

CITY OF RHOME, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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Certified Public Accountants
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Independent Auditor's Report

To the City Council
City of Rhome, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Rhome, Texas as of and for the year ending September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of 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 controls 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the City of Rhome, Texas, as of September 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of pension contributions and the budgetary comparison schedule for the general fund be presented to supplement the basic financial statements. Such information, although not 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. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rhome's basic financial statements. The comparative schedule of revenues and expenditures for the water and sewer fund are presented for additional analysis and are not a part of the basic financial statements.

The comparative schedule of revenues and expenditures for water and sewer fund are the responsibility of management and were derived from and relate 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 my opinion, the comparative schedule of revenues and expenditures for the water and sewer fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

William C. Spore, P.C.

Certified Public Accountants

Keller, Texas

March 28, 2017

CITY OF RHOME, TEXAS

CITY OFFICIALS

September 30, 2016

MAYOR

Michelle Pittman

MAYOR PRO TEM

Ronnie Moore

COUNCIL MEMBERS

Dawn Davis

Sam Eason

Leeanne MacKowski

Tim Robinson

CITY SECRETARY

Angie Young

MUNICIPAL COURT JUDGE

Jim Minter

ATTORNEY

Tim Sralla
Taylor, Olson, Adkins, Sralla, Elam LLP

CITY OF RHOME, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT

As management of the City of Rhome, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. The information provided here should be used in conjunction with 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 are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Financial Highlights

- At September 30, 2016, Government-Wide total assets and deferred outflows exceeded total liabilities and deferred inflows by \$4,376,743 (net position), an increase of \$207,286 over the prior period.
- Of the total Government-Wide Net Position, \$763,666 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- Total Governmental Fund ending fund balance was \$580,440. The unassigned General Fund balance is \$520,656 or 89.7% of General Fund expenditures.
- The City's long-term debts total \$2,155,617. Long-term debt borrowing is used by the City to acquire equipment and infrastructure that the City uses to provide services to its' citizens.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Reporting the City as a Whole - Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities

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 (page 11) presents information on all of the City's assets and liabilities, with the difference between the two 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 (page 12) presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the 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 compensated absences). Capital grant funds are reported as revenues in the Statement of Activities.

The City provides two types of activities - Governmental type activities and Business type activities.

- Governmental type activities - Most of the City's basic services are reported here, including Governmental type activities - Most of the City's basic services are reported here, including animal control, code enforcement and inspection, fire, municipal court, parks, police, public works and general administration. Property taxes, sales taxes, franchise fees, permit revenues, municipal court fines, storm water assessments and sanitation revenues finance most of these activities
- Business Type Activities - The City charges a user fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer system is reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 13 and provide detailed information about the most significant funds - not the City as a whole. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, however, the City Council may establish other funds to help it control and manage money for particular purposes. The City's kinds of funds - *governmental and proprietary* - use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of the funds and the balances left at the end of the year that are available for spending. These funds are reported using the current financial resources measurement focus and are accounted for using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

- Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's water and sewer fund are the same as the business-type activities we report in the government-wide statements but we provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to 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 financial statements begin on page 17 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's net position is as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current & Other Assets	\$ 727,917	\$ 646,595	\$ 346,946	\$ 331,196	\$ 1,074,863	\$ 977,791
Capital Assets	1,889,029	1,838,692	3,796,348	4,108,218	5,685,377	5,946,910
Total Assets	<u>2,616,946</u>	<u>2,485,287</u>	<u>4,143,294</u>	<u>4,439,414</u>	<u>6,760,240</u>	<u>6,924,701</u>
Deferred Outflows	\$ 66,520	19,316	28,919	9,090	95,439	28,406
Long-Term Liabilities	1,713,986	2,024,989	95,244	90,627	1,809,230	2,115,616
Other Liabilities	449,588	428,729	194,987	206,035	644,575	634,764
Total Liabilities	<u>2,163,574</u>	<u>2,453,718</u>	<u>290,231</u>	<u>296,662</u>	<u>2,453,805</u>	<u>2,750,380</u>
Deferred Inflows	16,926	22,623	8,205	10,647	25,131	33,270
Net Position:						
Invested in Capital Assets, net of Related Debt	(112,429)	(496,193)	3,665,722	3,986,158	3,553,293	3,489,965
Restricted	59,784	20,020	0	0	59,784	20,020
Unrestricted	555,611	504,435	208,055	155,037	763,666	659,472
Total Net Position	<u>\$ 502,966</u>	<u>\$ 28,262</u>	<u>\$ 3,873,777</u>	<u>\$ 4,141,195</u>	<u>\$ 4,376,743</u>	<u>\$ 4,169,457</u>

At September 30, 2016, the City had total assets of \$6,786,240 which included capital assets of \$5,685,377. These capital assets represent 84% of the City's total assets. The City uses these capital assets to provide services to the City's citizens, consequently these assets are not available for future spending. Effective October 1, 2014 the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The City's net position (assets and deferred inflows less liabilities and deferred outflows) increased \$207,286, a 5% increase in net position during the fiscal year. Restricted net position is \$59,784, and represents net resources that are subject to external restrictions on how that may be used. Unrestricted net position totals \$763,666 or 17% of total net position and may be used to meet the government's ongoing obligations to its citizens and creditors.

Analysis of City's Operations

An analysis of the government-wide changes in net position is as follows:

STATEMENT OF CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	Year Ended Sept. 30, 2016	Year Ended Sept. 30, 2015	Year Ended Sept. 30, 2016	Year Ended Sept. 30, 2015	Year Ended Sept. 30, 2016	Year Ended Sept. 30, 2015
Revenues:						
Program Revenues:						
Fees, Fines and Charges						
for Services	\$ 601,118	\$ 552,104	\$ 964,534	\$ 932,357	\$ 1,565,652	\$ 1,484,461
Operating Grants & Contribution	91,221	87,931	0	0	91,221	87,931
Capital Grants & Contributions	0	0	0	0	0	0
General Revenue:						
Property Taxes	672,561	726,639	--	--	672,561	726,639
Sales and Hotel/Motel Taxes	449,300	431,124	--	--	449,300	431,124
Franchise Fees	73,670	89,916	--	--	73,670	89,916
Interest Income	143	230	149	124	292	354
Transfers	0	(50,000)	0	50,000	0	0
Total Revenues	<u>1,888,013</u>	<u>1,837,944</u>	<u>964,683</u>	<u>982,481</u>	<u>2,852,696</u>	<u>2,820,425</u>
Expenses:						
General Government	655,478	704,188	--	--	655,478	704,188
Public Safety	636,965	668,849	--	--	636,965	668,849
Cultural & Recreation	23,980	25,282	--	--	23,980	25,282
Interest on Long-Term Debt	96,886	113,654	3,626	4,269	100,512	117,923
Water & Sewer	--	--	1,228,475	1,225,097	1,228,475	1,225,097
Total Expenses	<u>1,413,309</u>	<u>1,511,973</u>	<u>1,232,101</u>	<u>1,229,366</u>	<u>2,645,410</u>	<u>2,741,339</u>
Change in Net Position	\$ <u>474,704</u>	\$ <u>325,971</u>	\$ <u>(267,418)</u>	\$ <u>(246,885)</u>	\$ <u>207,286</u>	\$ <u>79,086</u>

In a November 2015 election, the citizens of the City elected to reduce the City's property tax rate from prior year rate of \$58.33 per \$100 of valuation to \$52.34 per \$100 of valuation. Despite this reduction in property tax revenues the City's fiscal year 2016 governmental activities revenues (before transfers) increased \$69 when compared to 2015. This increase is primarily due to an increase sales tax and franchise fee revenues.

The City continued to closely monitor its expenses during the fiscal year. Total government activities expenses decreased \$98,664 (6.53%) in 2016 over 2015.

Fiscal year 2016 water and sewer revenues, before transfers, increased \$32,201 (3.45%) from 2015 and water and sewer 2016 expenses increased 2,735 (.22%) over 2015 expenses.

GOVERNMENTAL FUND ANALYSIS

Governmental Funds - The focus of the City's governmental fund 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, unreserved fund balance may serve a measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year the City's governmental funds reported a combined ending fund balance of \$580,440, which is an increase of \$90,538 from the prior year. The components of the governmental fund balances are as follows:

	As of September 30,	
	2,016	2015
Restricted Funds:		
Court Security & Technology	\$ 24,034	\$ 19,273
Debt Service	35,750	747
Total Restricted	59,784	20,020
Unassigned	520,656	469,882
Total Fund Balance	\$ 580,440	\$ 489,902

Proprietary funds - The City's proprietary fund statements (water and sewer fund) provide the same type of information found in the government-wide financial statements, but in more detail. The unrestricted net position of the water and sewer fund at year end totaled \$208,055 and the net position of the water and sewer fund decreased \$267,418 from the prior period.

GENERAL FUND BUDGETARY HIGHLIGHTS

A general fund budget - actual summary for 2016 is as follows:

	Budget	Actual	Variance
Revenues:			
Taxes	\$ 836,516	\$ 762,659	\$ (73,857)
Municipal Court Fines & Fees	550,000	446,237	(103,763)
Licenses & Permits	27,880	66,020	38,140
Charges for Services	39,500	82,575	43,075
Intergovernmental Revenues	66,400	65,696	(704)
Donations/Grants	39,000	25,525	(13,475)
Other Revenues	10,100	6,286	(3,814)
Investment Income	0	90	90
Transfer from Debt Service	0	73,732	73,732
Total Revenues	\$ 1,569,396	\$ 1,528,820	\$ (40,576)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:			
Administration	\$ 502,237	\$ 489,186	\$ 13,051
Municipal Court	233,776	212,683	21,093
Parks	23,765	77,929	(54,164)
Police	647,792	574,889	72,903
Fire Department	133,641	118,598	15,043
Total Expenditures	<u>1,541,211</u>	<u>1,473,285</u>	<u>67,926</u>
Excess of Revenues Over Expenditures	\$ <u>28,185</u>	\$ <u>55,535</u>	\$ <u>27,350</u>

The original budget was amended to reflect the roll-back of the property tax revenues as required by the November 2015 election. Originally budgeted expenses were reduced by \$65,554 to offset the reduction in property tax revenues related to the election.

Actual fund basis revenues were \$40,576 (2.65%) less than amended budgeted revenues primarily due to actual municipal court fine revenues being \$103,763 less than budgeted fine revenues.

Actual fund basis expenditures were \$67,926 (4.41%) less than budgeted expenditures primarily due to a decrease in police personnel costs due to the police department being operating short officers at various times during the fiscal year.

The parks department capital outlay expenditures exceeded budgeted capital outlay expenditures by \$55,837 due to improvements made to the City's parks during the fiscal year which were not included in the budget.

PENSIONS

Pensions continue to receive negative media attention as governments around the nation struggle to fund these commitments. The City is committed to providing retirement programs that are fair to both employees and taxpayers and that can be sustained over the long term.

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments from around the nation. The funding valuation is important as the actuarial methods used including strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves including the Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, The City's financial statements reflect a Net Pension Liability as of September 30, 2016 of \$32,838 which is 5.64% of the City's annual covered payroll of \$582,224.

CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2016 amounts to \$5,685,377 (net of depreciation). The investment in capital assets includes land, buildings, equipment and infrastructure. Infrastructure includes streets, drainage, water and sewer systems. Capital assets added in 2016 include a police vehicle for \$46,495, park improvements of \$67,837, building improvements of \$37,577, street improvements of \$71,000 and the water and sewer equipment of \$39,424. The City's capital assets, net of accumulated depreciation, are as follows:

CAPITAL ASSETS:	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 49,224	\$ 49,224	\$ 6,492	\$ 6,492	\$ 55,716	\$ 55,716
Buildings & Improvements	319,298	234,044	0	0	319,298	234,044
Equipment	465,526	518,239	106,117	113,604	571,643	631,843
Streets & Infrastructure	1,054,981	1,037,185	0	0	1,054,981	1,037,185
Waterworks & Sewer System	0	0	3,683,739	3,988,122	3,683,739	3,988,122
Net Capital Assets	<u>\$ 1,889,029</u>	<u>\$ 1,838,692</u>	<u>\$ 3,796,348</u>	<u>\$ 4,108,218</u>	<u>\$ 5,685,377</u>	<u>\$ 5,946,910</u>

Additional information on the City's capital assets can be found in Note 3.

DEBT ADMINISTRATION

The City added one new long-term debt in fiscal year 2016, a water and sewer equipment note in the amount of \$40,000. Outstanding long-term debts are as follows:

LONG-TERM DEBTS:	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Capital Leases	\$ 169,761	\$ 201,698	\$ 0	\$ 0	\$ 169,761	\$ 201,698
Notes Payable	200,230	254,335	130,626	122,060	330,856	376,395
Bonds Payable	1,655,000	1,905,000	0	0	1,655,000	1,905,000
Total Long-Term Debts	<u>\$ 2,024,991</u>	<u>\$ 2,361,033</u>	<u>\$ 130,626</u>	<u>\$ 122,060</u>	<u>\$ 2,155,617</u>	<u>\$ 2,483,093</u>

Additional information on the City's long-term debts can be found in Note 4.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Budgeted general fund revenues for fiscal year 2017 are \$1,814,160, a \$200,000 (9.93%) decrease from 2016 budgeted revenues. The tax rate applied in the 2017 budget is .5234 cents per \$100 of valuation, the same rate as applied in the 2016 budget.

Budgeted general fund expenditures for fiscal year 2017 are \$1,814,015, and include the purchase of police vehicles at a cost of \$50,000 and \$40,000 for street repairs. The budget is balanced, budgeted revenues equal budgeted expenditures.

Water and sewer fund 2017 budgeted revenues are \$927,000, a decrease of \$35,000 over the fiscal year 2016 actual revenues. Budgeted water and sewer fund expenditures include \$10,000 for the purchase of equipment and \$250,000 for water purchases from Walnut Creek Special Utility District.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City of Rhome. If you have questions about this report or need any additional information, contact Angie Young, City Secretary, at: 817-636-2462, or by email at cityofrhome@earthlink.net.

CITY OF RHOME, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET POSITION

For the Year Ended September 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash & Equivalents	\$ 428,815	\$ 171,818	\$ 600,633
Accounts Receivable (net)	106,773	118,526	225,299
Prepaid Expenses	36,215	576	36,791
Interfund Balances	10,316	(10,316)	0
Restricted Cash & Equivalents	145,798	66,342	212,140
Capital Assets:			
Land	49,224	6,492	55,716
Buildings & Improvements	445,268	0	445,268
Equipment	1,518,445	369,380	1,887,825
Infrastructure	1,904,692	0	1,904,692
Waterworks & Sanitary Sewer System	0	7,352,378	7,352,378
Less - Accumulated Depreciation	(2,028,600)	(3,931,902)	(5,960,502)
Total Capital Assets, Net of Accum. Depr.	<u>1,889,029</u>	<u>3,796,348</u>	<u>5,685,377</u>
TOTAL ASSETS	<u>\$ 2,616,946</u>	<u>4,143,294</u>	<u>6,760,240</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Contributions After Measurement Date	\$ 15,737	6,926	22,663
Difference in Projected and Actual Earnings on Pension Assets	35,444	15,419	50,863
Difference in Assumption Changes on Pension Assets	15,339	6,574	21,913
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 66,520</u>	<u>28,919</u>	<u>95,439</u>
LIABILITIES			
Accounts Payable & Accrued Liabilities	101,327	67,765	169,092
Accrued Interest	6,169	3,075	9,244
Compensated Absences	6,733	4,520	11,253
Customer Deposits	0	75,761	75,761
Long-Term Debt-Due Within One Year	311,005	35,382	346,387
Long-Term Debt-Due in More than One Year	1,713,986	95,244	1,809,230
Net Pension Liability	24,354	8,484	32,838
TOTAL LIABILITIES	<u>2,163,574</u>	<u>290,231</u>	<u>2,453,805</u>
DEFERRED INFLOWS OF RESOURCES			
Difference in Expected and Actual Pension Experience	<u>16,926</u>	<u>8,205</u>	<u>25,131</u>
NET POSITION			
Invested in Capital Assets, net of Related Debt	(112,429)	3,665,722	3,553,293
Restricted for:			
Debt Service	35,750	0	35,750
Court Security & Technology	24,034	0	24,034
Unrestricted	555,611	208,055	763,666
TOTAL NET POSITION	<u>\$ 502,966</u>	<u>\$ 3,873,777</u>	<u>\$ 4,376,743</u>

CITY OF RHOME, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

	EXPENSES	FINES, FEES & CHARGES FOR SERVICES	OPERATING GRANTS & DONATIONS	CAPITAL GRANTS & DONATIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES:							
General Government	\$ (655,478)	\$ 72,306	\$ 1,906	\$ 0	\$ (581,266)	--	(581,266)
Public Safety	(636,965)	528,812	79,835		(28,318)	--	(28,318)
Culture & Recreation	(23,980)		9,480	0	(14,500)	--	(14,500)
Interest on Long-Term Debt	(96,886)	0	0	0	(96,886)	--	(96,886)
TOTAL GOVERNMENTAL ACTIVITIES	<u>(1,413,309)</u>	<u>601,118</u>	<u>91,221</u>	<u>0</u>	<u>(720,970)</u>	--	--
BUSINESS-TYPE ACTIVITIES:							
Water & Sewer	<u>(1,232,101)</u>	<u>964,534</u>	<u>0</u>	<u>0</u>	<u>--</u>	<u>(267,567)</u>	<u>(267,567)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ (2,645,410)</u>	<u>\$ 1,565,652</u>	<u>\$ 91,221</u>	<u>\$ 0</u>	<u>\$ (720,970)</u>	<u>(267,567)</u>	<u>(988,537)</u>
GENERAL REVENUE							
Property Taxes					672,561	--	672,561
Sales Taxes					429,184	--	429,184
Hotel/Motel Taxes					20,116	--	20,116
Franchise Fees					73,670	--	73,670
Interest Income					143	149	292
Transfers					0	0	0
TOTAL GENERAL REVENUE					<u>1,195,674</u>	<u>149</u>	<u>1,195,823</u>
CHANGE IN NET POSITION					474,704	(267,418)	207,286
NET POSITION - BEGINNING					<u>28,262</u>	<u>4,141,195</u>	<u>4,169,457</u>
NET POSITION - ENDING					<u>\$ 502,966</u>	<u>\$ 3,873,777</u>	<u>\$ 4,376,743</u>

**CITY OF RHOME, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS**

September 30, 2016

ASSETS	GENERAL FUND	DEBT SERVICE FUND	TOTAL
Cash	\$ 538,863	\$ 35,750	\$ 574,613
Receivables:			
Sales Taxes	76,671	0	76,671
Franchise Fees	1,833	0	1,833
Hotel/Motel Taxes	5,652	0	5,652
Property Taxes	9,888	12,729	22,617
Prepaid Expenses	12,682	0	12,682
Due From Water & Sewer	10,316	0	10,316
TOTAL ASSETS	<u>\$ 655,905</u>	<u>\$ 48,479</u>	<u>\$ 704,384</u>
LIABILITIES			
Accounts Payable	\$ 77,507	\$ 0	\$ 77,507
Accrued Liabilities	23,820	0	23,820
TOTAL LIABILITIES	<u>101,327</u>	<u>0</u>	<u>101,327</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue-Property Taxes	<u>9,888</u>	<u>12,729</u>	<u>22,617</u>
FUND BALANCE			
Restricted to:			
Court Security & Technology	24,034	0	24,034
Debt Service	0	35,750	35,750
Unassigned	<u>520,656</u>	<u>0</u>	<u>520,656</u>
TOTAL FUND BALANCE	<u>544,690</u>	<u>35,750</u>	<u>580,440</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND LIABILITIES	<u>\$ 655,905</u>	<u>\$ 48,479</u>	<u>\$ 704,384</u>

CITY OF RHOME, TEXAS

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

September 30, 2016

Fund Balance Above \$ 580,440

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Fund Balance Sheet. 1,889,029

Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the Fund Balance Sheet. 22,617

Unamortized Bond Insurance are not financial resources and, therefore are not reported in the Fund balance Sheet. 23,533

Net Pension Asset and related Deferred Inflows/Outflows of Resources are not financial resources and, therefore, are not reported in the Fund Balance Sheet 25,240

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Fund Balance Sheet. (2,037,893)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 502,966

CITY OF RHOME, TEXAS

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

For the Year Ended September 30, 2016

	GENERAL FUND	DEBT SERVICE FUND	TOTAL
REVENUES			
Property Taxes	\$ 239,689	\$ 431,749	\$ 671,438
Sales Taxes	429,184	0	429,184
Hotel/Motel Taxes	20,116	0	20,116
Franchise Fees	73,670	0	73,670
Permits & Fees	66,020	0	66,020
Municipal Court	446,237	0	446,237
Charges for Services	82,575	0	82,575
Intergovernmental	65,696	0	65,696
Donation Revenues	25,525	0	25,525
Miscellaneous Revenues	6,286	0	6,286
Interest Income	90	53	143
TOTAL REVENUES	<u>1,455,088</u>	<u>431,802</u>	<u>1,886,890</u>
EXPENDITURES			
General Government	593,292	0	593,292
Public Safety	539,930	0	539,930
Parks	10,092	0	10,092
Debt Service - Principal	86,042	250,000	336,042
Debt Service - Interest	21,020	73,067	94,087
Capital Outlay	222,909	0	222,909
TOTAL EXPENDITURES	<u>1,473,285</u>	<u>323,067</u>	<u>1,796,352</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(18,197)</u>	<u>108,735</u>	<u>90,538</u>
OTHER FINANCING SOURCES (USES)			
Transfers to General Fund for Debt Service	<u>73,732</u>	<u>(73,732)</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>73,732</u>	<u>(73,732)</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	55,535	35,003	90,538
FUND BALANCE - BEGINNING -	489,155	747	489,902
FUND BALANCE - ENDING	<u>\$ 544,690</u>	<u>\$ 35,750</u>	<u>\$ 580,440</u>

CITY OF RHOME, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2016

Net Change in Fund Balance - Governmental Funds \$ 90,538

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

Governmental funds report capital outlay as expenditures. However,
in the statement of activities the cost of these assets is allocated
over the estimated useful lives as depreciation expense:

Capital assets recorded in the current period 222,909

Depreciation expense on capital assets (172,572)

Issuing new long-term debt is a revenue source in the governmental funds, but
new long-term debt increases long-term liabilities in the statement of net position 0

Repayment on debt principle is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position: 336,042

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

Deferred Revenues - Property Taxes 1,123

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

Compensated absences 11,930

Accrued Interest on long-term debts (184)

Amortization of Prepaid Bond Insurance (2,615)

Governmental funds report pension expense as it paid into the retirement plan during
the fiscal year. However, in the statement of activities pension expense reflects the
change in net pension asset during the plan fiscal year (calendar year 2014): (12,467)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 474,704

CITY OF RHOME, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 171,818
Accounts Receivable less Allowance for Doubtful Accounts	118,526
Prepaid Expenses	576
TOTAL CURRENT ASSETS	<u>290,920</u>

NON-CURRENT ASSETS

Restricted Cash	<u>66,342</u>
Capital Assets:	
Land	6,492
Equipment	369,380
Waterworks & Sanitary Sewer System	<u>7,352,378</u>
	7,728,250
Less Accumulated Depreciation	<u>(3,931,902)</u>
NET CAPITAL ASSETS	<u>3,796,348</u>

TOTAL ASSETS	\$ <u>4,153,610</u>
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DEFERRED OUTFLOWS OF RESOURCES

Pension Contributions After Measurement Date	\$ 6,926
Difference in Projected and Actual Earnings on Pension Assets	15,419
Difference in Assumption Changes on Pension Assets	6,574
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ <u>28,919</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 58,503
Accrued Payroll Liabilities	9,262
Accrued Interest	3,075
Accrued Compensated Absences	4,520
Due to General Fund	10,316
Customer Deposit Liability	75,761
Current Portion of Notes Payable	<u>35,382</u>
TOTAL CURRENT LIABILITIES	<u>196,819</u>

NON-CURRENT LIABILITIES

Notes Payable	95,244
Pension Liability	8,484
TOTAL NON-CURRENT LIABILITIES	<u>103,728</u>
TOTAL LIABILITIES	\$ <u>300,547</u>

DEFERRED INFLOWS OF RESOURCES

Difference in Expected and Actual Pension Experience	<u>\$ 8,205</u>
------------------------------------------------------	-----------------

NET POSITION

Invested in Capital Assets, net of Related Debt	\$ 3,665,722
Unrestricted	<u>208,055</u>
TOTAL NET POSITION	\$ <u>3,873,777</u>

CITY OF RHOME, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2016

REVENUES:

CHARGES FOR SERVICES:

Water, Sewer & Trash Charges	\$ 911,693
Tap Fees	43,150
TOTAL CHARGES FOR SERVICES	<u>954,843</u>

OTHER REVENUES:

Other Income	2,301
TOTAL OTHER REVENUES	<u>2,301</u>

TOTAL REVENUES	<u>957,144</u>
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OPERATING EXPENSES:

Depreciation	351,294
Personnel	228,097
Professional Fees	26,148
Repair & Maintenance	112,303
Supplies & Contract Services	161,196
Utilities	55,849
Water Purchases	293,588

TOTAL OPERATING EXPENSES	<u>1,228,475</u>
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OPERATING LOSS	<u>(271,331)</u>
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NON-OPERATING REVENUES & (EXPENSES):

Investment Income	149
Water Tower Lease	7,390
Interest Expense	(3,626)
TOTAL NON-OPERATING REVENUES & (EXPENSES)	<u>3,913</u>

CHANGE IN NET POSITION	(267,418)
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NET POSITION - BEGINNING OF YEAR	4,141,195
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NET POSITION - END OF YEAR	<u><u>\$ 3,873,777</u></u>
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**CITY OF RHOME, TEXAS
STATEMENT OF CASH FLOWS**

For the Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 999,512
Cash Payments to Suppliers for Goods and Services	(679,933)
Cash Payments for Employees Services	(214,937)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>104,642</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers from General Fund	0
NET CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	<u>0</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(39,424)
Repayments on Interfund Loans	(37,390)
Proceeds of Notes Payable	40,000
Principal Paid on Notes Payable	(31,434)
Interest Paid on Notes Payable	(6,063)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(74,311)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	149
Tower Lease Income	7,390
NET CASH FLOW FROM INVESTING ACTIVITIES	<u>7,539</u>
 NET INCREASE IN CASH	 37,870
 CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	 200,290
 CASH & CASH EQUIVALENTS - END OF YEAR	 \$ <u><u>238,160</u></u>
 CASH & CASH EQUIVALENTS PER STATEMENT OF NET ASSETS:	
Current Assets - Cash	\$ 171,818
Noncurrent Assets - Restricted Cash	66,342
TOTAL CASH & CASH EQUIVALENTS	\$ <u><u>238,160</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ (271,331)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	351,294
(Increase) Decrease in Receivables	40,288
(Increase) Decrease in Prepaid Expenses	(576)
(Increase) Decrease in Deferred Outflows of Resources	(19,829)
(Increase) Decrease in Pension Liability	28,282
Increase (Decrease) in Accounts Payable	(30,273)
Increase (Decrease) in Accrued Expenses	7,149
Increase (Decrease) in Deferred Inflows of Resources	(2,442)
Increase (Decrease) in Customer Deposits	2,080
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>104,642</u></u>

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

The City of Rhome, Texas (the City) was incorporated in the State of Texas under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Home Rule form of government as defined by the State of Texas. The City operates under a Type A General Law form of government and provides the following services: animal control, code enforcement and inspection, fire, municipal court, parks, police, public works and general administrative services. In addition the City owns and operates a water and sewer system.

The City's financial statements are prepared in accordance with generally accepted accounting principles accepted in the United States of America (GAAP) applicable to local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The more significant accounting policies of the City are discussed below:

A. FINANCIAL REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The City does not currently have any component units.

B. BASIC FINANCIAL STATEMENTS-GOVERNMENT-WIDE STATEMENTS:

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's animal control, code enforcement, community center, fire, inspection, library, municipal court, parks, police, public works, sanitation and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Assets governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts- invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net costs of each of the City's Functions (general government, public safety, culture, recreation and public works). The functions are also supported by general government revenues (property, sales and franchise taxes). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, inspection). Operating grants include operating-specific and discretionary grants while capital grants

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

reflect capital specific grants. Developer contributions for public works infrastructure are included in capital grants.

The net costs (by function) are normally covered by general revenue (property, sales, and franchise taxes).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

C: BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS:

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City.

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the Town. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

2. Proprietary Funds:

The focus of proprietary funds' measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. The following is a description of the proprietary funds of the City:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the operation of the City's water and sewer system for which a fee is charged to external customers for goods and services and the activity is (a) financed with debt secured by a pledge of the net revenues and (b) has the requirement that the cost of providing services, including capital costs, be recovered by user fees and charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result for providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of personnel and contractual services, supplies, repairs, utilities and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D: MEASUREMENT FOCUS/BASIS OF ACCOUNTING:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

1. Government-wide financial statements and fund financial statements for proprietary funds are presented using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total assets. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

2. Governmental fund financial statements are presented using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Measurable" means the amount of the transaction can be determined and "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (typical within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized only when payment is due.

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

3. Revenue Recognition:

The City considers property taxes, franchise fees, hotel/motel taxes and grants as available if collected within 60 days after year end. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental revenues are recognized when received.

4. Restricted Resources:

When an expense is incurred for purposes for which both restricted and unrestricted resources are available the City first applies restricted resources.

E. FINANCIAL STATEMENT AMOUNTS:

1. Cash and Cash Equivalents:

The City maintains separate cash and investment accounts for each fund included in the primary government and its component units. Cash equivalents consist of highly-liquid investment with original maturities of three months or less. Cash equivalents include the City's investment accounts held at Texpool.

2. Taxes:

Property tax is levied each October 1 on the assessed (appraised) value as of the prior January 1 for all real and personal property located in the City. Taxes are due October 1, the levy date, and are delinquent after the following January 31. Property taxes are recorded as receivables in the period they are levied and available. For governmental fund financial reporting, delinquent taxes estimated not to be available are treated as deferred revenues at the time the taxes are assessed.

3. Prepaid Expenses:

Prepaid expenses represent payments made by the City in the current year to provide services occurring in the subsequent year.

4. Interfund Receivable and Payables:

Any residual balances outstanding between the governmental funds and business type funds are reported in the government-wide statement of net position as "interfund receivables".

5. Transfers Between Funds:

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

6. Capital Assets:

Capital assets, which include land, buildings, equipment and infrastructure assets, are included in the applicable governmental or business-type activities column in the government-wide statement of net assets and in the fund financial statements for the proprietary funds. Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Costs incurred for repair and maintenance are expensed as incurred. Depreciation is provided on the straight-line basis over the following estimated useful lives:

Buildings & Improvements	15-40 years
Equipment	3-10 years
Water & Sewer System	20-40 years
Infrastructure	10-40 years

7. Compensated Absences:

The City accrues accumulated unpaid vacation time when earned by the employee. The noncurrent portion (the amount estimated to be used in subsequent years) is maintained separately and represents a reconciling item between the fund and government-wide presentations. The total liability for compensated absences at September 30, 2016 was \$21,999.

8. Deferred Outflows of Resources:

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. Deferred outflows of resources reported in this year's financial statement include (1) a deferred outflow of resources for contributions made to the City's retirement plan between the measurement date of the net pension liabilities from the plan and the end of the City's fiscal year (2) deferred outflows of resources related to differences between the pension plans' projected and actual earnings and (3) deferred outflows of resources related to differences in pension plan assumptions changes. The deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred outflows related to differences between projected and actual plan earnings will be amortized to pension expense over a total of five years, including the current fiscal year. The deferred outflows related to assumptions changes will be amortized to pension expense over a total of 3.12 years. No deferred inflows of resources affect the governmental funds financial statements in the current year.

9. Deferred Inflows of resources:

The City reports increases in net assets that relate to future periods as deferred inflows of revenues. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources reported in this year's financial statements include (1) a deferred inflow of resources related to differences between the expected and actual demographics of

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

the City's pension plan and (2) a deferred inflow of resources for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected no later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet as deferred inflows of resources.

The deferred inflows related to differences related actuarial assumptions for demographic factors amount will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.

10. Equity Classifications:

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Any outstanding debt is reduced by any unspent debt proceeds at the end of the fiscal year before the reduction discussed above.
- b. Restricted net position - Consists of net assets with constraints placed on the use either (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net assets that do not meet the criteria of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable (prepaid expenses), restricted (by parties outside of the government or by enabling legislation), committed (by City Council ordinance or resolution) and unassigned.

11. Bad Debts:

Bad debts in the proprietary fund are considered immaterial; therefore, the City uses the direct write-off method to record bad debts. The City anticipates collecting nearly 100% of delinquent property taxes; therefore, no allowance for uncollectable property taxes is included in the government-wide statement of net position.

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

12. Capitalized Interest:

For proprietary fund reporting the City capitalizes construction period interest costs when incurred. There was no capitalized interest for the year ending September 30, 2016.

F: BUDGETS AND BUDGETARY ACCOUNTING:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1: Prior to September 1, the City Secretary submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2: Public hearings are conducted to obtain taxpayer comments.
- 3: Prior to October 1, the budget is legally enacted through the passage of an ordinance.
- 4: Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 5: Unused appropriations for all of the above annually budgeted funds lapse at the end of the fiscal year.

For the fiscal year ending September 30, 2016 the following departments had expenditures that exceeded appropriations:

Department	Excess of Expenditures over Budget
Parks	\$ 54,164

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 2: DEPOSITS:

At September 30, 2016, the City's cash and cash equivalents were made up of the following:

Held at local banks	\$ <u>812,773</u>
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Deposit and Investment Risk Disclosures:

(1) Interest rate risk:

This is the risk that changes in interest rates will adversely affect the fair value of an investment. As of September 30, 2016, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

(2) Credit Risk:

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. As of September 30, 2016, the City did not have any investments and, therefore, was not subject to credit risk.

(3) Concentration of credit risk:

This is the risk of loss attributable to the magnitude of the City's investment in a single issuer. As of September 30, 2016, the City did not have any investments and, therefore, was not subject to concentration of risk.

(4) Custodial credit risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of outside parties.

At September 30, 2016, the City's bank balances (per bank) totaled \$944,826. Of the City's bank accounts, \$586,568 were covered by FDIC insurance. The remaining balances of \$358,258 were held in uncollateralized accounts.

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 3: CAPITAL ASSETS:

Capital asset activity for the fiscal year ended September 30, 2016 is as follows:

CAPITAL ASSETS GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	PURCHASES	RETIREMENTS	ENDING BALANCE
Capital Assets not Being Depreciated:				
Land	\$ 49,224	\$ 0	\$ 0	\$ 49,224
Capital Assets not Being Depreciated:				
Capital Assets Being Depreciated:				
Buildings, Improvements & Parks	339,854	105,414	0	445,268
Equipment	1,471,950	46,495	0	1,518,445
Streets & Infrastructure	1,833,692	71,000	0	1,904,692
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>3,645,496</u>	<u>222,909</u>	<u>0</u>	<u>3,868,405</u>
LESS ACCUMULATED DEPRECIATION				
Buildings & Improvements	105,810	20,160	0	125,970
Equipment	953,711	99,208	0	1,052,919
Streets & Drainage	796,507	53,204	0	849,711
TOTAL ACCUMULATED DEPRECIATION	<u>1,856,028</u>	<u>172,572</u>	<u>0</u>	<u>2,028,600</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 1,838,692</u>	<u>\$ 50,337</u>	<u>\$ 0</u>	<u>\$ 1,889,029</u>

CAPITAL ASSETS BUSINESS-TYPE ACTIVITIES:	BEGINNING BALANCE	PURCHASES	RETIREMENTS	ENDING BALANCE
Capital Assets not Being Depreciated:				
Land	\$ 6,492	\$ 0	\$ 0	\$ 6,492
Capital Assets not Being Depreciated:				
Capital Assets Being Depreciated:				
Equipment	329,956	39,424	0	369,380
Waterworks & Sewer System	7,352,378	0	0	7,352,378
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>7,682,334</u>	<u>39,424</u>	<u>0</u>	<u>7,721,758</u>
LESS ACCUMULATED DEPRECIATION				
Equipment	216,352	46,911	0	263,263
Waterworks & Sanitary Sewer System	3,364,256	304,383	0	3,668,639
TOTAL ACCUMULATED DEPRECIATION	<u>3,580,608</u>	<u>351,294</u>	<u>0</u>	<u>3,931,902</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 4,108,218</u>	<u>\$ (311,870)</u>	<u>\$ 0</u>	<u>\$ 3,796,348</u>

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Capital Assets Continued

DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES AS FOLLOWS:

Administration	\$	59,476
Fire		58,226
Parks		13,888
Police		40,982
TOTAL DEPRECIATION EXPENSE	\$	<u>172,572</u>

DEPRECIATION EXPENSE WAS CHARGED TO BUSINESS-TYPE ACTIVITIES AS FOLLOWS:

Water & Sewer	\$	<u>351,294</u>
---------------	----	----------------

NOTE 4: LONG-TERM DEBT:

At September 30, 2016, the City's long-term debts consisted of the following;

Governmental Activities:

Capital Leases:

Fire truck, 4% interest, annual payments of \$25,681, final payment due August 2023 \$ 148,333

Radios-Fire Department, 4.64% interest, annual payment of \$7,815, final payment due May 2019 21,428

Notes Payable & Finance Contracts:

Fire Truck, 4.132% interest, annual payments of \$15,721, final payment due May 2029 155,704

Police COP SYNC equipment, 5% interest, annual payments of \$13,051, final payment due August 2018 24,267

Police Vehicle, 5.29% interest, annual payments of \$10,940, final payment due November 2017 20,259

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Long-term Debt Continued

Bonds Payable:

General Obligation Refunding Bonds, Series 2007, due in annual installments through September 2025, bearing interest at ranges from 3.6% to 4% 1,545,000

Tax Notes, Series 2010, due in annual installments through August 2017, bearing interest at ranges from 1.5% to 2% 110,000

Total Governmental Activities \$ 2,024,991

Business-Type Activities:

Notes Payable:

Truck, 4.75% interest, monthly payments of \$621, final payment due March 2018 \$ 10,767

Truck, 3.85% interest, annual payments of \$32,903, final payment due October 2019 119,859

Total Business-Type Activities \$ 130,626

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

The following is a summary of the long-term debt transactions of the City for the year ended September 30, 2016:

	<u>BEGINNING</u> <u>OF YEAR</u>	<u>NEW</u> <u>DEBT</u>	<u>REPAY-</u> <u>MENTS</u>	<u>END OF</u> <u>YEAR</u>	<u>CURRENT</u> <u>PORTION</u>
GOVERNMENTAL ACTIVITIES:					
Capital Leases:					
Fire Truck	\$ 165,649	\$ 0	\$ 17,316	\$ 148,333	\$ 18,191
Radios-Fire Department	27,946	0	6,518	21,428	6,821
Radios-Police Department	<u>8,103</u>	<u>0</u>	<u>8,103</u>	<u>0</u>	<u>0</u>
	<u>201,698</u>	<u>0</u>	<u>31,937</u>	<u>169,761</u>	<u>25,012</u>
Notes Payable & Finance Contracts:					
Police Cars	24,314	0	24,314	0	0
Fire Truck	164,623	0	8,919	155,704	9,287
Police Cop Sync Equipment	35,541	0	11,274	24,267	11,837
Police Vehicle	<u>29,857</u>	<u>0</u>	<u>9,598</u>	<u>20,259</u>	<u>9,869</u>
	<u>254,335</u>	<u>0</u>	<u>54,105</u>	<u>200,230</u>	<u>30,993</u>
Bonds Payable:					
General Obligation Refunding Bonds-2007	1,685,000	0	140,000	1,545,000	145,000
Tax Notes - 2010	<u>220,000</u>	<u>0</u>	<u>110,000</u>	<u>110,000</u>	<u>110,000</u>
	<u>1,905,000</u>	<u>0</u>	<u>250,000</u>	<u>1,655,000</u>	<u>255,000</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>2,361,033</u>	\$ <u>0</u>	\$ <u>336,042</u>	\$ <u>2,024,991</u>	\$ <u>311,005</u>
BUSINESS-TYPE ACTIVITIES:					
Note Payable - Truck	\$ 104,530	\$ 40,000	\$ 24,671	\$ 119,859	\$ 28,289
Note Payable - Truck	<u>17,530</u>	<u>0</u>	<u>6,763</u>	<u>10,767</u>	<u>7,093</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>122,060</u>	\$ <u>40,000</u>	\$ <u>31,434</u>	\$ <u>130,626</u>	\$ <u>35,382</u>

Annual debt service requirements to maturity for the long-term debts are as follows:

Governmental Activities

General Obligation Bonds

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 145,000	\$ 62,218	\$ 207,218
2018	150,000	56,056	206,056
2019	155,000	49,680	204,680
2020	165,000	43,636	208,636
2021	170,000	37,200	207,200
2022-2025	<u>760,000</u>	<u>77,400</u>	<u>837,400</u>
Total	\$ <u>1,545,000</u>	\$ <u>326,190</u>	\$ <u>1,871,190</u>

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Tax Notes

Year	Principal	Interest	Total
2017	110,000	2,200	112,200
Total	\$ 110,000	\$ 2,200	\$ 112,200

Notes Payable

Year	Principal	Interest	Total
2017	\$ 30,992	\$ 8,750	\$ 39,742
2018	32,492	7,250	39,742
2019	10,070	5,681	15,751
2020	10,487	5,263	15,750
2021	10,920	4,831	15,751
2022-2026	61,752	17,000	78,752
2027-2029	43,517	3,735	47,252
Total	\$ 200,230	\$ 52,510	\$ 252,740

Capital Leases

Year	Principal	Interest	Total
2017	\$ 25,012	\$ 8,484	\$ 33,496
2018	26,246	7,250	33,496
2019	27,544	5,952	33,496
2020	21,088	4,593	25,681
2021	22,153	3,528	25,681
2022-2023	47,718	3,644	51,362
Total	\$ 169,761	\$ 33,451	\$ 203,212

Business-Type Activities

Notes Payable

Year	Principal	Interest	Total
2017	\$ 35,382	\$ 4,972	\$ 40,354
2018	33,052	3,577	36,629
2019	30,509	2,394	32,903
2020	31,683	1,221	32,904
Total	\$ 130,626	\$ 12,164	\$ 142,790

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 5: RETIREMENT PLAN:

A. Plan Description

The City participates as one of 866 plans in the non-traditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) can be obtained at www.TMRS.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits provided

TMRS provides retirement, disability and death benefits. Benefits are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has adopted the following plan provisions:

	Plan Year 2015	Plan Year 2016
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5 or 0/20	60/5 or 0/20

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

At the December 31, 2015 valuation and measurement date, the following number of employees covered by the benefit terms was:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>12</u>
	38

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the City matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.05% and 4.64% for the calendar years 2016 and 2015 respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$29,384 and were equal to the required contributions.

D. Net Pension Liability or Assets

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by actuarial valuation as of that date. The City currently has a net pension asset.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For additional conservatism, lower termination rates are used, with maximum multipliers of 75%, and the life expectancy is loaded by decreasing the mortality rates by 1% for every active member less than 15. These rates are projected

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality tables with Blue Collar Adjustment are used with males multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Asset:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balance at December 31, 2014	\$ 757,657	\$ 818,469	\$ (60,812)
Service Cost	78,251		78,251
Interest	53,980		53,980
Differences between expected and actual experience	(3,946)		(3,946)
Changes in assumptions	32,250		32,250
Contributions - employer		25,693	(25,693)
Contributions - employee		40,756	(40,756)
Net investment income		1,207	(1,207)
Benefit Payments, including refunds of employee contributions	(51,273)	(51,273)	0
Administrative expense		(736)	736
Other		(36)	36
Net Changes	<u>109,262</u>	<u>15,611</u>	<u>93,651</u>
Balance at December 31, 2015	\$ <u>866,919</u>	\$ <u>834,080</u>	\$ <u>32,839</u>

The net pension asset is allocated to the governmental funds and the business-type funds based on actual wages paid during the fiscal year.

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability (Asset)	\$ <u>156,800</u>	\$ <u>32,839</u>	\$ <u>(67,000)</u>

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

E: Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2016 the City recognized pension expense of \$47,863. This pension expense is allocated between the funds based on actual wages paid by each fund during the fiscal year.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following Sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net
Differences between projected and actual investment earnings	\$ 50,863	\$ 0	\$ 50,863
Differences in assumptions	21,913	0	21,913
Differences between expected and actual economic experience	<u>0</u>	<u>25,131</u>	<u>(25,131)</u>
To be recognized in the future	72,776	25,131	\$ <u>47,645</u>
Contributions subsequent to the measurement date	22,663	0	
Total	\$ <u>95,439</u>	\$ <u>25,131</u>	

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

\$22,663 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,		
2016	\$	11,465
2017		11,465
2018		13,497
2019		11,218
2020		0
Thereafter		0
	\$	47,645

Supplemental Death Benefits Plan

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other post employment benefit,” or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefits payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire career. Contribution rates for the last four plan years (Retiree-only portion of the rate) are as follows:

Plan Year	Annual Required Contribution	Actual Contribution Made	Percentage of ARC Contributed
2016	0.14%	0.14%	100%
2015	0.23%	0.23%	100%
2014	0.20%	0.20%	100%
2013	0.18%	0.18%	100%

CITY OF RHOME, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

NOTE 6: RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (“TMLIRP”) which is a public entity insurance risk pool. Management believes coverage presently purchased from TMLIRP is sufficient to preclude significant uninsured losses to the City.

NOTE 7: ECONOMIC DEPENDENCY:

The City is dependent upon the Walnut Creek Special Utility to provide water for the City. The cost water purchased for the current fiscal year was \$293,588.

NOTE 8: NEW ACCOUNTING PRINCIPLES:

The City has adopted all current GASB pronouncements that are applicable to its operations and activities. The accounting principles governing the reported amounts, financial presentations, and disclosures are subject to change from time to time based on new pronouncements and / or rules issued by various standards-setting bodies. The GASB has issued the following new statements that are potentially applicable to the City of River Oaks.

- *Statement No. 76, Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This statement will not affect the City.
- *Statement No. 77, Tax Abatement Disclosures.* This statement will not affect the City.
- *Statement No.78, Pension Provided Through Certain Multi-Employer Defined Benefit Pension Plan.* This statement will not affect the City.
- *Statement No.79, Certain External Investment Pools and Pool Participants.* This statement will not affect the City.
- *Statement No.80, Blending Requirements for Certain Component Units.* This statement will not affect the City.

New pronouncements not yet in effect as of September 30, 2016, are not expected to have any significant impact on the City’s financial position, results of operations, or cash flows. The City is currently studying these new pronouncements and will adopt them in the fiscal year ending September 2016, as required.

NOTE 9: SUBSEQUENT EVENTS:

The City has evaluated all events and transactions that occurred after September 30, 2016 through the date the financial statement was available to be issued. During this period there were no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RHOME, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

September 30, 2016

Plan Year	2015	2014
TOTAL PENSION LIABILITY		
Service Cost	\$ 78,251	\$ 72,103
Interest (on the Total Pension Liability)	53,980	52,201
Changes in benefit terms	0	0
Difference between expected and actual experience	(3,946)	(44,091)
Change of assumptions	32,250	0
Benefit payments, including refunds of employee contributions	(51,273)	(64,472)
NET CHANGE IN TOTAL PENSION LIABILITY	109,262	15,741
TOTAL PENSION LIABILITY - BEGINNING	757,657	741,916
TOTAL PENSION LIABILITY - ENDING (a)	\$ 866,919	\$ 757,657
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 25,693	\$ 18,899
Contributions - Employee	40,756	38,408
Net investment income	1,207	44,713
Benefit payments, including refunds of employee contributions	(51,273)	(64,472)
Administrative expense	(736)	(467)
Other	(36)	(38)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	15,611	37,043
PLAN NET FIDUCIARY POSITION - BEGINNING	818,469	781,426
PLAN NET FIDUCIARY POSITION - ENDING (b)	\$ 834,080	\$ 818,469
NET PENSION (ASSET) (a) - (b)	\$ 32,839	\$ (60,812)
Plan Fiduciary Net Position as a percentage of Total Pension Liability	96.21%	108.03%
Covered employee payroll	\$ 582,224	\$ 548,684
Net Pension Asset as a percentage of covered payroll	5.64%	-11.08%

CITY OF RHOME, TEXAS

SCHEDULE OF PENSION CONTRIBUTIONS

September 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 29,384	\$ 25,493
Contributions in relation to the actuarially determined contribution	29,384	25,493
Contribution deficiency (excess)	0	0
Covered employee payroll	591,004	579,095
Contributions as a percentage of covered employee payroll	4.97%	4.40%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3%
Salary Increases	3.5% to 10.5%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male multiplied by 109% and female multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year

CITY OF RHOME, TEXAS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

For the Year Ended September 30, 2016

RESOURCES (INFLOWS):	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
TAX REVENUES:				
Property Taxes	\$ 410,912	\$ 334,516	\$ 239,689	\$ (94,827)
Sales Taxes	425,000	425,000	429,184	4,184
Hotel/Motel Taxes	0	0	20,116	20,116
Franchise Fees	77,000	77,000	73,670	(3,330)
TOTAL TAX REVENUES	912,912	836,516	762,659	(73,857)
Municipal Court Fines & Fees	550,000	550,000	446,237	(103,763)
LICENSE & PERMITS:				
Permits	27,880	27,880	66,020	38,140
TOTAL LICENSES & PERMITS	27,880	27,880	66,020	38,140
CHARGES FOR SERVICES:				
Fire Revenues	15,500	15,500	11,327	(4,173)
Impound Fees & Auction Sales	24,000	24,000	71,248	47,248
TOTAL CHARGES FOR SERVICES	39,500	39,500	82,575	43,075
INTERGOVERNMENTAL REVENUES				
Tarrant County Fire Contract	7,500	7,500	7,500	0
Wise County Fire Contract	50,400	50,400	50,400	0
Fire Department Grants	8,500	8,500	5,572	(2,928)
Police Grants	0	0	2,224	2,224
TOTAL INTERGOVERNMENTAL	66,400	66,400	65,696	(704)
DONATIONS/FUND RAISERS				
Parks	19,000	19,000	9,480	(9,520)
Fire	20,000	20,000	14,139	(5,861)
Other	0	0	1,906	1,906
TOTAL DONATIONS/GRANTS	39,000	39,000	25,525	(13,475)
OTHER REVENUES:				
Miscellaneous	10,100	10,100	6,286	(3,814)
TOTAL OTHER REVENUES	10,100	10,100	6,286	(3,814)
INVESTMENT INCOME			90	90
TRANSFERS				
Transfer From Debt Service Fund	0	0	73,732	73,732
TOTAL TRANSFERS	0	0	73,732	73,732
TOTAL RESOURCES	\$ 1,645,792	\$ 1,569,396	\$ 1,528,820	\$ (40,576)

CITY OF RHOME, TEXAS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

For the Year Ended September 30, 2016

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
CHARGES TO APPROPRIATIONS:				
ADMINISTRATION				
Personnel:				
Salaries & Wages	\$ 94,722	\$ 88,722	\$ 79,655	\$ 9,067
Payroll Taxes	8,229	8,229	6,421	1,808
Retirement	4,380	4,380	4,060	320
Health Insurance	17,800	17,800	12,567	5,233
Prior Year TMRS	0	0	3,564	(3,564)
Total Personnel	125,131	119,131	106,267	12,864
Professional Fees				
Accounting & Audit Fees	26,000	12,000	12,000	0
Engineer Services	10,000	10,000	26,430	(16,430)
Property Tax Services	15,006	15,006	16,804	(1,798)
Legal Fees	45,000	45,000	43,855	1,145
Total Professional Fees	96,006	82,006	99,089	(17,083)
Supplies & Contract Services:				
Advertising, Banquets & Awards	2,000	2,000	2,384	(384)
Animal Control	1,000	1,000	695	305
Contract Labor	42,000	42,000	21,889	20,111
Dues, Subscriptions & Equipment Rental	12,000	12,000	18,736	(6,736)
Inspection Services	24,000	24,000	43,318	(19,318)
Office Supplies	8,000	8,000	8,032	(32)
Postage	1,500	1,500	1,061	439
Bank Fees	8,000	8,000	3,292	4,708
Insurance-Property & Liability	7,000	7,000	10,891	(3,891)
Public Notices	1,300	1,300	706	594
Election	4,000	4,000	9,262	(5,262)
Total Supplies & Contract Services	110,800	110,800	120,266	(9,466)
Repair & Maintenance:				
Streets	0	0	8,838	(8,838)
Building	5,000	5,000	5,569	(569)
Total Repair & Maintenance	5,000	5,000	14,407	(9,407)
Utilities:				
Telephone	17,000	17,000	17,575	(575)
Gas & Electric	22,000	22,000	22,576	(576)
Total Utilities	39,000	39,000	40,151	(1,151)
Travel & Training:				
Education	1,300	1,300	429	871
Capital Outlay:				
Building Improvements	35,000	35,000	37,577	(2,577)
Street Improvements	125,000	110,000	71,000	39,000
Total Capital Outlay	160,000	145,000	108,577	36,423
TOTAL ADMINISTRATION	537,237	502,237	489,186	13,051

CITY OF RHOME, TEXAS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

For the Year Ended September 30, 2016

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
MUNICIPAL COURT				
Personnel:				
Salaries & Wages	45,012	39,443	34,335	5,108
Payroll Taxes	3,794	3,794	2,788	1,006
Retirement	2,039	2,039	1,788	251
Health Insurance	8,900	8,900	6,250	2,650
Total Personnel	59,745	54,176	45,161	9,015
Supplies & Contract Services:				
Animal Control				
Judge Services	7,200	7,200	6,600	600
Contract Labor	0	0	1,746	(1,746)
Dues & Memberships	2,100	2,100	1,225	875
Office Supplies	1,000	1,000	1,257	(257)
Prosecutor	0	0	4,550	(4,550)
Postage	200	200	1,446	(1,246)
Bank Fees	100	100	70	30
State Court Fees	165,000	165,000	146,374	18,626
Training	1,000	1,000	400	600
Computer Software & IT Expense	3,000	3,000	3,854	(854)
Total Supplies & Contract Services	179,600	179,600	167,522	12,078
TOTAL MUNICIPAL COURT	239,345	233,776	212,683	21,093
PARKS:				
Contract Services:				
Advertising	0	0	3,152	(3,152)
Fund Raising Expenses	12,500	11,765	5,666	6,099
Supplies & Maintenance	0	0	1,274	(1,274)
Total Contract Services	12,500	11,765	10,092	1,673
CAPITAL OUTLAY:				
Park Improvements	12,000	12,000	67,837	(55,837)
TOTAL PARKS	24,500	23,765	77,929	(54,164)

CITY OF RHOME, TEXAS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

For the Year Ended September 30, 2016

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
POLICE:				
Personnel:				
Salaries & Wages	336,389	336,389	295,215	41,174
Payroll Taxes	27,464	27,464	23,870	3,594
Retirement	14,760	14,760	15,189	(429)
Health Insurance	53,400	53,400	39,656	13,744
Total Personnel	432,013	432,013	373,930	58,083
Supplies & Contract Services:				
Dues & Memberships	8,000	8,000	1,700	6,300
Contract Services	0	0	716	(716)
Supplies & Minor Equipment	15,500	13,500	3,185	10,315
Office Supplies	2,000	2,000	2,162	(162)
Postage	200	200	547	(347)
Bank Fees	500	500	1,107	(607)
Impound Lot	12,000	12,000	23,245	(11,245)
Insurance-Property & Liability	17,000	17,000	19,944	(2,944)
Vehicle Expenses	41,700	34,500	26,788	7,712
Uniforms	8,000	6,000	2,493	3,507
Total Supplies & Contract Services	104,900	93,700	81,887	11,813
Repair & Maintenance:				
Equipment	5,000	5,000	2,342	2,658
Utilities:				
Telephone	7,400	7,400	6,210	1,190
Gas & Electric	4,000	4,000	3,897	103
Total Utilities	11,400	11,400	10,107	1,293
Travel & Training:				
Training	5,000	5,000	2,438	2,562
Debt Service:				
Note Payments	49,479	49,479	57,690	(8,211)
Capital Outlay:				
Equipment	60,000	51,200	46,495	4,705
TOTAL POLICE	667,792	647,792	574,889	72,903

CITY OF RHOME, TEXAS
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

For the Year Ended September 30, 2016

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
FIRE DEPARTMENT				
Contract Services:				
Supplies & Minor Equipment	14,500	13,000	16,135	(3,135)
Immunizations	300	0	0	0
Fire Safety Program	1,000	850	818	32
Office Supplies	500	500	567	(67)
Vehicle Expenses	5,000	4,500	4,335	165
Dues & Subscriptions	2,500	2,500	1,983	517
Equipment Rental	1,200	1,200	1,753	(553)
Volunteer Insurance	4,000	4,000	0	4,000
Property & Liability Insurance	9,500	9,500	8,670	830
Uniforms	1,000	1,000	921	79
Total Contract Services	39,500	37,050	35,182	1,868
Repair & Maintenance:				
Equipment Maintenance	28,000	26,500	23,593	2,907
Training:				
Training	1,500	1,200	1,226	(26)
Utilities:				
Telephone	3,700	3,700	3,229	471
Gas & Electric	5,000	5,000	5,996	(996)
Total Utilities	8,700	8,700	9,225	(525)
Debt Service:				
Note Payments	50,191	50,191	49,372	819
Capital Outlay:				
Equipment	10,000	10,000	0	10,000
TOTAL FIRE DEPARTMENT	137,891	133,641	118,598	15,043
TOTAL EXPENDITURES	1,606,765	1,541,211	1,473,285	67,926
EXCESS OF CURRENT RESOURCES OVER (UNDER) APPROPRIATIONS	39,027	28,185	55,535	\$ 27,350
BUDGETARY FUND BALANCE:				
BEGINNING OF YEAR - AS RESTATED	489,155	489,155	489,155	
END OF YEAR	\$ 528,182	\$ 517,340	\$ 544,690	

OTHER SUPPLEMENTARY INFORMATION

CITY OF RHOME, TEXAS
WATER & SEWER COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the Years Ended September 30, 2016 & 2015

	<u>2016</u>	<u>2015</u>
REVENUES:		
CHARGES FOR SERVICES:		
Water, Sewer & Trash Charges	\$ 911,693	\$ 916,662
Tap Fees	43,150	4,600
TOTAL CHARGES FOR SERVICES	954,843	921,262
OTHER REVENUES:		
Franchise Fee	0	775
Other Income	2,301	1,456
TOTAL OTHER REVENUES	2,301	2,231
TOTAL REVENUES	957,144	923,493
OPERATING EXPENSES:		
Personnel:		
Salaries & Wages	169,695	189,814
Payroll Taxes	13,210	14,122
Retirement	14,359	7,071
Health Insurance	28,549	34,526
Prior Years TMRS	2,284	0
Total Personnel	228,097	245,533
Professional Fees:		
Engineering	26,148	9,445
Supplies & Contract Services:		
Dues & Memberships	1,894	943
Contract Labor	4,454	2,730
Computer & IT Services	2,199	0
Office Supplies	1,153	2,574
Postage	4,091	3,994
Public Notices	4,508	0
License & Permits	5,050	3,794
Testing	21,832	27,528
Bank Fees	6,502	8,383
Trash Collection	83,966	88,596
Insurance-Property & Liability	18,163	19,744
Vehicle Expenses	6,015	10,822
Uniforms	1,369	1,531
Total Supplies & Contract Services	161,196	170,639
Repair & Maintenance:		
Supplies	32,012	48,101
System Maintenance	80,291	33,823
Total Repair & Maintenance	112,303	81,924

CITY OF RHOME, TEXAS
WATER & SEWER COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the Years Ended September 30, 2016 & 2015

	<u>2016</u>	<u>2015</u>
Utilities:		
Telephone	3,794	7,265
Gas & Electric	52,055	48,917
Total Utilities	55,849	56,182
Travel & Training:		
Training	0	3,321
Water Purchases	293,588	312,626
Depreciation	351,294	345,427
TOTAL OPERATING EXPENSES	1,228,475	1,225,097
OPERATING LOSS	(271,331)	(301,604)
NON-OPERATING REVENUES & (EXPENSES):		
Investment Income	149	124
Water Tower Lease	7,390	8,864
Interest Expense	(3,626)	(4,269)
TOTAL NON-OPERATING REVENUES & (EXPENSES)	3,913	4,719
INCOME (LOSS) BEFORE TRANSFERS	(267,418)	(296,885)
TRANSFERS:		
Transfer from General Fund	0	50,000
CHANGE IN NET POSITION	(267,418)	(246,885)
NET POSITION - BEGINNING OF YEAR	4,141,195	4,388,080
NET POSITION - END OF YEAR	\$ 3,873,777	\$ 4,141,195

WILLIAM C. SPORE, P.C.
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To the City Council
City of Rhome

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities and each major fund of the City of Rhome as of and for the year ending September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, I considered the City of Rhome' internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the governmental unit'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 misstatements on a timely basis. A materiel weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

My consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness.

This communication is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

William C. Spore, PC
Certified Public Accountants

March 28, 2017