

CITY OF WHARTON, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2007

Joyce Vasut, CPA
Finance Director

Andres Garza, Jr.
City Manager

Issued By:
Finance Department

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
City Administrators' Letter of Transmittal.....	i
Certificate of Achievement for Excellence in Financial Reporting.....	vi
Organization Chart.....	vii
Directory of Principal Officials.....	viii
FINANCIAL SECTION	
Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Assets.....	14
Statement of Activities	16
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Statement of Net Assets - Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds.....	26
Notes to Financial Statements	30
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (GAAP Basis) and Actual - General Fund	57
Notes to Required Supplementary Information.....	58
<u>Combining and Individual Fund Statements and Schedules</u>	
<i>Governmental Funds</i>	
Combining Statements	
Combining Balance Sheet - All Nonmajor Governmental Funds	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - All Nonmajor Governmental Funds	60
Nonmajor Special Revenue Funds	61
Combining Balance Sheet - Nonmajor Special Revenue Funds	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	65

FINANCIAL SECTION - (Continued)

Page

Combining and Individual Fund Statements and Schedules - (Continued)

Governmental Funds - (Continued)

Nonmajor Special Revenue Funds - (Continued)

Individual Statements and Schedules

Hotel/Motel Tax

Balance Sheet	68
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget (GAAP Basis) and Actual.....	69

Municipal Court Technology

Balance Sheet	70
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	71

Narcotics Control

Balance Sheet	72
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget (GAAP Basis) and Actual.....	73

DARE

Balance Sheet	74
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget (GAAP Basis) and Actual.....	75

Fire Department Special

Balance Sheet	76
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	77

Municipal Court Building Security

Balance Sheet	78
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	79

Texas Capital Buc-ee's

Balance Sheet	80
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	81

Texas Capital JR's Texas Best

Balance Sheet	82
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	83

Industrial Park Improvement

Balance Sheet	84
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	85

HOME Grant

Balance Sheet	86
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	87

Railroad Depot Restoration

Balance Sheet	88
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	89

FINANCIAL SECTION - (Continued)
Combining and Individual Fund Statements and Schedules - (Continued)
Governmental Funds - (Continued)

Nonmajor Special Revenue Funds - (Continued)

Individual Statements and Schedules - (Continued)

Feasibility Study

Balance Sheet.....	90
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	91

Santa Fe Trail

Balance Sheet.....	92
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	93

Nonmajor Debt Service Fund.....	94
---------------------------------	----

Balance Sheet	95
---------------------	----

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Budget (GAAP Basis) and Actual.....	96
-------------------------------------	----

Capital Project Funds.....	97
----------------------------	----

Combining Balance Sheet - Nonmajor Capital Project Funds	98
--	----

Combining Statement of Revenues, Expenditures, and Changes in

Fund Balance - Nonmajor Capital Project Funds.....	99
--	----

Individual Statements and Schedules

Street Improvement

Balance Sheet.....	100
--------------------	-----

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Budget (GAAP Basis) and Actual	101
--------------------------------------	-----

2004 Bond Construction

Balance Sheet.....	102
--------------------	-----

Statement of Revenues, Expenditures, and Changes in Fund Balance.....	103
---	-----

2006 Bond Construction

Balance Sheet.....	104
--------------------	-----

Statement of Revenues, Expenditures, and Changes in Fund Balance.....	105
---	-----

General Fund	106
--------------------	-----

Balance Sheet	107
---------------------	-----

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Budget (GAAP Basis) and Actual.....	108
-------------------------------------	-----

Proprietary Funds

Enterprise Funds.....	110
-----------------------	-----

Individual Statements and Schedules

Water and Sewer

Balance Sheet.....	111
--------------------	-----

Schedule of Revenues, Expenses, and Change in Fund Net Assets

Budget (GAAP Basis) and Actual	112
--------------------------------------	-----

FINANCIAL SECTION - (Continued)

Combining and Individual Fund Statements and Schedules - (Continued)

Proprietary Funds - (Continued)

Enterprise Funds - (Continued)

Individual Statements and Schedules - (Continued)

Solid Waste

Balance Sheet 113

Schedule of Revenues, Expenses, and Change in Fund Net Assets
Budget (GAAP Basis) and Actual 114

Emergency Medical Services

Balance Sheet 115

Schedule of Revenues, Expenses, and Change in Fund Net Assets
Budget (GAAP Basis) and Actual 116

Civic Center

Balance Sheet 117

Schedule of Revenues, Expenses, and Change in Fund Net Assets
Budget (GAAP Basis) and Actual 118

Airport

Balance Sheet 119

Schedule of Revenues, Expenses, and Change in Fund Net Assets
Budget (GAAP Basis) and Actual 120

STATISTICAL SECTION 121

Financial Trends

Net Assets by Component 122

Changes in Net Assets 123

Fund Balances, Governmental Funds 125

Changes in Fund Balances, Governmental Funds 126

Tax Revenues by Source, Governmental Funds 127

Revenue Capacity

Assessed and Estimated Actual Value of Taxable Property 128

Direct and Overlapping Property Tax Rates 130

Principal Property Taxpayers (Unaudited) 131

Property Tax Levies and Collections 132

Water Produced and Consumed and Wastewater Treated 134

STATISTICAL SECTION - (Continued)

Revenue Capacity - (Continued)

Water and Sewer Rates 136

Ten Largest Water Customers (Unaudited)..... 138

Debt Capacity

Ratios of Outstanding Debt by Type 139

Ratios of Net General Bonded Debt Outstanding..... 141

Direct and Overlapping Governmental Activities Debt (Unaudited)..... 143

Pledged-Revenue Coverage..... 144

Demographic and Economic Information

Demographic and Economic Statistics (Unaudited) 145

Principal Employers (Unaudited) 146

Operating Information

Full-Time-Equivalent City Government Employees by Function/Program 147

Operating Indicators by Function/Program 149

Capital Asset Statistics by Function/Program 151

SINGLE AUDIT SECTION

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*..... 153

Report on Compliance with Requirements Applicable to
Major Programs and Internal Control Over Compliance in
Accordance with OMB Circular A-133 155

Schedule of Expenditures of Federal Awards 157

Notes to Schedule of Expenditures of Federal Awards..... 158

Schedule of Findings and Questioned Costs 159

Summary Schedule of Prior Audit Findings..... 160



INTRODUCTORY SECTION





City of Wharton

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

March 10, 2008

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, 2007, 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 financial reporting model promulgated by the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - And Management's Discussion and Analysis - For State and Local Governments* (GASB No. 34).

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 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 9,412. This proximity to Houston appeals to both domestic and foreign industry. The City is located on U.S. Highway 59 which ties the United States to Mexico and is currently being studied for conversion to an interstate highway that would link Mexico to Canada.

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

ECONOMIC CONDITION AND OUTLOOK - (Continued)

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 400 people, are the largest taxpayers in the City, with combined assessed valuations of approximately \$65 million. They are also the largest purchaser of water, consuming approximately 40 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 2007 fiscal year, the City's most important initiative was to continue to provide drainage improvements for the City. The City issued bonds during fiscal years 2005 and 2007 to complete the Santa Fe drainage outfall channel project (Santa Fe). The City is moving forward with the construction of the Santa Fe project.

Another major initiative of the City is to continue 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 Corp 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.

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. The proposed projects include nearly \$1.6 million in improvements. Approximately \$1.0 million will be funded by various grants while approximately \$600,000 would be funded locally. The new hangar and improvements to the fueling system have been completed. Drainage improvements and construction of a new terminal building are continuing.

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

MAJOR INITIATIVES - (Continued)

U.S. Highway 59 access is another priority of the City. The new frontage road on the southwest quadrant of U.S. Highway 59 and FM 102 intersection has been completed. The Texas Department of Transportation (TxDOT) has started other improvements to that intersection by reconstructing and extending the existing frontage road in the southeast quadrant of U.S. Highway 59 and FM 102 and installing traffic signalization at the intersections of FM 102 and U.S. Highway 59.

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.

The City will continue efforts on many ongoing 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 City maintains a General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Enterprise Funds. These fund types 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.

