

**CITY OF
ROMAN FOREST, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

CITY OF ROMAN FOREST, TEXAS
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INTRODUCTORY SECTION

CITY OF ROMAN FOREST, TEXAS

PRINCIPAL CITY OFFICIALS

SEPTEMBER 30, 2015

Chris Parr Mayor
Tony Garza..... Council Member
Jill Carlson..... Council Member
David Mullane..... Council Member
Aline Alice Peeples..... Council Member
Conley Wallace..... Council Member
Liz Mullane City Administrator

FINANCIAL SECTION

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of the City of Roman Forest, Texas (City), as of and for the year ended September 30, 2015, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund, a major fund, of the City of Roman Forest as of September 30, 2015, 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.

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 section, 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 section 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 section 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2016, 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.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
February 9, 2016

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, 2015.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$534,371 (*net position*). Net position reflects \$361,202 that is invested in capital assets, net of related debt.
- During the year, the City's revenues of \$866,785 exceeded expenses of \$825,087 by \$41,698.
- The General Fund reported a fund balance this year of \$149,751, all of which is unassigned and approximated 17% 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 and supplementary 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, liabilities, and deferred inflows/outflows of resources, 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 intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, municipal court, police department, public works, parks and recreation, and interest and fees on long-term debt.

The government-wide financial statements can be found as noted in the table of contents of this report.

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 one governmental fund.

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 one governmental fund. 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, which is considered to be the major fund.

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.

The basic governmental fund financial statements can be found as noted in the table of contents of this year.

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 and supplementary information concerning the City's taxes receivable. Such supplementary 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 \$534,371 at September 30, 2015.

**Table A-1
CITY OF ROMAN FOREST, TEXAS NET POSITION**

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and Other Assets	\$ 213,584	36	\$ 254,925	44	\$ (41,341)	(16)
Capital Assets	387,202	64	318,074	56	69,128	22
Total Assets	600,786	100	572,999	100	27,787	
Long-term Liabilities Outstanding	31,958	48	6,190	8	25,768	416
Other Liabilities	34,457	52	74,136	92	(39,679)	(54)
Total Liabilities	66,415	100	80,326	100	(13,911)	
Net Position:						
Net Investment in Capital Assets	361,202	68	318,074	65	43,128	14
Unrestricted	173,169	32	174,599	35	(1,430)	(1)
Total Net Position	\$ 534,371	100	\$ 492,673	100	\$ 41,698	

The City's total assets of \$600,786 are largely comprised of capital assets, net of accumulated depreciation, of \$387,202 or 64%. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Total liabilities are comprised of \$31,958 in long-term liabilities, which consists of a note payable and accrued compensated absences, and \$34,457 in other liabilities.

Approximately 68% of total net position or \$361,202 represents net investment in capital assets. The \$173,169 of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in Net Position. The City's combined increase in current year net position was \$41,698 for the year ended September 30, 2015.

**Table A-2
CITY OF ROMAN FOREST, TEXAS CHANGE IN NET POSITION**

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program Revenues:						
Charges for Services	\$ 250,995	30	\$ 206,932	27	\$ 44,063	21
Operating Grants and Contributions	43,856	5	24,462	3	19,394	79
Capital Grants and Contributions	52,561	6	20,000	3	32,561	163
General Revenues:						
Property Taxes	446,132	51	407,597	55	38,535	9
Franchise Taxes	62,306	7	61,864	8	442	1
Miscellaneous	10,935	1	26,393	4	(15,458)	(59)
Total Revenues	866,785	100	747,248	100	119,537	
Expenses:						
General Government	237,732	29	232,277	30	5,455	2
Municipal Court	93,908	11	89,813	12	4,095	5
Police Department	361,486	44	303,531	40	57,955	19
Public Works	82,292	10	74,660	10	7,632	10
Parks and Recreation	49,169	6	64,402	8	(15,233)	(24)
Interest and Fees on Long-term Debt	500	-	-	-	500	100
Total Expenses	825,087	100	764,683	100	60,404	
Increase (Decrease) in Net Position	41,698		(17,435)		59,133	
Net Position - Beginning	492,673		510,108		(17,435)	
Net Position - Ending	\$ 534,371		\$ 492,673		\$ 41,698	

Governmental Activities

The City's total revenues were \$866,785 from all governmental activities. A significant portion, \$446,132 or 51%, of the City's revenue comes from property taxes. Charges for services revenue accounts for \$250,995 or 30% 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.

The total cost of all governmental programs and services was \$825,087. The police department function accounted for \$361,486, or 44% of this total. The general government function accounted for \$237,732, or 29% of this total. Total expenses increased which was primarily due to the increases in police department expenditures. The police department increase is primarily due to the increase in police officers and supplies.

Financial Analysis of the City's Funds

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 fund reported an ending fund balance of \$149,751, which is an increase of \$612 from last year's total of \$149,139. The slight increase in fund balance is due to the increase in property tax revenues from appraised values, fines, and loan proceeds for a vehicle exceeded the overall increase in expenditures and capital outlay expenditures.

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 \$149,751, which represented 100% 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 and total fund balance represents 17% of total general fund expenditures.

General Fund Budgetary Highlights

The City amends the budget as needed throughout the year. The significant differences between the original budget and the final amended budget of the general fund were primarily from an increase in appropriations for capital outlay and road and infrastructure expenditures.

Significant differences between the final budget and actual amounts can be briefly summarized as follows:

- Total actual expenditures, when compared to total appropriations, resulted in a \$38,440 favorable variance due to decreased spending in public works.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2015, the City had invested \$387,202 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.

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

- \$29,000 Police Vehicle
- \$68,460 Pavilion Improvements

Table A-3
CITY OF ROMAN FOREST, TEXAS CAPITAL ASSETS
 (net of depreciation)

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and Improvements	\$ 90,580	13	\$ 90,580	15	\$ -	-
Buildings and Improvements	248,821	35	219,821	36	29,000	13
Machinery, Equipment, and Vehicles	371,375	52	297,714	49	73,661	25
Totals	710,776	100	608,115	100	102,661	
Total Accumulated Depreciation	(323,574)		(290,041)		(33,533)	
Net Capital Assets	\$ 387,202		\$ 318,074		\$ 69,128	

Long-Term Liabilities. As of year-end, the City had total long-term liabilities outstanding of \$31,958, which consisted of a note 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 LONG-TERM LIABILITIES OUTSTANDING

	Governmental Activities					
	2015		2014		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Note Payable	\$ 26,000	81	\$ -	-	\$ 26,000	100
Compensated Absences	5,958	19	6,190	100	(232)	(4)
Total Long-term Liabilities	\$ 31,958	100	\$ 6,190	100	\$ 25,768	

Economic Factors and Next Year’s Budget

- Total tax rate of .4945 per \$100 valuation in fiscal year 2016 which is a slight increase from the prior fiscal year 2015.
- The unemployment rate for Montgomery County, according to Texas Workforce statistics, is 4.3%, which is unchanged from prior fiscal year. The state unemployment rate is 4.4%, a decrease from last year’s rate of 5.0%.

These indicators were taken into account when adopting the general fund budget for 2016. Amounts available for appropriation in the General Fund budget are \$149,751.

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.

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BASIC FINANCIAL STATEMENTS

CITY OF ROMAN FOREST, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

EXHIBIT A-1

	<u>Governmental Activities</u>
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 178,710
Receivables:	
<i>Property Taxes</i>	29,976
<i>Allowance for Uncollectible Property Taxes</i>	(600)
<i>Other</i>	5,498
Capital Assets:	
<i>Land and Improvements</i>	90,580
<i>Buildings and Improvements</i>	248,821
<i>Machinery, Equipment, and Vehicles</i>	371,375
<i>Accumulated Depreciation</i>	<u>(323,574)</u>
Total Assets	<u>600,786</u>
 LIABILITIES:	
<i>Accounts Payable</i>	11,360
<i>Accrued Liabilities</i>	23,097
Noncurrent Liabilities:	
<i>Due Within One Year</i>	12,082
<i>Due in More than One Year</i>	<u>19,876</u>
Total Liabilities	<u>66,415</u>
 NET POSITION:	
<i>Net Investment in Capital Assets</i>	361,202
<i>Unrestricted</i>	<u>173,169</u>
Total Net Position	\$ <u><u>534,371</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF ROMAN FOREST, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT A-2

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental Activities:					
<i>General Government</i>	\$ 237,732	\$ -	\$ 15,142	\$ 1,000	\$ (221,590)
<i>Municipal Court</i>	93,908	66,918	-	-	(26,990)
<i>Police Department</i>	361,486	122,940	17,714	-	(220,832)
<i>Public Works</i>	82,292	34,306	-	-	(47,986)
<i>Parks and Recreation</i>	49,169	26,831	11,000	51,561	40,223
<i>Interest and Fees on Long-term Debt</i>	500	-	-	-	(500)
Total Governmental Activities	<u>825,087</u>	<u>250,995</u>	<u>43,856</u>	<u>52,561</u>	<u>(477,675)</u>
Total Primary Government	\$ <u>825,087</u>	\$ <u>250,995</u>	\$ <u>43,856</u>	\$ <u>52,561</u>	<u>(477,675)</u>
General Revenues:					
<i>Property Taxes</i>					446,132
<i>Franchise Taxes</i>					62,306
<i>Miscellaneous</i>					<u>10,935</u>
Total General Revenues					<u>519,373</u>
Change in Net Position					<u>41,698</u>
Net Position - Beginning					492,673
Net Position - Ending					\$ <u>534,371</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF ROMAN FOREST, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2015

EXHIBIT A-3

	<u>General Fund</u>
ASSETS:	
<i>Cash and Cash Equivalents</i>	\$ 178,710
Receivables:	
<i>Property Taxes</i>	29,976
<i>Allowance for Uncollectible Property Taxes</i>	(600)
<i>Other</i>	5,498
Total Assets	\$ <u>213,584</u>
 LIABILITIES:	
<i>Accounts Payable</i>	\$ 11,360
<i>Accrued Liabilities</i>	23,097
Total Liabilities	<u>34,457</u>
 DEFERRED INFLOWS OF RESOURCES:	
<i>Unavailable Revenue - Property Taxes</i>	<u>29,376</u>
Total Deferred Inflows of Resources	<u>29,376</u>
 FUND BALANCE:	
<i>Unassigned</i>	<u>149,751</u>
Total Fund Balance	<u>149,751</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ <u>213,584</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF ROMAN FOREST, TEXAS

*RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015*

EXHIBIT A-4

Total Fund Balance - Governmental Funds (Exhibit A-3)		\$	149,751
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 fund. The cost of the assets is \$710,776 and the accumulated depreciation is \$323,574.			387,202
Property taxes receivable are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.			29,976
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.			
Notes Payable	\$	(26,000)	
Compensated Absences		<u>(5,958)</u>	<u>(31,958)</u>
Total Net Position - Governmental Activities (Exhibit A-1)		\$	<u><u>534,971</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF ROMAN FOREST, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT A-5

General Fund

REVENUES:

Taxes:

<i>Property Taxes, including Penalty and Interest</i>	\$ 448,406
<i>Other Taxes - Franchise Taxes</i>	62,306
<i>Municipal Court Fines</i>	165,099
<i>License and Permits</i>	34,306
<i>Intergovernmental</i>	59,671
<i>Contributions and Donations</i>	37,446
<i>Charges for Services</i>	51,590
<i>Miscellaneous</i>	10,235
Total Revenues	<u>869,059</u>

EXPENDITURES:

Current:

<i>General Government</i>	232,949
<i>Municipal Court</i>	93,925
<i>Police Department</i>	336,749
<i>Public Works</i>	79,343
<i>Parks and Recreation</i>	48,320
Debt Service:	
<i>Interest and Fees</i>	500
<i>Capital Outlay</i>	102,661
Total Expenditures	<u>894,447</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures (25,388)

OTHER FINANCING SOURCES (USES):

<i>Proceeds from Loan</i>	<u>26,000</u>
Total Other Financing Sources (Uses)	<u>26,000</u>

Net Change in Fund Balance 612

Fund Balance - Beginning 149,139
Fund Balance - Ending **\$ 149,751**

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF ROMAN FOREST, TEXAS

EXHIBIT A-6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Total Net Change in Fund Balance - Governmental Funds (Exhibit A-5) \$ 612

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

Capital outlays are not 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 \$102,661 exceeded depreciation expense \$33,533 in the period. 69,128

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. (2,274)

Issuance of notes provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (26,000)

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* 232

Change in Net Position of Governmental Activities (Exhibit A-2) \$ 41,698

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF ROMAN FOREST, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I. 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 only one fund which is a major governmental fund as follows:

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

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

CITY OF ROMAN FOREST, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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 cash on deposit.

2. Investments

Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although they are not registered with the SEC.

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, and machinery, equipment, and vehicles, 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 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.

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 Mayor or his 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.

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 revenues are recognized when levied to the extent that they result in current receivables. The current tax rate to finance general governmental services for the year ended September 30, 2015 was \$0.4819 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.

II. 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.

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.

CITY OF ROMAN FOREST, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015

III. Detailed Notes on All Funds

A. Deposits and Investments

The City's deposits consist of cash on hand and cash on deposit which are insured and collateralized as required by City policy. The City does not invest in any other financial instrument.

Interest rate risk. In accordance with its investing policy, the City manages its exposure to declines in fair values by investing funds in deposit accounts at the bank depository.

Credit risk. For fiscal year 2015, the City invested in non-interest-bearing bank accounts at the local depository which were not exposed to credit risk.

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, 2015, the City's bank balance of \$187,787 was not exposed to custodial credit risk because it was 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 City has not invested in any financial instruments which are not covered by the bank depository contract.

B. Receivables

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

Uncollectibles Related to General Fund Property Taxes	\$	46
Total Uncollectibles of the Current Fiscal Year	\$	<u>46</u>

Approximately 73% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Capital Assets

Capital asset activity for the period ended September 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land and Improvements	\$ 90,580	\$ -	\$ -	\$ 90,580
Total Capital Assets, not being Depreciated	<u>90,580</u>	<u>-</u>	<u>-</u>	<u>90,580</u>
Capital Assets, being Depreciated:				
Buildings and Improvements	219,821	73,661	-	293,482
Machinery, Equipment, & Vehicles	297,714	29,000	-	326,714
Total Capital Assets, being Depreciated	<u>517,535</u>	<u>102,661</u>	<u>-</u>	<u>620,196</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(77,527)	(6,043)	-	(83,570)
Machinery, Equipment, & Vehicles	(212,514)	(27,490)	-	(240,004)
Total Accumulated Depreciation	<u>(290,041)</u>	<u>(33,533)</u>	<u>-</u>	<u>(323,574)</u>
Total Capital Assets, being Depreciated, net	<u>227,494</u>	<u>69,128</u>	<u>-</u>	<u>296,622</u>
Governmental Activities Capital Assets, net	<u>\$ 318,074</u>	<u>\$ 69,128</u>	<u>\$ -</u>	<u>\$ 387,202</u>

CITY OF ROMAN FOREST, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Depreciation was charged to governmental activities functions as follows:

General Administration	\$	4,812
Parks and Recreation		856
Police Department		24,885
Public Works		2,980
	\$	<u>33,533</u>

D. Long-term Liabilities

The City's long-term liabilities consist of a note payable and compensated absences. Requirements for the note payable principal and interest payments and compensated absences are accounted for in the general fund.

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2015 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:					
Note Payable	\$ -	\$ 26,000	\$ -	\$ 26,000	\$ 6,124
Compensated Absences	6,190	160	(392)	5,958	5,958
Total Governmental Activities	<u>\$ 6,190</u>	<u>\$ 26,160</u>	<u>\$ (392)</u>	<u>\$ 31,958</u>	<u>\$ 12,082</u>

Note Payable

The City issued a note payable to provide funds for the purchase of a vehicle. The note payable is secured by the respective vehicle purchased. The note was issued as a 4 year current interest note.

The following is a summary of changes in the note 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>
2014 Chevy Tahoe	3.982%	2018	26,000	\$ -	\$ 26,000	\$ -	\$ 26,000
Totals				<u>\$ -</u>	<u>\$ 26,000</u>	<u>\$ -</u>	<u>\$ 26,000</u>

Debt service requirements for the note payable at September 30, 2015 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,124	\$ 1,035	\$ 7,159
2017	6,368	792	7,160
2018	6,622	538	7,160
2019	6,886	274	7,160
Totals	<u>\$ 26,000</u>	<u>\$ 2,639</u>	<u>\$ 28,639</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 2015, 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.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ROMAN FOREST, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT A-7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes, including Penalty and Interest	\$ 442,000	\$ 442,000	\$ 448,406	\$ 6,406
Other Taxes - Franchise Taxes	64,175	64,175	62,306	(1,869)
Municipal Court Fines	126,926	126,926	165,099	38,173
License and Permits	34,840	34,840	34,306	(534)
Intergovernmental	-	21,000	59,671	38,671
Contributions and Donations	12,885	13,885	37,446	23,561
Charges for Services	20,300	20,300	51,590	31,290
Miscellaneous	1,500	4,353	10,235	5,882
Total Revenues	<u>702,626</u>	<u>727,479</u>	<u>869,059</u>	<u>141,580</u>
EXPENDITURES:				
Current:				
General Government	225,447	228,247	232,949	(4,702)
Municipal Court	81,994	87,135	93,925	(6,790)
Police Department	292,886	300,738	336,749	(36,011)
Public Works	71,589	190,106	79,343	110,763
Parks and Recreation	30,710	24,000	48,320	(24,320)
Debt Service:				
Interest and Fees	-	-	500	(500)
Capital Outlay	-	102,661	102,661	-
Total Expenditures	<u>702,626</u>	<u>932,887</u>	<u>894,447</u>	<u>38,440</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(205,408)</u>	<u>(25,388)</u>	<u>180,020</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Loan	25,500	25,500	26,000	500
Total Other Financing Sources (Uses)	<u>25,500</u>	<u>25,500</u>	<u>26,000</u>	<u>500</u>
Net Change in Fund Balance	25,500	(179,908)	612	180,520
Fund Balance - Beginning	149,139	149,139	149,139	-
Fund Balance - Ending	<u>\$ 174,639</u>	<u>\$ (30,769)</u>	<u>\$ 149,751</u>	<u>\$ 180,520</u>

See accompanying notes to the required supplementary information.

CITY OF ROMAN FOREST, TEXAS

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

I. 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 increases in governmental activities capital outlay in the final amended budget was primarily due to total costs of rebuilding the city pavilion as well as multiple other capital purchases.

The significant difference between the final budget and actual amounts in public works was due to the appropriations for road and infrastructure expenditures not being expended.

C. Excess of Expenditures Over Appropriations

For the year ended September 30, 2015, the following general fund expenditures exceeded its appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Government	\$ 228,247	\$ 232,949	\$ (4,702)
Municipal Court	87,135	93,925	(6,790)
Police Department	300,738	336,749	(36,011)
Parks and Recreation	24,000	48,320	(24,320)
Debt Service	-	500	(500)

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SUPPLEMENTARY INFORMATION

CITY OF ROMAN FOREST, TEXAS
SCHEDULE OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

SCHEDULE B-1

<u>Tax Year</u>	<u>Balance 9/30/2014</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Adjustments</u>	<u>Balance 9/30/2015</u>
2014	\$ -	\$ 443,538	\$ 436,281	\$ (961)	\$ 6,296
2013	7,242	-	3,802	(349)	3,091
2012	5,699	-	2,465	101	3,335
2011	3,648	-	1,192	118	2,574
2010	3,194	-	106	61	3,149
2009	2,111	-	45	(21)	2,045
2008	1,818	-	45	-	1,773
2007	1,647	-	45	-	1,602
2006	1,492	-	45	-	1,447
2005 & Prior	5,445	-	249	(532)	4,664
Totals	\$ <u>32,296</u>	\$ <u>443,538</u>	\$ <u>444,275</u>	\$ <u>(1,583)</u>	<u>29,976</u>
Less Allowance for Uncollectible Accounts					(600)
Net Taxes Receivable					\$ <u>29,376</u>

ASSESSED VALUATION SUMMARY

<u>Tax Year</u>	<u>Property Valuations</u>	<u>Tax Rate Per \$100 Valuation</u>
2014	92,039,427	.4819

OVERALL COMPLIANCE AND INTERNAL CONTROL

HLSK

Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' 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
Roman Forest, Texas 77357

We have audited, in accordance with the 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 and the General Fund, a major fund, of the City of Roman Forest (City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 9, 2016.

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 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2015-001, that we consider to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 2015-001.

City of Roman Forest's Response to Finding

City of Roman Forest's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Roman Forest's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
February 9, 2016

CITY OF ROMAN FOREST, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

SECTION I – 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?	Yes, Finding 2015-001
3. Noncompliance material to the Financial Statements noted?	No
SECTION II – FINANCIAL STATEMENT FINDINGS	
1. FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING	
None reported	

2. FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS

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.

Views of Responsible Officials and Planned Corrective Actions:

See corrective action plan.

CITY OF ROMAN FOREST, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2015

PRIOR YEAR FINDINGS

None reported

CITY OF ROMAN FOREST, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

CURRENT YEAR FINDINGS

2015-001 CHAPTER 252 COMPETITIVE BIDDING REQUIREMENTS

Contact Person:

Elizabeth Mullane
City Administrator

Response:

The City plans to obtain training on purchasing law to ensure compliance with state law.

Estimated Date of Completion:

September 30, 2016