000	169,530	(95,470)
Transfers (out)	(200,000)	(200,000)	-	200,000
Total Other Financing Sources	<u>65,000</u>	<u>65,000</u>	<u>169,530</u>	<u>104,530</u>
Change in Fund Balance	<u>\$ 25,746</u>	<u>\$ (242,167)</u>	1,491,205	<u>\$ 1,733,372</u>
Beginning fund balance			<u>3,284,341</u>	
Ending Fund Balance			<u>\$ 4,775,546</u>	

Notes to Required Supplementary Information:

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

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CITY OF WALLER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2018

	Measurement Year*			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	\$ 107,477	\$ 132,493	\$ 125,064	\$ 130,525
Interest (on the total pension liability)	190,319	195,980	196,181	203,628
Difference between expected and actual experience	(33,536)	(81,153)	(22,342)	(35,472)
Change of assumptions	-	76,719	-	-
Benefit payments, including refunds of employee contributions	(165,870)	(225,930)	(201,383)	(181,215)
Net Change in Total Pension Liability	<u>98,390</u>	<u>98,109</u>	<u>97,520</u>	<u>117,466</u>
Beginning total pension liability	<u>2,748,044</u>	<u>2,846,434</u>	<u>2,944,543</u>	<u>3,042,063</u>
Ending Total Pension Liability	<u><u>\$ 2,846,434</u></u>	<u><u>\$ 2,944,543</u></u>	<u><u>\$ 3,042,063</u></u>	<u><u>\$ 3,159,529</u></u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 60,449	\$ 63,296	\$ 51,823	\$ 63,564
Contributions - employee	67,345	74,434	66,101	70,784
Net investment income	162,554	4,374	194,353	413,613
Benefit payments, including refunds of employee contributions	(165,870)	(225,930)	(201,383)	(181,215)
Administrative expense	(1,697)	(2,664)	(2,196)	(2,145)
Other	(140)	(131)	(118)	(109)
Net Change in Plan Fiduciary Net Position	<u>122,641</u>	<u>(86,621)</u>	<u>108,580</u>	<u>364,492</u>
Beginning plan fiduciary net position	<u>2,841,326</u>	<u>2,963,967</u>	<u>2,877,346</u>	<u>2,985,926</u>
Ending Plan Fiduciary Net Position	<u><u>\$ 2,963,967</u></u>	<u><u>\$ 2,877,346</u></u>	<u><u>\$ 2,985,926</u></u>	<u><u>\$ 3,350,418</u></u>
Net Pension Liability (Asset)	<u><u>\$ (117,533)</u></u>	<u><u>\$ 67,197</u></u>	<u><u>\$ 56,137</u></u>	<u><u>\$ (190,889)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	104.13%	97.72%	98.15%	106.04%
Covered Payroll	\$ 1,346,908	\$ 1,488,686	\$ 1,322,025	\$ 1,415,675
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	8.73%	4.51%	4.25%	-13.48%

* Only four years of information is currently available. The City will build this schedule over the next six-year period.

CITY OF WALLER, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2018

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 63,068	\$ 63,059	\$ 52,440	\$ 60,138
Contributions in relation to the actuarially determined contribution	63,068	63,059	52,440	60,138
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 1,335,275</u>	<u>\$ 1,465,534</u>	<u>\$ 1,308,850</u>	<u>\$ 1,386,384</u>
Contributions as a percentage of covered covered payroll	4.30%	4.30%	4.01%	4.34%

*Only five years of information is currently available. The City will build this schedule over the next five-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market, 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

<u>2018</u>	
\$	67,108
	<u>67,108</u>
\$	<u>-</u>
\$	<u>1,556,283</u>

4.31%

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CITY OF WALLER, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

For the Year Ended September 30, 2018

	Measurement Year*
	2017
Total OPEB Liability	
Service cost	\$ 4,530
Interest (on the total OPEB liability)	3,801
Change of assumptions	7,511
Benefit payments	(849)
Net Change in Total OPEB Liability	14,993
Beginning total OPEB liability	98,715
Ending Total OPEB Liability	\$ 113,708
Covered Payroll	\$ 1,415,675
Total OPEB Liability as a Percentage of Covered Payroll	8.03%

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

**Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Required Supplementary Information:

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Change in assumptions is the annual change in the municipal bond index rate.

There were no benefit changes during the year.

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SCHEDULE

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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, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 421,177	\$ 421,177	\$ 425,467	\$ 4,290
Investment income	1,000	1,000	19,980	18,980
Total Revenues	<u>422,177</u>	<u>422,177</u>	<u>445,447</u>	<u>23,270</u>
Expenditures				
Principal	400,000	400,000	400,000	-
Interest and fiscal charges	222,177	222,177	160,231	61,946
Total Expenditures	<u>622,177</u>	<u>622,177</u>	<u>560,231</u>	<u>61,946</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(200,000)</u>	<u>(200,000)</u>	<u>(114,784)</u>	<u>85,216</u>
Other Financing Sources (Uses)				
Transfers in	200,000	200,000	34,808	(165,192)
Bond proceeds	-	-	17,490	17,490
Total Other Financing Sources	<u>200,000</u>	<u>200,000</u>	<u>52,298</u>	<u>(147,702)</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>(62,486)</u>	<u>\$ (62,486)</u>
Beginning fund balance			<u>197,886</u>	
Ending Fund Balance			<u>\$ 135,400</u>	

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