

City of Roman Forest, Texas

Annual Financial Report

Year Ended September 30, 2016

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Introductory Section

City of Roman Forest, Texas

Principal City Officials

September 30, 2016

Chris Parr	Mayor
Tony Garza	Council Member
Jill Carlson	Council Member
David Mullane.....	Council Member
John Ryder	Council Member
Conley Wallace.....	Council Member
Liz Mullane	City Administrator

Financial Section



Independent Auditor's Report

To The Honorable Mayor and Members of
the City Council and Management of
City of Roman Forest, Texas
2430 Roman Forest Blvd.
Roman Forest, Texas 77357

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the City of Roman Forest, Texas (City), as of and for the year ended September 30, 2016, 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.

Auditor's 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 and the standards 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 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 assessments of the risk 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 entity'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 entity'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.

To The Honorable Mayor and Members of
the City Council and Management of
City of Roman Forest, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the City of Roman Forest, Texas as of September 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Roman Forest's basic financial statements. The Introductory Section and Supplementary Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To The Honorable Mayor and Members of
the City Council and Management of
City of Roman Forest, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2017, on our consideration of the City of Roman Forest'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Roman Forest's internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
April 5, 2017

Management's Discussion and Analysis

As management of the City of Roman Forest, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$342,794 (*net position*). Net position reflects \$103,653 that represents net investment in capital assets and \$115,084 that is restricted for grants and debt service.
- During the year, the City's expenses of \$1,081,107 exceeded revenues of \$889,530 by \$191,577.
- The General Fund reported a fund balance this year of \$106,008, of which \$81,016 was unassigned, approximated 9% of General Fund expenditures.

Overview of the Basic Financial Statements

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

Government-wide Financial Statements. The *government-wide financial 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 Position (Exhibit A-1)* presents financial information on all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities (Exhibit A-2)* presents information showing how the City's net position changed during the most recent fiscal 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*. 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 taxes and earned but unused vacation leave).

The government-wide financial statements of the City are principally supported by taxes and charges for services (*governmental activities*). The governmental activities of the City include general government, municipal court, police department, public works, parks and recreation, grant expenses, and interest and fees on long-term debt.

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. The City has four governmental funds.

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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, debt service fund and the capital projects fund, which are considered to be major funds.

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

Notes to the Basic 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 the basic financial statements can be found as noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information, supplementary information, and other information concerning the City. Such information can be found as noted in the table of contents of this report.

Government-wide Overall Financial Analysis

Net Position. The City's net position was \$342,794 at September 30, 2016.

**Table A-1
City of Roman Forest, Texas's Net Position**

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 4,019,412	90	\$ 213,584	36	\$ 3,805,828	1,782
Capital assets	427,416	10	387,202	64	40,214	10
<i>Total assets</i>	<u>4,446,828</u>	<u>100</u>	<u>600,786</u>	<u>100</u>	<u>3,846,042</u>	
Long-term liabilities outstanding	4,054,516	99	31,958	48	4,022,558	12,587
Other liabilities	49,518	1	34,457	52	15,061	44
<i>Total liabilities</i>	<u>4,104,034</u>	<u>100</u>	<u>66,415</u>	<u>100</u>	<u>4,037,619</u>	
Net position:						
Net investment in capital assets	103,653	31	361,202	68	(257,549)	(71)
Restricted for grants	12,310	4	-	-	12,310	-
Restricted for debt service	102,774	29	-	-	102,774	-
Unrestricted	124,057	36	173,169	32	(49,112)	(28)
<i>Total net position</i>	<u>\$ 342,794</u>	<u>100</u>	<u>\$ 534,371</u>	<u>100</u>	<u>\$ (191,577)</u>	

The City's total current assets of \$4,019,412 or 90% are largely comprised of investments. Capital assets, \$427,416 or 10%, are non-liquid assets and cannot be utilized to satisfy City obligations.

Total liabilities are comprised of \$4,054,516 in long-term liabilities, which consists of certificates of obligation, notes payable and accrued compensated absences, and \$49,518 in other liabilities.

Approximately 31% of total net position, or \$103,653, represents net investment in capital assets and 33%, or \$115,084 represents net position restricted for grants and debt service. Unrestricted net position of \$124,057 represents resources available to fund the programs for the City's next fiscal year.

Changes in Net Position. The City's combined decrease in current year net position was \$191,577 for the year ended September 30, 2016.

Table A-2
City of Roman Forest, Texas's Change in Net Position

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue						
Program revenues						
Charges for services	\$ 271,579	32	\$ 250,995	30	\$ 20,584	8
Operating grants and contributions	37,618	4	43,856	5	(6,238)	(14)
Capital grants and contributions	-	-	52,561	6	(52,561)	(100)
General revenues						
Property taxes	502,566	56	446,132	51	56,434	13
Franchise taxes	63,183	7	62,306	7	877	1
Investment earnings	2,192	-	-	-	2,192	100
Miscellaneous	12,392	1	10,935	1	1,457	13
Total revenues	<u>889,530</u>	<u>100</u>	<u>866,785</u>	<u>100</u>	<u>22,745</u>	
Expenses						
General government	301,190	28	237,732	29	63,458	27
Municipal court	87,868	8	93,908	11	(6,040)	(6)
Police department	387,925	36	361,486	44	26,439	7
Public works	105,579	10	82,292	10	23,287	28
Parks and recreation	43,954	4	49,169	6	(5,215)	(11)
Grant expenses	1,000	-	-	-	1,000	100
Interest and fees	153,591	14	500	-	153,091	30,618
Total expenses	<u>1,081,107</u>	<u>100</u>	<u>825,087</u>	<u>100</u>	<u>256,020</u>	
Increase (decrease) in net position	(191,577)		41,698		(233,275)	
Net position - beginning	<u>534,371</u>		<u>492,673</u>		<u>41,698</u>	
Net position - ending	<u>\$ 342,794</u>		<u>\$ 534,371</u>		<u>\$ (191,577)</u>	

Governmental Activities. The City's total revenues were \$889,530 from all governmental activities. A significant portion, \$502,566 or 56%, of the City's revenue comes from property taxes. Charges for services revenue accounts for \$271,579 or 32% of total revenue from governmental activities. The most significant change in governmental revenues was the increase in charges for services which is primarily a result of fees related to contracted police security services and property taxes due to the increase in property value and the tax rate and the decrease in capital grants.

The total cost of all governmental programs and services was \$1,081,107. The police department function accounted for \$387,925, or 36% of this total. The general government function accounted for \$301,190, or 28% of this total. Total expenses increased primarily from the increase in interest and fees resulting from the new debt issues.

Financial Analysis of the City's Funds

As mentioned earlier, the City uses fund accounting to ensure and demonstrate 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, unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year, the City's governmental funds reported an ending fund balance of \$3,943,128, which is an increase of \$3,793,377 from last year's total of \$149,751. The increase in fund balance is primarily due to the increase in property tax revenues resulting from the increase in appraised values and rates and loan proceeds for a vehicle as well as the issuance of the certificates of obligation in the current year.

The general fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$81,016, which represented 76% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9% of total general fund expenditures.

General Fund Budgetary Highlights

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's financial plan is controlled at the fund and project level with management authorized to make transfers of budgeted amounts between object class levels within a fund or project, or within restrictions imposed by grantor agencies. City Council approves the financial plan for revenues and expenditures in all funds.

Over the course of the year, the City amended its general fund budget primarily to decrease appropriations for general government and to increase appropriations in public works and debt service.

In addition, the primary differences between final budget and actual amounts are as follows:

- Municipal court fines were less than budgeted.
- License and permits were greater than budgeted.
- Contributions and donations were greater than budgeted.
- Charges for services were less than budgeted.
- Municipal court and public works were less than budgeted.
- Police department expenditures were less than appropriated whereas the capital outlay for the police vehicle was greater than the appropriation.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2016, the City had invested \$427,416 in a broad range of capital assets. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Table A-3
City of Roman Forest, Texas's Capital Assets
(net of depreciation)

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 90,580	12	\$ 90,580	13	\$ -	-
Buildings and improvements	293,482	40	248,821	35	44,661	18
Machinery, equipment, and vehicles	315,867	44	371,375	52	(55,508)	(15)
Construction in Progress	28,610	4	-	-	28,610	100
Totals	728,539	100	710,776	100	17,763	
Total accumulated depreciation	(301,123)		(323,574)		22,451	
Net capital assets	<u>\$ 427,416</u>		<u>\$ 387,202</u>		<u>\$ 40,214</u>	

Major capital asset additions during the current fiscal year included the following:

- \$39,875 Police Vehicle
- \$9,544 Public Works Equipment
- \$28,610 Construction in Progress

Long-Term Liabilities. As of year-end, the City had total long-term liabilities outstanding of \$4,054,516, which consisted of certificates of obligation, notes payable, and compensated absences. More detailed information about the City's long-term liabilities can be found in the notes to the financial statements as indicated in the table of contents of this report.

Table A-4
City of Roman Forest, Texas's Long-term Liabilities Outstanding

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Certificates of obligation (net)	\$3,993,644	99	\$ -	-	3,993,644	100
Note payable	46,716	1	26,000	81	20,716	80
Compensated absences	14,156	-	5,958	19	8,198	138
Total long-term liabilities	<u>\$4,054,516</u>	<u>100</u>	<u>\$ 31,958</u>	<u>100</u>	<u>\$ 4,022,558</u>	

Economic Factors and Next Year's Budget

- Total tax rate of .495 per \$100 valuation in fiscal year 2017 which is a slight increase from the prior fiscal year 2016.
- The unemployment rate for Montgomery County, according to Texas Workforce statistics, is 5.4%, which is an increase from prior fiscal year rate of 4.3%. The state unemployment rate is 4.9%, an increase from last year's rate of 4.4%.
- These indicators were taken into account when adopting the general fund budget for 2017. Amounts available for appropriation in the General Fund budget are \$81,016.

Contacting The City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator.

Basic Financial Statements

City of Roman Forest, Texas

Statement of Net Position

September 30, 2016

Exhibit A-1

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 47,546
Investments	3,929,871
Receivables	
Property taxes	34,249
Allowance for uncollectible property taxes	(700)
Other	8,446
Capital assets	
Land and improvements	90,580
Buildings and improvements	293,482
Machinery, equipment, and vehicles	315,867
Construction in progress	28,610
Accumulated depreciation	<u>(301,123)</u>
Total assets	<u>4,446,828</u>
LIABILITIES	
Accounts payable	33,509
Interest payable	6,783
Accrued liabilities	9,226
Noncurrent liabilities	
Due within one year	33,682
Due in more than one year	<u>4,020,834</u>
Total liabilities	<u>4,104,034</u>
NET POSITION	
Net investment in capital assets	103,653
Restricted for grants	12,310
Restricted for debt services	102,774
Unrestricted	<u>124,057</u>
TOTAL NET POSITION	<u><u>\$ 342,794</u></u>

The Notes to the Financial Statements
are an integral part of this statement.

City of Roman Forest, Texas
 Balance Sheet - Governmental Funds
 September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash and cash equivalents	\$ 33,819	\$ -
Investments	105,061	108,213
Receivables		
Property taxes	34,249	-
Allowance for uncollectible property taxes	(700)	-
Due from other funds	1,417	-
Other	8,446	-
TOTAL ASSETS	<u>\$ 182,292</u>	<u>\$ 108,213</u>
LIABILITIES		
Accounts payable	\$ 33,509	\$ -
Accrued liabilities	9,226	-
Due to other funds	-	-
Total liabilities	<u>42,735</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	33,549	-
Total deferred inflows of resources	<u>33,549</u>	<u>-</u>
FUND BALANCE		
Restricted for grant	-	-
Restricted for debt	-	108,213
Restricted for construction	-	-
Assigned - other	24,992	-
Unassigned	81,016	-
Total fund balance	<u>106,008</u>	<u>108,213</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 182,292</u>	<u>\$ 108,213</u>

The Notes to the Financial Statements are an integral part of this statement.

Exhibit A-3

<u>Capital Projects Fund</u>	<u>Nonmajor Police Training and Seizure Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ 13,727	\$ 47,546
3,716,597	-	3,929,871
-	-	34,249
-	-	(700)
-	-	1,417
-	-	8,446
<u>\$ 3,716,597</u>	<u>\$ 13,727</u>	<u>\$ 4,020,829</u>
\$ -	\$ -	\$ 33,509
-	-	9,226
-	1,417	1,417
<u>-</u>	<u>1,417</u>	<u>44,152</u>
-	-	33,549
-	-	33,549
-	12,310	12,310
-	-	108,213
3,716,597	-	3,716,597
-	-	24,992
-	-	81,016
<u>3,716,597</u>	<u>12,310</u>	<u>3,943,128</u>
<u>\$ 3,716,597</u>	<u>\$ 13,727</u>	<u>\$ 4,020,829</u>

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City of Roman Forest, Texas

Exhibit A-4

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS (EXHIBIT A-3) **\$ 3,943,128**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$728,539 and the accumulated depreciation is \$301,123. 427,416

Property taxes receivable are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 33,549

Long-term liabilities, including certificates of obligation, notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items, consist of:

Certificates of Obligation	(3,635,000)	
Premium on debt issued	(358,644)	
Notes payable	(46,716)	
Accrued Interest on debt	(6,783)	
Compensated absences	<u>(14,156)</u>	<u>(4,061,299)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1) **\$ 342,794**

City of Roman Forest, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds Year Ended September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Taxes		
Property taxes, including penalty and interest	\$ 498,393	\$ -
Other taxes - franchise taxes	63,183	-
Municipal court fines	146,190	-
License and permits	57,262	-
Intergovernmental	5,000	-
Contributions and donations	36,318	-
Charges for services	65,191	-
Investment earnings	458	49
Miscellaneous	6,142	-
Total Revenues	<u>878,137</u>	<u>49</u>
EXPENDITURES		
Current		
General government	294,737	-
Municipal court	87,368	-
Police department	351,747	-
Public works	113,877	-
Parks and recreation	40,332	-
Grant expenses	1,000	-
Capital outlay	39,875	-
Principal	19,558	-
Interest and fees	2,000	-
Total expenditures	<u>950,494</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(72,357)</u>	<u>49</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(11,660)	-
Certificate of obligation issued	-	-
Premium or discount on issuance	-	108,164
Proceeds from loan	40,274	-
Total other financing sources (uses)	<u>28,614</u>	<u>108,164</u>
Net change in fund balance	(43,743)	108,213
Fund balance - beginning	<u>149,751</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 106,008</u>	<u>\$ 108,213</u>

The Notes to the Financial Statements
are an integral part of this statement.

Exhibit A-5

<u>Capital Projects Fund</u>	<u>Nonmajor Police Training and Seizure Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 498,393
-	-	63,183
-	-	146,190
-	-	57,262
-	-	5,000
-	5,930	42,248
-	-	65,191
1,685	-	2,192
-	-	6,142
<u>1,685</u>	<u>5,930</u>	<u>885,801</u>
-	-	294,737
-	-	87,368
-	5,280	357,027
-	-	113,877
-	-	40,332
-	-	1,000
25,760	-	65,635
-	-	19,558
146,166	-	148,166
<u>171,926</u>	<u>5,280</u>	<u>1,127,700</u>
<u>(170,241)</u>	<u>650</u>	<u>(241,899)</u>
-	11,660	11,660
-	-	(11,660)
3,635,000	-	3,635,000
251,838	-	360,002
-	-	40,274
<u>3,886,838</u>	<u>11,660</u>	<u>4,035,276</u>
3,716,597	12,310	3,793,377
-	-	149,751
<u>\$ 3,716,597</u>	<u>\$ 12,310</u>	<u>\$ 3,943,128</u>

City of Roman Forest, Texas

Exhibit A-6

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds to the Statement of Activities Year Ended September 30, 2016

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS (EXHIBIT A-5) \$ 3,793,377

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

Capital outlays are reported in the governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$78,029 exceeded depreciation expense \$37,371 in the period.

40,658

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.

(444)

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues *increased* (decreased) by this amount this year.

4,173

Issuance of certificates of obligations and notes provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

(4,035,276)

Repayment of principal related to notes payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

19,558

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The increase (decrease) in interest expense reported in the statement of activities consists of the following:

Accrued interest on certificates of obligation increased	(5,439)	
Accrued interest on notes payable increased	(1,344)	
Amortization of premium	1,358	(5,425)

(5,425)

Some expenses reported in the statement of activities that do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds are as follows:

Compensated absences liability *(increased) decreased*

(8,198)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (EXHIBIT A-2) \$ (191,577)

The Notes to the Financial Statements are an integral part of this statement.

City of Roman Forest, Texas

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Description of 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. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The City of Roman Forest (City) is a municipal corporation governed by an elected mayor and five-member governing council (council). The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- The organization is legally separate (can sue and be sued in its name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden to the City
- There is fiscal dependency by the organization on the City
- The exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

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. Separate financial statements are provided for governmental funds.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's fund. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. The major individual governmental fund is reported in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted for the payment of principal and interest on long-term certificates of obligation for the governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the City's major capital assets, other than those financed by proprietary funds.

City of Roman Forest, Texas

Notes to the Financial Statements

The City reports the following nonmajor governmental fund:

The *police training and seizure fund* is used to account for funds received by law enforcement from forfeitures and/or seizures. Chapter 59 of the Criminal Code of Procedure governs expenditure of these funds.

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 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long-term debt is recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Franchise and similar taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. 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, including property taxes, are considered to be measurable and available only when cash is received by the government.

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 and bank demand or time deposits with original maturities of three months or less from the date of acquisition (including restricted cash).

2. Deposits and Investments

Investments for the City, except for certain investment pools and non-negotiable certificates of deposits, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. In addition, non-negotiable certificates of deposit are reported at cost.

City of Roman Forest, Texas

Notes to the Financial Statements

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include land and improvements, buildings and improvements, machinery, equipment, and vehicles, and construction in progress are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years.

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and machinery, equipment, and vehicles of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings and improvements	20-50
Machinery, equipment, and vehicles	5-15

5. 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.

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 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 – property taxes*, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. 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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

City of Roman Forest, Texas

Notes to the Financial Statements

It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. 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 government'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.

8. Fund Balance Policies

Fund balance of governmental funds is 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).

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 (Council) is the highest level of decision-making authority for the City that can, by council action or adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by council action or the ordinance remains in place until a similar action is taken (council action or the adoption of another ordinance) to remove or revise the limitation.

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. Council has by resolution authorized the City's Mayor or the Mayor's designee to assign fund balance. 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.

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 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 Roman Forest, Texas

Notes to the Financial Statements

2. Property Taxes

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Montgomery County bills and collects the property taxes for the City. City property tax receivables are recorded when levied. The current tax rate to finance general governmental services for the year ended September 30, 2016 was \$0.4945 per \$100, for the general fund.

3. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund only if they have matured, for example, the result of employee terminations.

4. Use of Estimates

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

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council, and are not made after fiscal year end. All budget appropriations lapse at year-end.

City of Roman Forest, Texas

Notes to the Financial Statements

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City’s and the depository banks’ agent bank. The pledged securities shall be in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments. The City’s investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and City policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has a stated maturity of 270 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program as permitted by Government Code.

The City’s measurements of investments are presented in the table below. The City’s investment balances and weighted average maturity, and credit risk of such investments are as follows:

	September 30, 2,016	Percent of Total Investments	Weighted Average Maturity (Years)	Credit Risk
Investments measured at amortized cost				
TexPool - Prime	\$ 3,929,871	100%	0.12	AAAm
Total value	<u>\$ 3,929,871</u>	<u>100%</u>		
Portfolio weighted average maturity			0.12	

City of Roman Forest, Texas

Notes to the Financial Statements

Investment Pools are measured at amortized cost. Such investments are not required to be reported by levels in the table above.

The Texpool investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool has a redemption notice period of one day and no maximum transaction amounts. The investment pool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool’s liquidity.

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The City monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the City reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio and by holding securities to maturity.

Credit risk. For fiscal year 2016, the City invested in Texpool. Texpool is duly chartered and administered by the State Comptroller’s Office. The credit rating for investments is noted in the table above.

Concentration of credit risk. The City’s investment policy does not limit an investment in any one issuer.

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. As of September 30, 2016, City’s deposits of \$63,459 at the depository banks was not exposed to custodial credit risk because they were below the FDIC insurance amount of \$250,000.

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 is not exposed to custodial risk due to the investments are insured or registered, or securities are held by the City or its agent in the City’s name.

B. Receivables

Tax revenues of the General Fund are reported net of uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to general fund property taxes	<u>\$ (100)</u>
Total change in uncollectibles of the current fiscal year	<u>\$ (100)</u>

Approximately 91% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

City of Roman Forest, Texas

Notes to the Financial Statements

C. Capital Assets

Capital asset activity for the period ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 90,580	\$ -	\$ -	\$ 90,580
Construction in progress	-	28,610		28,610
Total capital assets, not being depreciated	<u>90,580</u>	<u>28,610</u>	<u>-</u>	<u>119,190</u>
Capital assets, being depreciated				
Buildings and improvements	293,482	-	-	293,482
Machinery, equipment, and vehicles	<u>326,714</u>	<u>49,419</u>	<u>(60,266)</u>	<u>315,867</u>
Total capital assets, being depreciated	<u>620,196</u>	<u>49,419</u>	<u>(60,266)</u>	<u>609,349</u>
Less accumulated depreciation for				
Buildings and improvements	(83,570)	(8,718)	-	(92,288)
Machinery, equipment, and vehicles	<u>(240,004)</u>	<u>(28,653)</u>	<u>59,822</u>	<u>(208,835)</u>
Total accumulated depreciation	<u>(323,574)</u>	<u>(37,371)</u>	<u>59,822</u>	<u>(301,123)</u>
Total capital assets, being depreciated, net	<u>296,622</u>	<u>12,048</u>	<u>(444)</u>	<u>308,226</u>
Governmental activities capital assets, net	<u>\$ 387,202</u>	<u>\$ 40,658</u>	<u>\$ (444)</u>	<u>\$ 427,416</u>

Depreciation was charged to governmental activities functions as follows:

General administration	\$ 4,920
Parks and recreation	3,423
Police department	25,677
Public works	<u>3,351</u>
	<u>\$ 37,371</u>

D. Long-term Liabilities

The City's long-term liabilities consist of certificate of obligation, a notes payable, and compensated absences. Requirements for the notes payable principal and interest payments and compensated absences are accounted for in the general fund. Requirements for the certificate of obligation principal and interest payments are accounted for in the debt service fund.

City of Roman Forest, Texas

Notes to the Financial Statements

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Certificates of obligation	\$ -	\$3,635,000	\$ -	\$3,635,000	\$ -
Deferred amounts:					
For Issuance premiums	-	360,002	(1,358)	358,644	-
Total certificate of obligation, net	-	3,995,002	(1,358)	3,993,644	-
Notes payable	26,000	40,274	(19,558)	46,716	19,526
Compensated absences	5,958	12,835	(4,637)	14,156	14,156
Total governmental activities	<u>\$ 31,958</u>	<u>\$4,048,111</u>	<u>\$ (25,553)</u>	<u>\$4,054,516</u>	<u>\$ 33,682</u>

Certificates of Obligation Payable

The City issued certificates of obligation to pay contractual obligations to be incurred for road and street repairs, drainage upgrades, park improvements, and professional services related to those projects. Principal and interest payments on the City's debt are secured by ad valorem property taxes levied on all taxable property within the city limits. These certificates of obligation are issued as 22 year serial and term certificates.

Certificates of Obligation

The following is a summary of changes in the certificates of obligation for the fiscal year:

<u>Series</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Certificates of obligation 2016	2.00-4.00%	2038	\$3,635,000	\$ -	\$3,635,000	\$ -	\$3,635,000
Totals				<u>\$ -</u>	<u>\$3,635,000</u>	<u>\$ -</u>	<u>\$3,635,000</u>

City of Roman Forest, Texas

Notes to the Financial Statements

Debt service requirements for the certificates of obligation at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 108,164	\$ 108,164
2018	125,000	125,588	250,588
2019	125,000	123,087	248,087
2020	125,000	120,588	245,588
2021	130,000	117,387	247,387
2022	135,000	113,413	248,413
2023	140,000	109,287	249,287
2024	145,000	105,013	250,013
2025	150,000	99,837	249,837
2026	155,000	93,738	248,738
2027	-	87,437	87,437
2028	325,000	80,938	405,938
2029	-	74,137	74,137
2030	355,000	67,038	422,038
2031	-	59,637	59,637
2032	385,000	51,938	436,938
2033	-	43,937	43,937
2034	415,000	35,638	450,638
2035	-	28,412	28,412
2036	445,000	22,294	467,294
2037	-	14,500	14,500
2038	480,000	4,900	484,900
<i>Totals</i>	<u>\$ 3,635,000</u>	<u>\$ 1,686,908</u>	<u>\$ 5,321,908</u>

Note Payable

The City issued notes payable to provide funds for the purchase of vehicles. The notes payable are secured by the respective vehicles purchased.

The following is a summary of changes in the notes payable for the fiscal year:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2010 Chevy Tahoe	3.982%	10/2018	26,000	\$ 26,000	\$ -	\$ (6,124)	\$ 19,876
2016 Ford Explorer	3.982%	3/2018	40,274	-	40,274	(13,434)	26,840
Totals				<u>\$ 26,000</u>	<u>\$ 40,274</u>	<u>\$ (19,558)</u>	<u>\$ 46,716</u>

City of Roman Forest, Texas

Notes to the Financial Statements

Debt service requirements for the note payable at September 30, 2016 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 19,526	\$ 1,358	\$ 20,884
2018	20,304	1,083	21,387
2019	6,886	274	7,160
Totals	<u>\$ 46,716</u>	<u>\$ 2,715</u>	<u>\$ 49,431</u>

E. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City purchased workers' compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

F. Fund Balance

Other assigned fund balance includes the following assignments of funds:

Governmental Funds:	
Special Events Committee	\$ 7,202
City Projects Volunteer Group	3,653
Municipal Court Funds	4,740
Police Department Overtime Donations	7,923
Pavillion Repairs and Maintenance	1,274
Columns Repair Project	200
Total Other Assigned Fund Balance	<u>\$ 24,992</u>

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Required Supplementary Information

City of Roman Forest, Texas

Exhibit A-7

Required Supplementary Information

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance –

Budget and Actual

For Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes, including penalty and interest	\$ 499,000	\$ 499,000	\$ 498,393	\$ (607)
Other taxes - franchise taxes	63,800	63,800	63,183	(617)
Municipal court fines	165,351	165,351	146,190	(19,161)
License and permits	33,150	33,150	57,262	24,112
Intergovernmental	-	-	5,000	5,000
Contributions and donations	-	11,486	36,318	24,832
Charges for services	80,900	80,900	65,191	(15,709)
Investment earnings	-	-	458	458
Miscellaneous	500	500	6,142	5,642
Total revenues	842,701	854,187	878,137	23,950
EXPENDITURES				
Current				
General government	636,758	302,533	294,737	7,796
Municipal court	94,282	100,120	87,368	12,752
Police department	374,468	388,403	351,747	36,656
Public works	73,193	146,623	113,877	32,746
Parks and recreation	30,700	40,875	40,332	543
Grant expenditures	-	-	1,000	(1,000)
Capital outlay	-	-	39,875	(39,875)
Debt service				
Principal	-	19,558	19,558	-
Interest and fees	-	2,000	2,000	-
Total expenditures	1,209,401	1,000,112	950,494	49,618
Excess (deficiency) of revenues over (under) expenditures	(366,700)	(145,925)	(72,357)	73,568
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(11,660)	(11,660)
Proceeds from loan	-	40,274	40,274	-
Total other financing sources (uses)	-	40,274	28,614	(11,660)
Net change in fund balance	(366,700)	(105,651)	(43,743)	61,908
Fund balance - beginning	149,751	149,751	149,751	-
FUND BALANCE - ENDING	\$ (216,949)	\$ 44,100	\$ 106,008	\$ 61,908

The Notes to the Required Supplementary Information are an integral part of this statement.

City of Roman Forest, Texas

Notes to Required Supplementary Information

Note 1. Budget

A. Budgetary Information

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council, and are not made after fiscal year end. All budget appropriations lapse at year-end.

B. Variances with Final Budget

The City's general fund budget differs from the original budget due to budget revisions that were made during the fiscal period.

The increase in Public Works expenditures in the final amended budget was the result of additional appropriations for road and infrastructure expenditures.

The significant difference between the final budget and actual amounts in capital outlay was due to the purchase of a police department vehicle.

C. Excess of Expenditures Over Appropriations

For the year ended September 30, 2016, the following expenditures exceeded its appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Grant expenses	\$ -	\$ 1,000	\$ (1,000)
Capital expenses	-	39,875	(39,875)
Transfers out	-	11,660	(11,660)

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Supplementary Information

City of Roman Forest, Texas

Schedule B-1

Schedule of Taxes Receivable

Year Ended September 30, 2016

<u>Tax Year</u>	<u>Balance 9/30/2015</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2016</u>
2015	\$ -	\$ 501,597	\$ 492,557	\$ (2,053)	\$ 6,987
2014	6,296	-	2,553	776	4,519
2013	3,091	-	122	(20)	2,949
2012	3,335	-	116	(5)	3,214
2011	2,574	-	55	(5)	2,514
2010	3,149	-	21	-	3,128
2009	2,045	-	-	-	2,045
2008	1,773	-	-	-	1,773
2007	1,602	-	3	-	1,599
2006 & Prior	6,111	-	259	(331)	5,521
Totals	<u>\$ 29,976</u>	<u>\$ 501,597</u>	<u>\$ 495,686</u>	<u>\$ (1,638)</u>	<u>34,249</u>
Less allowance for uncollectible accounts					<u>(700)</u>
Net taxes receivable					<u>\$ 33,549</u>

ASSESSED VALUATION SUMMARY

<u>Tax Year</u>	<u>Property Valuations</u>	<u>Tax Rate Per \$100 Valuation</u>
2015	101,435,187	.4945
2014	92,039,427	.4819
2013	83,498,651	.4819
2012	81,368,334	.4819
2011	80,939,631	.4721

Overall Compliance and Internal Control



**Independent Auditor's 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***

To The Honorable Mayor and Members of
the City Council and Management of
City of Roman Forest, Texas
2430 Roman Forest Blvd.
Roman Forest, Texas 77357

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of City of Roman Forest, Texas (City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 5, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To The Honorable Mayor and Members of
the City Council and Management of
City of Roman Forest, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
April 5, 2017

City of Roman Forest, Texas
 Schedule of Findings And Responses
 For Year Ended September 30, 2016

Section 1 – Summary of Auditors’ Results	
Financial Statements	
1. Type of auditors’ report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weaknesses identified?	No
b. Significant Deficiencies identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to the Financial Statements noted?	No
Section 2 – Financial Statement Findings	
1. Findings Related to Internal Control Over Financial Reporting	
None reported	
2. Findings Related to Compliance with Laws and Regulations	
None reported	

City of Roman Forest, Texas

Summary Schedule of Prior Audit Findings

September 30, 2016

Prior Year Findings

2015-001 CHAPTER 252 COMPETITIVE BIDDING REQUIREMENTS

Significant Deficiency in Controls and Noncompliance

Criteria:

Before entering into a contract or purchasing a good or service requiring an expenditure of more than \$50,000 (single purchase or aggregate purchase) within the fiscal year, Local Government Code requires a municipality to:

- Comply with procedures for competitive sealed bidding or competitive sealed proposals;
- Use the reverse auction procedure, as defined by Section 2155.062(d), Government Code, for purchasing; or
- Comply with a method described by Chapter 2269, Government Code.

Condition:

City of Roman Forest obtained quotes from various vendors, and subsequently awarded the job to the lowest quoted vendor, for the renovation of the city pavilion but failed to comply with the notice requirement procedures set forth in Local Government Code Chapter 252, Subchapter C, which states that a notice of the time and place at which the bids will be publicly opened and read aloud must be published at least once a week for two consecutive weeks in a newspaper published in the municipality or, if no newspaper is published in the municipality, at the city hall for 14 days before the date set to publicly open the bids and read them aloud.

Questioned Cost:

None

Perspective Information:

None

Cause:

The City's purchasing policy did not include appropriate procedures to ensure compliance with state law for bidding requirements.

Effect:

The City was not in compliance with purchasing requirements per Local Government Code.

Recommendation:

We recommend that the City review the Local Government Code for bidding requirements and update City policies and procedures to comply with bidding requirements per Local Government Code. In addition, the City should designate an individual to obtain the training on purchasing compliance to ensure that the City is in compliance with state law.

Current Status:

The City addressed the recommendations noted by updating the City's policies to conform to the requirements of the local government code. The City was not required to go out for bid on any projects in the fiscal year ending September 30, 2016.

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City of Roman Forest, Texas
Corrective Action Plan
For Year Ended September 30, 2016

Current Year Findings
None reported