

CAPITAL ASSETS

The City of Tomball's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of September 30, 2015 is \$79,827,038. The investment in capital assets includes land, buildings and improvements, equipment, infrastructure, and construction in progress.

CITY OF TOMBALL'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 6,379,852	\$ 5,651,056	\$ 1,403,735	\$ 1,403,735	\$ 7,783,587	\$ 7,054,791
Buildings and improvements	7,349,574	7,581,664	-	-	7,349,574	7,581,664
Gas system	-	-	3,066,176	3,206,261	3,066,176	3,206,261
Water and Sewer system	-	-	28,661,983	29,776,108	28,661,983	29,776,108
Equipment	1,284,818	1,407,784	2,755,395	2,530,434	4,040,213	3,938,218
Vehicles	1,236,473	394,421	-	-	1,236,473	394,421
Infrastructure	14,647,502	15,228,191	-	-	14,647,502	15,228,191
Construction in progress	11,382,090	6,996,294	1,659,440	1,152,232	13,041,530	8,148,526
Total capital assets	\$ 42,280,309	\$ 37,259,410	\$ 37,546,729	\$ 38,068,770	\$ 79,827,038	\$ 75,328,180

Additional information on the City's capital assets can be found in the notes on pages 41 through 43 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Tomball had a total bonded debt and capital lease obligation of \$33,920,000.

CITY OF TOMBALL'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligations	\$ 8,437,500	\$ 9,710,500	\$ 4,042,500	\$ 4,669,500	\$ 12,480,000	\$ 14,380,000
Certificates of Obligation	20,640,000	21,565,000	-	-	20,640,000	21,565,000
Revenue bonds payable	-	-	-	2,465,000	-	2,465,000
Capital leases	800,000	535,464	-	-	800,000	535,464
	\$ 29,877,500	\$ 31,810,964	\$ 4,042,500	\$ 7,134,500	\$ 33,920,000	\$ 38,945,464



The City's General Obligation, Revenue Bond, and Certificates of Obligation ratings are listed below:

	Standard & Poor's
General Obligation Bonds	AA+
Revenue Bonds	AA-
Certificates of Obligation	AA+

Additional information on the City's outstanding debt can be found on pages 44 through 47 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Tomball continues to experience growth, both within the corporate City limits and the surrounding area. The City's current population is estimated to be 11,299. However, within a 3 mile radius it is estimated to be 15,789. Within a 5 mile radius, the estimate rises to 77,560.

The City is continuing to focus on Economic Development initiatives, including the revitalization of the historic downtown area and the continuing development of two major retail developments on the west side of the City. On the north side, two new residential developments were under construction at the close of the fiscal year.

The City's largest source of revenue continues to be sales taxes. During the fiscal year the City experienced an increase in this resource of 2.92%. With the continuing expansion of the local and surrounding economy, this trend is expected to continue, however, management is closely monitoring changes related to the oil and gas business in the Houston area.

Construction of State Highway 249 expansion through the City was completed in April, 2015. At the end of fiscal year, State Highway 99, also known as the Grand Parkway, was near completion just south of the City's extraterritorial jurisdiction. When it is completed, it will be the longest beltway in the U.S., and the third (outer) loop within the Houston-The Woodlands-Sugar Land metropolitan area. Additional development within the City is expected when these two major corridors are finished.

The City's largest taxpayer, Baker-Hughes (formerly B J Services), continues the operation of its Western Hemisphere training facility on the northeast corner of the City. The training facility building was completed during the 2014 fiscal year and an estimated 70,000 individuals are expected to attend the center on an annual basis according to announcements at that time.

The ad valorem property tax rate remained at \$ 0.341455, one of the lowest in Harris County.

Pursuant to the City's financial management policy, fund balances in all funds exceeded the charter requirement of 25 per cent of annual expenditures.



For 2015-2016, the City expects to maintain current levels of sales tax revenues. Property tax revenues are expected to increase based upon values received from the appraisal district. There are no changes to the existing tax rates or utility fees. Construction will continue on several capital projects, including the extension of Medical Complex Drive, the M-121 drainage channel, and the TEDC Business Park.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to, Finance Department, 501 James Street, Tomball, Texas, 77375, telephone 281-290-1490, or for general City information, please visit the City's web-site at <http://www.tomballtx.gov>.



BASIC FINANCIAL STATEMENTS



**CITY OF TOMBALL, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 29,950,252	\$ 11,262,913	\$ 41,213,165	\$ 5,426,593
Investments	400,029	-	400,029	5,885,833
Receivables, net	2,357,236	1,430,461	3,787,697	571,840
Internal balances	(275,996)	275,996	-	-
Inventory	-	66,888	66,888	-
Prepaid expenses	14,435	-	14,435	-
Cash and cash equivalents restricted for				
Debt service	2,123,625	-	2,123,625	-
Construction	7,185,221	-	7,185,221	-
Capital assets:				
Nondepreciable	17,761,942	3,063,175	20,825,117	2,805,587
Depreciable capital assets, net	24,518,367	34,483,554	59,001,921	-
Total assets	84,035,111	50,582,987	134,618,098	14,689,853
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pensions	1,047,375	180,257	1,227,632	-
Deferred loss on issuance of refunding bonds	334,610	-	334,610	-
Total deferred outflows of resources	1,381,985	180,257	1,562,242	-
Total assets and deferred outflows of resources	85,417,096	50,763,244	136,180,340	14,689,853
LIABILITIES				
Accounts payable and other current liabilities	2,324,498	421,395	2,745,893	138,327
Accrued interest payable	125,322	16,493	141,815	-
Customer deposits	2,950	835,003	837,953	-
Noncurrent liabilities:				
Due within one year	2,759,987	673,939	3,433,926	-
Due in more than one year	33,882,012	4,412,941	38,294,953	-
Total liabilities	39,094,769	6,359,771	45,454,540	138,327
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions	52,014	8,952	60,966	-
Total deferred inflows of resources	52,014	8,952	60,966	-
Total liabilities and deferred inflows of resources	39,146,783	6,368,723	45,515,506	138,327
NET POSITION				
Net investment in capital assets	31,267,016	33,433,571	64,700,587	2,805,587
Restricted for:				
Debt service	2,956,381	-	2,956,381	-
Enabling legislation	1,352,214	-	1,352,214	-
Unrestricted	10,694,702	10,960,950	21,655,652	11,745,939
Total net position	\$ 46,270,313	\$ 44,394,521	\$ 90,664,834	\$ 14,551,526

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



**CITY OF TOMBALL, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015**

Program Activities	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business - Type Activities	Component Unit
Primary government						
Governmental activities						
General government	\$ 4,968,344	\$ -	\$ 606,753	\$ (4,361,591)	\$ -	\$ -
Public safety	8,493,353	999,667	384,308	(7,109,378)	-	(7,109,378)
Public works	6,181,783	2,694,670	-	(3,487,113)	-	(3,487,113)
Community services	313,713	-	48,176	(265,537)	-	(265,537)
Interest and fiscal agent fees	891,258	-	-	(891,258)	-	(891,258)
Total governmental activities	20,848,451	3,694,337	1,039,237	(16,114,877)	-	(16,114,877)
Business-type activities						
General government	979,161	842,468	670,000	-	533,307	533,307
Water	3,087,563	4,449,383	-	-	1,361,820	1,361,820
Sewer	2,418,443	2,320,748	-	-	(97,695)	(97,695)
Gas	1,963,162	3,295,521	-	-	1,332,359	1,332,359
Total business-type activities	8,448,329	10,908,120	670,000	-	3,129,791	3,129,791
Total primary government	\$ 29,296,780	\$ 14,602,457	\$ 1,709,237	(16,114,877)	3,129,791	(12,985,086)
Component unit						
Tomball Economic Development Corporation	2,492,283	-	-	-	-	(2,492,283)
	\$ 2,492,283	\$ -	\$ -	-	-	(2,492,283)
GENERAL REVENUES						
Taxes:						
Property taxes				5,241,928		5,241,928
Sales taxes				10,839,818		10,839,818
Franchise taxes				1,282,598	-	1,282,598
Other taxes				538,843	-	538,843
Gain on sale of capital assets				17,634	-	17,634
Miscellaneous				475,712	47,847	523,559
Unrestricted investment earnings				40,115	33,771	73,886
TRANSFERS				1,607,068	(1,607,068)	-
Total general revenues and transfers				20,043,716	(1,525,450)	18,518,266
Change in net position				3,928,839	1,604,341	5,533,180
NET POSITION, beginning of year - as originally reported				45,314,083	43,301,777	88,615,860
Implementation of change in accounting principle (Note 1)				(2,972,609)	(511,597)	(3,484,206)
NET POSITION, beginning of year - as restated				42,341,474	42,790,180	85,131,654
NET POSITION, end of year				\$ 46,270,313	\$ 44,394,521	\$ 90,664,834

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



**CITY OF TOMBALL, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015**

	<u>General Fund</u>	<u>Debt Service</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,999,666	\$ 950,115
Investments	400,029	-
Receivables, net	2,292,584	7,963
Cash and cash equivalents restricted for:		
Debt service	-	2,123,625
Construction	-	-
Prepaid items	14,435	-
TOTAL ASSETS	<u><u>\$ 14,706,714</u></u>	<u><u>\$ 3,081,703</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,221,186	\$ -
Customer deposits	2,950	-
Total liabilities	1,224,136	-
 FUND BALANCES		
Nonspendable		
Prepaid items	14,435	-
Restricted for		
Debt service	-	3,081,703
Construction		-
Enabling legislation		-
Committed		
City functions	-	
Assigned		
Other purposes	127,671	-
Unassigned	13,340,472	-
Total fund balances	<u><u>13,482,578</u></u>	<u><u>3,081,703</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 14,706,714</u></u>	<u><u>\$ 3,081,703</u></u>

The Notes to the Basic Financial Statements
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Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 12,579,428	\$ 1,743,416	\$ 27,272,625
-	-	400,029
-	47,204	2,347,751
-	-	2,123,625
7,185,221	-	7,185,221
-	-	14,435
<u>\$ 19,764,649</u>	<u>\$ 1,790,620</u>	<u>\$ 39,343,686</u>
\$ 828,302	\$ 271,346	\$ 2,320,834
-	-	2,950
828,302	271,346	2,323,784
		14,435
-	-	3,081,703
18,936,347	-	18,936,347
-	1,352,214	1,352,214
	167,060	167,060
-	-	127,671
-	-	13,340,472
<u>18,936,347</u>	<u>1,519,274</u>	<u>37,019,902</u>
<u>\$ 19,764,649</u>	<u>\$ 1,790,620</u>	<u>\$ 39,343,686</u>



CITY OF TOMBALL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total fund balances - governmental funds \$ 37,019,902

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

Capital assets used in governmental activities are not current financial resources, and therefore are not reported in the governmental funds balance sheet. 41,346,233

Deferred loss on issuance of refunding bonds is not recorded in the fund financial statements but is recorded as a deferred outflow of resources on the statement of net position. 334,610

The accrual for other post employment benefits does not require the use of current financial resources and is therefore not recorded in the governmental fund financial statements. (657,809)

The net pension liability and related deferred outflows and inflows of resources are recorded in the statement of net position.

Net pension liability	(3,883,148)	
Deferred outflows - pensions	1,047,375	
Deferred inflows - pensions	<u>(52,014)</u>	(2,887,787)

Interest payable on long term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet. (125,322)

Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. A portion of the assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. 3,341,528

Long-term liabilities, including bonds payable, capital leases payable, bond premiums and compensated absences are not due and payable in the current period, and therefore are not reported in the fund financial statements. The components of long-term liabilities at September 30, 2015 are:

Bonded debt payable	(29,077,500)	
Capital lease payable	(800,000)	
Landfill post closure costs	(475,500)	
Compensated absences payable	(1,341,292)	
Premiums received on issuance of bonds	<u>(406,750)</u>	<u>(32,101,042)</u>

Net position - governmental activities \$ 46,270,313

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



CITY OF TOMBALL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Debt Service	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 1,715,949	\$ 3,525,979	\$ -	\$ -	\$ 5,241,928
Sales, franchise, and other taxes	12,189,566	-	-	471,693	12,661,259
Permits and licenses	492,646	-	-	-	492,646
Fines and forfeitures	666,083	-	-	333,584	999,667
Service revenue	2,202,024	-	-	-	2,202,024
Intergovernmental	384,308	-	-	-	384,308
Contributions from component unit	10,000	524,912	71,841	-	606,753
Interest on investments	15,564	2,402	19,375	1,031	38,372
Other revenue	368,038	-	73,752	96,454	538,244
Total revenues	18,044,178	4,053,293	164,968	902,762	23,165,201
Expenditures					
Current					
Administrative	4,793,047	-	-	335,824	5,128,871
Police	5,237,174	-	-	86,682	5,323,856
Fire	3,478,204	-	-	-	3,478,204
Court	312,161	-	-	-	312,161
Public works	1,495,491	-	-	-	1,495,491
Sanitation	1,968,765	-	-	-	1,968,765
Streets	1,123,848	-	4,809,522	-	5,933,370
Permits	400,801	-	-	-	400,801
Garage	146,330	-	-	-	146,330
Parks	492,919	-	1,564	-	494,483
Community services	128,428	-	-	186,175	314,603
Debt service					
Principal	-	2,742,812	-	-	2,742,812
Interest	-	854,618	-	-	854,618
Bond issuance costs and fees	-	11,015	-	-	11,015
Total expenditures	19,577,168	3,608,445	4,811,086	608,681	28,605,380
Excess (deficiency) of revenues over expenditures	(1,532,990)	444,848	(4,646,118)	294,081	(5,440,179)
Other financing sources (uses)					
Proceeds from capital lease	800,000	-	-	-	800,000
Transfers out	(1,229,747)	-	(424,208)	-	(1,653,955)
Transfers in	2,031,276	-	1,209,747	20,000	3,261,023
Total other financing sources (uses)	1,601,529	-	785,539	20,000	2,407,068
Net change in fund balances	68,539	444,848	(3,860,579)	314,081	(3,033,111)
Fund balances, beginning of year	13,414,039	2,636,855	22,796,926	1,205,193	40,053,013
Fund balances, end of year	\$ 13,482,578	\$ 3,081,703	\$ 18,936,347	\$ 1,519,274	\$ 37,019,902

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



CITY OF TOMBALL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015

Net change in fund balances - total governmental funds \$ (3,033,111)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 5,923,542

Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (1,112,212)

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

Proceeds from capital lease	(800,000)	
Amortization of premium on bonds payable	43,056	
Amortization of deferred loss on refunding	(59,672)	
Repayment of long term debt	<u>2,733,464</u>	1,916,848

Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 77,051

Current year changes in the long term liability for landfill post-closure costs do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (2,500)

Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as an expenditure in the governmental funds. (9,009)

The accrual for other post employment benefits does not require the use of current financial resources and is, therefore, not recorded in the governmental fund financial statements. (129,577)

The net change in the pension-related deferred outflows and inflows of resources and net pension liability was: 84,822

An internal service fund is used by management to charge the cost of certain activities, such as fleet management, to individual funds. A portion of the change in net position of the internal service funds is included in governmental activities in the statement of activities. 212,985

Change in net position - governmental activities \$ 3,928,839



CITY OF TOMBALL, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,262,913	\$ 2,677,627
Accounts receivable, net	1,430,461	9,485
Inventory	66,888	-
	<hr/>	<hr/>
Total current assets	12,760,262	2,687,112
Noncurrent assets		
Nondepreciable capital assets	3,063,175	-
Depreciable capital assets	58,019,568	2,618,317
Less accumulated depreciation	(23,738,395)	(1,481,860)
	<hr/>	<hr/>
Net capital assets	37,344,348	1,136,457
	<hr/>	<hr/>
Total noncurrent assets	37,344,348	1,136,457
	<hr/>	<hr/>
Total assets	50,104,610	3,823,569
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pensions	180,257	-
	<hr/>	<hr/>
Total deferred outflows of resources	180,257	-
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 50,284,867	\$ 3,823,569

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



CITY OF TOMBALL, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2015
(CONTINUED)

	<u>Business Type Activities Enterprise Fund</u>	<u>Governmental Activities Internal Service</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 421,395	\$ 3,664
Customer deposits	835,003	-
Current portion of bonds and other debt	625,026	-
Compensated absences	48,913	-
Accrued interest payable	16,493	-
	<hr/>	<hr/>
Total current liabilities	1,946,830	3,664
Noncurrent liabilities		
Compensated absences	146,740	
Pensions	668,305	-
Long-term portion of bonds payable	3,597,896	-
	<hr/>	<hr/>
Total noncurrent liabilities	4,412,941	-
	<hr/>	<hr/>
Total liabilities	6,359,771	3,664
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pensions	8,952	-
	<hr/>	<hr/>
Total deferred inflows of resources	8,952	-
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	6,368,723	3,664
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	33,231,189	1,136,457
Unrestricted	10,684,955	2,683,448
	<hr/>	<hr/>
Total net position	\$ 43,916,144	\$ 3,819,905
	<hr/>	<hr/>
Reconciliation to government-wide statement of net position:		
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds	478,377	
	<hr/>	
Net position of business-type activities	\$ 44,394,521	
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The Notes to the Basic Financial Statements
are an integral part of this statement.



CITY OF TOMBALL, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 10,065,652	\$ 2,955,343
Taps and connections	198,902	-
Penalties	108,374	-
Capital recovery fees	535,192	-
Miscellaneous	47,847	-
Total operating revenues	10,955,967	2,955,343
OPERATING EXPENSES		
Costs of sales and services	6,989,458	2,267,848
Depreciation	1,408,665	342,207
Total operating expenses	8,398,123	2,610,055
Operating income	2,557,844	345,288
NONOPERATING REVENUES (EXPENSES)		
Investment income	24,450	1,743
Unrealized gain on investments	9,321	-
Interest expense	(196,878)	-
Gain on disposal of capital assets	-	12,626
Contribution from component unit	670,000	-
Total nonoperating revenues (expenses)	506,893	14,369
Income before transfers	3,064,737	359,657
Transfers out, net	(1,607,068)	-
Change in net position	1,457,669	359,657
NET POSITION, beginning of year - as originally reported	42,970,072	3,460,248
Implementation of change in accounting principle (Note 1)	(511,597)	-
NET POSITION, beginning of year - as restated	42,458,475	3,460,248
NET POSITION, end of year	\$ 43,916,144	\$ 3,819,905
Reconciliation to government-wide statement of activities		
Change in net position	\$ 1,457,669	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	146,672	
Change in net position of business-type activities	\$ 1,604,341	

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



CITY OF TOMBALL, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
OPERATING ACTIVITIES		
Cash received from customers	\$ 10,726,836	\$ 2,955,201
Cash payments to suppliers for goods and services	(5,572,165)	(2,265,160)
Cash payments to employees for services	(1,655,634)	-
Net cash provided by operating activities	3,499,037	690,041
NONCAPITAL FINANCING ACTIVITIES		
Transfers	(1,607,068)	-
Contribution from component unit	670,000	-
Net cash used in noncapital financing activities	(937,068)	-
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(833,375)	(605,025)
Proceeds from sale of capital assets	-	12,626
Principal paid on capital debt	(3,092,000)	-
Interest paid on capital debt	(222,652)	-
Net cash used in capital and related financing activities	(4,148,027)	(592,399)
INVESTING ACTIVITIES		
Maturities of investments	2,250,000	-
Investment income	24,450	1,743
Net cash provided by investing activities	2,274,450	1,743
Net change in cash and cash equivalents	688,392	99,385
CASH AND CASH EQUIVALENTS, beginning of year	10,574,521	2,578,242
CASH AND CASH EQUIVALENTS, end of year	\$ 11,262,913	\$ 2,677,627

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



CITY OF TOMBALL, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015
(CONTINUED)

	<u>Business Type Activities Enterprise Fund</u>	<u>Governmental Activities Internal Service Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,557,844	\$ 345,288
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,408,665	342,207
Pension expense	(14,597)	-
Change in assets and liabilities		
Accounts receivable	(255,552)	(142)
Inventory	11,282	-
Other assets	-	633
Accounts payable and accrued liabilities	(235,026)	2,055
Customer deposits	26,421	-
Net cash provided by operating activities	<u>\$ 3,499,037</u>	<u>\$ 690,041</u>

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



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Tomball, Texas (the City) was incorporated on July 18, 1933. The City has operated under a "Home Rule Charter," which provides for a Council-City Manager form of government, since 1987. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police and fire services; municipal court; streets; drainage; water and sewer services; solid waste collection and disposal; community development; and general administration.

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

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



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

Discretely Presented Component Unit

Tomball Economic Development Corporation – This Corporation was formed in 1994 pursuant to the Development Corporation Act of 1979, governed under Section 4B of the Act. It receives and utilizes the proceeds of a one-half cent sales tax to promote and assist in the economic development of the City. The seven directors of the Corporation are appointed by the governing body of the City. Directors are removable by the governing body of the City at any time without cause.

Financial information for the Tomball Economic Development Corporation may be obtained from the following address:

Tomball Economic Development Corporation
401 West Market Street
Tomball, Texas 77375

Blended Component Units

Employee Benefits Trust – Employee Benefits Trust (the Trust) has been included in the reporting entity as a blended component unit. The Trust is a not-for-profit entity and is organized under Section 222.002(c)(5) of the Texas Insurance Code. The Trust's Board of Trustees are the members of City Council. The Trust is organized for the purpose of providing or offering City officers, employees, and qualified retirees and their dependents with life, disability, sickness, accident, and other health benefits either directly or through the purchase of insurance. The operations of the Trust are presented as a proprietary fund type in an internal service fund.

Tomball Legacy Fund, Inc. – Tomball Legacy Fund, Inc. has been included in the reporting entity as a blended component unit. Tomball Legacy Fund, Inc. is a not-for-profit 501(c)3 foundation managed by a seven-member Board of Directors consisting of the Mayor and City Council of the City of Tomball, plus one appointed individual. Tomball Legacy Fund, Inc. was established to allow the City to receive private and corporate grant funds to be used on behalf of the City. The operations of Tomball Legacy Fund, Inc. are presented as a governmental fund type in a special revenue fund.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

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

General Fund

The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include administrative, police, fire, municipal court, public works, sanitation, streets, permits, garage, parks, and community services.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

Governmental Funds – Continued

Special Revenue Funds

The special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The special revenue funds include Court Security Fund, Court Technology Fund, Hotel Occupancy Tax Fund, Red Light Camera Fund, Bunny Run Fund, the Special General Fund, and Tomball Legacy Fund, Inc. The special revenue funds are considered nonmajor funds for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for and report the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, net position, revenues, expenses, and transfers relating to the government's business-type activities are accounted for through proprietary funds. The proprietary funds used by the City include the following:

Enterprise Fund

The enterprise fund is used to account for the operations that provide water and wastewater collection, wastewater treatment operations, and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.



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**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide and Fund Financial Statements – Continued

Proprietary Funds – Continued

Internal Service Funds

Internal service funds account for services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The fleet replacement and health benefits funds are used to account for vehicle and equipment replacement and employee benefits.

Measurement Focus and Basis of Accounting

The government-wide statement of net position and statement of activities and all proprietary funds are accounted for with a flow of economic resources measurement focus on the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statement of net position. Proprietary fund equity consists of net position. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in changes in net position.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net change in fund balances.

The City uses the modified accrual basis of accounting in the governmental funds. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are 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 pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual, and have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government, and are recognized as revenue at that time.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. The statement of net position, statement of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Implementation of Change in Accounting Principle

During fiscal year 2015, the City adopted GASB Statement No. 68, *Accounting and Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71). GASB 68 requires the City to recognize a liability equal to the net pension liability for its pension benefits provided through Texas Municipal Retirement System, an agent multiple-employer public employee retirement system. GASB 71 clarifies the accounting for amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Adoption of these standards required a prior period adjustment to report the effect of implementation retroactively. Therefore, beginning net position on the government-wide Statement of Activities and on the proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Position has been adjusted to reflect the effect of implementation of these standards as of the beginning of the year.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deposits and Investments

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the financial statements as cash and cash equivalents.

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

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities;
5. Certificates of deposit, repurchase agreements, and commercial paper that meet certain criteria;
6. An eligible investment pool authorized by the governing body.

Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Receivables

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

All trade receivables are shown net of an allowance for uncollectibles.

Inventory and Prepaid Items

The costs of governmental fund type inventory are recorded as expenditures when the related liability is included (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures), and are recognized as expenditures when utilized.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$20,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years:

Buildings and improvements	20 - 50 years
Machinery and equipment	3 - 10 years
Vehicles	5 years
Water, sewer and gas system	20 - 30 years
Infrastructure	40 - 50 years

Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain limits, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are recorded on the government-wide statement of net position and represent a reconciling item between the fund and government-wide presentations.

Long-Term Obligations

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

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

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate fund's financial statements. For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Obligations – Continued

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable governmental fund financial statements. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

Landfill Post-Closure Care Costs

The City reports municipal solid waste landfill costs in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs*. The liability for landfill post-closure costs is reported in long-term debt.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows and Deferred Outflows of Resources

The City presents deferred outflows of resources and deferred inflows of resources in accordance with GASB Statement No. 65, *Items previously Reported as Assets and Liabilities* (GASB 65), which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Inflows and Deferred Outflows of Resources – Continued

In accordance with GASB 65, deferred inflows of resources represent an acquisition of resources that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of resources that applies to a future period and therefore will not be recognized as an outflow of resources (expense/expenditure) until that time.

Fund Equity

Government – Wide and Proprietary Fund Net Position

Net position on the statement of net position includes the following categories:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Governmental Funds Fund Balance

Fund balances of governmental funds are classified as follows:

Nonspendable fund balance – represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid costs) or are legally required to remain intact (such as principal of a permanent fund).

Restricted fund balance – represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

Committed fund balance – represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Equity – Continued

Governmental Funds Fund Balance – Continued

Assigned fund balance – represents amounts the City intends to use for a specific purpose. Fund balance can be assigned by the City Manager, pursuant to the City's fund balance policy. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. Assignments can be made at any time. At September 30, 2015, \$127,671 of fund balance in the general fund was assigned for encumbrances.

Unassigned fund balance – represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed, then assigned funds, and finally unassigned funds.

The City Council is the government's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

The Council has also authorized the City Manager to assign fund balance. Assignments of fund balance by the City Manager do not require formal action by the City Council.

The City strives to maintain an unassigned fund balance of not less than 25% of the budgeted operational expenditures in all City funds. Due to the volatile nature of a majority of its revenues, it is not deemed excessive for the City to maintain an unassigned fund balance in the general fund at levels greater than 33% of the budgeted operational expenditures. The purpose of this unassigned balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to citizens. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are legally adopted on a basis consistent with GAAP for the general fund, debt service fund, court security fund, court technology fund, hotel occupancy tax fund, and the special general fund. All other adopted budgets are used as a management tool. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level in the general fund, and all others are the fund level. The City Manager may transfer appropriations between divisions within a department without seeking the approval of City Council. Appropriations lapse at the end of the year.

Excess of Expenditures Over Appropriations

General fund	
Garage	\$ 818

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments as of September 30, 2015 are classified in the accompanying financial statements as follows:

Governmental activities	\$ 39,659,127
Business-type activities	11,262,913
Component unit	<u>11,312,426</u>
Total	<u>\$ 62,234,466</u>



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Deposits and investments as of September 30, 2015 consist of the following:

City	
Deposits with financial institutions	\$ 884,405
Investments	<u>50,037,635</u>
Total city	<u>\$ 50,922,040</u>
Component unit	
Deposits with financial institutions	\$ 753,693
Investments	<u>10,558,733</u>
Total component unit	<u>\$ 11,312,426</u>

At September 30, 2015, the City and component unit had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
City		
U.S. Agencies	\$ 400,029	450
TexPool	42,374,005	38
Texas CLASS	<u>7,263,601</u>	<u>62</u>
Total fair value	<u>\$ 50,037,635</u>	
Portfolio weighted average maturity		<u>47</u>
Component unit		
U.S. Agencies	\$ 4,501,892	613
Municipal Bonds	1,383,941	1,090
TexPool	3,764,018	41
Texas CLASS	<u>908,882</u>	<u>62</u>
Total fair value	<u>\$ 10,558,733</u>	
Portfolio weighted average maturity		<u>304</u>

Investment Pools

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The value of the City's investments in these pools are the same as the value of the pool shares, which are valued based on quoted market rates.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investment Pools – Continued

The City invests in Texas Local Government Investment Pool (TexPool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

The City invests in Texas CLASS Investment Pool which was established in 1996 pursuant to the Texas Public Funds Investment Act. The pool is governed by a 7-member board of trustees, who are elected by pool participants. Public Trust Advisors, LLC serves as the pool's program administrator and Wells Fargo Bank Texas, NA, serves as custodian.

Custodial Credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2015, all of the City's and component unit's combined balance on deposit with financial institutions was fully collateralized with securities held by the pledging financial institution in the City's name.

Interest rate risk. In compliance with the City's Investment Policy, as of year-end, the City minimized the interest rate risk related to the decline in market value of securities due to rising interest rates in the portfolio by limiting the effective duration of security types not to exceed two years, with the exception of securities purchased related to reserve funds; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar government investment pools.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investment Pools – Continued

Credit risk. The City's investment policy limits investments in external investment pools to pools rated as to investment quality not less than AAA or AAAm or at an equivalent rating by at least one nationally recognized rating service. Obligations of states, agencies, counties, cities, and other political subdivisions of any state must be rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. The City's investments as of September 30, 2015 were rated as follows:

Investment Type	Rating	Rating Agency
U.S. Agencies	AA+	Standard & Poor's
Municipal Bonds	AAA / AA+	Standard & Poor's
TexPool	AAAm	Standard & Poor's
Texas CLASS	AAAm	Standard & Poor's

NOTE 4. RECEIVABLES

The following comprise receivable balances at year end:

	General	Debt Service	Capital Projects	Nonmajor Governmental	Enterprise	Internal Service	Component Unit
Receivables:							
Property taxes	\$ 100,432	\$ 169,306	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	1,715,522	-	-	-	-	-	571,840
Other taxes	119,613	-	-	-	-	-	-
Customer accounts	386,588	-	-	-	1,604,599	-	-
Interest	715	-	-	-	-	-	-
Other	117,219	7,963	-	47,204	88	9,485	-
Gross receivables	2,440,089	177,269	-	47,204	1,604,687	9,485	571,840
Less allowance for uncollectibles	(147,505)	(169,306)	-	-	(174,226)	-	-
Net total receivables	<u>\$2,292,584</u>	<u>\$ 7,963</u>	<u>\$ -</u>	<u>\$ 47,204</u>	<u>\$1,430,461</u>	<u>\$ 9,485</u>	<u>\$ 571,840</u>



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended September 30, 2015 are summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reclassifications/ Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 5,651,056	\$ 728,796	\$ -	\$ 6,379,852
Construction in progress	6,996,294	4,426,796	(41,000)	11,382,090
Total capital assets not being depreciated	12,647,350	5,155,592	(41,000)	17,761,942
Other capital assets				
Buildings and improvements	10,996,351	41,000	-	11,037,351
Machinery and equipment	6,233,271	151,437	-	6,384,708
Vehicles	3,796,802	1,097,021	(88,042)	4,805,781
Infrastructure	22,692,839	-	-	22,692,839
Total other capital assets	43,719,263	1,289,458	(88,042)	44,920,679
Less accumulated depreciation				
Buildings and improvements	3,414,687	273,090	-	3,687,777
Machinery and equipment	4,825,487	274,403	-	5,099,890
Vehicles	3,402,381	254,969	(88,042)	3,569,308
Infrastructure	7,464,648	580,689	-	8,045,337
Total accumulated depreciation	19,107,203	1,383,151	(88,042)	20,402,312
Total capital assets being depreciated, net	24,612,060	(93,693)	-	24,518,367
Governmental activities capital assets, net	\$ 37,259,410	\$ 5,061,899	\$ (41,000)	\$ 42,280,309

Depreciation was charged to governmental functions as follows:

Police	\$ 314,671
Streets	273,090
Public works	524,451
Internal service	<u>270,939</u>
Total governmental activities depreciation expense	<u>\$ 1,383,151</u>



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS – CONTINUED

Construction in progress and remaining commitments under related construction contracts for governmental activities projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Agg R. Extension (Med. Complex Drive)	\$ 7,321,545	\$ 5,471,720	\$ 1,849,825
Tomball Business Park	7,669,009	1,874,670	5,794,339
M121 Final Phase	1,480,400	1,453,474	26,926
M124 Willow Creek Tributaries	1,348,145	1,060,522	287,623
M121 Drainage Channel	1,332,506	1,054,487	278,019
Rudolph Road and Utilities	139,896	139,896	-
Depot Lighting	106,389	97,812	8,577
M118 Drainage Channels	70,336	70,336	-
Zion Road Sidewalks	50,800	38,500	12,300
Michel Rd./Holderrieth Blvd.	35,130	35,130	-
Broussard Park	83,012	30,053	52,959
Pine St. Drainage / Sidewalk	29,300	29,300	-
Downtown Sidewalks	20,625	20,625	-
Market/ Walnut Curb And Gutter	13,690	5,565	8,125
Total	\$19,700,783	\$ 11,382,090	\$ 8,318,693

Changes in capital assets for business-type activities for the year ended September 30, 2015 are summarized as follows:

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 1,403,735	\$ -	\$ -	\$ 1,403,735
Construction in progress	1,152,232	524,208	(17,000)	1,659,440
Total capital assets not being depreciated	2,555,967	524,208	(17,000)	3,063,175
Other capital assets				
Gas system	5,921,345	-	-	5,921,345
Water and sewer system	47,522,430	40,550	-	47,562,980
Machinery and equipment	4,604,609	410,133	-	5,014,742
Total other capital assets	58,048,384	450,683	-	58,499,067
Less accumulated depreciation:				
Gas system	2,715,084	140,085	-	2,855,169
Water and sewer system	17,746,322	1,154,675	-	18,900,997
Machinery and equipment	2,074,175	185,172	-	2,259,347
Total accumulated depreciation	22,535,581	1,479,932	-	24,015,513
Total capital assets being depreciated, net	35,512,803	(1,029,249)	-	34,483,554
Business-type activities capital assets, net	\$ 38,068,770	\$ (505,041)	\$ (17,000)	\$ 37,546,729



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS – CONTINUED

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,339,847
Gas	<u>140,085</u>
Total business-type activities depreciation expense	<u>\$ 1,479,932</u>

Construction in progress and remaining commitments under related construction contracts for business-type activities projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Medical Complex Drive	\$ 1,366,013	\$ 1,050,791	\$ 315,222
Hufsmith Water and Gas Improvement	390,106	359,438	30,668
Rudolph Road	138,889	138,889	-
24" Sanitary Sewer - E. Hufsmith	136,537	105,522	31,015
Neal Road Utilities	4,800	4,800	-
Total	<u>\$ 2,036,345</u>	<u>\$ 1,659,440</u>	<u>\$ 376,905</u>

Changes in capital assets for the component unit for the year ended September 30, 2015 are summarized as follows:

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Component Unit				
Capital assets not being depreciated				
Land	\$ 1,653,664	\$ -	\$ (297,615)	\$ 1,356,049
Construction in progress	1,144,312	305,226	-	1,449,538
Total capital assets not being depreciated	<u>\$ 2,797,976</u>	<u>\$ 305,226</u>	<u>\$ (297,615)</u>	<u>\$ 2,805,587</u>

Construction in progress and remaining commitments under related construction contracts for the component unit at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Tomball Business and Technology Park	\$ 1,930,893	\$ 1,449,538	\$ 481,355
Total	<u>\$ 1,930,893</u>	<u>\$ 1,449,538</u>	<u>\$ 481,355</u>



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2015. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences, net other postemployment benefit obligation (OPEB), and net pension liability are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds, notes and other payables					
Bonded debt payable	\$ 31,275,500	\$ -	\$ 2,198,000	\$ 29,077,500	\$ 2,216,750
Premiums	449,806	-	43,056	406,750	43,056
	31,725,306	-	2,241,056	29,484,250	2,259,806
Other liabilities					
Capital lease obligation	535,464	800,000	535,464	800,000	68,858
Net OPEB obligation	528,232	203,214	73,637	657,809	-
Net pension liability	3,667,632	986,114	770,598	3,883,148	-
Compensated absences	1,418,343	830,689	907,740	1,341,292	335,323
Landfill post closure costs	473,000	2,500	-	475,500	96,000
Total governmental activities	\$ 38,347,977	\$ 2,822,517	\$ 4,528,495	\$ 36,641,999	\$ 2,759,987
Long-term debt due in more than one year				<u>\$ 33,882,012</u>	
Business-Type Activities					
Revenue bonds	\$ 7,134,500	\$ -	\$ 3,092,000	\$ 4,042,500	\$ 613,250
Premiums	82,435	-	11,776	70,659	11,776
	7,216,935	-	3,103,776	4,113,159	625,026
Other liabilities					
Net OPEB obligation	88,862	33,188	12,287	109,763	-
Net pension liability	631,214	169,714	132,623	668,305	-
Compensated absences	194,952	63,086	62,385	195,653	48,913
Total business-type activities	\$ 8,131,963	\$ 265,988	\$ 3,311,071	\$ 5,086,880	\$ 673,939
Long-term debt due in more than one year				<u>\$ 4,412,941</u>	



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

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

<u>Series and Original Issue Amount</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Certificates of Obligation</u>				
Series 2012 \$ 14,500,000	2032	3.00 - 4.25%	\$ 12,775,000	\$ -
Series 2013 8,500,000	2033	2.00 - 3.00%	7,865,000	-
			<u>20,640,000</u>	<u>-</u>
<u>General Obligation Bonds</u>				
Series 2010 2,120,000	2018	1.50 - 2.20%	835,000	-
Series 2011 8,650,000	2022	2.00 - 4.00%	3,307,500	4,042,500
Series 2013 6,370,000	2023	1.00 - 1.65%	4,295,000	-
			<u>8,437,500</u>	<u>4,042,500</u>
Total bonds and certificates of obligation			<u>\$ 29,077,500</u>	<u>\$ 4,042,500</u>

The annual requirements to amortize bond and certificate debt issues outstanding at year end were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 2,216,750	\$ 785,667	\$ 613,250	\$ 124,279
2017	2,248,250	737,312	596,750	109,154
2018	2,274,250	686,280	585,750	92,909
2019	2,015,250	636,545	574,750	75,501
2020	2,041,250	587,152	563,750	55,605
2021-2025	8,236,750	2,203,534	1,108,250	44,165
2026-2030	6,560,000	1,207,846	-	-
2031-2033	3,485,000	151,387	-	-
	<u>\$ 29,077,500</u>	<u>\$ 6,995,723</u>	<u>\$ 4,042,500</u>	<u>\$ 501,613</u>



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Defeasance of Bonds

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2015, \$12,890,000 of bonds considered defeased are still outstanding.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS's rules and regulations.

Obligations under Capital Leases

The City has entered into capital lease agreements in order to purchase machinery and equipment. The assets acquired through these lease agreements are classified as follows:

Asset:	<u>Governmental Activities</u>
Machinery and equipment	\$ 713,570
Less: accumulated depreciation	<u>(47,571)</u>
Total	<u>\$ 665,999</u>



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Obligations under Capital Leases – Continued

The following is a summary of future lease payments due on this machinery and equipment:

<u>Year Ending September 30,</u>	<u>Lease Obligation</u>
2016	\$ 95,178
2017	95,178
2018	95,178
2019	95,178
2020	95,177
2021 - 2025	<u>475,889</u>
Total	951,778
Less interest portion	<u>(151,778)</u>
Obligations under capital leases	<u><u>\$ 800,000</u></u>

Landfill Post-Closure Liability

The City's municipal solid waste landfill is in the post-closure process as the landfill has been closed. State and federal regulations required the City to place a final cover on the landfill site when it stopped accepting waste and to perform certain post-closure care and monitoring functions at the site until approved for final regulatory closure by the Texas Commission on Environmental Quality.

During the year ended September 30, 2015, the City's estimated liability for landfill post-closure costs increased by \$2,500 due to changes in post-closure care requirements and the extent of environmental remediation required. The effect of this change in estimate is included in current period governmental activities expenses on the statement of activities for the year ended September 30, 2015. The balance of \$475,500 reported as the liability for landfill post-closure costs at year end represents the remaining estimated post-closure costs required to achieve regulatory approval for closure. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. INTERFUND TRANSACTIONS

Transfers between the primary government funds during the year were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General	Enterprise	\$ 2,031,276	To fund indirect costs for administrative expenses
Enterprise	Capital projects	424,208	To fund miscellaneous projects
Capital projects	General	1,209,747	To fund miscellaneous projects
Nonmajor governmental	General	<u>20,000</u>	To fund miscellaneous projects
		<u>\$ 3,685,231</u>	

NOTE 8. COMMITMENTS AND CONTINGENCIES

Risk Management

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

Contingent Liabilities

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at September 30, 2015.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. COMMITMENTS AND CONTINGENCIES – CONTINUED

Encumbrances

Fund balance encumbrances as of September 30, 2015 were as follows:

General fund	\$ 127,671
Capital projects fund	2,083,145
Other governmental funds	73,479

NOTE 9. PENSION PLAN

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension 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) that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions 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 may choose to receive their retirement benefit in one of seven payments 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.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. PENSION PLAN – CONTINUED

Benefits Provided – Continued

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2014	Plan Year 2015
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)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees covered by benefit terms:

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	64
Inactive employees entitled to but not yet receiving benefits	46
Active employees	<u>153</u>
Total	263

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.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. PENSION PLAN – CONTINUED

Contributions – Continued

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.38% and 13.54% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$1,246,735, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, 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%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. PENSION PLAN – CONTINUED

Net Pension Liability – Continued

Actuarial Assumptions – Continued:

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic equity	17.50%	4.80%
International equity	17.50%	6.05%
Core fixed income	30.00%	1.50%
Non-core fixed income	10.00%	3.50%
Real return	5.00%	1.75%
Real estate	10.00%	5.25%
Absolute return	5.00%	4.25%
Private equity	5.00%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9. PENSION PLAN – CONTINUED

Net Pension Liability – Continued

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$ 30,172,851	\$ 25,874,005	\$ 4,298,846
Changes for the year:			
Service cost	1,405,192	-	1,405,192
Interest	2,122,080		2,122,080
Change of benefit terms	-		-
Difference between expected and actual experience	(75,098)	-	(75,098)
Changes of assumptions	-	-	-
Contributions - employer	-	1,106,867	(1,106,867)
Contributions - employee		629,009	(629,009)
Net investment income	-	1,480,415	(1,480,415)
Benefit payments, including refunds of employee contributions	(1,120,036)	(1,120,036)	-
Administrative expense	-	(15,453)	15,453
Other changes	-	(1,271)	1,271
Net changes	2,332,138	2,079,531	252,607
Balance at 12/31/2014	\$ 32,504,989	\$ 27,953,536	\$ 4,551,453

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 (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Net pension liability	\$ 9,576,990	\$ 4,551,453	\$ 482,483

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.



CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9. PENSION PLAN – CONTINUED

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

For the year ended September 30, 2015, the City recognized pension expense of \$1,155,828.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 60,966
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	264,612	
Contributions subsequent to the measurement date	963,020	-
Total	\$ 1,227,632	\$ 60,966

\$963,020 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 ended December 31	
2015	\$ 52,021
2016	52,021
2017	52,021
2018	52,021
2019	(4,438)
Thereafter	-
Total	\$ 203,646



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

In order to recognize and reward long-term employees, as well as to provide an incentive for remaining in the City's employment, the City administers a single-employer defined benefit Other Post-Employment Benefits (OPEB) plan that will pay a portion of the premium for continuation of the medical and dental insurance coverage of certain retirees. The plan is known as the City of Tomball Retirement Health Care Plan. Enrollment for retiree coverage must be completed no later than 30 days after the date of retirement. Later enrollment is not permitted. Any retiree eligible for medical coverage with another group plan shall not qualify for medical coverage with the City.

In order to be eligible for this benefit, the retiree must be vested, age 55 or older and a current recipient of retirement benefits from the Texas Municipal Retirement System; have been a full-time employee of the City for ten consecutive years immediately prior to retirement; and satisfy the applicable plan requirements for the extension of retiree coverage under the medical and dental insurance benefit plan offered by the City at the time of retirement.

Beginning with retirement and ending when the person is eligible for Medicare coverage, the City shall pay a portion of the retiree medical and dental coverage premiums in accordance with the following: 40 percent of the premium costs for retirees having at least ten years, but less than 15 years, of full-time service with the City; 55 percent of the premium costs for retirees having at least 15 years, but less than 20 years, of full-time service with the City; 70 percent of the premium costs for retirees having at least 20 years, but less than 25 years, of full-time service with the City; or 85 percent of the premium costs for retirees having at least 25 years of full-time service with the City. To cover their spouses, eligible retirees must pay 100 percent of the cost for their eligible spouse. Eligible retirees shall pay 100 percent of the premiums for basic life insurance.

Benefit continuation of medical, dental, and life insurance coverage provided at the City's expense to retirees ends when the retiree is eligible for Medicare coverage. Retirees who are eligible for Medicare coverage may, at their sole expense, continue to purchase coverage for themselves and their eligible dependents as provided under the applicable terms of the City's policies. A separate postemployment benefit plan report is not available for the City of Tomball Retirement Health Care Plan.



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Funding Policy and Annual OPEB Cost

The City has elected to finance the OPEB plan on a pay-as-you-go basis. The City paid \$37,677 in premiums related to the plan for retirees during the year.

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize the unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years.

The City's annual OPEB cost for the current year is as follows:

Annual required contribution	\$ 245,690
Interest on OPEB obligation	27,769
Adjustment to ARC	<u>(37,057)</u>
Annual OPEB cost (expense) end of year	236,402
Net estimated employer contributions	<u>(85,924)</u>
Increase in net OPEB obligation	150,478
Net OPEB obligation – as of beginning of the year	<u>617,094</u>
Net OPEB obligation – as of end of year	<u><u>\$ 767,572</u></u>

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2015 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution Made	Percentage of OPEB Cost Contributed	Net OPEB Obligation at September 30
2013	\$ 160,445	\$ 20,269	13%	\$ 491,312
2014	165,688	39,906	24%	617,094
2015	236,402	85,924	36%	767,572



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Funding Policy and Annual OPEB Cost – Continued

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2014, the most recent valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2014	\$ -	\$1,903,327	-	\$1,903,327	\$8,985,838	21%

Under the reporting parameters, the City's retiree health plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$1,903,327 at December 31, 2014. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 21%.

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Actuarial cost method	Projected unit credit cost method
Amortization method	Level dollar amortization
Remaining amortization period	30 years - open amortization
Asset valuation method	Market value smoothed
Investment rate of return	4.5% per annum, net of expenses
Inflation rate	3.0% per annum
Healthcare cost trend rate (initial/ultimate)	Initial rate of 7.25%, declining to an ultimate rate of 5.50% after 9 years



**CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Actuarial Methods and Assumptions – Continued

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

TMRS – Supplemental Death Benefit Fund

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 (TMRS) 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 the 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 postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as 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 benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended September 30, 2015, 2014, and 2013 were \$2,821, \$2,613, and \$2,574, respectively, which equaled the required contributions each year.

