

1 **Q. Please describe your job responsibilities for the City of Tomball.**

2 A. As the Finance Director, I direct all areas of the financial operations including
3 accounting and reporting, investments, accounts payable, utility billing, property taxes,
4 customer service and budget. I work directly as the lead on economic development
5 projects including PID and 380 agreements. I have experience with the INCODE
6 application software system, arbitrage rebate requirements, OPEB reporting
7 requirements, oral and written presentations to committees, Council, City management
8 and other groups.

9
10 Additionally, I have worked directly with the 4B Corporation as Treasurer,
11 performed internal audits, dealt with personnel issues, prepared budgets in a declining
12 resource environment and many other opportunities that would typically arise in a small
13 city. For example, as a former marathon runner, I was assigned to put together a 5K run
14 which entailed everything from getting the course certified and ordering bibs to passing
15 out trophies after the race was over as well as accounting for the revenues and
16 expenditures of the event.

17
18 **II. PURPOSE OF TESTIMONY**

19
20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. To articulate the financial capabilities of the City of Tomball as they relate to the
22 ability to fund the current and future operations of providing water and sewer service to
23 the City's customers.

24
25 **Q. Have you previously testified before the Public Utility Commission of Texas**
26 **("PUC" or "Commission") or the Texas Commission on Environmental Quality**
27 **("TCEQ")?**

28 A. No, I have not previously testified before the Commission or TCEQ.
29

1 **Q. Did you prepare this direct testimony and any exhibits in support of the**
2 **testimony and/or were the testimony and exhibits prepared under your personal**
3 **direction?**

4 A. Yes, my direct testimony and Exhibits RGW-1 through RGW-8 were prepared by
5 me or under my direction, supervision or control and are true and accurate to the best of
6 my knowledge.

7
8 **III. FINANCIAL CAPABILITY**
9

10 **Q. Does the City of Tomball possess the financial capability to provide**
11 **continuous water and wastewater service? Please explain.**

12 A. Yes. The City of Tomball had a net position at the end of the most recent fiscal
13 year of \$44,083,196, with annual operating expenses of \$8,333,655. Cash balances
14 available for operations at the beginning of this fiscal year were \$12,158,631. The City
15 has an excellent cash position to fund current and future operations as well as a financial
16 plan in place to meet or exceed all infrastructure needs in the future. The most recent
17 Comprehensive Annual Financial Report completed for the 2015-2016 fiscal year
18 explains all this information in detail, which I have attached as Exhibit RGW-2. Each
19 year the City prepares a financial report on assets, liabilities, revenues and expenditures
20 in more or less a standardized format that must conform to the Government Accounting
21 Standards Board ("GASB") accounting and financial reporting standards. This financial
22 report is called the Comprehensive Annual Financial Report ("CAFR," pronounced "ca-
23 fer"). Most people have heard of the budget, which is the document that plans and
24 authorizes the spending of money. The CAFR describes what actually was spent and the
25 status of assets and liabilities at the end of the fiscal year.

26 The CAFR:

- 27 • Provides information on all government funds.
- 28 • Presents information on the accrual basis recognizing amounts owed by
- 29 the government but not paid at the end of the fiscal year, as well as

1 amounts due to the government but not received by the end of the fiscal
2 year.

- 3 • Contains information on real property and other fixed assets, long-term
- 4 obligations or investments held outside the government treasury; and,
- 5 • Includes statistical and some economic data.

6 CAFRs provide information that is used by investment companies such as Moody's
7 Investors Services and Standard and Poor's Corporation to determine the City's fiscal
8 integrity and set bond rates. It includes a comprehensive presentation of the City's
9 financial and operating activities. In this case, the CAFR shows that the City is in a
10 strong strategic financial position to meet growth demands over the next 20 years.

11 **Q. In other words, is the City financially able to pay for the facilities necessary**
12 **to provide continuous and adequate water and wastewater service?**

13 A. Yes, however to clarify, from a financial management perspective, I do not
14 believe the City needs to make significant capital improvements to serve the requested
15 area in its ETJ should the CCN be issued. Based on my discussions with the City's
16 Director of Public Works, David Esquivel, and our consulting engineer Richard
17 Weatherly, during the application preparation process, my understanding is that there will
18 be some line extensions and that kind of thing, but no large financial investment is
19 warranted by this expansion (i.e., like drilling a new groundwater well or adding elevated
20 storage). The City currently has the financial capability to accommodate the new service
21 area.

22
23 **Q. What is the City's relationship with the North Harris County Regional**
24 **Water Authority ("NHCRWA")?**

25 A. The City of Tomball, as well as other providers who pump groundwater in the
26 region, are required by NHCRWA to begin transitioning to surface water by 2025. *See*
27 Exhibits DME-6 and DME-7. On June 18, 1999, the bill that created NHCRWA (H.B.
28 2965) was signed into law, and called a special election for January 15, 2000 so voters
29 could confirm the creation of the new Authority and elect Directors to lead it. Following
30 the election, the NHCRWA became the single entity empowered to negotiate for a

1 secure, long-term, reliable, quality supply of wholesale drinking water for all the
2 independent neighborhoods, municipal utility districts, small municipalities, and
3 permitted well owners within its boundaries. These boundaries are essentially US 290 on
4 the west, the Harris County line on the north (Spring Creek), FM 1960 and Bammel-
5 North Houston on the south and the western shores of Lake Houston on the east. The
6 Authority is comprised of 335 square miles and includes approximately 710,000
7 residents.

8 NHCRWA's primary assignment is to develop and implement a strategy for
9 complying with the Harris-Galveston Subsidence District's Regulatory Plan that requires
10 a reduction in groundwater usage to no more than 20 percent of total water demand by
11 the year 2035. As I stated earlier, it is through this mandated transition from groundwater
12 to surface water that the nature of the City's water supply will change in the next few
13 decades.

14 **Q. From a financial standpoint, how does this transition affect the City?**

15 A. Since the NHCRWA is not a taxing entity, funding for the City's future water
16 supply and the infrastructure through which to deliver it is being accomplished through
17 the sale of revenue bonds, and paid for by revenue from groundwater pumpage fees and
18 water sales. The NHCRWA will require the City of Tomball to convert to surface
19 water as the primary source of water supply for its citizens. In the meantime, the
20 NHCRWA charges a pumpage fee to the City of Tomball of \$ 2.90 per 1,000 gallons of
21 ground water pumped per month. This fee is currently passed on to the city utility
22 customers as a fee of \$ 2.90 per 1,000 gallons of water consumed on a monthly utility
23 bill.

24
25 **Q. What is the bonding capacity for the City of Tomball?**

26 A. As a Home Rule City, the amount of debt that can be issued by the City of
27 Tomball, Texas is not limited by law. Under Article XI, Section 5 of the State of Texas
28 Constitution applicable to cities of more than 5,000 population, the maximum tax rate for
29 all purposes is \$2.50 per \$100 of assessed valuation. Taxable assessed value for the 2016
30 property tax roll is \$1,772,570,299.00. The maximum tax rate per \$100 assessed

1 valuation is \$2.50. The maximum available tax revenue for all purposes, including debt
2 service is \$44,314,257.00. The actual amount expended for general obligation debt
3 service for the year ended September 30, 2016 was \$3,107,756.00. What this means in
4 relation to the City's bonding capacity is that the City of Tomball will be able to issue tax
5 exempt bonds to build infrastructure that will more than exceed any expected
6 growth/demand in the service area. Additionally, the City has the ability to issue tax
7 exempt revenue bonds secured by the revenue of the Utility Fund.

8
9 **Q. How would the City of Tomball finance an infrastructure expansion should it**
10 **need to in the future?**

11 A. Future infrastructure expansions will be funded from cash reserves and the
12 issuance of revenue and general obligation bonds.

13
14 **Q. Is the City financially stable, including if applicable, its debt-to-equity ratio?**

15 A. As I stated earlier, the City's financial position is excellent as described by the
16 CAFR. Also, during the past two years, Standard and Poor's updated the City's rating to
17 AA+. This rating is one step below the highest rating AAA. Currently, there are not any
18 other utility operators in the area with a bond rating of AA+. A copy of the Standard &
19 Poor's rating letter has been provided as Exhibits RGW-3 and RGW-4.

20
21 **Q. Should the Commission require the City to provide a bond or other financial**
22 **assurance to ensure that continuous and adequate water and sewer service is**
23 **provided?**

24 A. No, it is not necessary. The City has the financial capacity and sustainability to
25 ensure that water and sewer service is continuously and adequately provided to all users.
26 The City has significant cash reserves and current cash position, as previously stated;
27 therefore a bond or other financial assurance should not be required.

28
29 **Q. What funding mechanisms are available to the City?**

30 A. The City of Tomball has the following mechanisms available to fund accounts
31 and projects: taxes including sales, property, and franchise taxes; permits; license and

1 user fees; fines and/or forfeitures; service revenue including water, sewer, and gas;
2 bonds; and, certificate of obligations.

3

4 **Q. What is the Ad Valorem tax for the City of Tomball?**

5 A. As of September 30, 2016, the property tax rate remained at \$0.341455. The tax
6 revenue makes up to 14% of the City's overall resources. In 2016, we collected
7 \$5,674,692.00 in taxes.

8

9 **Q. For new capital projects, is a bond or certificate of obligation utilized?**

10 A. We currently issue Certificates of Obligation with General Obligation authority
11 for new capital projects.

12

13 **Q. Does the City of Tomball issue Revenue Bonds?**

14 A. We have the available coverage to issue Revenue Bonds, but we currently only
15 have one outstanding bond to be paid off in 2022.

16

17 **Q. What is the current sales tax rate for the City of Tomball and breakdown for
18 the received revenue?**

19 A. The current sales tax rate in our jurisdiction is 8.25%, which is comprised of
20 6.25% for the State, 1% for the City, ½% for the Tomball Economic Development
21 Corporation, and ½% for property tax reduction. During FY2016, the City collected
22 \$10,578,683.00 in sales tax revenue.

23

24 **Q. Does the City collect impact fees and how are these fees determined?**

25 A. The City does collect impact fees for new connections to the water and sewer
26 systems as well as a drainage impact fee based on the location of the new construction.
27 The impact fees are based on the Living Unit Equivalency (LUE) and the fees are
28 detailed in our Master Fee Schedule which I have attached as Exhibit RGW-5. Funds
29 collected are credited to the Water & Sewer Capital Recovery. For fiscal year 2016, the
30 City collected a total of \$663,635.00 in impact fees.

31

1 **Q. How does the City account for the funds collected through its impact fees?**

2 A. Water and Sewer Impact Fees are recorded in separate funds identified at the time
3 of collection. The Drainage Impact Fee is recorded in the Capital Projects Fund. The
4 Utilities Supervisor maintains a detail list of the funds collected throughout the fiscal
5 year.

6
7 **Q. How does the City ensure that the funds (collected through impact fees) are
8 spent on the appropriate Capital Improvement Project?**

9 A. For the drainage fees, we record the watershed or basin that we collect the impact
10 fee for as certain basins are assessed a different impact fee. For the water and sewer
11 impact fees, at this time we are currently funding improvements to the treatment plants
12 that will be completed in fiscal year 2017-2018.

13
14 **Q. How does the City ensure that the water and wastewater utility line items
15 remain on budget?**

16 A. City management conducts monthly financial meetings with the Finance
17 Department to review revenues and expenditures. The financial statements that include
18 fund balances for each department are compiled at the end of each month and distributed
19 to each department for review. Weekly department meetings are also conducted to
20 inform city management of any issues as well as to discuss the financial statements and
21 inform of any upcoming large expenses.

22
23 **Q. What is the water and wastewater budget for 2017?**

24 A. The budget for the water and wastewater is detailed in our current adopted budget
25 for fiscal year 2016-2017. Please see Exhibit RGW-6 for a detailed listing of the
26 enterprise fund as well as Exhibit RGW-7 for the complete adopted budget.

27
28 **Q. How does the City set water and wastewater rates?**

29 A. The rates for water and wastewater services are based upon current and future
30 operating cost as well as infrastructure cost.

1 **Q. How does the City ensure rate revenue is sufficient to pay all costs?**

2 A. Monthly financial meetings to review revenues and expenditures are held between
3 City Management and the Finance Department. In addition, a consultant performs
4 periodic rate studies for the City. Additionally, coverage requirements are monitored to
5 ensure the ability to issue revenue debt.

6

7 **Q. What if the revenue is insufficient?**

8 A. If the revenue is insufficient, then an adjustment would be made to upcoming
9 expenditures as well as an adjustment to the current year's expenditures. Rates can be
10 increased in combination with a reduction in operating costs. In addition to these
11 managerial decisions, the City of Tomball had unrestricted cash reserves in the Utility
12 Fund of \$12,158,631 and \$ 12,429,326, if needed, in the General Fund.

13

14 **Q. What are the City's different funds?**

15 A. The City has the following funds: General Fund, Special Revenue Funds, Hotel
16 Occupancy Fund, Red Light Fund, Debt Service Fund, Capital Projects Fund, Enterprise
17 Fund, Water Capital Recovery Fund, Sewer Capital Recovery Fund, Fleet Replacement
18 Fund, and Employee Insurance Trust Fund.

19

20 **Q. What are the special budgetary concerns for fiscal year 2017?**

21 A. There are no special budgetary concerns for fiscal year 2017.

22

23 **Q. What rate challenges does the City face today?**

24 A. There are not rate challenges facing the City at this time.

25

26 **Q. Has the City ever had any defaults?**

27 A. The City of Tomball has never had any defaults.

28

29 **Q. Has the City ever failed to make payroll or pay all of its bills?**

30 A. No, the City has always met its financial obligations.

31

1 **Q. What is the City's budget process?**

2 A. Training is conducted with each department director after which the directors are
3 responsible for submitting their projections for the current year as well as submitting
4 anticipated spending for the next budget year. City Management will then review all
5 projections for both the current year and next budget year and make necessary
6 adjustments. After all adjustments have been made and supplemental expenditures are
7 determined for the next budget year, a budget proposal is created and submitted to City
8 Council for review. Workshops are conducted with City Council to address questions
9 and make necessary adjustments as requested by City Council. Once the budget has been
10 corrected following all workshops, the budget is then submitted for a first reading at a
11 regular City Council meeting followed by a second reading with voting approval by
12 Council to adopt the budget. In the weeks before the adoption of the budget, the
13 appraisal rolls are received, the Tax Rate is published and then adopted. After each step
14 is completed the final budget is published. Please see exhibit RGW-7, for the City of
15 Tomball's most recent published budget for fiscal year 2016-2017.

16

17 **Q. Does the Public Works Department follow the same budgetary process?**

18 A. Yes, all departments in the City are required to follow the same process.

19

20 **Q. How do you coordinate with the Public Works Department regarding**
21 **budgeting and financial issues?**

22 A. Weekly meetings are conducted between all department directors and city
23 management to address any issues or updates on previously identified issues. We set a
24 budget, with ongoing expenditures (invoicing, purchase orders, purchase cards, etc.).
25 When we close the month, city management reviews the monthly financial reports and
26 discusses concerns with department heads. This process includes the Public Works
27 Director.

28 **Q. What documents do you utilize to make determinations regarding the City's**
29 **water and wastewater rates and charges?**

1 A. The primary document of reference is the Fee Schedule Ordinance that is adopted
2 with the annual budget each year. Please see Exhibit RGW-5, for the City of Tomball's
3 Master Fee Schedule.

4
5 **Q. What are the City's policies regarding financial management?**

6 A. The City of Tomball has adopted Financial Management Policy Statements that
7 provide guidelines for planning and directing the City's day-to-day financial affairs and
8 to assist staff in developing recommendations to the City Council. Exhibit RGW-8, the
9 adopted Financial Management Statements, outline the requirements for financing, debt
10 service coverage, reserve accounts, operating reserves, and debt service reserves.

11
12 **Q. How is the City meeting the set reserves and if not met what is the City doing
13 to ensure that it meets those reserves in the future?**

14 A. Through the budget process, we ensure we meet the minimum reserve percentage
15 of 25%. Currently the City exceeds the 25% requirement in all funds.

16
17 **Q. Is there a City Utility financial plan?**

18 A. We are currently working on a 5 year forecast plan which will include revenues
19 and expenditures for our Enterprise Fund which includes utilities.

20
21 **Q. Does this complete your testimony?**

22 A. Yes, however, I reserve the right to revise and/or expand my testimony as
23 additional facts or evidence become available during the hearing process.

Glenn Windsor

Objective

To be in a position to really make a difference. To be able to draw upon my experience, wisdom, and decision-making ability to help a community improve its quality of life in the most efficient manner; To participate in the attainment of these goals as part of an ethical, professional, values-based management team made up of both the elected officials and those most affected, the citizens of the community.

Professional experience

1/11/2010 to present City of Tomball, Tomball, Texas

Finance Director

Directed all areas of the Financial Operations including accounting, reporting, investments, accounts payable, utility billing, property taxes, customer service, and budget. Worked directly as lead on economic development projects (PID, 380 agreements). Experience with the INCODE application software system. Experience with arbitrage rebate requirements, OPEB reporting requirements, oral and written presentations to committees, councils, management, and other groups. Additionally, I worked directly with the 4B corporation as Treasurer. Performed internal audits, dealt with personnel issues, budget preparation in a declining resource environment and many other opportunities that would typically arise in a small city, for example, conducting the annual 5k event, etc.

8/2/1982- 9/30/2006 City of Deer Park, Deer Park, Texas

Director of Finance

Directed all areas of the City's Finance operation including accounting, reporting, investments, payroll, accounts payable, utility billing, property taxes, municipal court, emergency management. Experience with the INCODE application software system. Experience with all GASB accounting and reporting compliance, bond rating process and issuance, arbitrage rebate requirements, industrial property tax contract negotiation and administration, presentation of oral and written reports to councils, committees, and community organizations. Supported City Manager in budget process, internal audits, and other management assignments.

Prior to employment in Deer Park, I worked as a staff auditor for Brammer, Begnaud & Lattimore in Port Arthur, TX. Work experience included tax, audits of cities, school districts, "MUD" districts, and client compilations and reviews. Prior experience included municipalities, public accounting, television & radio accounting, internal auditing for bank holding corporation, and working at hospitals during college.

Education	<p>1969-1973; 1974-1975 Lamar University, Beaumont, Texas</p> <p>BBA, Marketing</p> <p>BBA, Accounting</p>
Professional Certifications	<p>Certified Public Accountant, Texas Certificate # 83530 (current)</p> <p>Certified Government Finance Officer, Certificate # 81 (current)</p> <p>Registered Texas Assessor-Collector, Certificate # 17602-6 (currently inactive)</p> <p>Certified Fraud Examiner</p>
Professional memberships	<p>American Institute of Certified Public Accountants</p> <p>Texas Society of Certified Public Accountants-</p> <p>Houston Chapter, Texas Society of Certified Public Accountants-Governmental Committee</p> <p>Government Finance Officers Association of Texas- past Board Member, past Ethics Committee Chair</p> <p>Gulf Coast Government Finance Officers Association- Currently President</p> <p>Association of Certified Fraud Examiners, Houston and National member</p> <p>Leadership North Houston, Class XX- Current class member</p>
Community activities	<p>Chair of Easter 5K Run, Tomball, 2010, 2011, 2012</p> <p>Deer Park Chamber of Commerce of Commerce, board member, 1989, 1995</p> <p>Deer Park Rotary Club</p> <p>Men's Golf Association</p> <p>Various church activities.</p>
References	<p>Available upon request.</p>
Interests and activities	<p>Running (completed 8 marathons, including New York City, Houston, Austin, and San Antonio)...now an avid walker.....and ride my Harley.....</p>

Golf.....completed numerous good rounds and bad rounds.

Cycling (MS 150), swimming, reading, travel,

Continuous training and care of Freddie, my 11 year old Golden Retriever

Awards received

Government Finance Officers of America, Certificate of Achievement in Financial Reporting awarded 16 consecutive years, 1988-2006 in Deer Park and 6 consecutive years in Tomball (both Budget and CAFR).

Lewis McLain, Jr. Ethics in Government Award for the State of Texas, by the Government Finance Officers Association of Texas, May 2006

CITY OF TOMBALL, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2016

City Manager
George Shackelford

Prepared by:
Glenn Windsor, CPA, CGFO
Finance Director

Kacie Richardson, CGFO
Senior Accountant

**CITY OF TOMBALL, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2016**

C O N T E N T S

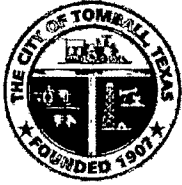
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**CITY OF TOMBALL, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2016**

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INTRODUCTORY SECTION



City of Tomball

Gretchen Fagan

Mayor

George Shackelford
City Manager

March 24, 2017

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Tomball, Texas:

It is with great pleasure that we present to you a copy of the Comprehensive Annual Financial Report (CAFR) of the City of Tomball, Texas (the "City") for the fiscal year ended September 30, 2016. The responsibility for both the accuracy of the presented information and the completeness and fairness of the presentation of the data, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the results of operations of the various funds of the City, as well as the fund balances. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials, elected and appointed. The Financial Section includes Management's Discussion and Analysis (MD&A), Basic Financial Statements, Required Supplementary Information, Combining and Individual Fund Financial Statements and Other Supplemental Information, as well as the independent auditor's report. The Statistical Section includes selected financial and demographic information generally presented on a multi-year basis.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City, incorporated on July 18, 1933, is located northwest of Houston, Texas, in a rapidly growing area of Harris County. The City currently occupies a land area of 12.31 square miles and serves an estimated population of 11,540. The City of Tomball is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs when deemed appropriate by the governing council.

The City has operated under the council-manager form of government since 1980. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five council members. The council is elected on a non-partisan basis. Council members serve three-year terms, with two council members elected every year. The mayor is elected to serve a three-year term. The mayor and council are elected at large. The governing council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; recreational activities and cultural events. Solid waste services are provided through a contract with Waste Corporation of America.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the Finance Director. These requests serve as a starting point for developing a proposed budget. The Finance Director provides the information to the City Manager who then presents this proposed budget to the council for review. The council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function, and department. Department heads may make requests to the City Manager for transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 63 as part of required supplementary information. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the non-major governmental fund subsection of this report, which starts on page 69.

Factors Affecting Financial Condition

The information presented in the financial statements is better understood when it is considered from the broader perspective of the specific environment within which the City of Tomball operates.

Local Economy

The City is located approximately 32 miles northwest of Houston and is primarily surrounded by municipal utility districts, making it one of the only incorporated areas in this portion of Harris County. As a result, the City has evolved into the area's principal commercial center. Assessed values for fiscal 2016 reflect an increase of 6.14% to \$1.77 billion. This property value increase is the result of continued commercial development within the City including development in the new business park on the east side of the City, continued development of the medical complex, and additional growth in the retail sector. New single-family residential development continues with the addition of PID number 5, Yaupon Trails. This sub-division will include 37 homes with an average value of \$350,000.

Sales tax revenues declined 2.4% during fiscal year 2016. The City had anticipated this revenue source remaining level when the budget was adopted. At this writing, for fiscal year 2017, sales taxes are 0.69% higher than the first four months of fiscal year 2016. Additionally, new retail businesses continue to open in the retail district located on the City's west side and the Old Town Tomball District so we anticipate these revenues remaining level for fiscal year 2017.

The region (which covers an area within a five-mile radius from the center of the City) has an employed labor force of approximately 26,000 within a 5 mile radius. The largest groups of employers are in service and retail trade.

Long-Term Financial Planning

The City completed the construction of Medical Complex Drive Segment 3 and plans were in place at year-end to issue bonds for the design and construction of Segment 4. Construction continued on the M121 drainage channel which was designed to mitigate flooding in the downtown area.

In conjunction with the Tomball Economic Development Corporation (TEDC), the City issued \$8,500,000 in Certificates of Obligation (May 2013) to finance the construction of infrastructure to service a new business park on the southeast corner of the City. This project was nearing completion at September 30, 2016.

In July 2015, bids were awarded for the construction of roadways, water, sewer, gas, and drainage within the park as well as turn lanes and box culverts within the public right-of way adjacent to the park entrances. At September 30, 2016, the turn lanes had been completed, the perimeter storm sewer had been installed, and the first 500 feet of Spell Road, west of Hufsmith-Korville was complete. Additionally, the park entrances had been completed and the M118 box crossing was finished.

The TEDC sold its second lot, a 5.5018 acre tract, to GE Betz, Inc. for \$726,969.30 in August, 2016.

Additionally, infrastructure projects for water, sewer, drainage, and natural gas distribution continue to be funded through the budget process. All capital projects and major infrastructure needs are reviewed periodically during the year to assess both the progress of construction and the actual versus projected costs.

Major Initiatives

The largest revenue source in the General Fund is sales tax. The City has experienced significant commercial and retail growth over the last several years. However, because of the recession experienced in 2008-2009, the City continued a conservative approach in budgeting sales tax revenues. For fiscal 2016, sales tax revenues were projected at \$ 10,700,000 but with a possible decline in the area due to reduced oil prices, a conservative approach projects these revenues at the same level for fiscal 2017.

The City made an application to the Harris Galveston Area Council in 2015 for a grant to fund major improvements along FM 2920 (Main Street) from the downtown area to State Highway 249. At that time the City Council approved local funding in the amount of \$3,000,000 assist in expediting the project. The fiscal year 2017 budget includes funding in the amount of \$1,500,000 to begin surveying, engineering design, and the possible purchase of rights-of-way.

Additionally, because of significant amounts of rainfall and related drainage issues, planning was in process at year-end for possible drainage projects in future years.

Financial Information

The City's management team is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of the controls should not exceed the benefits likely to be derived and (2) the valuation of cost and benefits requires estimates and judgments to be made by management.

Budgeting Controls

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Debt Service Fund, Special Revenue Funds, Utility Fund, and Internal Service Funds are included in the annual operating budget. The Tomball Economic Development Corporation, a component unit of the City, is budgeted separately. A capital improvement plan is approved each year by the city council and funded through a separate capital projects fund. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated

amount) is established at the division level within an individual fund. The City maintains an encumbrance accounting system as a means of accomplishing budgetary controls and a technique of budgetary "lock out" which will prevent a transaction from exceeding legally appropriated budgetary amounts. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Debt Administration

The City may issue General Obligation bonds that are approved by voters in a capital improvements plan. Certificates of Obligation can be used for major construction projects and for the financing of vehicles and equipment.

When available, sales tax revenue in excess of budgeted projections can be dedicated to one-time capital purchases.

Independent Audit

The City Charter requires an independent audit of the accounts of the City by an independent auditor. The firm of Weaver and Tidwell, LLP, Certified Public Accountants, has issued an unmodified ("clean") opinion on the City of Tomball's financial statements for the year ended September 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

Awards

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2015. This was the 26th consecutive year that the City has received this award. In order to be awarded the Certificate of Achievement, the City published an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfies both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is held for a period of one year only. Our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement requirements, and will be submitted to GFOA to determine its eligibility for another certificate.

The City also received the Distinguished Budget Presentation Award for the fiscal year beginning October 1, 2015. This is the eighth consecutive year that the City has received this award from the GFOA. The award is made to those cities whose budget presentations meet very stringent presentation guidelines. The budget document must be of the very highest quality that reflects both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting.

For the fifth consecutive year, the City was also awarded the Leadership Award as part of the "Texas Transparency" program from the Texas Comptroller of Public Accounts. This past year the State Comptroller's office revised the program to what is now called the "Five Star Rating Designation" for transparency. Under the new guidelines, the City recently received the 2nd Star of the Five Star format. This program involves publishing financial information such as CAFRs, budgets, and check registers to demonstrate transparent government to both the citizens and other members of the public.

Transmittal Letter
City of Tomball, Texas

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the administrative staff of the City and the members of the Finance Department. We also would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Tomball's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Glenn Windsor", written in a cursive style.

Glenn Windsor, CPA, CFE, CGFO
Finance Director

CITY OF TOMBALL, TEXAS PRINCIPAL OFFICIALS AS OF SEPTEMBER 30, 2016

<u>City Officials</u>	<u>Elected Position</u>	<u>Term Expires</u>
Gretchen Fagan	Mayor	2019
F. S. "Field" Hudgens	Councilman Position 1	2017
Mark Stoll	Councilman Position 2	2018
Chad Degges	Councilman Position 3	2019
Derek Townsend, Sr.	Councilman Position 4	2018
Lori Klein Quinn	Councilman Position 5	2017

<u>Department Heads</u>	<u>Appointive Position</u>
George Shackelford	City Manager
Robert Hauck	Assistant City Manager
Doris Speer	City Secretary
Billy Tidwell	Chief of Police
David Esquivel	Director of Public Works
Randall Parr	Fire Chief
Craig Meyers	Community Development Director
Glenn Windsor	Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

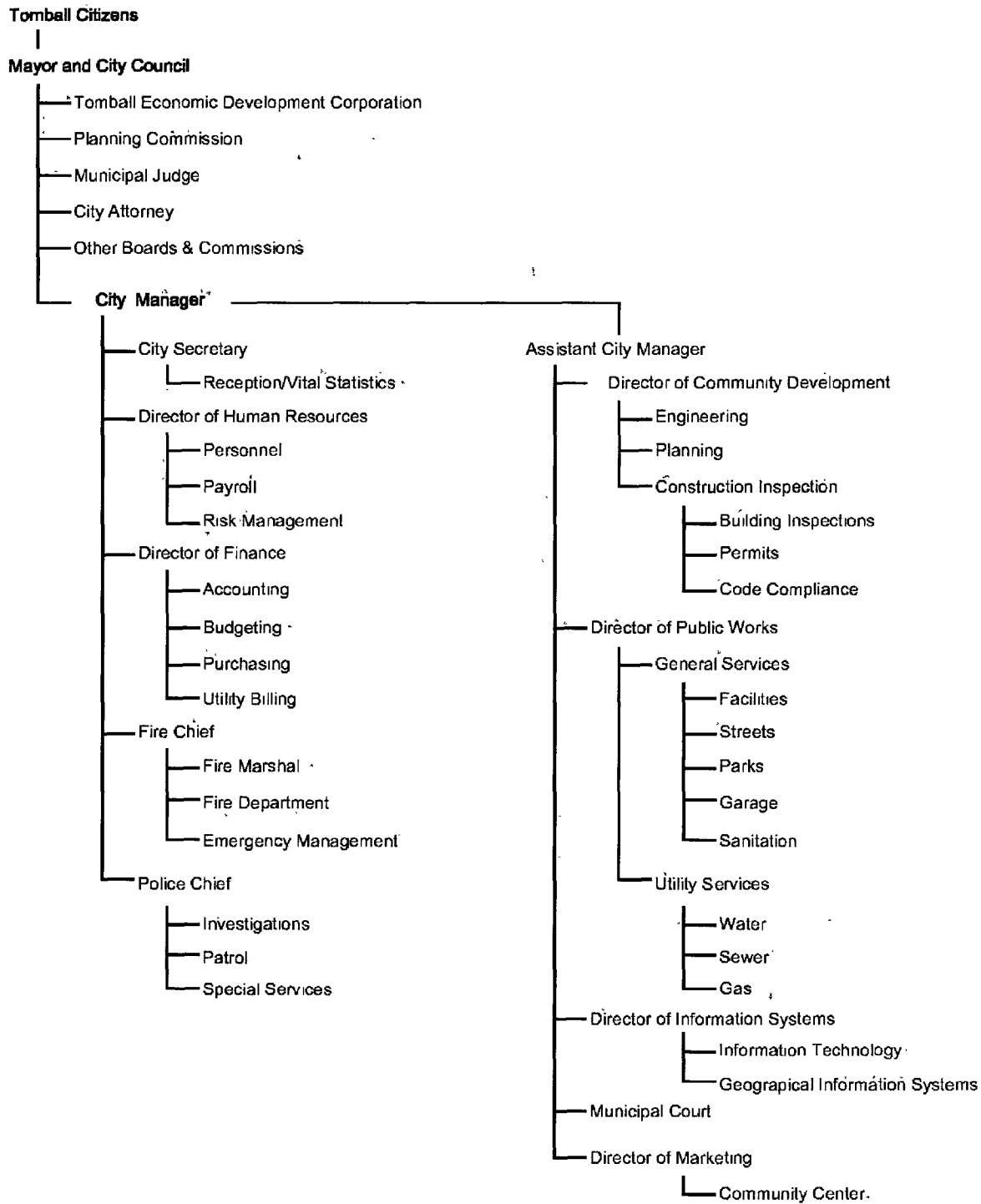
**City of Tomball
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO

Staff Organizational Chart



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
City Council Members of the
City of Tomball, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tomball, Texas (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and
City Council Members of the
City of Tomball, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, Schedule of Funding Progress – Post Employment Benefits Plan Other Than Pensions and Schedule of Revenues Expenditures, and Changes in Fund Balance, Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Honorable Mayor and
City Council Members of the
City of Tomball, Texas

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 24, 2017

Management's Discussion and Analysis (Unaudited)

As Management of the City of Tomball, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. This information is not intended to be a complete statement of the City's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Tomball exceeded its liabilities at the close of the most recent fiscal year by \$ 94,887,165 (net position). Of this amount, \$10,340,744 is unrestricted net position for governmental activities and \$11,445,362 for business-type activities.
- The City's net position increased by \$4,222,331. This included an increase of \$130,454 in unrestricted net position, an increase of \$2,578,962 in net investment in capital assets, and an increase of \$1,512,915 in restricted net position.
- As of the close of the current fiscal year, the City of Tomball's governmental funds reported combined ending fund balances of \$ 32,855,748. Of the ending fund balance, \$19,434,478 is restricted for capital projects, debt service, and enabling legislation; \$128,489 is committed for city functions; \$35,379 is assigned by the City for specific purposes; \$12,047 is non-spendable and \$13,245,355 is unassigned and available to meet the government's ongoing obligations in accordance with the City's fund designation and fiscal policies.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position serve as useful indicators of whether the financial position of the City is improving or deteriorating. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm sewer, gas distribution, water distribution and sewer collection lines, etc.), to assess the overall financial condition of the City.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used compensated absences). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in the governmental fund statements.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees (business-type activities).

- Governmental activities include most of the City's basic services, (general government, public safety, public works and community services). Property taxes, sales taxes, and franchise fees primarily finance these activities.
- Business-type activities include the City's water, sewer, and gas system. Charges for services cover all or most of the costs for these services.
- Component Unit activities include activities of The Tomball Economic Development Corporation.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used by state and local governments to control and manage money for particular purposes and to ensure finance-related legal requirements. The City uses two fund types – governmental and proprietary.

- **Governmental funds** – Similar to the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds focus on current sources and uses of spendable resources. The governmental fund statements provide a detailed short-term view of the City's general government operations and help you to determine whether resources are available in the near future to finance City programs. Comparing the information presented for governmental funds with the information presented for governmental activities in the government-wide financial statements will help the reader to better understand the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances include a reconciliation to provide such comparison.

The City maintains ten governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund and the Capital Projects Fund; these funds are considered to be major funds. The other seven funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found in this report.

- **Proprietary funds** – The City maintains two types of proprietary funds. The City uses the Enterprise Fund for water, sewer, and gas operations. The Enterprise Fund reports the same functions presented as business-type activities in the government-wide financial statements. The second proprietary fund is the Internal Service Fund. This fund is used to account for fleet replacements and employee benefits. The Internal Service Fund is included within the governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, with more detail, and include the Internal Service Fund type activity.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules that further support the information in the financial statements. These statements are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's total assets and deferred outflows of resources exceed the City's total liabilities and deferred inflows of resources by \$94.9 million as of September 30, 2016. The largest portion of the City's net position (71%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF TOMBALL'S NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 39,283,486	\$ 41,754,802	\$ 13,850,988	\$ 13,036,258	\$ 53,134,474	\$ 54,791,060
Capital assets	48,405,068	42,280,309	36,547,567	37,546,729	84,952,635	79,827,038
Total assets	<u>87,688,554</u>	<u>84,035,111</u>	<u>50,398,555</u>	<u>50,582,987</u>	<u>138,087,109</u>	<u>134,618,098</u>
Total deferred outflows of resources	<u>2,700,657</u>	<u>1,381,985</u>	<u>453,549</u>	<u>180,257</u>	<u>3,154,206</u>	<u>1,562,242</u>
Long-term liabilities	33,442,730	33,882,012	4,210,353	4,412,941	37,653,083	38,294,953
Other liabilities	6,523,989	5,212,757	2,130,244	1,946,830	8,654,233	7,159,587
Total liabilities	<u>39,966,719</u>	<u>39,094,769</u>	<u>6,340,597</u>	<u>6,359,771</u>	<u>46,307,316</u>	<u>45,454,540</u>
Total deferred inflows of resources	<u>40,123</u>	<u>52,014</u>	<u>6,711</u>	<u>8,952</u>	<u>46,834</u>	<u>60,966</u>
Net position:						
Net investment in capital assets	34,220,115	31,267,016	33,059,434	33,433,571	67,279,549	64,700,587
Restricted	5,821,510	4,308,595	-	-	5,821,510	4,308,595
Unrestricted	<u>10,340,744</u>	<u>10,694,702</u>	<u>11,445,362</u>	<u>10,960,950</u>	<u>21,786,106</u>	<u>21,655,652</u>
Total net position	<u>\$ 50,382,369</u>	<u>\$ 46,270,313</u>	<u>\$ 44,504,796</u>	<u>\$ 44,394,521</u>	<u>\$ 94,887,165</u>	<u>\$ 90,664,834</u>

Combined governmental and business-type activities increased the City's net position by \$4,222,331 in 2016. The following table provides a summary of the City's operations for the year ended September 30, 2016. Governmental activities increased the City of Tomball's net position by \$4,112,056. This increase is primarily related to the increase in capital assets over the fiscal year. Business-type activities increased the City's net position by \$110,275. This increase is related primarily to an excess of revenues over inter-fund transfers.

CITY OF TOMBALL'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 4,008,937	\$ 3,694,337	\$ 10,722,767	\$ 10,908,120	\$ 14,731,704	\$ 14,602,457
Operating grants and contributions	544,607	1,039,237	558,148	670,000	1,102,755	1,709,237
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	5,674,692	5,241,928			5,674,692	5,241,928
Sales taxes	10,578,683	10,839,818			10,578,683	10,839,818
Franchise taxes	1,331,077	1,282,598	-	-	1,331,077	1,282,598
Other taxes	628,932	538,843	-	-	628,932	538,843
Gain on sale of capital assets	127,134	17,634	39,850	-	166,984	17,634
Investment earnings	133,673	40,115	43,741	33,771	177,414	73,886
Miscellaneous	395,060	475,712	47,454	47,847	442,514	523,559
Total revenues	<u>23,422,795</u>	<u>23,170,222</u>	<u>11,411,960</u>	<u>11,659,738</u>	<u>34,834,755</u>	<u>34,829,960</u>
Expenses:						
General government	5,391,624	4,968,344	1,179,100	979,161	6,570,724	5,947,505
Public safety	9,028,841	8,493,353	-	-	9,028,841	8,493,353
Public works	6,436,355	6,181,783	-	-	6,436,355	6,181,783
Community services	421,381	313,713	-	-	421,381	313,713
Water	-	-	3,410,534	3,087,563	3,410,534	3,087,563
Sewer	-	-	2,483,923	2,418,443	2,483,923	2,418,443
Gas	-	-	1,429,950	1,963,162	1,429,950	1,963,162
Interest on long-term debt, fiscal agent fees	830,716	891,258	-	-	830,716	891,258
Total expenses	<u>22,108,917</u>	<u>20,848,451</u>	<u>8,503,507</u>	<u>8,448,329</u>	<u>30,612,424</u>	<u>29,296,780</u>
Increases/(Decrease) in net position before transfers	<u>1,313,878</u>	<u>2,321,771</u>	<u>2,908,453</u>	<u>3,211,409</u>	<u>4,222,331</u>	<u>5,533,180</u>
Transfers	<u>2,798,178</u>	<u>1,607,068</u>	<u>(2,798,178)</u>	<u>(1,607,068)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>4,112,056</u>	<u>3,928,839</u>	<u>110,275</u>	<u>1,604,341</u>	<u>4,222,331</u>	<u>5,533,180</u>
Net position, beginning	<u>46,270,313</u>	<u>42,341,474</u>	<u>44,394,521</u>	<u>42,790,180</u>	<u>90,664,834</u>	<u>85,131,654</u>
Net position, ending	<u>\$ 50,382,369</u>	<u>\$ 46,270,313</u>	<u>\$ 44,504,796</u>	<u>\$ 44,394,521</u>	<u>\$ 94,887,165</u>	<u>\$ 90,664,834</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$32,855,748. Approximately 40% of this amount (\$13,245,355) is unassigned fund balance; however, \$35,379 is assigned for encumbrances at year-end for the General Fund and \$128,489 is committed in the Special Revenue Funds; \$19,446,525 is non-spendable or restricted as follows:

Non-spendable (.04%)

- Prepaid items \$ 12,047

Restricted (59%)

- Debt service \$ 4,334,798
- Construction 13,495,697
- Enabling legislation 1,603,983

In the General Fund, fund balance decreased by \$189,797. This decrease was primarily due to a reduction in Sales Tax revenues. The Debt Service Fund Balance increased by \$1,253,095 primarily from an increase in property tax revenues.

Proprietary Fund

Unrestricted net position of the respective proprietary funds are Enterprise (water, sewer, gas) of \$11,313,012 and Internal Service Fund (Fleet Replacement Fund and Employee Benefits Trust Fund) of \$2,968,081. The net position of the water, sewer, and gas fund increased \$167,052 primarily from an increase in investment revenues and a decrease in operating expenses. Inter-fund transfers were more than the previous year. Actual revenues from water, sewer, and gas sales decreased to a mild winter and an increase in the amount of rainfall over the previous year. Net position of the internal service fund increased \$224,954. This was due primarily to an increase in the participant's cost of group health insurance coverage.

General Fund Budgetary Highlights

The budget for the 2015-2016 General Fund decreased from the previous year, 2014-2015. The amount of approved supplemental expenditures decreased by \$102,263. Additionally, the Police and Fire Department budgets had a combined decrease of \$1,032,555. Some of this decrease resulted from a one-time transfer in FY 15 and the remainder from temporary vacancies in personnel during the year.

A reduction in fund balance was due primarily to the decrease in sales tax revenues.

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, 2016 is \$84,952,635. 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 6,579,329	\$ 6,379,852	\$ 1,403,735	\$ 1,403,735	\$ 7,983,064	\$ 7,783,587
Buildings and improvements	7,128,526	7,349,574	-	-	7,128,526	7,349,574
Gas system	-	-	2,926,422	3,066,176	2,926,422	3,066,176
Water and Sewer system	-	-	27,507,586	28,661,983	27,507,586	28,661,983
Equipment	1,135,159	1,284,818	2,798,436	2,755,395	3,933,595	4,040,213
Vehicles	1,079,006	1,236,473	-	-	1,079,006	1,236,473
Infrastructure	16,349,455	14,647,502	-	-	16,349,455	14,647,502
Construction in progress	16,133,593	11,382,090	1,911,388	1,659,440	18,044,981	13,041,530
Total capital assets	\$ 48,405,068	\$ 42,280,309	\$ 36,547,567	\$ 37,546,729	\$ 84,952,635	\$ 79,827,038

Additional information on the City's capital assets can be found in the notes on pages 41 through 44 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 \$31,021,142.

CITY OF TOMBALL'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligations	\$ 7,165,750	\$ 8,437,500	\$ 3,429,250	\$ 4,042,500	\$ 10,595,000	\$ 12,480,000
Certificates of Obligation	19,695,000	20,640,000	-	-	19,695,000	20,640,000
Capital leases	731,142	800,000	-	-	731,142	800,000
	\$ 27,591,892	\$ 29,877,500	\$ 3,429,250	\$ 4,042,500	\$ 31,021,142	\$ 33,920,000

The City's most recent bond ratings are listed below:

	<u>Standard & Poor's</u>	<u>Moody's</u>
General Obligation Bonds	AA+	
Certificates of Obligation	AA+	Aa3

Additional information on the City's outstanding debt can be found on pages 45 through 48 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 11,540. 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. Residential development continues on the north side of the City.

The City's largest source of revenue continues to be sales taxes. During the fiscal year the City experienced a decrease in this resource of 2.4%. This decrease was minimal considering the downturn in the surrounding petrochemical industry. City management continues to closely monitor sales tax revenues and will budget accordingly to ensure that financial goals and objectives are achieved.

At the end of fiscal year, the City was involved in negotiations to annex an area to the south near the intersections of the recently completed Grand Parkway and State Highway 249. This area will include several large retail stores and restaurants. Additional development continues within the City and is expected to continue with the growth that is taking place in the Tomball area.

The City's largest taxpayer, Baker-Hughes, continues to maintain its central operations and its Western Hemisphere training facility on the northeast corner of the city. Additional development is expected in this northeast quadrant of the City.

The ad valorem property tax rate remained at \$.0341455, 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 percent of annual expenditures.

For the 2016-2017 annual budget the City expects to maintain current levels of sales tax revenues along with no changes to the existing tax rates or utility fees. Construction will continue on several capital projects, including the extension of Medical Complex Drive and the M-121 drainage channel.

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 281-351-5484, 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, 2016**

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 30,952,565	\$ 11,658,480	\$ 42,611,045	\$ 5,882,212
Investments	900,692	500,151	1,400,843	7,180,983
Receivables, net	2,498,171	1,452,403	3,950,574	591,046
Internal balances	(132,350)	132,350	-	-
Inventory	-	107,604	107,604	-
Prepaid expenses	12,047	-	12,047	-
Cash and cash equivalents restricted for				
Debt service	2,972,216	-	2,972,216	-
Construction	2,080,145	-	2,080,145	-
Capital assets				
Nondepreciable	22,712,922	3,315,123	26,028,045	3,087,825
Depreciable capital assets, net	25,692,146	33,232,444	58,924,590	-
Total assets	87,688,554	50,398,555	138,087,109	16,742,066
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pensions	2,425,721	453,549	2,879,270	-
Deferred loss on issuance of refunding bonds	274,936	-	274,936	-
Total deferred outflows of resources	2,700,657	453,549	3,154,206	-
Total assets and deferred outflows of resources	90,389,211	50,852,104	141,241,315	16,742,066
LIABILITIES				
Accounts payable and other current liabilities	3,589,807	602,535	4,192,342	202,425
Accrued interest payable	117,271	14,577	131,848	-
Customer deposits	2,200	847,296	849,496	-
Noncurrent liabilities				
Due within one year	2,814,711	665,836	3,480,547	-
Due in more than one year	33,442,730	4,210,353	37,653,083	-
Total liabilities	39,966,719	6,340,597	46,307,316	202,425
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions	40,123	6,711	46,834	-
Total deferred inflows of resources	40,123	6,711	46,834	-
Total liabilities and deferred inflows of resources	40,006,842	6,347,308	46,354,150	202,425
NET POSITION				
Net investment in capital assets	34,220,115	33,059,434	67,279,549	3,087,825
Restricted for				
Debt service	4,217,527	-	4,217,527	-
Enabling legislation	1,603,983	-	1,603,983	-
Unrestricted	10,340,744	11,445,362	21,786,106	13,451,816
Total net position	\$ 50,382,369	\$ 44,504,796	\$ 94,887,165	\$ 16,539,641

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, 2016**

Program Activities	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Primary Government		Component Unit
			Governmental Activities	Business - Type Activities	
Primary government					
Governmental activities					
General government	\$ 5,391,624	\$ -	\$ (4,853,612)	\$ -	\$ -
Public safety	9,028,841	1,334,938	(7,693,903)	-	-
Public works	6,436,355	2,673,999	(3,762,356)	-	-
Community services	421,381	-	(414,786)	-	-
Interest and fiscal agent fees	830,716	-	(830,716)	-	-
Total governmental activities	22,108,917	4,008,937	(17,555,373)	-	-
Business-type activities					
General government	1,179,100	907,654	-	286,702	286,702
Water	3,410,534	4,654,613	-	1,244,079	1,244,079
Sewer	2,483,923	2,316,495	-	(167,428)	-
Gas	1,429,950	2,844,005	-	1,414,055	1,414,055
Total business-type activities	8,503,507	10,722,767	-	2,777,408	-
Total primary government	\$ 30,612,424	\$ 14,731,704	(17,555,373)	2,777,408	-
Component unit					
Tomball Economic Development Corporation	2,247,942	-	-	-	(2,247,942)
	\$ 2,247,942	\$ -	-	-	(2,247,942)
GENERAL REVENUES					
Taxes:					
Property taxes			5,674,692		-
Sales taxes			10,578,683		3,525,279
Franchise taxes			1,331,077		-
Other taxes			628,932		-
Gain on sale of capital assets			127,134	39,850	632,757
Miscellaneous			395,060	47,454	7,036
Unrestricted investment earnings			133,673	43,741	70,965
TRANSFERS			2,798,178	(2,798,178)	-
Total general revenues and transfers			21,667,429	(2,667,133)	4,236,057
Change in net position			4,112,056	110,275	1,988,115
NET POSITION, beginning of year			46,270,313	44,394,521	14,551,526
NET POSITION, end of year			\$ 50,382,369	\$ 44,504,796	\$ 16,539,641

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

Direct Testimony of Glenn Windsor

**CITY OF TOMBALL, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	General Fund	Debt Service
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,914,326	\$ 974,805
Investments	515,000	385,692
Receivables, net	2,442,278	2,085
Cash and cash equivalents restricted for		
Debt service	-	2,972,216
Construction	-	-
Prepaid items	12,047	-
TOTAL ASSETS	\$ 14,883,651	\$ 4,334,798
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,588,670	\$ -
Customer deposits	2,200	-
Total liabilities	1,590,870	-
FUND BALANCES		
Nonspendable		
Prepaid items	12,047	-
Restricted for		
Debt service	-	4,334,798
Construction	-	-
Enabling legislation	-	-
Committed		
City functions	-	-
Assigned		
Other purposes	35,379	-
Unassigned	13,245,355	-
Total fund balances	13,292,781	4,334,798
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,883,651	\$ 4,334,798

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 12,896,246	\$ 1,995,794	\$ 27,781,171
-	-	900,692
-	39,544	2,483,907
-	-	2,972,216
2,080,145	-	2,080,145
-	-	12,047
<u>\$ 14,976,391</u>	<u>\$ 2,035,338</u>	<u>\$ 36,230,178</u>
\$ 1,480,694	\$ 302,866	\$ 3,372,230
-	-	2,200
<u>1,480,694</u>	<u>302,866</u>	<u>3,374,430</u>
		12,047
-	-	4,334,798
13,495,697	-	13,495,697
-	1,603,983	1,603,983
	128,489	128,489
-	-	35,379
-	-	13,245,355
<u>13,495,697</u>	<u>1,732,472</u>	<u>32,855,748</u>
<u>\$ 14,976,391</u>	<u>\$ 2,035,338</u>	<u>\$ 36,230,178</u>

**CITY OF TOMBALL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Total fund balances - governmental funds \$ 32,855,748

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. 47,617,540

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. 274,936

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. (773,374)

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

Net pension liability	(5,703,852)	
Deferred outflows - pensions	2,425,721	
Deferred inflows - pensions	<u>(40,123)</u>	(3,318,254)

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. (117,271)

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. 3,623,259

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, 2016 are:

Bonded debt payable	(26,860,750)	
Capital lease payable	(731,142)	
Landfill post closure costs	(379,500)	
Compensated absences payable	(1,445,129)	
Premiums received on issuance of bonds	<u>(363,694)</u>	<u>(29,780,215)</u>

Net position - governmental activities \$ 50,382,369

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, 2016

	General Fund	Debt Service	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 1,855,706	\$ 3,818,986	\$ -	\$ -	\$ 5,674,692
Sales, franchise, and other taxes	11,972,924	-	-	565,768	12,538,692
Permits and licenses	439,677	-	-	-	439,677
Fines and forfeitures	536,934	-	-	355,720	892,654
Service revenue	2,234,322	-	-	-	2,234,322
Intergovernmental	288,988	-	-	-	288,988
Contributions from component unit	10,000	528,012	-	-	538,012
Interest on investments	39,148	13,854	66,705	5,385	125,092
Other revenue	591,947	-	1,498	43,659	637,104
Total revenues	17,969,646	4,360,852	68,203	970,532	23,369,233
Expenditures					
Current					
Administrative	4,841,186			385,375	5,226,561
Police	5,036,804			157,294	5,194,098
Fire	2,997,111			-	2,997,111
Court	318,390		-	-	318,390
Public works	1,219,934		-	-	1,219,934
Sanitation	2,166,414		-	-	2,166,414
Streets	1,149,668		7,055,496	-	8,205,164
Permits	391,462		-	-	391,462
Garage	172,311		-	-	172,311
Parks	902,923		12,687	-	915,610
Community services	182,088	-	-	234,665	416,753
Debt service					
Principal	-	2,285,608	-	-	2,285,608
Interest	-	811,986	-	-	811,986
Bond issuance costs and fees	-	10,163	-	-	10,163
Total expenditures	19,378,291	3,107,757	7,068,183	777,334	30,331,565
Excess (deficiency) of revenues over expenditures	(1,408,645)	1,253,095	(6,999,980)	193,198	(6,962,332)
Other financing sources (uses)					
Transfers out	(1,181,277)	-	-	-	(1,181,277)
Transfers in	2,400,125	-	1,559,330	20,000	3,979,455
Total other financing sources (uses)	1,218,848	-	1,559,330	20,000	2,798,178
Net change in fund balances	(189,797)	1,253,095	(5,440,650)	213,198	(4,164,154)
Fund balances, beginning of year	13,482,578	3,081,703	18,936,347	1,519,274	37,019,902
Fund balances, end of year	\$ 13,292,781	\$ 4,334,798	\$ 13,495,697	\$ 1,732,472	\$ 32,855,748

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, 2016

Net change in fund balances - total governmental funds \$ (4,164,154)

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. 7,384,704

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. (1,113,397)

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:

Amortization of premium on bonds payable	43,056	
Amortization of deferred loss on refunding	(59,674)	
Repayment of long term debt	<u>2,285,608</u>	2,268,990

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. (103,837)

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 96,000

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. 8,051

Current year changes in the accrual for other post employment benefits do not require the use of current financial resources; therefore, are not reported as expenditures in the governmental funds. (115,565)

The net change in the pension-related deferred outflows and inflows of resources and net pension liability was: (430,467)

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. 281,731

Change in net position - governmental activities \$ 4,112,056

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, 2016

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,658,480	\$ 3,171,394
Investments	500,151	-
Accounts receivable, net	1,452,403	14,264
Inventory	107,604	-
Total current assets	13,718,638	3,185,658
Noncurrent assets		
Nondepreciable capital assets	3,315,123	-
Depreciable capital assets	57,947,949	2,653,752
Less accumulated depreciation	(25,004,755)	(1,576,974)
Net capital assets	36,258,317	1,076,778
Total noncurrent assets	36,258,317	1,076,778
Total assets	49,976,955	4,262,436
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pensions	453,549	-
Total deferred outflows of resources	453,549	-
Total assets and deferred outflows of resources	\$ 50,430,504	\$ 4,262,436

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, 2016
(CONTINUED)

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 602,535	\$ 217,577
Customer deposits	847,296	-
Current portion of bonds and other debt	608,526	-
Compensated absences	57,310	-
Accrued interest payable	14,577	-
Total current liabilities	2,130,244	217,577
Noncurrent liabilities		
Compensated absences	171,928	
Pensions	1,011,509	
Other post employment benefits	147,309	-
Long-term portion of bonds payable	2,879,607	-
Total noncurrent liabilities	4,210,353	-
Total liabilities	6,340,597	217,577
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pensions	6,711	-
Total deferred inflows of resources	6,711	-
Total liabilities and deferred inflows of resources	6,347,308	217,577
NET POSITION		
Net investment in capital assets	32,770,184	1,076,778
Unrestricted	11,313,012	2,968,081
Total net position	44,083,196	\$ 4,044,859
Reconciliation to government-wide statement of net position		
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds	421,600	
Net position of business-type activities	\$ 44,504,796	

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, 2016

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 9,815,113	\$ 2,712,638
Taps and connections	132,454	-
Penalties	111,565	-
Capital recovery fees	663,635	-
Miscellaneous	47,454	-
Total operating revenues	10,770,221	2,712,638
OPERATING EXPENSES		
Costs of sales and services	6,917,814	2,203,314
Depreciation	1,415,841	337,932
Total operating expenses	8,333,655	2,541,246
Operating income	2,436,566	171,392
NONOPERATING REVENUES (EXPENSES)		
Investment income	43,590	8,581
Unrealized gain on investments	151	-
Interest expense	(113,075)	-
Gain on disposal of capital assets	39,850	44,981
Contribution from component unit	558,148	-
Total nonoperating revenues (expenses)	528,664	53,562
Income before transfers	2,965,230	224,954
Transfers out, net	(2,798,178)	-
Change in net position	167,052	224,954
NET POSITION, beginning of year	43,916,144	3,819,905
NET POSITION, end of year	\$ 44,083,196	\$ 4,044,859
Reconciliation to government-wide statement of activities		
Change in net position	\$ 167,052	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(56,777)	
Change in net position of business-type activities	\$ 110,275	

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, 2016

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
OPERATING ACTIVITIES		
Cash received from customers	\$ 10,760,572	\$ 2,707,859
Cash payments to suppliers for goods and services	(4,773,352)	(1,989,401)
Cash payments to employees for services	(1,865,236)	-
Net cash provided by operating activities	4,121,984	718,458
NONCAPITAL FINANCING ACTIVITIES		
Transfers	(2,798,178)	-
Contribution from component unit	558,148	-
Net cash used in noncapital financing activities	(2,240,030)	-
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(329,810)	(303,366)
Proceeds from sale of capital assets	39,850	70,094
Principal paid on capital debt	(613,250)	-
Interest paid on capital debt	(126,767)	-
Net cash used in capital and related financing activities	(1,029,977)	(233,272)
INVESTING ACTIVITIES		
Interest and other nonoperating income	43,590	8,581
Purchases of investments	(500,000)	-
Net cash provided by (used in) investing activities	(456,410)	8,581
Net change in cash and cash equivalents	395,567	493,767
CASH AND CASH EQUIVALENTS, beginning of year	11,262,913	2,677,627
CASH AND CASH EQUIVALENTS, end of year	\$ 11,658,480	\$ 3,171,394

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, 2016
(CONTINUED)

	Business Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,436,566	\$ 171,392
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,415,841	337,932
Pension expense	67,671	-
Change in assets and liabilities		
Accounts receivable	(21,942)	(4,779)
Inventory	(40,716)	-
Accounts payable and accrued liabilities	252,271	213,913
Customer deposits	12,293	-
Net cash provided by operating activities	<u>\$ 4,121,984</u>	<u>\$ 718,458</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, deferred outflows and deferred inflows of resources, 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, deferred outflows and deferred inflows of resources, 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.

**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.

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.

The City reports all investments at fair value, with the exception of investments in local government investment pools. The carrying value of investments in local government investment pools is determined by the valuation policy of the investment pool; either at amortized cost or net asset value of the underlying pool shares, as further described in Note 3.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deposits and Investments – Continued

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. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
6. Certificates of deposit, repurchase agreements, and commercial paper that meet certain criteria;
7. 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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

Property, plant, and equipment of the primary government, 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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Obligations – Continued

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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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, 2016, \$35,379 of fund balance in the general fund was assigned for encumbrances.

**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

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.

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.

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

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	
Fire	\$ 61,383
Public works	16,550
Sanitation	106,354
Parks	7,547
Debt service fund	\$ 378

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments as of September 30, 2016 are classified in the accompanying financial statements as follows:

Governmental activities	\$ 36,905,618
Business-type activities	12,158,631
Component unit	<u>13,063,195</u>
Total	<u>\$ 62,127,444</u>

Deposits and investments as of September 30, 2016 consist of the following:

	<u>City</u>	<u>Component Unit</u>	<u>Total</u>
Deposits with financial institutions	\$ 1,775,743	\$ 49,783	\$ 1,825,526
Investments	<u>47,288,506</u>	<u>13,013,412</u>	<u>60,301,918</u>
Total	<u>\$ 49,064,249</u>	<u>\$ 13,063,195</u>	<u>\$ 62,127,444</u>

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

The City's investments are stated at fair value, with certain exceptions described below. The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*, which provides a framework for measuring fair value and establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Certain investment types are not required to be measured at fair value; these include money market funds and certain investment pools which are measured at amortized cost, and other investment pools which are measured at the net asset value (NAV) determined by the pool, which approximates fair value. These instruments are exempt from categorization within the fair value hierarchy.

At September 30, 2016, the City and component unit had the following investments:

	<u>City</u>	<u>Component Unit</u>	<u>Total</u>
Investments measured at fair value:			
Municipal Bonds	\$ 900,692	\$ 3,680,704	\$ 4,581,396
U.S. Agencies	500,151	3,500,279	4,000,430
	<u>1,400,843</u>	<u>7,180,983</u>	<u>8,581,826</u>
Investments measured at amortized cost:			
Investment pools			
TexPool	38,587,077	4,918,920	43,505,997
Investments measured at net asset value:			
Investment pools			
Texas CLASS	7,300,586	913,509	8,214,095
Total portfolio	<u>\$ 47,288,506</u>	<u>\$ 13,013,412</u>	<u>\$ 60,301,918</u>

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

The municipal bonds and U. S. Agency Securities are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Investment Pools

The City's investments in local government investment pools include those with TexPool and TexasCLASS.

TexPool is a public funds investment pool operated by the Texas Treasury Safekeeping Trust Company, an entity of which the Texas Comptroller of Public Accounts is the 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. Administrative and investment services are provided by Federated Investors, Inc., and the assets are kept in a separate custodial account at the State Street Bank in the name of TexPool.

TexasCLASS was established in 1996 pursuant to the Texas Public Funds Investment Act and is governed by a seven-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.

The investment pools do not have any limitations or restrictions on withdrawals, such as notice periods or maximum transaction amounts, and do not impose any liquidity fees or redemption gates.

Custodial Credit Risk

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 of 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, 2016, 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.

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

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 four 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.

The weighted average maturity of the City and component unit investment portfolios as of September 30, 2016 is shown below.

	<u>Weighted Average Maturity (Days)</u>	
	<u>City</u>	<u>Component Unit</u>
Municipal Bonds	961	761
U.S. Agencies	910	588
Investment pools		
TexPool	45	44
Texas CLASS	71	71
Total portfolio	<u>76</u>	<u>395</u>

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, 2016 were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
Municipal Bonds	A+ to AAA Aa3 to AAA	Standard & Poor's Moody's
U.S. Agencies	AA+	Standard & Poor's
TexPool	AAAm	Standard & Poor's
Texas CLASS	AAAm	Standard & Poor's

CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

The following comprise receivable balances at year end:

	General	Debt Service	Nonmajor Governmental	Enterprise	Internal Service	Component Unit
Receivables						
Property taxes	\$ 117,951	\$ 207,681	\$ -	\$ -	\$ -	\$ -
Sales taxes	1,773,138	-	-	-	-	591,046
Other taxes	62,145	-	-	-	-	-
Customer accounts	451,140	-	-	1,671,868	-	-
Interest	6,049	-	-	-	-	-
Other	222,888	612	39,544	105	14,264	-
Gross receivables	2,633,311	208,293	39,544	1,671,973	14,264	591,046
Less allowance for uncollectibles	(191,033)	(206,208)	-	(219,570)	-	-
Net total receivables	<u>\$ 2,442,278</u>	<u>\$ 2,085</u>	<u>\$ 39,544</u>	<u>\$ 1,452,403</u>	<u>\$ 14,264</u>	<u>\$ 591,046</u>

NOTE 5. CAPITAL ASSETS

Changes in capital assets for governmental activities for the year ended September 30, 2016 are summarized as follows:

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 6,379,852	\$ 199,477	\$ -	\$ 6,579,329
Construction in progress	11,382,090	5,718,818	(967,315)	16,133,593
Total capital assets not being depreciated	17,761,942	5,918,295	(967,315)	22,712,922
Other capital assets				
Buildings and improvements	11,037,351	44,050	-	11,081,401
Machinery and equipment	6,384,708	72,989	(34,623)	6,423,074
Vehicles	4,805,781	103,172	(307,703)	4,601,250
Infrastructure	22,692,839	2,341,172	-	25,034,011
Total other capital assets	44,920,679	2,561,383	(342,326)	47,139,736
Less accumulated depreciation				
Buildings and improvements	3,687,777	265,098	-	3,952,875
Machinery and equipment	5,099,890	222,648	(34,623)	5,287,915
Vehicles	3,569,308	235,525	(282,589)	3,522,244
Infrastructure	8,045,337	639,219	-	8,684,556
Total accumulated depreciation	20,402,312	1,362,490	(317,212)	21,447,590
Total capital assets being depreciated, net	24,518,367	1,198,893	(25,114)	25,692,146
Governmental activities capital assets, net	<u>\$ 42,280,309</u>	<u>\$ 7,117,188</u>	<u>\$ (992,429)</u>	<u>\$ 48,405,068</u>

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

NOTE 5. CAPITAL ASSETS – CONTINUED

Depreciation was charged to governmental functions as follows:

Police	\$ 318,112
Streets	265,098
Public works	530,187
Internal service	<u>249,093</u>

Total governmental activities depreciation expense	<u>\$ 1,362,490</u>
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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 Road Extension (Med. Complex Drive)	\$ 7,321,545	\$ 6,470,316	\$ 851,229
Tomball Business Park	6,653,643	5,169,761	1,483,882
M121 Final Phase	1,485,400	1,484,215	1,185
M124 Willow Creek Tributaries	1,166,905	1,060,522	106,383
M121 Drainage Channel	1,156,623	1,054,487	102,136
M118 Drainage Channels	901,984	70,336	831,648
Zion Road Sidewalks	406,564	257,500	149,064
Rudolph Road and Utilities	194,681	139,896	54,785
Market/ Walnut Curb And Gutter	147,816	124,909	22,907
Depot Lighting	117,158	108,581	8,577
Downtown Sidewalks	96,456	85,900	10,556
Broussard Park	69,323	42,740	26,583
Pine St. Drainage / Sidewalk	41,000	29,300	11,700
Michel Rd./Holderrieth Blvd.	35,130	35,130	-
Total	<u>\$ 19,794,228</u>	<u>\$ 16,133,593</u>	<u>\$ 3,660,635</u>

CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS – CONTINUED

Changes in capital assets for business-type activities for the year ended September 30, 2016 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	1,659,440	251,948	-	1,911,388
Total capital assets not being depreciated	3,063,175	251,948	-	3,315,123
Other capital assets				
Gas system	5,921,345	-	-	5,921,345
Water and sewer system	47,562,980	-	-	47,562,980
Machinery and equipment	5,014,742	253,570	(149,481)	5,118,831
Total other capital assets	58,499,067	253,570	(149,481)	58,603,156
Less accumulated depreciation:				
Gas system	2,855,169	139,754	-	2,994,923
Water and sewer system	18,900,997	1,154,397	-	20,055,394
Machinery and equipment	2,259,347	210,529	(149,481)	2,320,395
Total accumulated depreciation	24,015,513	1,504,680	(149,481)	25,370,712
Total capital assets being depreciated, net	34,483,554	(1,251,110)	-	33,232,444
Business-type activities capital assets, net	\$ 37,546,729	\$ (999,162)	\$ -	\$ 36,547,567

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,364,926
Gas	139,754
Total business-type activities depreciation expense	\$ 1,504,680

**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 business-type activities projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
Agg Road Extension (Med Complex Drive)	\$ 1,705,728	\$ 1,301,739	\$ 403,989
Hufsmith Water and Gas Improvement	361,559	359,438	2,121
24" Sanitary Sewer - E Hufsmith	174,710	105,522	69,188
Rudolph Road	165,840	138,889	26,951
Neal Road Utilities	4,800	4,800	-
M121 Final Phase	1,000	1,000	-
Total	\$ 2,413,637	\$ 1,911,388	\$ 502,249

Changes in capital assets for the component unit for the year ended September 30, 2016 are summarized as follows:

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Component Unit				
Capital assets not being depreciated				
Land	\$ 1,356,049	\$ -	\$ (94,213)	\$ 1,261,836
Construction in progress	1,449,538	376,451	-	1,825,989
Total capital assets not being depreciated	\$ 2,805,587	\$ 376,451	\$ (94,213)	\$ 3,087,825

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	\$ 1,825,989	\$ 104,904
Total	\$ 1,930,893	\$ 1,825,989	\$ 104,904

**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, 2016. 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	\$ 29,077,500	\$ -	\$ 2,216,750	\$ 26,860,750	\$ 2,248,250
Premiums	406,750	-	43,056	363,694	43,056
	29,484,250	-	2,259,806	27,224,444	2,291,306
Other liabilities					
Capital lease obligation	800,000	-	68,858	731,142	71,123
Net OPEB obligation	657,809	183,628	68,063	773,374	-
Net pension liability	3,883,148	3,779,884	1,959,180	5,703,852	-
Compensated absences	1,341,292	683,595	579,758	1,445,129	361,282
Landfill post closure costs	475,500	-	96,000	379,500	91,000
Total governmental activities	\$ 36,641,999	\$ 4,647,107	\$ 5,031,665	\$ 36,257,441	\$ 2,814,711
Long-term debt due in more than one year				<u>\$ 33,442,730</u>	
Business-Type Activities					
Revenue bonds	\$ 4,042,500	\$ -	\$ 613,250	\$ 3,429,250	\$ 596,750
Premiums	70,659	-	11,776	58,883	11,776
	4,113,159	-	625,026	3,488,133	608,526
Other liabilities					
Net OPEB obligation	109,763	50,510	12,964	147,309	-
Net pension liability	668,305	699,038	355,834	1,011,509	-
Compensated absences	195,653	156,783	123,198	229,238	57,310
Total business-type activities	\$ 5,086,880	\$ 906,331	\$ 1,117,022	\$ 4,876,189	\$ 665,836
Long-term debt due in more than one year				<u>\$ 4,210,353</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%	\$ 12,180,000	\$ -
Series 2013	8,500,000	2033	2.00 - 3.00%	7,515,000	-
				19,695,000	-
<u>General Obligation Bonds</u>					
Series 2010	2,120,000	2018	1.50 - 2.20%	565,000	-
Series 2011	8,650,000	2022	2.00 - 4.00%	2,805,750	3,429,250
Series 2013**	6,370,000	2023	1.00 - 1.65%	3,795,000	-
				7,165,750	3,429,250
Total bonds and certificates of obligation			\$ 26,860,750	\$ 3,429,250	

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>
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	2,071,750	533,936	558,250	33,165
2022-2026	7,395,000	1,995,711	550,000	11,000
2027-2031	6,775,000	980,836	-	-
2032-2033	2,040,000	52,284	-	-
	\$ 26,860,750	\$ 6,210,056	\$ 3,429,250	\$ 377,334

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, 2016, \$11,065,000 of bonds considered defeased are still outstanding.

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

NOTE 6. LONG-TERM DEBT – CONTINUED

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>(95,143)</u>
Total	<u>\$ 618,427</u>

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>
2017	\$ 95,178
2018	95,178
2019	95,178
2020	95,178
2021	95,178
2022-2025	<u>380,710</u>
Total	856,600
Less interest portion	<u>(125,458)</u>
Obligations under capital leases	<u>\$ 731,142</u>

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

NOTE 6. LONG-TERM DEBT – CONTINUED

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.

The balance of \$379,500 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.

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	\$ 2,400,125	To fund indirect costs for administrative expenses
Capital projects	Enterprise	398,053	To fund miscellaneous projects
Capital projects	General	1,161,277	To fund miscellaneous projects
Nonmajor governmental	General	<u>20,000</u>	To fund miscellaneous projects
		<u>\$ 3,979,455</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.

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

NOTE 8. COMMITMENTS AND CONTINGENCIES – CONTINUED

Contingent Liabilities

The City is a party to various legal actions. Although the outcome 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, 2016.

Encumbrances

Fund balance encumbrances as of September 30, 2016 were as follows:

General fund	\$ 35,379
Capital projects fund	886,769

NOTE 9. DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 866 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.tmr.com.

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

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CITY OF TOMBALL, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9. PENSION PLAN – CONTINUED

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.

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 2015	Plan Year 2016
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/20	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, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	69
Inactive employees entitled to but not yet receiving benefits	57
Active employees	<u>156</u>
Total	282

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

NOTE 9. PENSION PLAN – CONTINUED

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.54% and 13.30% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$1,285,841, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions:

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

NOTE 9. PENSION PLAN – CONTINUED

Net Pension Liability – Continued

Actuarial Assumptions – Continued:

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, 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. At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.50%	4.55%
International equity	17.50%	6.10%
Core fixed income	10.00%	1.00%
Non-core fixed income	20.00%	3.65%
Real return	10.00%	4.03%
Real estate	10.00%	5.00%
Absolute return	10.00%	4.00%
Private equity	5.00%	8.00%
Total	100.0%	

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

NOTE 9. PENSION PLAN – CONTINUED

Net Pension Liability – Continued

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2014	\$ 32,504,989	\$ 27,953,536	\$ 4,551,453
Changes for the year			
Service cost	1,631,504	-	1,631,504
Interest	2,283,312		2,283,312
Change of benefit terms	-		-
Difference between expected and actual experience	153,806	-	153,806
Changes of assumptions	112,706	-	112,706
Contributions - employer	-	1,321,927	(1,321,927)
Contributions - employee	-	680,604	(680,604)
Net investment income	-	41,253	(41,253)
Benefit payments, including refunds of employee contributions	(1,404,009)	(1,404,009)	-
Administrative expense	-	(25,124)	25,124
Other changes	-	(1,240)	1,240
Net changes	2,777,319	613,411	2,163,908
Balance at December 31, 2015	<u>\$ 35,282,308</u>	<u>\$ 28,566,947</u>	<u>\$ 6,715,361</u>

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

NOTE 9. PENSION PLAN – CONTINUED

Net Pension Liability – Continued

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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$ 12,156,731	\$ 6,715,361	\$ 2,312,001

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.

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

For the year ended September 30, 2016, the City recognized pension expense of \$1,783,979.

At September 30, 2016, 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	\$ 216,036	\$ 46,834
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	1,730,854	
Contributions subsequent to the measurement date	932,380	-
Total	<u>\$ 2,879,270</u>	<u>\$ 46,834</u>

**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 – Continued

\$932,380 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	
2016	\$ 485,596
2017	485,596
2018	485,596
2019	429,136
2020	14,132
Thereafter	-
Total	<u>\$ 1,900,056</u>

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.

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

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Plan Description – Continued

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.

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 \$34,160 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	34,541
Adjustment to ARC	<u>(46,093)</u>
Annual OPEB cost (expense) end of year	234,138
Net estimated employer contributions	<u>(81,027)</u>
Increase in net OPEB obligation	153,111
Net OPEB obligation – as of beginning of the year	<u>767,572</u>
Net OPEB obligation – as of end of year	<u><u>\$ 920,683</u></u>

**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 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, 2016 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
2014	\$ 165,688	\$ 39,906	24%	\$ 617,094
2015	236,402	85,924	36%	767,572
2016	234,138	81,027	35%	920,683

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.

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

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Actuarial Methods and Assumptions – Continued

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

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.

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

NOTE 10. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

TMRS – Supplemental Death Benefit Fund – Continued

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, 2016, 2015, and 2014 were \$3,587, \$2,821, and \$2,613, respectively, which equaled the required contributions each year.

NOTE 11. SUBSEQUENT EVENT

In December 2016, the City issued \$20,240,000 in Combination Tax and Revenue Certificates of Obligation, Series 2016. The Certificates are issued as serial certificates maturing on February 15 in the years 2017 through 2026 and 2029 through 2037, and term certificates maturing in 2028. The Series 2016 bonds will be used to provide funds for construction and equipment of streets, sidewalks, and traffic signals, including the extension of Medical Complex Drive and Persimmon Street; the construction and equipment of storm sewer and drainage improvements; the acquisition of land for the extension of Medical Complex Drive and Persimmon St. and related utilities and drainage improvements; the construction of improvements to the City's water, sewer, and gas utility facilities; and the cost of professional services incurred in connection therewith.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF TOMBALL, TEXAS
SCHEDULE OF CHANGES IN
NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service Cost	\$ 1,405,192	\$ 1,631,504
Interest (on the Total Pension Liability)	2,122,080	2,283,312
Changes of benefit terms	-	-
Difference between expected and actual experience	(75,098)	153,806
Change of assumptions	-	112,706
Benefit payments, including refunds of employee contributions	<u>(1,120,036)</u>	<u>(1,404,009)</u>
Net Change in Total Pension Liability	2,332,138	2,777,319
Total Pension Liability - Beginning	<u>30,172,851</u>	<u>32,504,989</u>
Total Pension Liability - Ending (a)	<u><u>\$ 32,504,989</u></u>	<u><u>\$ 35,282,308</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,106,867	\$ 1,321,927
Contributions - Employee	629,009	680,604
Net Investment Income	1,480,415	41,253
Benefit payments, including refunds of employee contributions	(1,120,036)	(1,404,009)
Administrative Expense	(15,453)	(25,124)
Other	<u>(1,271)</u>	<u>(1,240)</u>
Net Change in Plan Fiduciary Net Position	2,079,531	613,411
Plan Fiduciary Net Position - Beginning	<u>25,874,005</u>	<u>27,953,536</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 27,953,536</u></u>	<u><u>\$ 28,566,947</u></u>
Net Pension Liability - Ending (a) - (b)	\$ 4,551,453	\$ 6,715,361
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	86.00%	80.97%
Covered Employee Payroll	\$ 8,985,838	\$ 9,722,909
Net Pension Liability as a Percentage of Covered Employee Payroll	50.65%	69.07%

NOTES TO SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Only two years of data are presented in accordance with GASB Statement No. 68 as the data for the year prior to 2014 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule be presented for the year ended as of the current measurement date (December 31)

**CITY OF TOMBALL, TEXAS
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 1,246,735	\$ 1,285,841
Contributions in relation to the actuarially determined contribution	<u>1,246,735</u>	<u>1,285,841</u>
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 9,404,137	\$ 9,620,867
Contributions as a percentage of covered employee payroll	13.26%	13.37%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Only two years of data are presented in accordance with GASB Statement No. 68 as the data for the years prior to 2015 is not available.

Additionally, GASB Statement No. 68 requires that the information presented on this schedule correspond with the City's fiscal year (September 30).

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits.
	Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

There were no benefit changes during the year.

**CITY OF TOMBALL, TEXAS
SCHEDULE OF FUNDING PROGRESS
POST EMPLOYMENT BENEFITS PLAN OTHER THAN PENSIONS
SEPTEMBER 30, 2016**

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)
12/31/2013	\$ -	\$ 1,157,549	0.0%	\$ 1,157,549	\$ 7,382,599	15.7%
12/31/2014	-	1,903,327	0.0%	1,903,327	8,985,838	21.2%
12/31/2015 *	-	1,903,327	0.0%	1,903,327	8,985,838	21.2%

* In accordance with GASB Statement No. 45 for plans with a total membership of fewer than 200, the City has an actuarial valuation performed at least triennially, which was performed as of December 31, 2014. Therefore data for 2015 is the same as 2014.

**CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,790,000	\$ 1,854,000	\$ 1,855,706	\$ 1,706
Sales, franchise, and other taxes	12,029,025	12,081,025	11,972,924	(108,101)
Permits and licenses	531,850	456,300	439,677	(16,623)
Fines and forfeitures	743,500	551,200	536,934	(14,266)
Services revenue	2,100,000	2,150,000	2,234,322	84,322
Intergovernmental	274,887	280,366	288,988	8,622
Contributions from component unit	10,000	10,000	10,000	-
Interest on investments	15,000	35,000	39,148	4,148
Other revenues	337,905	548,261	591,947	43,686
Total revenues	17,832,167	17,966,152	17,969,646	3,494
Expenditures				
Administrative	5,198,556	4,980,958	4,841,186	139,772
Police	5,501,770	5,160,115	5,036,804	123,311
Fire	2,986,736	2,935,728	2,997,111	(61,383) *
Court	383,345	339,216	318,390	20,826
Public works	1,304,224	1,203,384	1,219,934	(16,550) *
Sanitation	2,022,300	2,060,060	2,166,414	(106,354) *
Streets	1,853,031	1,220,565	1,149,668	70,897
Permits	555,344	426,962	391,462	35,500
Garage	152,653	174,919	172,311	2,608
Parks	827,224	895,376	902,923	(7,547) *
Community services	183,277	185,838	182,088	3,750
Total expenditures	20,968,460	19,583,121	19,378,291	204,830
Excess of revenues over (under) expenditures	(3,136,293)	(1,616,969)	(1,408,645)	208,324
Other financing sources				
Transfers in	2,400,125	2,400,125	2,400,125	-
Transfers out	(520,000)	(1,181,277)	(1,181,277)	-
Total other financing sources	1,880,125	1,218,848	1,218,848	-
Net change in fund balance	\$ (1,256,168)	\$ (398,121)	\$ (189,797)	\$ 208,324
Fund balance, beginning of year			13,482,578	
Fund balance, end of year			\$ 13,292,781	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations at the legal level of control.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted or committed to expenditures for particular purposes.

**CITY OF TOMBALL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	<u>Special General</u>	<u>Court Security</u>	<u>Court Technology</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 119,489	\$ 254,754	\$ 270,371
Accounts receivable	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 119,489	\$ 254,754	\$ 270,371
	<hr/>	<hr/>	<hr/>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 5,144	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
Total liabilities	5,144	-	-
	<hr/>	<hr/>	<hr/>
FUND BALANCES			
Restricted for enabling legislation	-	254,754	270,371
Committed for city functions	114,345	-	-
	<hr/>	<hr/>	<hr/>
Total fund balances	114,345	254,754	270,371
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 119,489	\$ 254,754	\$ 270,371
	<hr/>	<hr/>	<hr/>

Hotel Occupancy Tax	Red Light Camera	Bunny Run	Tomball Legacy Fund	Total Nonmajor Governmental Funds
\$ 534,492 3,400	\$ 778,662 36,144	\$ 17,983 -	\$ 20,043 -	\$ 1,995,794 39,544
<u>\$ 537,892</u>	<u>\$ 814,806</u>	<u>\$ 17,983</u>	<u>\$ 20,043</u>	<u>\$ 2,035,338</u>
\$ 15,018	\$ 278,865	\$ 3,839	\$ -	\$ 302,866
15,018	278,865	3,839	-	302,866
522,874	535,941	-	20,043	1,603,983
-	-	14,144	-	128,489
<u>522,874</u>	<u>535,941</u>	<u>14,144</u>	<u>20,043</u>	<u>1,732,472</u>
<u>\$ 537,892</u>	<u>\$ 814,806</u>	<u>\$ 17,983</u>	<u>\$ 20,043</u>	<u>\$ 2,035,338</u>

**CITY OF TOMBALL, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

	Special General	Court Security	Court Technology	Hotel Occupancy Tax
Revenues				
Other taxes	\$ -	\$ -	\$ -	\$ 565,768
Fines and forfeitures	-	12,125	16,167	-
Interest on investments	519	922	911	1,574
Other revenues	16,334	-	-	7,091
Total revenues	16,853	13,047	17,078	574,433
Expenditures				
Current				
Administrative	54,022		28,848	301,950
Police	-	-	-	-
Community services	-	-	-	213,582
Total expenditures	54,022	-	28,848	515,532
Excess (deficiency) of revenues over (under) expenditures	(37,169)	13,047	(11,770)	58,901
Other financing sources (uses)				
Transfers in	-	-	-	20,000
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	20,000
Net change in fund balances	(37,169)	13,047	(11,770)	78,901
Fund balances, beginning of year	151,514	241,707	282,141	443,973
Fund balances, end of year	\$ 114,345	\$ 254,754	\$ 270,371	\$ 522,874

Red Light Camera	Bunny Run	Tomball Legacy Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 565,768
327,428	-	-	355,720
1,414	2	43	5,385
-	20,234	-	43,659
328,842	20,236	43	970,532
-	555	-	385,375
157,294	-	-	157,294
-	21,083	-	234,665
157,294	21,638	-	777,334
171,548	(1,402)	43	193,198
-	-	-	20,000
-	-	-	-
-	-	-	20,000
171,548	(1,402)	43	213,198
364,393	15,546	20,000	1,519,274
<u>\$ 535,941</u>	<u>\$ 14,144</u>	<u>\$ 20,043</u>	<u>\$ 1,732,472</u>

**CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED SEPTEMBER 30, 2016**

	Special General			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest on investments	\$ 180	\$ 450	\$ 519	\$ 69
Other revenues	22,500	22,500	16,334	(6,166)
Total revenues	22,680	22,950	16,853	(6,097)
Expenditures				
Administrative	56,130	56,130	54,022	2,108
Total expenditures	56,130	56,130	54,022	2,108
Net change in fund balance	\$ (33,450)	\$ (33,180)	(37,169)	\$ (3,989)
Fund balance, beginning of year			151,514	
Fund balance, end of year			\$ 114,345	

	Court Security			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Fines and forfeitures	\$ 20,000	\$ 15,000	\$ 12,125	\$ (2,875)
Interest on investments	150	750	922	172
Total revenues	20,150	15,750	13,047	(2,703)
Expenditures				
Administrative	50,000	-	-	-
Total expenditures	50,000	-	-	-
Net change in fund balance	\$ (29,850)	\$ 15,750	13,047	\$ (2,703)
Fund balance, beginning of year			241,707	
Fund balance, end of year			\$ 254,754	

**CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED SEPTEMBER 30, 2016
(CONTINUED)**

Court Technology			
	Budgeted Amounts		Variance With
	Original	Final	Final Budget Positive (Negative)
Revenues			
Fines and forfeitures	\$ 25,000	\$ 20,000	\$ 16,167 \$ (3,833)
Interest on investments	150	750	911 161
Total revenues	25,150	20,750	17,078 (3,672)
Expenditures			
Administrative	9,100	28,870	28,848 22
Total expenditures	9,100	28,870	28,848 22
Net change in fund balance	\$ 16,050	\$ (8,120)	(11,770) \$ (3,650)
Fund balance, beginning of year			282,141
Fund balance, end of year			\$ 270,371

Hotel Occupancy Tax			
	Budgeted Amounts		Variance With
	Original	Final	Final Budget Positive (Negative)
Revenues			
Other taxes	\$ 550,000	\$ 510,000	\$ 565,768 \$ 55,768
Interest on investments	250	1,000	1,574 574
Other revenues	20,000	15,500	7,091 (8,409)
Total revenues	570,250	526,500	574,433 47,933
Expenditures			
Administrative	403,938	378,437	301,950 76,487
Community Services	187,000	171,000	213,582 (42,582)
Total expenditures	590,938	549,437	515,532 33,905
Excess (deficiency) of revenues over (under) expenditures	(20,688)	(22,937)	58,901 81,838
Other financing sources (uses)			
Transfers in	20,000	20,000	20,000 -
Total other financing sources	20,000	20,000	20,000 -
Net change in fund balance	\$ (688)	\$ (2,937)	78,901 \$ 81,838
Fund balance, beginning of year			443,973
Fund balance, end of year			\$ 522,874

CITY OF TOMBALL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
Property taxes	\$ 3,645,000	\$ 3,760,000	\$ 3,818,986	\$ 58,986
Contributions from Component Unit	528,013	528,013	528,012	(1)
Interest on investments	1,500	10,000	13,854	3,854
Total revenues	4,174,513	4,298,013	4,360,852	62,839
Expenditures				
Debt service				
Principal	2,285,608	2,285,608	2,285,608	-
Interest and fiscal agent fees	1,226,334	821,771	822,149	(378)
Total expenditures	3,511,942	3,107,379	3,107,757	(378)
Excess (deficiency) of revenues over expenditures	662,571	1,190,634	1,253,095	62,461
Net change in fund balances	\$ 662,571	\$ 1,190,634	1,253,095	\$ 62,461
Fund balance, beginning of year			3,081,703	
Fund balance, end of year			\$ 4,334,798	