

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

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Issued By:
Finance Department

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INTRODUCTORY SECTION





City of Wharton

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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.