

CITY OF WHARTON, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2008

Joyce Vasut, CPA
Finance Director

Andres Garza, Jr.
City Manager

Issued By:
Finance Department

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INTRODUCTORY SECTION





City of Wharton

120 E. Caney Street • Wharton, Texas 77488
Phone (979) 532-2491 • Fax (979) 532-0181

March 12, 2009

To the Honorable Mayor,
Members of the City Council, and
Citizens of the City of Wharton, Texas

INTRODUCTION

The Comprehensive Annual Financial Report (CAFR) of the City of Wharton, Texas, hereafter referred to as the "City", for the fiscal year ended September 30, 2008, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included.

The City's CAFR uses the "new financial reporting model" promulgated by the Government Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). The CAFR is presented in four sections: introductory, financial, statistical, and single audit. The introductory section includes this transmittal letter, the certificate of achievement for excellence in financial reporting, the City's organizational chart, and a listing of the City's principal officials. The financial section includes the independent auditor's report, management's discussion and analysis, the basic financial statements (including notes), required supplementary information, and combining and individual fund statements and schedules for major and nonmajor funds. The statistical section provides selected historical financial and demographic information, generally presented on a multi-year basis. The single audit section includes auditor reports on internal control structure and compliance with applicable laws and regulations, and a schedule of expenditures of federal and state awards. The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City's MD&A can be found immediately following the independent auditor's report.

As an independent political subdivision of the State of Texas, governed by an elected Mayor and Council, the City is considered a primary government. The City provides a full range of municipal services. These services include police and fire protection; construction and maintenance of streets and drainage systems; and cultural and recreation activities. In addition to general government activities, the City exercises authority over a water and wastewater system, sanitation services, emergency medical services, the civic center, and a municipal airport. These activities of the City are all included in this report as part of the primary government.

The Honorable Mayor,
Members of the City Council, and
Citizens of the City of Wharton, Texas

INTRODUCTION - (Continued)

The Wharton Economic Development Corporation (WEDC) is also reported herein as a discretely presented component unit of the City based upon standards established by GASB (see Note 1 to the financial statements). WEDC was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and related development activities on behalf of the City.

ECONOMIC CONDITION AND OUTLOOK

The City is located fifty-five miles southwest of Houston on the edge of the Houston Statistical Metropolitan Service Area (SMSA) with a population of 9,237. This proximity to Houston appeals to both domestic and foreign industry. The City is located on U.S. Highway 59 that ties the United States to Mexico and is currently being studied for conversion to an interstate highway that would link Mexico to Canada.

The industrial base within the City is anchored by Nan Ya Plastics and JM Manufacturing, both units of Formosa Plastics (USA), Inc. These plants, which employ over 300 people, are the largest taxpayer in the City, with combined assessed valuations of approximately \$65 million. They are also the largest purchaser of water, consuming approximately 38 million gallons a year.

In addition to the industrial base, the City has a major hospital and medical clinic which provide medical facilities to the Gulf Coast region. The hospital and medical clinic employ over 700 people. The hospital is a regional cancer center, providing medical and economic impact to the community and surrounding area.

The City is also credited with a large agricultural base providing rice, corn, cotton, and other agricultural products. Wharton County has long been known as the top rice-producing county in the United States.

These three industries provide the City with a solid diverse economic base to support government activities and local citizens. The City, along with WEDC, is actively engaged in the promotion of economic development. The retail sector also continues to grow as confirmed by the increasing sales tax revenue.

MAJOR INITIATIVES

During the 2008 fiscal year, the City's most important initiative was to continue to provide drainage improvements and reduce flooding in the City. The City is moving forward with the construction of the Santa Fe drainage outfall channel project. Additionally, the City continues its efforts to reduce flooding in the City. The final report regarding the Wharton Interim Feasibility Study identifies potential flooding solutions from the Colorado River in the Wharton area. The City, in conjunction with the US Army Corps of Engineers and the federal elected officials, is securing funding on an annual basis for the Preconstruction Engineering and Design (PED) as well as the construction phase of the project. Through the Water Resources Development Act of 2007 (WRDA), congressional authorization was received for the project. The City must continue to make this project a priority and prepare for the future funding necessary to implement the identified solutions.

The Honorable Mayor,
Members of the City Council, and
Citizens of the City of Wharton, Texas

MAJOR INITIATIVES - (Continued)

As part of the City's flood reduction initiative, the City has submitted the application to participate in the National Flood Insurance Program's (NFIP) Community Rating System (CRS). The CRS not only provides insurance premium rate reductions for communities that enact regulatory floodplain standards that are higher than the minimum NFIP requirements, but also helps protect property and people from potential flooding within the City.

Another major initiative of the City is improvements at the Wharton Regional Airport. A drainage improvement project is currently being implemented at the airport.

The City is also in the pre-design and engineering phase of the road extension project between FM 1301 and CR 235. TxDOT and the City are working together on this project and evaluating other options to ensure safety and access to the medical facilities once railroad operations through the City become operational.

During the 2008 fiscal year, the City completed many improvements throughout the City with funding from a variety of sources. These projects include completing:

- The improvements to the new Police Department and Municipal Court facility funded by the City.
- The infrastructure improvements to the Wharton Industrial Park funded by the United States Department of Agriculture and WEDC.
- The improvements to the sidewalks in the historical downtown area funded by the City and the County.
- The replacement of water and sanitary sewer lines in various locations throughout the City.

These initiatives, along with the efforts of WEDC, will help to develop existing businesses and attract new businesses to the City and play a key role in the City's future development.

FINANCIAL INFORMATION, MANAGEMENT, AND CONTROL

The financial statements have been prepared in accordance with GAAP as prescribed by GASB.

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse. In addition, the system is designed to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted government accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgements by management.

The City maintains effective budgeting controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual budget, City Charter, and State law.

The Honorable Mayor,
Members of the City Council, and
Citizens of the City of Wharton, Texas

FINANCIAL INFORMATION, MANAGEMENT, AND CONTROL - (Continued)

The City maintains a General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Enterprise Funds. These funds are included in the annual appropriated budget and are reported in the attached audit document. Council approves the budget appropriations and any amendments at the department level within the budgeted funds. The department heads have discretion over line items within the departmental budget. Budgetary control is exercised generally by the Director of Finance and specifically at the department level by the department heads.

Cash Management

During the fiscal year, the City had a depository contract with Franklin Bank. This contract is in effect through September 30, 2009. Under this agreement, the City is not charged for bank services and deposits earn interest above the going bank rates. The City also invests reserve balances in TexPool as approved in the investment policy, which is in compliance with the Texas Public Funds Investment Act. The City's investment policy is based on maximizing yield while minimizing credit and market risk.

Risk Management

The City is exposed to a variety of risks including general liability, worker's compensation, automobile liability, and property damage. To reduce this risk exposure, the City has established a risk management strategy that attempts to minimize losses. The City participates in the Texas Municipal League Intergovernmental Risk Pool for worker's compensation, property, casualty, and liability coverage. The City also participates in the Texas Municipal League Intergovernmental Employee Benefits Pool for health insurance coverage for all full-time employees.

INDEPENDENT AUDIT

This report is prepared in compliance with the legal requirement set forth by Section 31 of the Charter of the City of Wharton, Texas, as amended. In addition to fulfilling this legal requirement, this report serves to fully disclose financial data on an annual basis to management, the elected Council and Mayor, the public, investors, and other interested persons. The firm of Harrison, Waldrop & Uherek, L.L.P., Certified Public Accountants, was engaged by the City to satisfy this requirement.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2007. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

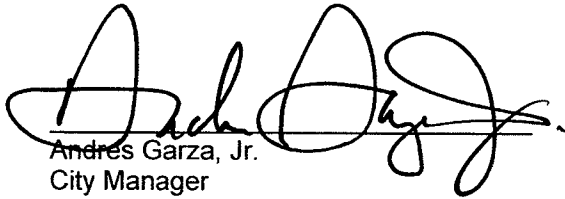
A Certificate of Achievement is valid for a period of one year only. The City of Wharton has received a Certificate of Achievement for the last seventeen consecutive years (fiscal years ended 1991 - 2007). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting the report to GFOA to determine its eligibility for an additional certificate.

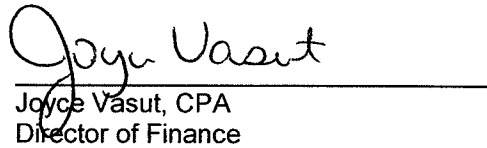
The Honorable Mayor,
Members of the City Council, and
Citizens of the City of Wharton, Texas

ACKNOWLEDGEMENT

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department of the City. We would also like to express our appreciation to the Mayor and the City Council Members for their interest and support in planning and conducting the operations of the government in a responsible and progressive manner.

Respectfully,


Andres Garza, Jr.
City Manager


Joyce Vasut, CPA
Director of Finance



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Wharton
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. R. H.", positioned above the title "President".

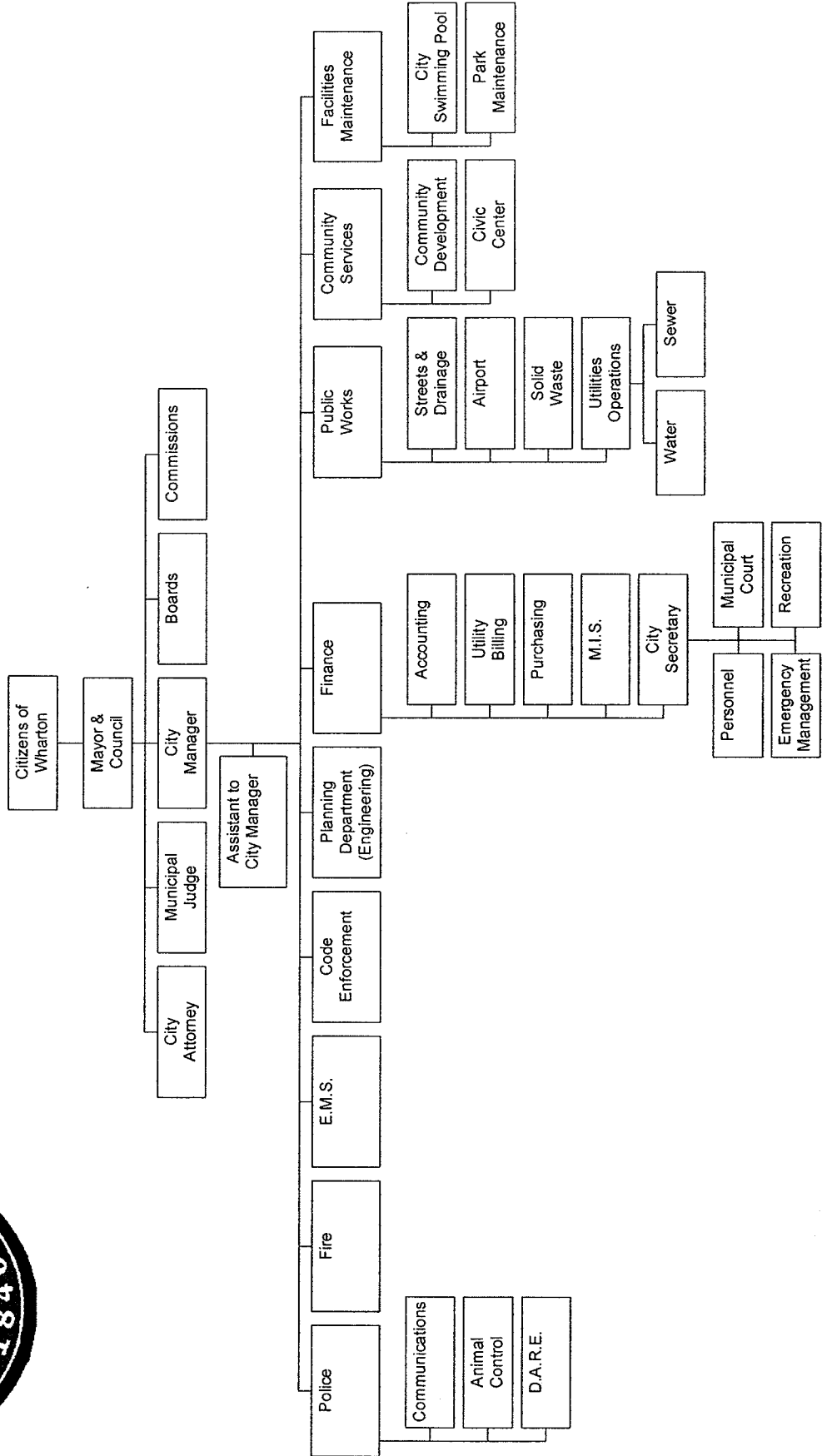
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", positioned above the title "Executive Director".

Executive Director



CITY OF WHARTON, TEXAS ORGANIZATION CHART



Elected Officials

Dr. David W. Samuelson	Mayor
V. L. Wiley, Jr.	Council Member District 1
Lewis Fortenberry, Jr.	Council Member District 2
Ken Freese	Council Member District 3
Donald Mueller	Council Member District 4
Domingo Montalvo, Jr.	Council Member At Large Place 5
Jeff Gubbels	Council Member At Large Place 6

Appointed Officials

Andres Garza, Jr.	City Manager
Paul Webb	City Attorney
Mary Garcia	Municipal Judge
Joyce Vasut, CPA	Finance Director

Department Heads

Lisa Olmeda	City Secretary
Tim Guin	Police Chief
Bobby Barnett	Fire Chief
Ronnie Bollom	Building Official
Carter Miska	Public Works Director
John Kowalik	E.M.S. Director
Robert Baker	Facilities Maintenance Director
Jo Knezek	Community Services Director
Jim Cooper	Emergency Management Coordinator



FINANCIAL SECTION





CERTIFIED PUBLIC ACCOUNTANTS
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VICTORIA, TEXAS 77901-8142

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members
of City Council
City of Wharton, Texas

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 Wharton, Texas (the "City") as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Wharton Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

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

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 58 through 59, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Honorable Mayor and Members
of City Council

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual major and nonmajor fund financial statements and schedules, statistical data, and schedule of expenditures of federal awards (as required by the U.S. Office of Management and Budget Circular A-133, *Auditing of States, Local Governments, and Non-Profit Organizations*) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual major and nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Harrison Waldrop + Wheeler, LLP.

March 12, 2009

The discussion and analysis of the City of Wharton's (the "City") financial performance provides an overview of the City's financial activities for the year ended September 30, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2008, by \$21,043,841. Of this amount, \$1,069,921 of unrestricted net assets is available to meet the City's ongoing obligations to citizens and creditors.
- At September 30, 2008, the City's governmental funds reported combined ending fund balances of \$2,068,567, a net decrease of \$919,477 in comparison with prior year. The net decrease in fund balance was mainly due to the decrease in the 2006 Bond Construction Fund fund balance in the amount of \$1,141,453.
- At September 30, 2008, unreserved fund balance for the General Fund was \$1,418,203 or 29.96% of total General Fund expenditures.
- The total cost of all City activities was \$11,552,263 for the fiscal year. The net expense was \$2,660,742.
- During the year, the City's general revenues exceeded net expenses of the governmental activities by \$1,701,664. This represents a 23.63% increase in net assets from the previous fiscal year as a result of operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditor's Report

Provides the opinion of the Independent Auditor on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 3 to 13

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 14 to 17

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 18 to 29

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 30 to 57

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during fiscal year 2008. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected and earned, but unused vacation leave).

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, cultural and recreation, and interest on long-term debt. The business-type activities of the City include water and wastewater services, solid waste disposal, emergency medical services, civic center, and airport operations. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component unit, Wharton Economic Development Corporation (WEDC). The component unit is not included as part of the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary 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 available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 financial decisions.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual statements and schedules following the required supplementary information.

The City adopts an annual appropriated budget for its General and Debt Service Funds and some of the Special Revenue Funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

The City maintains one type of *proprietary fund* known as enterprise funds which 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 the fiscal activities relating to water and wastewater services, solid waste disposal, emergency medical services, civic center operations, and airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater services, solid waste disposal, emergency medical services, civic center operations, and airport operations which are all considered to be major funds.

The basic proprietary fund financial statements follow the governmental fund financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 30 through 57 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund. Required supplementary information can be found on pages 58 through 59 of this report.

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds and nonmajor enterprise funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 60 through 112 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$21,043,841 at the close of the fiscal year ended September 30, 2008.

At the end of fiscal year 2008, the City is able to report positive balances in all three categories of net assets for the government as a whole.

City of Wharton, Texas						
Net Assets						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>Restated 2007</u>	<u>2008</u>	<u>Restated 2007</u>
ASSETS						
Current assets	\$ 2,606,667	\$ 4,639,562	\$ 161,996	\$ 1,068,059	\$ 2,768,663	\$ 5,707,621
Capital assets (net)	12,549,164	9,292,511	16,892,603	16,187,627	29,441,767	25,480,138
Other noncurrent assets	117,375	83,977	20,383	30,471	137,758	114,448
Total assets	<u>15,273,206</u>	<u>14,016,050</u>	<u>17,074,982</u>	<u>17,286,157</u>	<u>32,348,188</u>	<u>31,302,207</u>
LIABILITIES						
Current and other liabilities	756,576	2,441,731	997,965	900,723	1,754,541	3,342,454
Noncurrent liabilities	5,612,624	4,371,977	3,937,182	4,704,571	9,549,806	9,076,548
Total liabilities	<u>6,369,200</u>	<u>6,813,708</u>	<u>4,935,147</u>	<u>5,605,294</u>	<u>11,304,347</u>	<u>12,419,002</u>
NET ASSETS						
Invested in capital assets, net of related debt	6,863,521	5,330,747	12,596,624	11,500,738	19,460,145	16,831,485
Restricted	513,775	613,877	-	-	513,775	613,877
Unrestricted	1,526,710	1,257,718	(456,789)	180,125	1,069,921	1,437,843
Total net assets	<u>\$ 8,904,006</u>	<u>\$ 7,202,342</u>	<u>\$ 12,139,835</u>	<u>\$ 11,680,863</u>	<u>\$ 21,043,841</u>	<u>\$ 18,883,205</u>

The largest portion of the City's net assets (92.47%) reflects its investment in capital assets (e.g., land, buildings, streets, and equipment), less any related outstanding debt used to acquire those assets. 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 capital assets themselves cannot be used to liquidate these liabilities.

The City has restricted net assets of \$513,775 for debt service and for special projects. The remaining balance of \$1,069,921 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities increased the City's net assets by \$1,701,664. There was a net increase of \$458,972 in net assets reported in connection with the City's business-type activities. Therefore, there was an overall \$2,160,636 increase in the net assets of the City.