

ANNUAL FINANCIAL REPORT

of the

City of Roman Forest, Texas

**For the Year Ended
September 30, 2018**

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City of Roman Forest, Texas

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September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

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 (the "City"), as of and for the year ended September 30, 2018, 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

The City's 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. 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 auditor's judgment, including the assessment of the risks 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 opinion.

Opinion

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 as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.E., the City has restated beginning fund balance/net position within the general fund and governmental activities to correct various accounting errors occurring in the prior year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and general fund budgetary comparison information 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.



BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
November 15, 2019

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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City of Roman Forest, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

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, 2018.

Financial Highlights

- The City's total net position is \$844,671 at September 30, 2018.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,924,477, a decrease of \$1,175,375 from the prior year.
- As of the end of the year, the unassigned fund balance of the general fund was \$4,309 or < 1% of total general fund expenditures.
- The City had an overall increase in net position of \$509,759, which is primarily due to general revenues exceeding expenses.
- The City budgeted a deficit to fund balance for the general fund of \$1,002,382 for the year. The actual activity resulted in a decrease in the fund balance for the general fund of \$19,572. This resulted in a positive overall variance between budget to actual of \$982,810.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide 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* presents information on all of the City's assets, liabilities, and deferred inflows/outflows 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. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* 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

City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and code enforcement.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Roman Forest Cultural Education Facility Finance Corporation, for which the City is financially accountable. Although legally separate, the City Council functions for all practical purposes as a department of the City and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15 through 17 of this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Roman Forest. They are usually segregated for specific activities or objectives. The City of Roman Forest uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The one categories of City funds is governmental.

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

The City of Roman Forest maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of

City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

revenues, expenditures, and changes in fund balances for the general, debt service, and capital projects funds which are considered to be major funds.

The City of Roman Forest adopts an annual appropriated budget for its general, debt service, and capital projects funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund. The RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Roman Forest, assets exceeded liabilities by \$844,671 as of September 30, 2018, in the primary government.

One portion of the City's net position, \$625,059, reflects its investments in capital assets (e.g., land, city hall, city park, as well as machinery and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Current and other assets of Governmental Activities as of September 30, 2018 and September 30, 2017 were \$3,232,402 and \$4,305,203, respectively. The decrease is primarily attributable to cash on hand being spent on the roadside ditch and street improvements in the current year. Capital assets of Governmental Activities as of September 30, 2018 and September 30, 2017 were \$2,754,970 and \$1,246,866, respectively. The increase of \$1,508,104, net of depreciation expense, was primarily attributable to significant roadside ditch and street paving improvements. Long-term liabilities of Governmental Activities as of September 30, 2018 and September 30, 2017 were \$3,857,257 and \$4,017,549, respectively. The decrease of \$160,292 is primarily due to principal payments made during the current year.

City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2018	2017
Current and other assets	\$ 3,232,402	\$ 4,305,203
Capital assets, net	2,754,970	1,246,866
Total Assets	5,987,372	5,552,069
Other liabilities	1,285,444	1,199,608
Long-term liabilities	3,857,257	4,017,549
Total Liabilities	5,142,701	5,217,157
Net Position:		
Net investment in capital assets	625,059	181,149
Restricted	70,243	8,144
Unrestricted	149,369	145,619
Total Net Position	\$ 844,671	\$ 334,912

City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Activities:

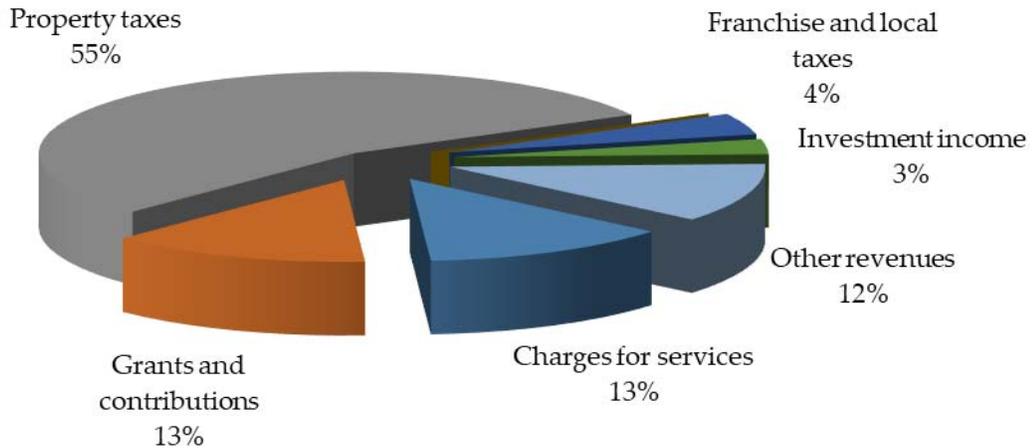
The following table provides a summary of the City's changes in net position:

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 209,575	\$ 295,909
Grants and contributions	219,381	84,758
General revenues:		
Property taxes	895,534	555,224
Franchise and local taxes	69,432	65,179
Investment income	48,932	44,210
Other revenues	190,844	43,993
Total Revenues	<u>1,633,698</u>	<u>1,089,273</u>
Expenses		
General government	332,446	322,742
Municipal court	87,858	82,312
Police department	406,878	416,311
Public works	141,309	105,774
Parks and recreation	59,902	55,367
Interest and fiscal charges	95,546	114,649
Total Expenses	<u>1,123,939</u>	<u>1,097,155</u>
Change in Net Position	509,759	(7,882)
Beginning Net Position	<u>334,912</u>	<u>342,794</u>
Ending Net Position	<u>\$ 844,671</u>	<u>\$ 334,912</u>

City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

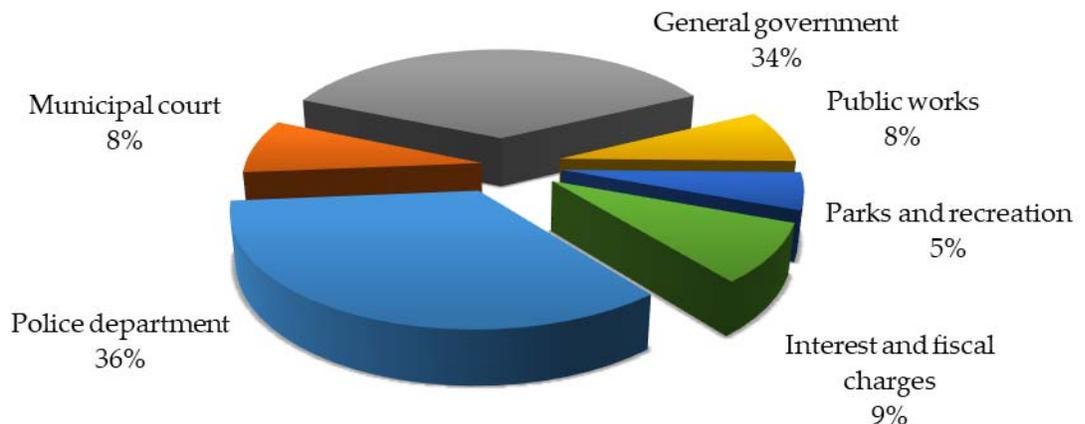
Governmental Activities - Revenues



For the year ended September 30, 2018, revenues from governmental activities totaled \$1,633,698. Property tax, charges for services, and grants and contributions are the City's largest revenue sources. Property tax increased \$340,310 or 61% due to an increase in the City's property tax rate and an increase in the taxable appraisal value of properties. The appraisal values of properties increased due in large part to the annexation of an approximate 490 tract of land now subject to City property taxes. Grants and contributions increased \$134,623 or 159% due to nonrecurring FEMA grant funds received in the current year. Other revenues increased \$146,851 or 334% due to nonrecurring insurance reimbursements received in the current year and an increase in contract services revenue. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2018

For the year ended September 30, 2018, expenses for governmental activities totaled \$1,123,939. This represents an increase of \$29,784 or 3% from the prior year. The City's largest functional expense is the police department for \$406,878, which primarily consists of police salaries and department maintenance and supplies. Police department expenses remained relatively consistent with the prior year. General government expenses increased by \$9,704 or 3% primarily due to increased wages and employee benefits. Public works expenses increased by \$35,535 or 34% primarily due to an increase in salaries. Interest and fiscal charges decreased by \$19,103 or 17% primarily as a result of outstanding long-term debt approaching maturity.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$132,950. Of this, \$80,642 is assigned for various city capital projects. The City also has \$48,000 committed for emergency reserve. The unassigned fund balance totaled \$52,308 as of yearend. The fund experienced a decrease of \$19,572, which is in line with a budgeted deficit for the current year.

As of September 30, 2018, the debt service fund reflected a fund balance of \$40,008, an increase of \$39,675 from the prior year. The fund balance increased primarily due to property tax revenues exceeding debt service expenses. Funding for the debt service fund is primarily received from property tax revenues collected in the subsequent calendar year. The majority of the September 30, 2018 available funds will be used to service debt payments owed before all the property taxes are collected in the following year.

As of September 30, 2018, the capital projects fund reflected a fund balance of \$1,739,184, a decrease of \$1,199,669 from the prior year. This decrease is primarily due to significant capital outlay expenses exceeding minimal investment income.

There was a decrease in governmental fund balance of \$1,175,375 from the prior year. The decrease was primarily related to significant capital outlay expenses in the current year, resulting in a large fund balance decrease in the capital projects fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

City of Roman Forest, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

There was a total positive budget variance of \$982,810 in the general fund. This was primarily the result of positive expenditure variances totaling \$1,272,751. All actual expenditures were less than budgeted, with the exception of municipal court and debt service principal

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$2,754,970 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

Major capital asset events during the current year include the following:

- Roadside ditch improvements totaling \$1,274,565.
- Street paving improvements of \$205,995.
- New police and public works department vehicles totaling \$69,440.

More detailed information about the City's capital assets is presented in note IV. C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds (excluding premium) and notes payable outstanding of \$3,516,970. During the year, principal payments totaling \$165,258 were made. More detailed information about the City's long-term liabilities is presented in note IV. D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Roman Forest and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Roman Forest's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, 2430 Roman Forest Blvd, Roman Forest, Texas 77357.

FINANCIAL STATEMENTS

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City of Roman Forest, Texas

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government Governmental Activities
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 2,072,160
Restricted cash	1,095,828
Receivables, net	64,414
Total Current Assets	3,232,402
Capital assets:	
Non-depreciable	2,227,127
Net depreciable capital assets	527,843
	2,754,970
Total Assets	5,987,372
 <u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	181,013
Customer deposits	11,570
Accrued interest payable	13,371
Unearned revenue	1,079,490
Noncurrent liabilities due within one year	146,994
	1,432,438
Noncurrent liabilities:	
Due in more than one year	3,710,263
	3,710,263
Total Liabilities	5,142,701
 <u>Net Position</u>	
Net investment in capital assets	625,059
Restricted for:	
Police training	12,335
Park improvements	17,900
Debt service	40,008
Unrestricted	149,369
Total Net Position	\$ 844,671

See Notes to Financial Statements.

City of Roman Forest, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 332,446	\$ 95,579	\$ -	\$ 144,267
Municipal court	87,858	113,996	-	75,114
Police department	406,878	-	-	-
Public works	141,309	-	-	-
Parks and recreation	59,902	-	-	-
Interest and fiscal charges	95,546	-	-	-
Total Governmental Activities	1,123,939	209,575	-	219,381
Total Primary Government	\$ 1,123,939	\$ 209,575	\$ -	\$ 219,381

General Revenues:

- Taxes
 - Property taxes
 - Franchise and local taxes
- Investment income
- Other revenues

Total General Revenues

Change in Net Position

- Beginning Net Position
- Ending Net Position**

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental			
Activities		Total	
\$	(92,600)	\$	(92,600)
	101,252		101,252
	(406,878)		(406,878)
	(141,309)		(141,309)
	(59,902)		(59,902)
	(95,546)		(95,546)
	<u>(694,983)</u>		<u>(694,983)</u>
	<u>(694,983)</u>		<u>(694,983)</u>
	895,534		895,534
	69,432		69,432
	48,932		48,932
	190,844		190,844
	<u>1,204,742</u>		<u>1,204,742</u>
	509,759		509,759
	334,912		334,912
\$	<u><u>844,671</u></u>	\$	<u><u>844,671</u></u>

City of Roman Forest, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General	Debt Service	Capital Projects
<u>Assets</u>			
Cash and cash equivalents	\$ 157,322	\$ 40,108	\$ 1,861,935
Restricted cash	1,095,828	-	-
Receivables, net	60,030	4,384	-
Due from other funds	122,751	-	-
Total Assets	\$ 1,435,931	\$ 44,492	\$ 1,861,935
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 180,553	\$ -	\$ -
Deposits	11,570	-	-
Unearned revenue	1,079,490	-	-
Due to other funds	-	-	122,751
Total Liabilities	1,271,613	-	122,751
 <u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	31,368	4,484	-
Total Deferred Inflows of Resources	31,368	4,484	-
 <u>Fund Balances</u>			
Restricted for:			
Police training	-	-	-
Park improvements	17,900	-	-
Debt service	-	40,008	-
Capital projects	-	-	1,739,184
Committed for:			
Emergency reserve	48,000	-	-
Assigned for:			
Capital projects	62,741	-	-
Unassigned reported in:			
General fund	4,309	-	-
Total Fund Balances	132,950	40,008	1,739,184
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,435,931	\$ 1,316,105	\$ 3,010,797

See Notes to Financial Statements.

<u>Nonmajor Police Training and Seizure</u>	<u>Total Governmental Funds</u>
\$ 12,795	\$ 2,072,160
-	1,095,828
-	64,414
-	122,751
<u>\$ 12,795</u>	<u>\$ 3,355,153</u>

\$ 460	\$ 181,013
-	11,570
-	1,079,490
-	122,751
<u>460</u>	<u>1,394,824</u>

-	35,852
<u>-</u>	<u>35,852</u>

12,335	12,335
-	17,900
-	40,008
-	1,739,184
-	48,000
-	62,741
-	4,309
<u>12,335</u>	<u>1,924,477</u>
<u>\$ 1,283,948</u>	<u>\$ 3,231,942</u>

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City of Roman Forest, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2018

Fund Balances - Total Governmental Funds	\$ 1,924,477
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	2,227,127
Capital assets - net depreciable	527,843
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property taxes	35,852
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(13,371)
Bond premium	(325,263)
Non-current liabilities due in one year	(146,994)
Non-current liabilities due in more than one year	(3,385,000)
Net Position of Governmental Activities	<u>\$ 844,671</u>

See Notes to Financial Statements.

City of Roman Forest, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General	Debt Service	Capital Projects
<u>Revenues</u>			
Property tax	\$ 603,082	\$ 289,772	\$ -
Franchise and local taxes	69,432	-	-
License and permits	95,579	-	-
Contributions and donations	54,964	-	-
Fines and forfeitures	113,996	-	-
Investment income	4,816	990	43,125
Grant revenues	144,267	-	-
Other revenue	118,308	-	-
Total Revenues	1,204,444	290,762	43,125
<u>Expenditures</u>			
Current:			
General government	360,580	499	-
Police department	446,606	-	-
Municipal court	87,858	-	-
Parks and recreation	51,884	-	-
Building and code enforcement	13,295	-	-
Public works	101,076	-	1,242,794
Capital outlay	205,812	-	-
Debt Service:			
Principal	40,258	125,000	-
Interest and fiscal charges	1,095	125,588	-
Total Expenditures	1,308,464	251,087	1,242,794
Excess of Revenues Over (Under)			
Expenditures	(104,020)	39,675	(1,199,669)
<u>Other Financing (Uses)</u>			
Loan proceeds	20,000	-	-
Insurance recovery proceeds	64,448	-	-
Total Other Financing (Uses)	84,448	-	-
Net Change in Fund Balances	(19,572)	39,675	(1,199,669)
Beginning fund balances	152,522	333	2,938,853
Ending Fund Balances	\$ 132,950	\$ 40,008	\$ 1,739,184

See Notes to Financial Statements.

<u>Nonmajor Police Training and Seizure</u>	<u>Total Governmental Funds</u>
\$ -	\$ 892,854
-	69,432
-	95,579
20,150	75,114
-	113,996
1	48,932
-	144,267
8,088	126,396
28,239	1,566,570
19,453	380,532
-	446,606
-	87,858
4,595	56,479
-	13,295
-	1,343,870
-	205,812
-	165,258
-	126,683
24,048	2,826,393
4,191	(1,259,823)
-	20,000
-	64,448
-	84,448
4,191	(1,175,375)
8,144	3,099,852
\$ 12,335	\$ 1,924,477

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City of Roman Forest, Texas
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

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

Net changes in fund balances - total governmental funds	\$ (1,175,375)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,550,000
Depreciation expense	(41,696)
Adjustment for disposal of capital assets	(200)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property and franchise taxes	2,680
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(2,045)
Accrued interest	14,058

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of premium	17,079
Loan issuance	(20,000)
Principal payments	165,258

Change in Net Position of Governmental Activities	\$ 509,759
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See Notes to Financial Statements.

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City of Roman Forest, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

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 and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Roman Forest (the "City") is a municipal corporation governed by an elected mayor and five-member governing council (council). The City provides: police; municipal court; building and code enforcement; public works; and general administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Roman Forest Cultural Education Facility Finance Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Discretely Presented Component Unit

Roman Forest Cultural Education Facility Finance Corporation

Roman Forest Cultural Education Facility Finance Corporation was created by the City Council of the City in December 2001 as a non-profit corporation. The Corporation's stated purpose is to provide for the acquisition, construction and equipping of educational facilities along with the related financing of such purposes.

This Corporation has had no economic activity since inception, and has approved conduit debt issuances by outside organizations. The City and the Corporation have no obligations related to the conduit debt issuances.

C. Basis of Presentation Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, police, municipal court, public works, parks and recreation, and building and code enforcement departments. The general fund is considered a major fund for reporting purposes.

Debt Service 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 debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund accounts for the acquisition and construction of the government's major capital assets, other than those financed by proprietary funds. The capital projects fund is considered a major fund for reporting purposes.

Police Training and Seizure 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.

D. 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.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, 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 are considered to be measurable and available only when cash is received by the government.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

5. Capital Assets

Capital assets, which include property, plant, equipment, and land assets (e.g., roads, city hall, city park, and similar items) are reported in the applicable governmental or business-type activities columns 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 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Machinery, equipment, and vehicles	5 to 15 years
Buildings and improvements	20 to 50 years

6. 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. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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. An example which arises only under a modified accrual basis of accounting, relates to the accounting for uncollected property taxes. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumptions used within the pension actuarial valuation model.

7. Net Position Flow Assumption

Sometimes the government 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

8. Fund Balance Flow Assumptions

Sometimes the government 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.

9. 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 government 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 government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (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 government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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.

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

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.

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, notes payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

12. Estimates

The preparation 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, and capital projects fund.

The appropriated budget is prepared by fund, function, and department. The legal level of control as defined by the City Charter is the account level. No funds can be transferred or

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

For the year ended September 30, 2018, expenditures exceeded appropriations at the legal level of control as follows:

Municipal Court

01-65130	Municipal Technology Fund	\$ 7,247
01-65140	Omni Fees	245
01-65150	Check Machine/Credit Card	201
01-65160	Time Pay Fees	294
01-65400	State Comptroller Court Costs	1,492
01-65450	State Judicial Support Fee	627

Debt Service – Principal

01-80600	Principal	\$ 758
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IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Average Maturity (Years)</u>	<u>Credit Rating</u>
External investment pools	\$ 3,140,658	0.08	AAAm
Total carrying value	<u>\$ 3,140,658</u>		
Portfolio weighted average maturity		0.08	

Interest rate risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2018, the City’s investment in TexPool was rated AAAm by Standard & Poor’s.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

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’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Property taxes	\$ 31,368	\$ 4,484	\$ 35,852
Franchise & local taxes	9,363	-	9,363
Other	19,899	-	19,899
Allowance	(600)	(100)	(700)
	<u>\$ 60,030</u>	<u>\$ 4,384</u>	<u>\$ 64,414</u>

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 118,920	\$ -	\$ (200)	\$ 118,720
Construction in progress	833,842	1,274,565	-	2,108,407
Total capital assets not being depreciated	<u>952,762</u>	<u>1,274,565</u>	<u>(200)</u>	<u>2,227,127</u>
Capital assets, being depreciated:				
Buildings and improvements	293,482	205,995	-	499,477
Machinery, vehicles, and equipment	334,957	69,440	-	404,397
Total capital assets being depreciated	<u>628,439</u>	<u>275,435</u>	<u>-</u>	<u>903,874</u>
Less accumulated depreciation				
Buildings and improvements	101,007	15,585	-	116,592
Machinery, vehicles, and equipment	233,328	26,111	-	259,439
Total accumulated depreciation	<u>334,335</u>	<u>41,696</u>	<u>-</u>	<u>376,031</u>
Net capital assets being depreciated	<u>294,104</u>	<u>233,739</u>	<u>-</u>	<u>527,843</u>
Total Capital Assets	<u><u>\$ 1,246,866</u></u>	<u><u>\$ 1,508,304</u></u>	<u><u>\$ (200)</u></u>	<u><u>\$ 2,754,970</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 4,920
Police department	6,415
Public works	26,938
Parks and recreation	3,423
Total Governmental Activities Depreciation Expense	<u><u>\$ 41,696</u></u>

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
Certificate of Obligation	\$ 3,635,000	\$ -	\$ (125,000)	\$ 3,510,000	\$ 125,000
Premium	342,342	-	(17,079)	325,263	-
Notes payable	27,228	20,000	(40,258)	6,970	6,970
Other liabilities:					
Compensated Absences	12,979	15,024	(12,979)	15,024	15,024
Total Governmental Activities	<u>\$ 4,017,549</u>	<u>\$ 35,024</u>	<u>\$ (195,316)</u>	<u>\$ 3,857,257</u>	<u>\$ 146,994</u>
Long-term liabilities due in more than one year				<u>\$ 3,710,263</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Original Balance</u>	<u>Current Balance</u>
Governmental Activities:			
2016 Tax and Revenue Certificate of Obligation	2.00 - 4.00%	\$ 3,635,000	\$ 3,510,000
Note payable for Chevy Tahoe	3.98%	29,000	6,970
Total Governmental Activities		<u>\$ 3,664,000</u>	<u>\$ 3,516,970</u>

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities			
	2016 C.O. Bonds		2010 Chevy Tahoe	
	Principal	Interest	Principal	Interest
2019	\$ 125,000	\$ 123,088	\$ 6,970	\$ 274
2020	125,000	120,588	-	-
2021	130,000	117,388	-	-
2022	135,000	113,413	-	-
2023	140,000	109,288	-	-
2024	145,000	105,013	-	-
2025	150,000	99,838	-	-
2026	155,000	93,738	-	-
2027	160,000	87,438	-	-
2028	165,000	80,938	-	-
2029 & After	2,080,000	402,431	-	-
Total	\$ 3,510,000	\$ 1,453,161	\$ 6,970	\$ 274

2016 tax and revenue certificates of obligation bonds issued January 15, 2017, due in annual installments through July 15, 2038, bearing interest ranging from 2.0% to 4.0% payable January 15 and July 15.

\$29,000 note payable issued on October 24, 2015 for the purchase of a Chevy Tahoe, due in annual installments through October 24, 2018, bearing interest of 3.98% payable October 24.

E. Unearned Revenue

The City received FEMA grants funds for various construction projects impacted by Hurricane Harvey that have not been completed as of yearend. When the project is completed the grant revenue will be recognized by the City. Total unearned grant revenue as of September 30, 2018 was \$1,079,490.

F. Interfund Transactions

The compositions of interfund due to/from balances as of the year ended September 30, 2018 were as follows:

Payable fund	Receivable fund
	General
Capital projects	\$ 122,751

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances restricted by the City:

	Restricted
Police training	\$ 12,335
Park improvements	17,900
Debt service	40,008
Capital projects	1,739,184
Total	\$ 1,809,427

The following is a list of fund balances committed by the City:

	Committed
Emergency reserve	\$ 48,000
Total	\$ 48,000

The following is a list of fund balances assigned by the City:

	Assigned
Capital projects	\$ 62,741
Total	\$ 62,741

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Commitments

The City has an outstanding commitment of \$30,000 due in 6 annual installment payments of \$5,000 to East Montgomery County Improvement District for the installation of a splashpad on City property. Title of splashpad remains in East Montgomery County Improvement District name and is cancelable within 30 days given notice.

The City has outstanding contractual commitments in the amount of \$542,801 for various drainage projects throughout the City. The commitment for construction is being financed by general obligations secured by tax revenues and local funds.

D. Conduit Debt Obligations

From time to time the City, through its blended component unit, has issued Revenue Bonds and various loans to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds and loans are secured by the appropriate property financed. Upon repayment of the related debt issued, ownership of the acquired facilities transfers to the private-sector entity served by the debt issuance. Neither the City or its Component Unit, nor any political subdivision thereof is obligated in any manner for repayment of the debt. Accordingly, the related debt is not reported as a liability in the accompanying financial statements.

As of September 30, 2018, there have been twenty conduit debt issuances through the component unit. The original issue amount payable for the one issue of debt during the fiscal year ending September 30, 2018 was \$8,515,290. The aggregate principal amount payable for the nineteen series of bonds outstanding issued prior to October 1, 2016, could not be determined; however, their original issue amounts totaled \$114.42 million.

E. Restatement

The City restated beginning net position/fund balance within governmental activities to correct accounting errors related to accounts payable and capital assets.

City of Roman Forest, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The restatement of beginning net position/fund balance is as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>
Prior year ending net position/fund balance as reported	\$ 309,603	\$ 155,553
Correction to accrued deposits	(3,000)	(3,000)
Correction to capital assets	28,340	-
Correction to accounts payable	(31)	(31)
Restated beginning net position/fund balance	<u>\$ 334,912</u>	<u>\$ 152,522</u>

F. Related Party Transactions

George Mullane, current member of the City Council (position #3) is married to Liz Mullane, the current City Administrator. Liz Mullane’s salary for the year ended September 30, 2018 was \$68,083. Given this relationship, George Mullane signed a statement to address any conflict of interest concerns.

G. Subsequent Events

On November 1, 2019, the City purchased a new rescue boat for \$15,375 through financing with Government Capital Corporation. The term of the note agreement is three years. Quarterly payments of \$1,384 will be paid through the maturity date.

Subsequent to yearend, the City received \$11,000 of additional FEMA grant funds for ongoing construction projects after Hurricane Harvey damage occurred. During fiscal year 2019, the City has spent a total of \$328,000 of the grant funds included in the unearned revenue balance as of September 30, 2018.

There were no other material subsequent events through November 15, 2019, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Roman Forest, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 650,000	\$ 600,000	\$ 603,082	\$ 3,082
Franchise and local taxes	63,600	63,600	69,432	5,832
License and permits	108,100	108,100	95,579	(12,521)
Contributions and donations	-	203,500	54,964	(148,536)
Fines and forfeitures	144,725	113,275	113,996	721
Investment income	1,000	1,000	4,816	3,816
Grant revenues	-	367,984	144,267	(223,717)
Other revenue	73,150	92,950	118,308	25,358
Total Revenues	1,040,575	1,550,409	1,204,444	(345,965)
<u>Expenditures</u>				
Current:				
General government	325,066	364,300	360,580	3,720
Police department	412,209	491,066	446,606	44,460
Municipal court	95,100	78,785	87,858	(9,073) *
Parks and recreation	97,693	138,842	51,884	86,958
Building and code enforcement	22,000	22,000	13,295	8,705
Public works	106,700	112,525	101,076	11,449
Capital outlay	891,236	1,332,297	205,812	1,126,485
Debt service:				
Principal	19,500	39,500	40,258	(758) *
Interest	1,900	1,900	1,095	805
Total Expenditures	1,971,404	2,581,215	1,308,464	1,272,751
Revenues Over (Under)	(930,829)	(1,030,806)	(104,020)	926,786
<u>Other Financing Sources</u>				
Loan proceeds	-	20,000	20,000	-
Insurance recovery proceeds	-	8,424	64,448	56,024
Total Other Financing Sources	-	28,424	84,448	56,024
Net Change in Fund Balance	(930,829)	\$ (1,002,382)	(19,572)	\$ 982,810
Beginning fund balance			152,522	
Ending Fund Balance			\$ 132,950	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level on control.

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