

**CITY OF MONTGOMERY, TEXAS**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**



**CITY OF MONTGOMERY, TEXAS**  
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**September 30, 2013**

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# CITY OF MONTGOMERY, TEXAS

## List of Officials

Mayor	John Fox
City Council - Position 1	Jon Bickford
City Council - Position 2	John Champagne
City Council - Position 3	Kirk Jones
City Council - Position 4	Gareth Westlake
City Council - Position 5	Dave McCorquodale
City Administrator	Bill Kotlan
City Secretary	Carol Langley
Police Chief	James Napolitano

**CITY OF MONTGOMERY, TEXAS**  
**Management's Discussion and Analysis**

Our discussion and analysis of the City of Montgomery, Texas' (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

The City's total combined assets for all funds increased by \$3,935,389 and total combined liabilities for all funds increased by \$3,877,832, which is due primarily to the new debt issuance. The City obtained new debt by issuing 2012 Tax & Revenue bonds to finance new construction of and improvements to the City's water and sewer system. Total combined long-term debt increased by \$3,681,720. Capital expenditures were \$268,205 (general) and \$1,868,915 (utility).

During the year, the City had governmental revenues that were \$79,683 (4%) higher than the prior year. Grant revenues were \$224,130 lower than in 2012. Total governmental expenses, not including transfers, were \$275,105 (17%) lower than in fiscal 2012. In the City's business-type activities, revenues increased by \$121,876 (22%) and expenses decreased by \$27,802 (3%). Employee costs were slightly lower in the current year as compared to fiscal year 2012, while groundwater reduction costs in the current year were higher than in fiscal year 2012.

Governmental activities reported a decrease in net position this year of \$1,582,653, which includes a prior period adjustment to net position of \$234,970. The business-type activities (water & sewer utility fund) reported an increase in net position of \$1,640,210.

In the component unit, the Montgomery Economic Development Corporation (MEDC) reported an increase in net position of \$124,937. Sales tax revenue for this fund was \$431,296.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements are also presented. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

**Reporting the City as a Whole**

One of the most important questions asked about the City's finances is, "Has the City of Montgomery, Texas improved as a whole as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities we divide the City into two kinds of activities:

**Governmental activities**—Most of the City's basic services are reported here, including the police, parks departments, and general administration. Property taxes, sales taxes, franchise fees, and traffic fines finance most of these activities.

**Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's water and sewer system is reported here.

### **Reporting the City's Most Significant Funds**

The fund financial statements begin on page 10 and provide detailed information about the most significant funds—not the City as a whole.

#### Governmental Funds

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

#### Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail.

### **THE CITY AS A WHOLE**

The City's total combined assets for all funds increased by \$3,935,389. General assets increased by \$2,327,975 and business-type assets increased by \$1,607,414. General liabilities increased by \$3,910,628 and business-type liabilities decreased by \$32,796. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

The MEDC fund assets increased by \$113,908 and liabilities decreased by \$11,029. Net Position increased by \$124,937 (28%) over last year.

Table 1 - Net Position  
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Current & Other Assets	\$ 1,585,009	\$ 3,790,544	\$ 288,684	\$ 283,987	\$ 1,873,693	\$ 4,074,531
Capital Assets	2,278,019	2,400,459	5,220,784	6,832,895	7,498,803	9,233,354
Total Assets	<u>3,863,028</u>	<u>6,191,003</u>	<u>5,509,468</u>	<u>7,116,882</u>	<u>9,372,496</u>	<u>13,307,885</u>
Long-Term Debt	3,862,347	7,478,284	6,420	11,382	3,868,767	7,489,666
Other Liabilities	298,189	592,880	109,961	72,203	408,150	665,083
Total Liabilities	<u>4,160,536</u>	<u>8,071,164</u>	<u>116,381</u>	<u>11,382</u>	<u>4,276,917</u>	<u>8,154,749</u>
Net Position:						
Net investment						
in capital assets	(1,584,328)	(5,077,825)	5,220,784	6,832,895	3,636,456	1,755,070
Restricted	82,354	(43,403)	-	-	82,354	(43,403)
Unrestricted	1,204,466	3,241,067	172,303	200,402	1,376,769	3,441,469
Total net position	<u>\$ (297,508)</u>	<u>\$(1,880,161)</u>	<u>\$ 5,393,087</u>	<u>\$ 7,033,297</u>	<u>\$ 5,095,579</u>	<u>\$ 5,153,136</u>

Component Unit

	MEDC	
	2012	2013
Current & Other Assets	\$ 450,931	\$ 564,839
Total Assets	<u>450,931</u>	<u>564,839</u>
Other Liabilities	11,219	190
Total Liabilities	<u>11,219</u>	<u>190</u>
Net Position:		
Unrestricted	439,712	564,649
Total net position	<u>\$ 439,712</u>	<u>\$ 564,649</u>

Total net position of the City's governmental activities decreased by 532% (negative \$1,582,653 in the current fiscal year as compared to negative \$297,508 in the prior fiscal year). Unrestricted net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased from \$1,204,466 at September 2012 to \$3,241,067 at the end of this year. The negative net position is the result of the governmental activities acquiring debt to be used for the City's water and sewer improvements.

The net position of our business-type activities increased by 30% (\$7,033,297 in the current fiscal year as compared to \$5,393,087 in the prior fiscal year). Unrestricted net position increased from \$172,303 at September 30, 2012 to \$200,402 at September 30, 2013.

Table 2 - Changes in Net Position  
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
<b>Revenues</b>						
Program	\$ 685,574	\$ 452,378	\$ 537,738	\$ 672,920	\$ 1,223,312	\$ 1,125,298
Franchise tax	59,395	63,864	-	-	59,395	63,864
Sales tax	1,036,417	1,293,889	-	-	1,036,417	1,293,889
Property tax	303,421	313,684	-	-	303,421	313,684
Other	10,550	51,225	24,567	11,261	35,117	62,486
<b>Total Revenues</b>	<b>2,095,357</b>	<b>2,175,040</b>	<b>562,305</b>	<b>684,181</b>	<b>2,657,662</b>	<b>2,859,221</b>
<b>Program Expenses</b>						
General government	394,588	413,968	-	-	394,588	413,968
Public Works	308,573	417,759	-	-	308,573	417,759
Water & sewer	-	-	812,837	785,035	812,837	785,035
Court	257,902	252,442	-	-	257,902	252,442
Public safety	510,773	549,022	-	-	510,773	549,022
Capital project	-	10,861	-	-	-	10,861
Interest & fees on debt	241,036	343,925	-	-	241,036	343,925
Transfers	(80,052)	1,534,746	(121,248)	(1,741,064)	(201,300)	(206,318)
<b>Total Program Expenses</b>	<b>1,632,820</b>	<b>3,522,723</b>	<b>691,589</b>	<b>(956,029)</b>	<b>2,324,409</b>	<b>2,566,694</b>
<b>Change in net position</b>	<b>\$ 462,537</b>	<b>\$(1,347,683)</b>	<b>\$ (129,284)</b>	<b>\$ 1,640,210</b>	<b>\$ 333,253</b>	<b>\$ 292,527</b>

Component Unit

	MEDC	
	2012	2013
Sales tax	\$ 345,472	\$ 431,296
Interest & other	271	220
Total Revenues	345,743	431,516
Program Expenses	65,584	100,261
Transfers	201,300	206,318
Total	266,884	306,579
Change in net position	\$ 78,859	\$ 124,937

**Governmental Activities**

Revenues for the City's governmental activities increased by \$79,683 (4%), while expenses, not including transfers, increased \$275,105 (17%).

**Business-Type Activities**

Water and sewer revenues of the City's business-type activities increased by \$121,876 (22%) and expenses, excluding transfers, decreased by \$27,802 (3%). Depreciation expense, which is a non-cash outlay, was \$256,803 for fiscal year 2013.

**THE CITY'S FUNDS**

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

As the City completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a combined fund balance of \$2,987,835, which includes a prior period negative adjustment to the capital projects fund of \$234,970. The overall fund balance in the current fiscal year, even with the negative adjustment, is \$1,920,629 higher than last years balance of \$1,067,206. Of this unassigned fund balance, the City had a deficit restricted fund balance of \$43,403 and a positive unassigned fund balance of \$3,031,238.

**Proprietary Funds** - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net position of the Utility Fund at year end was \$7,033,297. This represents an increase of \$1,640,210 from prior year. Other factors concerning the finances of the Utility Fund have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

General fund revenues were \$100,255 higher than budgeted. Expenses were \$63,349 lower than the budget amount. This resulted in a positive variance of \$163,604. Debt service revenues were \$9,303 above the budget and expenses were \$60,664 above the budget amount, as a result of bond issuance fees. The result was a negative variance of \$51,361. The Capital Projects revenues were \$4,619 lower than budgeted while its expenses were \$1,963,648 over budget, as the proceeds from the bond issuance was transferred into the Utility fund. This resulted in a positive variance of \$1,959,029. The Nonmajor Funds revenues were \$12,874 under budget and expenses were \$6,156 lower than budgeted. The result was a negative variance of \$6,718. The overall general fund budget showed a positive variance of \$2,064,554. All of the figures shown here include interfund transfers.

	Actual		Budget		Total
	Revenue	Expense	Revenue	Expense	Variance
General Fund	\$ 1,933,040	\$ 1,757,519	\$ 1,832,785	\$ 1,820,868	\$ 163,604
Debt Service	194,503	346,640	185,200	285,976	(51,361)
Capital Projects	3,795,381	136,352	3,800,000	2,100,000	1,959,029
Nonmajor Funds	12,116	4,184	24,990	10,340	(6,718)
	<u>\$ 5,935,040</u>	<u>\$ 2,244,695</u>	<u>\$ 5,842,975</u>	<u>\$ 4,217,184</u>	<u>\$ 2,064,554</u>

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of September 2013, the City had \$9,233,354, net of accumulated depreciation, invested in a broad range of capital assets, including land, city hall, police station, drainage systems, as well as water and sewer facilities. This amount represents a net increase of \$1,734,551, or 23%, from last year. The current year depreciation expense was \$145,765 for the General Fund and \$256,803 for the Water & Sewer Fund.

Table 3 - Capital Assets at Year-end  
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
	Land	\$ 27,085	\$ 27,085	\$ 66,581	\$ 66,581	\$ 93,666
Parks	525,130	741,900	-	-	525,130	741,900
Construction in progress	273,924	51,319	38,819	1,706,560	312,743	1,757,879
Infrastructure	867,117	960,921	7,468,869	7,592,666	8,335,986	8,553,587
Buildings & improvements	740,028	817,259	-	-	740,028	817,259
Vehicles	349,751	420,443	25,027	102,404	374,778	522,847
Furniture & equipment	320,077	352,390	166,235	166,235	486,312	518,625
Less depreciation	(825,093)	(970,858)	(2,544,747)	(2,801,551)	(3,369,840)	(3,772,409)
Total	<u>\$ 2,278,019</u>	<u>\$ 2,400,459</u>	<u>\$ 5,220,784</u>	<u>\$ 6,832,895</u>	<u>\$ 7,498,803</u>	<u>\$ 9,233,354</u>

## Debt

At September 2013, the City of Montgomery, Texas had \$7,489,666 in outstanding debt. This is an increase of \$3,620,899 from 2012, and is due to the 2012 bond issue, which was authorized for improvements to the City's water and sewer system. All regularly scheduled debt payments were made. Current debt schedules call for payments through 2038.

Table 4 - Outstanding Debt at Year-end  
Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Cert of Obligation-2005	\$ 910,000	\$ 880,000	\$ -	\$ -	\$ 910,000	\$ 880,000
Cert of Obligation-2005B	50,000	-	-	-	50,000	-
General Obligation-2012	2,830,000	2,780,000	-	-	2,830,000	2,780,000
General Obligation-2012	-	3,760,000	-	-	-	3,760,000
Compensated absences	72,347	58,284	6,420	11,382	78,767	69,666
	<u>\$ 3,862,347</u>	<u>\$ 7,478,284</u>	<u>\$ 6,420</u>	<u>\$ 11,382</u>	<u>\$ 3,868,767</u>	<u>\$ 7,489,666</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City anticipates an increase in property taxes due to the new property developing in the community. The Montgomery area will continue to grow with changes, challenges and an ever evolving image. Governmental fund revenues are budgeted at \$2,293,763 for 2014. This represents a less than 1% increase from 2013 actual figures, excluding the debt issuance in prior year.

The main goal of the City is to maintain a small town atmosphere and to provide quality services to its citizens. In conjunction with the Montgomery Economic Development Corporation, the City is promoting the community and its businesses by enhancing commerce, tourism and beautification opportunities, the City will meet the needs of established and new businesses.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information, should be directed to the City Administrator, City of Montgomery, Texas, PO Box 708, Montgomery, Texas 77356.



**VANWASSEHNOVA AND ASSOCIATES**  
**Certified Public Accountants**

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Independent Auditors' Report

The Honorable John Fox, Mayor  
Members of City Council  
City of Montgomery, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of City of Montgomery, Texas ("City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

**Opinion**

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 and each major fund of the City, as of September 30, 2013, 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, budgetary comparison information, and the City's pension plan schedule of actuarial liabilities and funding progress 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 Supplemental and Statistical Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The other supplemental and statistical information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

*VanWassehnova & Associates*

VanWassehnova & Associates  
February 12, 2014

**CITY OF MONTGOMERY, TEXAS**

**Statement of Net Position**

**September 30, 2013**

	<b>Primary Government</b>			<b>Component Unit-MEDC</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 3,397,087	\$ 214,107	\$ 3,611,194	\$ 450,042
Receivables, net	205,773	77,704	283,477	61,769
Prepays	9,923	1,701	11,624	6,000
Due from/(to) other funds	(37,503)	(9,525)	(47,028)	47,028
Deferred charges	215,264	-	215,264	-
Capital assets, net	2,400,459	6,832,895	9,233,354	-
Total assets	<u>6,191,003</u>	<u>7,116,882</u>	<u>13,307,885</u>	<u>564,839</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	206,285	36,186	242,471	190
Customer deposits	-	36,017	36,017	-
Escrow retainage	249,814	-	249,814	-
Bond Premium	117,615	-	117,615	-
Noncurrent liabilities:				
Due within one year	135,000	-	135,000	-
Due in more than one year	7,343,284	11,382	7,354,666	-
Total liabilities	<u>8,051,998</u>	<u>83,585</u>	<u>8,135,583</u>	<u>190</u>
<b>Deferred inflows of resources</b>				
Property tax	19,166	-	19,166	-
<b>Net Position</b>				
Net investment in capital assets	(5,077,825)	6,832,895	1,755,070	-
Restricted for:				
Debt service	(49,516)	-	(49,516)	-
Tourism	183	-	183	-
HB445	5,930	-	5,930	-
Economic development	-	-	-	564,649
Unrestricted	3,241,067	200,402	3,441,469	-
Total net position	<u>\$ (1,880,161)</u>	<u>\$ 7,033,297</u>	<u>\$ 5,153,136</u>	<u>\$ 564,649</u>

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Activities**  
**For the Year Ended September 30, 2013**

<b>Function/programs</b>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants</u>
Primary government:			
Governmental activities:			
General Government	\$ 413,968	\$ 1,187	\$ 48,135
Court	252,442	-	-
Capital projects	10,861	-	-
Police & court funds	4,184	-	-
Public safety	544,839	340,827	-
Public works	417,759	62,229	-
Interest & fees on debt	343,925	-	-
Total governmental activities	<u>1,987,977</u>	<u>404,243</u>	<u>48,135</u>
Business-type activities:			
Water & sewer	<u>785,035</u>	<u>672,920</u>	<u>-</u>
Total primary government	<u>\$ 2,773,012</u>	<u>\$ 1,077,163</u>	<u>\$ 48,135</u>
Component Unit:			
Montgomery Economic Development Corporation	<u>\$ 100,261</u>	<u>\$ -</u>	<u>\$ -</u>

Net (Expense) Revenue and Changes in Net Position

Primary Government

Primary government:

Governmental activities:

	Governmental Activities	Business-type Activities	Total	Component Unit-MEDC
General Government	\$ (364,646)	\$ -	\$ (364,646)	\$ -
Court	(252,442)	-	(252,442)	-
Capital projects	(10,861)	-	(10,861)	-
Police & court funds	(4,184)	-	(4,184)	-
Public safety	(204,012)	-	(204,012)	-
Public works	(355,530)	-	(355,530)	-
Interest & fees on debt	(343,925)	-	(343,925)	-
<b>Total governmental activities</b>	<b>(1,535,599)</b>	<b>-</b>	<b>(1,535,599)</b>	<b>-</b>

Business-type activities:

Water & sewer	-	(112,115)	(112,115)	-
<b>Total primary government</b>	<b>\$ (1,535,599)</b>	<b>\$ (112,115)</b>	<b>\$ (1,647,714)</b>	<b>\$ -</b>

Component Unit:

Montgomery Economic Development Corporation	-	\$ -	\$ -	\$ (100,261)
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General Revenues

Property tax (inc. penalties & interest)	313,684	-	313,684	-
Sales tax	1,293,889	-	1,293,889	431,296
Franchise tax	63,864	-	63,864	-
Other	47,120	10,861	57,981	-
Interest	4,105	400	4,505	220
Transfers in (out)	(1,534,746)	1,741,064	206,318	(206,318)
<b>Total general revenues and transfers</b>	<b>187,916</b>	<b>1,752,325</b>	<b>1,940,241</b>	<b>225,198</b>

Change in net position	(1,347,683)	1,640,210	292,527	124,937
Prior period adjustment (note 11)	(234,970)	-	(234,970)	-
Net Position-beginning	(297,508)	5,393,087	5,095,579	439,712
<b>Net Position-ending</b>	<b>\$ (1,880,161)</b>	<b>\$ 7,033,297</b>	<b>\$ 5,153,136</b>	<b>\$ 564,649</b>

**CITY OF MONTGOMERY, TEXAS**

**Balance Sheet  
Governmental Funds  
September 30, 2013**

	Governmental Fund Types		
	General	Debt Service	Capital Projects
<b>Assets</b>			
Cash and cash equivalents	\$ 1,064,368	\$ 67,610	\$ 2,251,394
Receivables, net:			
Property tax	7,523	11,643	-
Sales tax	185,306	-	-
Mixed beverage tax	1,301	-	-
Prepays	9,923	-	-
Due from component units	323	-	-
Due from other funds	9,565	490	-
	<u>\$ 1,278,309</u>	<u>\$ 79,743</u>	<u>\$ 2,251,394</u>
Total assets			
	<u>\$ 1,278,309</u>	<u>\$ 79,743</u>	<u>\$ 2,251,394</u>
 <b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 124,500	\$ -	\$ 76,350
Escrow retainage	124,427	-	125,387
Bond Premium	-	117,615	-
Due to other funds	49,238	-	40
	<u>298,165</u>	<u>117,615</u>	<u>201,777</u>
Total liabilities			
	<u>298,165</u>	<u>117,615</u>	<u>201,777</u>
 <b>Deferred inflows of resources</b>			
Property tax	7,524	11,643	-
 <b>Fund balances</b>			
Restricted for:			
HB455	-	-	-
Tourism	183	-	-
Debt service	-	(49,516)	-
Unassigned	972,437	-	2,049,618
	<u>972,620</u>	<u>(49,516)</u>	<u>2,049,618</u>
Total fund balance			
	<u>972,620</u>	<u>(49,516)</u>	<u>2,049,618</u>
 <b>Total liabilities and fund balances</b>			
	<u>\$ 1,278,309</u>	<u>\$ 79,742</u>	<u>\$ 2,251,395</u>

The accompanying notes are an integral part of the financial statements.

	Governmental Fund Types		
	Nonmajor Funds		
	Hotel Tax	Police & Court	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 5,930	\$ 7,785	\$ 3,397,087
Receivables, net:			
Property tax	-	-	19,166
Sales tax	-	-	185,306
Mixed beverage tax	-	-	1,301
Prepays	-	-	9,923
Due from component units	-	-	323
Due from other funds	-	1,398	11,453
<b>Total assets</b>	<b>\$ 5,930</b>	<b>\$ 9,183</b>	<b>\$ 3,624,559</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 200,850
Escrow retainage	-	-	249,814
Bond Premium	-	-	117,615
Due to other funds	-	-	49,278
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>617,557</b>
			19,167
<b>Fund balances</b>			
Restricted for:			
HB455	5,930	-	5,930
Tourism	-	-	183
Debt service	-	-	(49,516)
Unassigned	-	9,183	3,031,238
<b>Total fund balance</b>	<b>5,930</b>	<b>9,183</b>	<b>2,987,835</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,930</b>	<b>\$ 9,183</b>	<b>\$ 3,624,559</b>

**CITY OF MONTGOMERY, TEXAS**  
**Reconciliation of Total Governmental Fund Balance**  
**to Net Position of Governmental Activities**  
**September 30, 2013**

Total governmental fund balances	\$ 2,987,835
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 not reported in governmental funds	2,400,459
Long-term liabilities are not reported as liabilities in the governmental funds:	
Deferred bond issuance costs	209,829
Bonds payable	<u>(7,478,284)</u>
Net Position of governmental activities	<u>\$ (1,880,161)</u>

The accompanying notes are an integral part of the financial statements.

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**CITY OF MONTGOMERY, TEXAS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2013**

	Governmental Fund Types		
	General	Debt Service	Capital Projects
<b>Revenues</b>			
Sales tax	\$ 1,293,889	\$ -	\$ -
Fines & forfeitures	329,918	-	-
Intergovernmental/Grants	48,135	-	-
Property tax (including penalties & interest)	119,451	194,233	-
Franchise tax	63,864	-	-
Licenses & permits	62,229	-	-
Other	8,773	-	33,388
Hotel occupancy tax	-	-	-
Mixed beverage tax	4,959	-	-
Proceeds of debt	-	-	3,760,000
Interest	1,822	270	1,993
Total revenues	<u>1,933,040</u>	<u>194,503</u>	<u>3,795,381</u>
<b>Expenditures</b>			
General government	433,579	1,250	10,861
Court	257,129	-	-
Public safety	576,206	-	-
Public works	490,606	-	-
Capital assets	-	-	7,991
Debt service - interest & refinancing costs	-	215,390	117,500
Debt service - principal	-	130,000	-
Total expenditures	<u>1,757,519</u>	<u>346,640</u>	<u>136,352</u>
Revenues over (under) expenditures	175,521	(152,137)	3,659,029
Transfers in (out)	<u>46,170</u>	<u>25,179</u>	<u>(1,595,715)</u>
Net change in fund balances	221,691	(126,958)	2,063,314
Prior period adjustment (Note 11)	-	-	(234,970)
Fund balances-beginning	<u>750,929</u>	<u>77,442</u>	<u>221,274</u>
Fund balances-ending	<u>\$ 972,620</u>	<u>\$ (49,516)</u>	<u>\$ 2,049,618</u>

The accompanying notes are an integral part of the financial statements.

	Governmental Fund Types		
	Nonmajor Funds		Total
	Hotel Tax	Police & Court	
<b>Revenues</b>			
Sales tax	\$ -	\$ -	\$ 1,293,889
Fines & forfeitures	-	10,909	340,827
Intergovernmental/Grants	-	-	48,135
Property tax (including penalties & interest)	-	-	313,684
Franchise tax	-	-	63,864
Licenses & permits	-	-	62,229
Other	-	-	42,161
Hotel occupancy tax	1,187	-	1,187
Mixed beverage tax	-	-	4,959
Proceeds of debt	-	-	3,760,000
Interest	14	6	4,105
<b>Total revenues</b>	<u>1,201</u>	<u>10,915</u>	<u>5,935,040</u>
<b>Expenditures</b>			
General government	-	-	445,690
Court	-	4,184	261,313
Public safety	-	-	576,206
Public works	-	-	490,606
Capital assets	-	-	7,991
Debt service - interest & refinancing costs	-	-	332,890
Debt service - principal	-	-	130,000
<b>Total expenditures</b>	<u>-</u>	<u>4,184</u>	<u>2,244,695</u>
Revenues over (under) expenditures	1,201	6,731	3,690,345
Transfers in (out)	<u>-</u>	<u>(10,380)</u>	<u>(1,534,746)</u>
Net change in fund balances	1,201	(3,649)	2,155,599
Prior period adjustment (Note 11)	-	-	(234,970)
Fund balances-beginning	<u>4,729</u>	<u>12,832</u>	<u>1,067,206</u>
Fund balances-ending	<u>\$ 5,930</u>	<u>\$ 9,183</u>	<u>\$ 2,987,835</u>

**CITY OF MONTGOMERY, TEXAS**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended September 30, 2013**

Net change in fund balances-total governmental funds \$ 2,155,599

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 as depreciation expense. This is the amount of depreciation for the year. (145,765)

This is the amount of capital purchases for the year. 542,129

This is the amount of capital assets reclassified from construction in progress. (273,924)

Decrease in compensated absences for the year. 14,063

Bond proceeds provide current financial resources to

governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of current year repayments. 130,000

Write off portion of deferred charges on refinanced bonds. (9,785)

This is the amount of new debt issued during the year. (3,760,000)

Change in Net Position of governmental activities \$ (1,347,683)

The accompanying notes are an integral part of the financial statements.

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Net Position**  
**Proprietary Fund - Business Type Activities**  
**September 30, 2013**

<b>Assets</b>	<b>Utility</b>
Current assets	
Cash and cash equivalents	\$ 214,107
Receivables, net	77,704
Prepays	1,701
Total current assets	293,512
Noncurrent assets	
Fixed assets, net	6,832,895
<b>Total assets</b>	<b>\$ 7,126,407</b>
<b>Liabilities</b>	
Current liabilities	
Accounts payable and accrued liabilities	\$ 36,186
Customer deposits	36,017
Compensated absences	11,382
Due to other funds	9,525
Total current liabilities	93,110
 <b>Net Position</b>	
Net investment in capital assets	6,832,895
Unrestricted	200,402
Total Net Position	7,033,297
 <b>Total Net Position and Liabilities</b>	<b>\$ 7,126,407</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Fund**  
**For the Year Ended September 30, 2013**

	Utility
<b>Operating revenues</b>	
Water & sewer revenues	\$ 433,536
Penalties	13,561
Groundwater reduction	85,661
Garbage collection	65,682
Tap & other fees	74,480
Total operating revenues	672,920
<b>Operating expenses</b>	785,035
Operating loss	(112,115)
Nonoperating revenue	
Other	10,861
Interest	400
Total	11,261
Loss before transfers	(100,854)
Transfers in (out)	1,741,064
Change in Net Position	1,640,210
Total Net Position-beginning	5,393,087
<b>Total Net Position-ending</b>	<b>\$ 7,033,297</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2013**

**Business-Type Activity - Utility Fund**

**Cash flows from operating activities**

Receipts from customers	\$ 695,478
Payments to suppliers	(411,455)
Payments to employees	(76,087)
Net cash used by operating activities	<u>207,936</u>

**Cash flows from noncapital financing activities**

Transfers from other funds	<u>1,741,064</u>
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**Cash flows from capital and related financing activities**

Purchase of assets	<u>(1,868,915)</u>
Interest received	<u>400</u>

Net increase in cash and cash equivalents	80,485
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Cash & cash equivalents-beginning of the year	<u>133,622</u>
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<b>Cash &amp; cash equivalents-end of the year</b>	<b><u><u>\$ 214,107</u></u></b>
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Reconciliation of operating income to net cash provided (used) by operating activities:

Operating loss	\$ (112,115)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	256,803
Change in net assets and liabilities:	
Receivables, net	11,696
Prepays	(1,701)
Compensated absences	4,962
Accounts payable and accrued liabilities	(39,645)
Due to other funds	86,049
Customer deposits	<u>1,887</u>

Net cash used by operating activities	<b><u><u>\$ 207,936</u></u></b>
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The accompanying notes are an integral part of the financial statements.

**CITY OF MONTGOMERY, TEXAS**  
**Notes to Financial Statements**  
**September 30, 2013**

**Note 1 - Summary of Significant Accounting Policies**

**A. History & General Statement**

The City of Montgomery, Texas (the "City") was incorporated under the laws of the State of Texas in 1935. The City operates under a "General Law" City which provides for a "Mayor-Council" form of government.

The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all affairs of the City. The City Administrator 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: general administration, public safety, public works, water services, and sewer services.

The City is an independent political subdivision of the State of Texas governed by an elected City Council and Mayor and is considered a primary government for financial reporting purposes, and as such, its activities are not considered a part of any other governmental or other type of reporting entity. 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 component unit, although legally separate, is considered part of the reporting entity. The Montgomery Economic Development Corporation has been included in the City's 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 the 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.

The accompanying financial statements and accounting policies of the City are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's significant accounting policies are described in the following notes to the financial statements.

The City applies all applicable GASB pronouncements as well as Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

## B. Implementation of New Standards

In the current year, the City implemented the following new GASB pronouncements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, amends the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* so as to improve financial reporting for a government financial reporting entity by improving guidance for including, presenting, and disclosing information about component units of a financial reporting entity. This statement is effective for financial statement periods beginning after June, 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, enhances the usefulness of the financial statements by organizing all sources of generally accepted accounting principles for state and local governments into a single source in an effort to reduce the complexity of locating and using authoritative literature needed to prepare State and local government financial reports. This statement is intended to enhance the usefulness of the GASB’s Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB’s authoritative literature, the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- FASB Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA’s Committee on Accounting Procedure

This statement is effective for financial statement periods beginning after December 15, 2011. Management expects no changes in the City’s financial report as a result of implementing this statement.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government’s net position. This statement provides a new statement of net position format to report all assets, deferred inflows and outflows of resources, liabilities, and net position (which is the residual amount of the other elements). The statement requires that deferred inflows and outflows of resources be reported separately from assets and liabilities and discusses how net position (no longer net assets) should be displayed. Ultimately, this statement will serve to standardize the presentation of deferred balances and their effects on a government’s net position and address uncertainty related to their display. The provisions of this statement are effective for financial statement periods beginning after December 15, 2011. This statement has been implemented by the City with significant effect on the presentation of the financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows and also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The requirements of this Statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

The provisions of this statement are effective for financial statement periods beginning after December 15, 2012, but early implementation is encouraged. Given the City's implementation of GASB Statement No. 63 and the presence of deferred inflows and outflows of resources, the City opted to early implement this statement. This statement has been implemented by the City with significant effect on the presentation of the financial statements.

### C. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as amended by Statement No. 61, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on this, and based upon their significant financial and operational relationships to the City, the City has a discretely presented component unit:

Montgomery Economic Development Corporation (4B Fund) - On December 14, 1995, the City incorporated the "Montgomery Industrial Development Corporation" ("MIDC"). In July 2013, the name was changed to Montgomery Economic Development Corporation ("MEDC"). The purpose of this non-profit corporation is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City, and for improving the assessed valuations through the promotion of: (a) existing business enterprise expansion and retention and (b) new business enterprise development and attraction by developing, implementing, providing and financing projects. A one-half of one percent City sales tax is designated for this purpose.

### D. Financial Statement Presentation

These financial statements include implementation of GASB Statement No. 63 and GASB 65, both of which amend GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement No. 34) and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 34, as amended, includes the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34, as amended by Statement No. 63, established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

- 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 capital 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 regulation 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 "invested in capital assets, net of related debt."

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

#### E. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter (30 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received. Unearned revenue arises when assets are recognized before revenue has been received or recognized.

#### F. Basic Financial Statements-Government-Wide Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information on all of the activities of the City. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and intergovernmental revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Statement of Net Position presents the financial position of the governmental and business-type activities of the City.

The Statement of Activities presents a comparison between direct expenses and program revenues for each given program of the City's governmental activities and for each identifiable activity of the business-type activities of the City.

Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

#### G. Basic Financial Statements-Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses two fund categories: governmental and proprietary.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are presented for governmental and proprietary funds. These statements present each major and non-major fund as a separate column on the fund financial statements.

**Governmental Funds:** Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between its governmental fund assets and its liabilities and deferred inflows of resources as fund balance. The City has presented the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

Capital Projects Fund – The Capital Projects Fund is used to account for expenditures or resources accumulated from road projects grants to construct or acquire capital facilities and improvements.

Special Revenue Fund - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted or committed to expenditure for specified activities. The City's Special Revenue Funds include the Hotel Occupancy Tax Fund, Asset Forfeiture Fund, Court Security Fund, Court Technology Fund and Grant Fund. All of these funds are considered nonmajor funds for reporting purposes, with the exception of the Grant Fund, which is considered a major fund for reporting purposes.

**Proprietary Funds:** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Enterprise Fund - The Enterprise Fund is used to account for the City's operations that provide water and wastewater collection and wastewater treatment. 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.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Governmental fund balances represent the difference between the current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances are classified as follows:

- Nonspendable Fund Balance—includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.
- Restricted Fund Balance—includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed Fund Balance— includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

- Assigned Fund Balance—includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) The City Council or (b) a body (a budget, finance committee) to which the assigned amounts are to be used for specific purposes. 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.
- Unassigned Fund Balance— includes all residual amounts in governmental funds that are not classified as nonspendable, restricted, or committed. Unassigned amounts are available for any purpose. It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund and in the enterprise fund equal to 45% of budgeted expenditures for operations and maintenance. The City considers a balance less than 30% to be cause for concern, barring any unusual or deliberate circumstances. Minimum fund balances in other funds will be set as necessary by the City Administrator in accordance with the budget and restrictions relative to those funds. If unassigned fund balance falls below the minimum set above, the City will utilize the following budget strategies to replenish funding deficiencies:
  - Reduce expenditure or transfer for Capital Projects,
  - Defer capital purchases,
  - Reduce operating and maintenance expenditures,
  - Increase fees,
  - Reduce overtime.

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

#### I. Budgetary Control

The City adopts an annual budget which is prepared on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual to provide a meaningful comparison of actual results with the budget. The Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual— General Fund presents a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. The General Fund uses the same basis of accounting for both budgetary purposes and actual results.

The major differences between budget and GAAP basis in the General Fund are capital expenditures and long term debt proceeds. Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of capital outlays is allocated over their estimated useful lives as depreciation. Depreciation, since it is not a cash expense, is not budgeted. Depreciation for the General Fund for the year ending September 30, 2013 was \$145,765.

The City has established its fiscal year as the twelve-month period beginning October 1. The departments submit to the Mayor a budget of estimated expenditures for the ensuing fiscal year after which the Mayor subsequently submits a budget of estimated expenditures and revenues to the City Council. The budget is then legally enacted through passage of an ordinance. The Mayor is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original adopted appropriations.

#### J. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, requires that investments having maturity a date over three months, not be defined as cash equivalents.

The City's invests in external investment pools, Texas Local Government Investment Pool, or "TexPool", but does not consider these investments as they are money market, highly liquid investments, with maturities of three months or less. In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, as amended by, GASB Statement No. 59, *Financial Instruments Omnibus*, the City reports all investments at fair value, except for "money market investments" and "2a-7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the Security and Exchange Commissions (SEC) Rule 2a-7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price. Such investments do not have interest rate risk disclosure requirements.

The Texas Local Government Investment Pool ("TexPool") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. The Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers Inc. and Federated Investors, Inc. under an agreement with the Comptroller, acting on behalf of the Trust Company.

#### K. Deposit Risks

Credit risk is the risk that in the event of a bank failure, the City's deposits, that exceed federally insured limits (\$250,000 for 2013), may not be returned to it. The bank deposits of the City, at times, may exceed this federally insured limit. The City has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value of at least 102%. As of September 30, 2013, market values of pledged securities and the Federal Deposit Insurance Corporation (FDIC) insurance exceeded bank balances for the City and its component unit. These pledged assets had a book value of \$1,564,916 at September 30, 2013.

For the TexPool accounts, credit risk is the risk that a borrower will default on its debt by failing to make payments which it is obligated to do. The TexPool portfolio is designed and managed to ensure that it maintains its AAAM rating (or equivalent) by a nationally recognized statistical rating agency. As of September 30, 2013, TexPool is rated AAAM by Standard & Poors ratings services.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. According to the City's investment policy, the City shall contract with a financial institution for the safekeeping of securities owned by the City as part of its investment portfolio. All of TexPool's investments are held by the Federal Reserve or the custodian in TexPool's name. TexPool's bank balances are fully collateralized Federal depository insurance or by the institution holding the funds

#### L. Interfund balances, Transfers, Receivables, and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds". These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position. Any residual balances outstanding between the governmental activities, business-type activities, and the component unit are reported in the government-wide statements as "internal balances". At September 30, 2013, the due to/from other funds balance showed a payable due to the component unit from the governmental activities funds of \$37,503 and from the business-type activities fund of \$9,525 and a receivable due from both the governmental activities funds and the business-type activities fund to the component unit of \$47,028.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after the non-operating revenues/expenses section in proprietary funds. Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers between the governmental activities funds and the component unit result primarily due to administration fees and capital assets. They are recorded on the Statement of Activities as part of general revenue. At September 30, 2013, the transfer out/in showed a transfers out of the governmental activities funds of \$1,534,746 and out of the component unit of \$206,318 and a transfer into the business-type activities fund of \$1,741,064.

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable.

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources are reported as obligations of these funds.

#### M. Deferred Inflows and Outflows of Resources

The implementation of GASB Statement No. 63 requires that in addition to assets, the Statement of Net Position report separate sections for deferred outflows of resources, which represent a consumption of net position that is applicable to a future reporting period, and deferred inflows of resources, which represent an acquisition of net position that is applicable to a future period. The City has no deferred outflows of resources.

For the City, deferred inflows of resources are property taxes. The full amount of property taxes receivable that has been recognized is offset against deferred inflows of resources. Revenues will subsequently be recognized in the fiscal year in which they become available to finance expenditures of that fiscal year. For the year ended September 30, 2013, deferred outflows of resources is \$19,167.

#### N. Property Taxes

All property values are determined by the Montgomery County Tax Assessor/Collector. Property taxes are levied on October 1 and are payable on or before January 31. They attach as an enforceable lien on January 1. Penalties and interest are charged if taxes are not paid by the succeeding January 31.

The tax rate went unchanged in total for the City for the year ending September 30, 2012. The rate in effect for both the year ending September 30, 2012 and the year ending September 30, 2011 was \$.4155 cents per \$100 of valuation for both 2012 and 2011 taxes.

#### O. Capital Assets

General capital assets are those capital assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the governmental fund financial statements.

Capital assets utilized by enterprise funds are reported in the business-type activities column of the government-wide financial statement of net position and in the enterprise funds' statement of net position.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Depreciation has been calculated on the estimated useful life of each class of depreciable property using the straight-line method as follows:

Vehicles	5 to 7 Years
Furniture and Equipment	5 to 20 Years
Infrastructure	10 to 40 Years
Water and sewer system	20 to 40 years
Buildings and improvements	20 Years

#### P. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. For the City, long-term debt consists primarily of certificates of obligation and accrued compensated absences. The City is not obligated in any manner for special assessment debt.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest is reported as expenditures. For governmental fund types, bond premiums, discounts, and issuance costs 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. Issuance costs are reported as deferred charges.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts, and issuance costs 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. Issuance costs are reported as deferred charges.

The property tax 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 the interest earned in the debt service fund. Although a portion of the general obligation debt was 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 revenues instead of water system revenues.

#### Q. Compensated Absences

The City maintains formal programs for vacation and sick leave. The City's full-time, permanent employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its full-time, permanent employees to accumulate earned but unused vacation pay benefits. Upon separation with the City, employees will be paid for their accrued and unused vacation pay benefits.

Sick leave accrues to full-time, permanent employees to specified maximums, but upon separation with the City, employees will not be paid for accumulated sick leave.

The estimated amount of accrued vacation pay benefits 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 upon maturity. Amounts of accrued vacation pay benefits that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations. At September 30, 2013, the accrued vacation pay benefit balance was \$69,666.

#### **Note 2 – Cash & Investments**

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. All aspects of its investment management are designed to ensure safety of principal, adequate liquidity to meet cash needs, and reasonable yield commensurate with the preservation of principal and liquidity.

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

- Direct obligations of the U.S. Government, certain U.S. agencies, and the State of Texas
- Fully collateralized certificates of deposit and money Markey accounts
- Certain municipal securities
- Repurchase agreements
- Statewide investment pools
- Guaranteed investment contracts

The City's investments are categorized as either:

- Category #1 - Insured or registered for which the securities are held by the government agents in the City's name.
- Category #2 - Uninsured and unregistered for which the securities are held by the dealer's trust department or agent in the City's name.
- Category #3 - Uninsured and unregistered for which the securities are held by the dealer or by its trust department but not in the City's name.

At September 30, 2013, all of the City's investments were in category #1 and consisted of cash on deposit at local banks or TexPool accounts with a carrying amount of \$4,884,151 and a bank balance of \$4,061,236.

### Note 3 - Employees Pension Plan

#### Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information ("RSI") for TMRS. The report also provides detailed explanations of the contributions benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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 2012	Plan Year 2013
Employee deposit rate	7%	7%
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	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued benefits.

### Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2011 valuation is effective for rates beginning January 2013). Additional data is presented in the supplemental information of this report.

### Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. City financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, as often annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer financed monetary credits, with interest, were used to purchase an annuity.

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. City financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits.

### **Note 4 - Long-Term Obligations**

The City enters into loan agreements and issues revenue bonds and certificates of obligation to provide financing for its various operations. Loan agreements, bonds, and certificates of obligations can and have been issued for the governmental activities, business-type activities and the component unit.

For each of the bond and certificate of obligation issues, the City is required to establish both a reserve fund and an interest & sinking fund. For each fund, for each bond and certificate of obligation issue, equal monthly payments are to be made into these funds. All required reserve and interest & sinking fund payments and accounts have been properly maintained as of September 30, 2013.

Series 2012 – Tax & Revenue Certificates of Obligation - the certificates are secured by revenues from the City's water and sewer system and are repayable with property tax revenue. The proceeds will be used for the construction of and improvements to the rehabilitation and equipment of the City's water and sewer system.

Series 2012 – General Obligation Refunding Bonds - the bonds are secured by sales taxes and are repayable with property tax revenue. The proceeds of the bond issue were used to (a) refund the Series 2005A-Certificates of Obligation and the Series 2005B-Certificates of Obligation (partially refunded) and to (b) pay the bond issuance costs. The refunding was complete in fiscal year ending September 30, 2012.

Series 2005B – General Obligation Refunding Bonds - the bonds are secured by a lien on and pledge of the City's net revenues from the operation of its water and sewer facilities and are repayable with property tax revenue. The proceeds were used for improvements to the City's water and sewer system. These bonds were fully repaid during the current fiscal year.

Series 2005 – Tax & Revenue Certificates of Obligation - the certificates are secured by a lien on and pledge of the City's net revenues from the operation of its water and sewer facilities and are repayable with ad valorem tax revenue. The proceeds were used for improvements to the City's water and sewer system.

#### **Note 5 - Operating Leases**

The City has entered into an operating lease agreement for office equipment. The monthly payments are \$980. Minimum payments are \$11,760 for the years ending September 2014 through 2016 and \$5,880 for the year ending September 30, 2017.

#### **Note 6 - Federal Audit Requirements**

The City has been awarded Federal Grants. The U.S. Office of Management and Budget (OMB) issued Circular A-133, which establishes uniform audit requirements for non-Federal entities that administer Federal Grant awards and implements the Single Audit Act Amendments of 1996, which were signed into law July 5, 1996 (Public Law 104-156).

The purposes of the Single Audit Act Amendments of 1996 are as follows:

- promote sound financial management, including effective internal controls, with respect to Federal awards;
- promote the efficient and effective use of audit resources;
- reduce burdens on state and local governments, Indian tribes, and nonprofit organizations; and
- ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of Title 30, United States Code (the "Single Audit Act").

For the year ended September 30, 2013, the City did not require a Single Audit.

#### **Note 7 - Risk Management**

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injury and death; and natural disasters for which the City participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pools ("Pool").

The Pool purchases commercial insurance at a group rate 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 that exceeded coverage amounts for the past several years.

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

#### **Note 8 - Contingent Liabilities**

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 year end.

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 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 ("IRS") at least every five years for applicable bond issues. Accordingly, there is a risk that if such calculations are not performed correctly, it could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

The City is a defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, in the opinion of the City Attorney, the resolution on these matters will not have a material adverse effect on the financial condition of the City.

#### **Note 9 - Commitments**

The City has entered into contractual relationships with outside persons, consultants, and organizations to provide various administrative, financial, operational, financial, IT, and program services and tasks.

In 2011, the City entered into an Interlocal Agreement (Agreement #1) with the City of Conroe for the City of Conroe's provision of fleet maintenance services for vehicles owned and operated by the City. This Interlocal Agreement #1 is automatically renewed, unless explicitly terminated by the contract participants. Payments are made to the City of Conroe in amounts determined by the maintenance and related services as provided by the City of Conroe according to the agreement.

In 2011, the City entered into an Interlocal Agreement (Agreement #2) with Montgomery County, Texas for the purpose of providing fire code enforcement to the City by the Montgomery County, Texas Fire Marshal. This Interlocal Agreement #2 is automatically renewed, unless explicitly terminated by the contract participants. There is no charge to the City for this service.

In 2013, the City entered into an Interlocal Agreement (Agreement #3) with Montgomery County, Texas for the purpose of the County providing construction, repair, and maintenance of public roads, right of ways, drainage ditches, parking lots, and other like facilities owned or administered by the City. This Interlocal Agreement #3 is automatically renewed, unless explicitly terminated by the contract participants. Payments are made to the City of Conroe in amounts determined by the maintenance and related services as provided by Montgomery County, Texas according to the agreement.

#### **Note 10 - New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued several new statements. A listing follows of those that apply to the City. These statements will be implemented as required by the GASB.

GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement Nos. 25 and 50 (as it relates to pension plans that are administered through trusts). The requirements of this Statement will improve financial reporting by state and local governmental pension plans through improved measurement of the net pension liability and improved notes to the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions administered through pension trusts.

The requirements of this Statement will improve financial reporting through enhanced note disclosures and schedules of required supplementary information. The provisions of this statement are effective for financial statement periods beginning after June 15, 2014. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Other recent GASB pronouncements have also been reviewed and have been determined to be not applicable to the City.

#### **Note 11 - Prior Period / Fund Balance Adjustment**

During the year ended September 30, 2013, the City made a prior period adjustment to capitalize utility fund project costs that were not capitalized in a prior year. This adjustment decreased the Capital Projects Fund beginning net position by \$234,970.

#### **Note 12 - Development Agreements**

Following is a summary of Development (Escrow) Agreements as of September 30, 2013:

#1 Development: Lone Star Parkway Utilities - Developers: Philip LeFevre, Holly LeFevre, LC Acquisitions, Ltd., Virgin Development III, LP, Grandview Development, Inc., and MC Acquisitions, Ltd.

On January 23, 2007, the City entered into a 15-year term development agreement (the "Agreement") with Philip LeFevre, Holly LeFevre, LC Acquisitions, Ltd., Virgin Development III, LP, Grandview Development, Inc., and MC Acquisitions, Ltd., (the "Developers"). The Developers intend and propose to develop property (the "Property") in the City's extraterritorial jurisdiction for residential, commercial and retail use. As part of the Agreement, the Developers have agreed to convey to the City the Utility Extension Project and submit a petition to the City to annex the Property.

Subject to annexation of the Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 70 percent of the construction costs. The amount of reimbursement to the Developer is limited to \$395,500 and will be paid from 1% sales and use taxes charged on the taxable sales collected by the City as generated by businesses on the property ("City Sales Tax Revenues"). The term City Sales Tax Revenues does not include sales and use taxes collected but dedicated for property tax reduction or industrial development.

#2 Development: Waterstone Section 1 - Developer: Waterstone on Lake Conroe, Inc.

On August 12, 2008, the City entered into a 10-year term development agreement (the "Agreement") with the Waterstone on Lake Conroe, Inc. (the "Developer"). The Developer intends and proposed to develop property (the "Property") in that is partially in the City and partially in the extraterritorial jurisdiction of the City (the "ETJ Property") for residential, commercial and retail use. As part of the Agreement, the Developer has agreed to accelerate construction of the Utility Extension Project and convey the Project to the City and to submit a petition to the City to annex the ETJ Property into the City.

Subject to annexation of the ETJ Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 70 percent of the construction costs incurred as well as up to \$12,000 for escrowed funds for the City's engineering expenses. The amount of reimbursement to the Developer is limited to \$512,000 and will be paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2008).

#3 Development: Buffalo Crossing - Developer: LeFevre Development Inc.

On February 22, 2011, the City entered into a 10-year term development agreement (the "Agreement") with the LeFevre Development Inc. (the "Developer"). The Developer intends and proposed to develop property (the "Property") in the City for residential, commercial and retail use. As part of the Agreement, the Developer has agreed to accelerate construction of the Utility Extension Project and convey the Project to the City.

Subject to annexation of the Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer a sum of \$148,802.65 paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2011).

#4 Development: Villas of Mia Lago, Section 1 - Developer: Estates of Mia Lago

On September 13, 2011, the City entered into a development agreement (the "Agreement") with the Estates of Mia Lago, Ltd. (the "Developer"). The Developer intends and proposed to develop property (the "Property") in the City's extraterritorial jurisdiction for primarily high-end single family residential use and a residential assisted living facility. As part of the Agreement, the Developer has agreed to convey to the City the Utility Extension Project and to submit a petition to the City to annex the Property.

Subject to annexation of the Property and upon final completion of the Utility Extension Project, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 70 percent of the construction costs incurred as well as up to \$5,000 for escrowed funds for the City's engineering expenses. The amount of reimbursement to the Developer is limited to \$132,198 and will be paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2011).

#5 Development: Hills of Town Creek, Section 1 - Developer: Christian C. Cheatham

On September 27, 2011, the City entered into a development agreement (the "Agreement") with the Christian C. Cheatham (the "Developer") and Montgomery Independent School District (the "School District"). The Developer intends and proposed to develop property (the "Property") in that was recently annexed into the City for primarily high-density, multi-family residential use, with a limited amount of commercial and retail uses. As part of the Agreement, the Developer has agreed to accelerate the construction of the Utility Extension Project and to convey the completed project to the City and petition the City to annex 13.773 acres of land currently located in the extraterritorial jurisdiction of the City (the "ETJ Land"). Other considerations include transfers of property and facilities from the School District and the Developer to the City and transfer of property from the Developer to the School District.

Subject to the final completion of the Utility Extension Project, dedication of the facilities and easements to the City, other considerations, and annexation of the ETJ Land, the City has agreed to make a grant consistent with Article III, Section 52-a of the Texas Constitution, Chapter 380, for reimbursement of the design and construction of public infrastructure (the Utility Extension Project) to the Developer limited to 100 % of the cost to oversize utility lines and 70 percent of the remaining construction costs incurred as well as up to \$16,000 for escrowed funds for the City's engineering expenses. The amount of reimbursement to the Developer is limited to \$400,000 and will be paid from ad valorem taxes generated from the Property annexed, and collected by the City, above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2012).

**Note 13 - Sales Tax Overpayments**

During the year ended September 30, 2012, the City received a notice from the Texas State Comptroller informing them that two businesses had erroneously reported their location to be within City limits. As a result, the City received more sales tax revenue than it should have. The City's sales tax will be reduced \$4,500 per month until this is corrected. The balance for the year ended September 30, 2013 was \$150,491.

**Note 14 - Subsequent Events**

The City has evaluated events, transactions, or pronouncements that may impact the financial statements for the year ended September 30, 2013 through February 12, 2014, the date the financial statements were available to be issued. There are no subsequent events, transactions, or pronouncements that require recognition or disclosure in the financial statements.

## Note 15 - Long-Term Debt

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

	Balance 9-30-12	Additions	Reductions	Balance 9-30-13
<b>Governmental Activities</b>				
Certificates of Obligation - 2005	\$ 910,000	\$ -	\$ (30,000)	\$ 880,000
Certificates of Obligation - 2005B	50,000	-	(50,000)	-
General Obligation Refunding - 2012	2,830,000	-	(50,000)	2,780,000
General Obligation Tax & Revenue - 2012	-	3,760,000	-	3,760,000
	<u>3,790,000</u>	<u>3,760,000</u>	<u>(130,000)</u>	<u>7,420,000</u>
Other liabilities:				
Compensated absences	72,347	24,911	(38,974)	58,284
Total Governmental Activities	<u>3,862,347</u>	<u>3,784,911</u>	<u>(168,974)</u>	<u>7,478,284</u>
<b>Business-Type Activities</b>				
Compensated absences	6,420	6,208	(1,246)	11,382
Total Business-Type Activities	<u>6,420</u>	<u>6,208</u>	<u>(1,246)</u>	<u>11,382</u>
<b>Total</b>	<u><u>\$3,868,767</u></u>	<u><u>\$3,791,119</u></u>	<u><u>\$ (170,220)</u></u>	<u><u>\$7,489,666</u></u>

Total Long-Term Debt requirements are as follows:

<u>Year Ending</u>	<u>Principal Payment</u>	<u>Interest</u>	<u>Total</u>
September 2014	\$ 135,000	\$ 254,914	\$ 389,914
September 2015	245,000	249,614	494,614
September 2016	255,000	242,495	497,495
September 2017	265,000	235,016	500,016
September 2018	265,000	227,300	492,300
September 2019 & Thereafter	6,255,000	2,256,812	8,511,812
	<u><u>\$7,420,000</u></u>	<u><u>\$3,466,151</u></u>	<u><u>\$ 10,886,151</u></u>

**Note 16 - Capital Assets**

A summary of changes in capital assets follow	Balance 9-30-12	Increases	Decreases	Balance 9-30-13
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 27,085	\$ -	\$ -	\$ 27,085
Parks	525,130	216,770	-	741,900
Construction in progress	273,924	51,319	(273,924)	51,319
Total capital assets not being depreciated	<u>826,139</u>	<u>268,089</u>	<u>(273,924)</u>	<u>820,304</u>
Capital assets being depreciated:				
Infrastructure	867,117	93,804	-	960,921
Buildings & improvements	740,028	77,231	-	817,259
Vehicles	349,751	70,692	-	420,443
Furniture & equipment	320,077	32,313	-	352,390
Total capital assets being depreciated	<u>2,276,973</u>	<u>274,040</u>	<u>-</u>	<u>2,551,013</u>
Less accumulated depreciation:				
Infrastructure	(146,250)	(32,031)	-	(178,281)
Buildings & improvements	(217,865)	(40,863)	-	(258,728)
Vehicles	(244,856)	(52,710)	-	(297,566)
Furniture & equipment	(216,122)	(20,162)	-	(236,284)
Total accumulated depreciation	<u>(825,093)</u>	<u>(145,765)</u>	<u>-</u>	<u>(970,858)</u>
Total capital assets being depreciated, net	<u>1,451,880</u>	<u>128,275</u>	<u>-</u>	<u>1,580,155</u>
Governmental Activities: Capital Assets, net	<u>\$2,278,019</u>	<u>\$ 396,364</u>	<u>\$ (273,924)</u>	<u>\$2,400,459</u>
Depreciation expense was charged to functions as follows:				
General government				\$ 53,473
Public safety				56,377
Public works				35,915
Total governmental activities depreciation expense				<u>\$ 145,765</u>

	Balance 9-30-12	Increases	Decreases	Balance 9-30-13
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 66,581	\$ -	\$ -	\$ 66,581
Construction in progress	38,819	1,667,741	-	1,706,560
Total capital assets not being depreciated	<u>105,400</u>	<u>1,667,741</u>	<u>-</u>	<u>1,773,141</u>
Capital assets being depreciated:				
Infrastructure	7,468,869	123,797	-	7,592,666
Furniture & equipment	166,235	-	-	166,235
Vehicles	25,027	77,377	-	102,404
Total capital assets being depreciated	<u>7,660,131</u>	<u>201,174</u>	<u>-</u>	<u>7,861,305</u>
Less accumulated depreciation:				
Infrastructure	(2,390,027)	(239,279)	-	(2,629,306)
Furniture & equipment	(129,694)	(2,049)	-	(131,743)
Vehicles	(25,027)	(15,475)	-	(40,502)
Total accumulated depreciation	<u>(2,544,748)</u>	<u>(256,803)</u>	<u>-</u>	<u>(2,801,551)</u>
Total capital assets being depreciated, net	<u>5,115,383</u>	<u>(55,629)</u>	<u>-</u>	<u>5,059,754</u>
Business-Type Activities: Capital Assets, net	<u>\$5,220,783</u>	<u>\$1,612,112</u>	<u>\$ -</u>	<u>\$6,832,895</u>
Depreciation expense was charged to functions as follows:				
Water				\$ 163,518
Sewer				93,285
Total business-type activities depreciation expense				<u>\$ 256,803</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF MONTGOMERY, TEXAS**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Budgetary Basis)**  
**General Fund**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Property tax (including p & i)	\$ 112,000	\$ 118,000	\$ 119,451	\$ 1,451
Sales tax	975,000	1,250,000	1,293,889	43,889
Franchise tax	59,950	65,000	63,864	(1,136)
Intergovernmental/Grants	-	-	48,135	48,135
Licenses and permits	60,500	63,400	62,229	(1,171)
Fines & forfeitures	445,500	330,000	329,918	(82)
Other	14,200	6,385	15,554	9,169
Total revenues	<u>1,667,150</u>	<u>1,832,785</u>	<u>1,933,040</u>	<u>100,255</u>
<b>Expenditures</b>				
General government	380,709	403,620	433,579	(29,959)
Public Safety	606,318	614,309	576,206	38,103
Public works	412,052	537,791	490,606	47,185
Court	257,602	265,148	257,129	8,019
Total expenditures	<u>1,656,681</u>	<u>1,820,868</u>	<u>1,757,519</u>	<u>63,349</u>
Revenues over expenditures	10,469	11,917	175,521	\$ 163,604
Transfers in	<u>55,380</u>	<u>47,880</u>	<u>46,170</u>	<u>(1,710)</u>
Net change in fund balance	65,849	59,797	221,691	<u>\$ 161,894</u>
Fund balance-beginning	<u>611,277</u>	<u>611,277</u>	<u>750,929</u>	
Fund balance-ending	<u>\$ 677,126</u>	<u>\$ 671,074</u>	<u>\$ 972,620</u>	

**CITY OF MONTGOMERY, TEXAS**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Budgetary Basis)**  
**Debt Service Fund**  
**For the Year Ended September 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Property tax (including p & i)	\$ 185,000	\$ 185,000	\$ 194,233	\$ 9,233
Interest	200	200	270	70
Total revenues	<u>185,200</u>	<u>185,200</u>	<u>194,503</u>	<u>9,303</u>
<b>Expenditures</b>				
General government	1,690	1,690	1,250	440
Debt service - interest	184,286	184,286	215,390	(31,104)
Debt service - principal	100,000	100,000	130,000	(30,000)
Total expenditures	<u>285,976</u>	<u>285,976</u>	<u>346,640</u>	<u>(60,664)</u>
Revenues under expenditures	(100,776)	(100,776)	(152,137)	(51,361)
Transfers in	<u>117,500</u>	<u>117,500</u>	<u>25,179</u>	<u>(92,321)</u>
Net change in fund balance	<u>16,724</u>	<u>16,724</u>	<u>(126,958)</u>	<u>\$ (143,682)</u>
Fund balance-beginning	<u>64,713</u>	<u>64,713</u>	<u>77,442</u>	
Fund balance-ending	<u>\$ 81,437</u>	<u>\$ 81,437</u>	<u>\$ (49,516)</u>	

**CITY OF MONTGOMERY, TEXAS**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Budgetary Basis)**  
**Capital Projects**  
**For the Year Ended September 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues</b>				
Interest	\$ 8,000	\$ 8,000	\$ 1,993	\$ (6,007)
Debt proceeds	3,792,000	3,792,000	3,760,000	(32,000)
Other	-	-	33,388	33,388
Total revenues	<u>3,800,000</u>	<u>3,800,000</u>	<u>3,795,381</u>	<u>(4,619)</u>
<b>Expenditures</b>				
Projects	<u>2,100,000</u>	<u>2,100,000</u>	<u>136,352</u>	<u>1,963,648</u>
Revenues over expenditures	1,700,000	1,700,000	3,659,029	1,959,029
Transfers in	<u>-</u>	<u>-</u>	<u>(1,595,715)</u>	<u>(1,595,715)</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(234,970)</u>	<u>(234,970)</u>
Net change in fund balance	1,700,000	1,700,000	2,063,314	<u>\$ 363,314</u>
Fund balance-beginning	<u>31</u>	<u>31</u>	<u>221,274</u>	
Fund balance-ending	<u>\$ 1,700,031</u>	<u>\$ 1,700,031</u>	<u>\$ 2,049,618</u>	

**CITY OF MONTGOMERY, TEXAS**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Budgetary Basis)**  
**Special Revenue (Non Major) Funds**  
**For the Year Ended September 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues</b>				
Fines & forfeitures	\$ 23,170	\$ 23,170	\$ 10,909	\$ (12,261)
Hotel occupancy tax	1,770	1,770	1,187	(583)
Interest	50	50	20	(30)
Total revenues	<u>24,990</u>	<u>24,990</u>	<u>12,116</u>	<u>(12,874)</u>
<b>Expenditures</b>				
Administrative	<u>10,340</u>	<u>10,340</u>	<u>4,184</u>	<u>6,156</u>
Revenues over expenditures	14,650	14,650	7,932	(6,718)
Transfers out	<u>(17,880)</u>	<u>(17,880)</u>	<u>(10,380)</u>	<u>7,500</u>
Net change in fund balance	(3,230)	(3,230)	(2,448)	<u>\$ 782</u>
Fund balance-beginning	<u>16,722</u>	<u>16,722</u>	<u>17,561</u>	
Fund balance-ending	<u>\$ 13,492</u>	<u>\$ 13,492</u>	<u>\$ 15,113</u>	

**CITY OF MONTGOMERY, TEXAS**  
**Pension Plan**  
**Schedule of Actuarial Liabilities and Funding Progress**

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the required contributions, no net pension obligation (NPO) exists. The information presented as follows represents the City's Schedule of Funding Progress as of December 31, 2012, the most recent actuarial valuation date.

Fiscal Year End - September	2011	2012	2013
Actuarial Valuation Date	12-31-10	12-31-11	12-31-12
Actuarial Value of Assets	\$ 585,479	\$ 679,352	\$ 718,146
Actuarial Accrued Liability	\$ 599,409	\$ 637,204	\$ 605,556
Percentage Funded	97.7%	106.6%	118.6%
Under/(Over) Funded			
Actuarial Accrued Liability (UAAL)	\$ 13,930	\$ (42,148)	\$ (112,590)
Annual Covered Payroll	\$ 719,083	\$ 688,453	\$ 660,419
UAAL as a Percentage of Covered Payroll	1.9%	-6.1%	-17.0%
Net Pension Obligation (NPO)			
at the beginning of the period	\$ -	\$ -	\$ -
Annual Required Contribution (ARC)	37,897	38,873	19,612
Contributions Made	37,897	38,873	19,612
Net Pension Obligation (NPO)			
at the end of the period	\$ -	\$ -	\$ -

Additional information as of the latest actuarial valuation, December 31, 2012, follows:

	12-31-10	12-31-11	12-31-12
Actuarial Valuation Date	12-31-10	12-31-11	12-31-12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	18.5 years; closed period	25.2 years; closed period	25.1 years closed period
Amortization Period for new Gains/Losses	20 years	25 years	25 years
Asset Valuation Method	10 year; Smoothed Mkt	10 year; Smoothed Mkt	10 year; Smoothed Mkt
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost of Living Adjustments	0.0%	0.0%	0.0%

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**OTHER SUPPLEMENTAL INFORMATION**

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Expenses**  
**General Fund**

**For the Year Ended September 30, 2013**

	General Government	Court	Public Safety	Public Works	Total
	\$	\$	\$	\$	\$
Salaries	158,777	76,537	298,932	101,985	636,231
State portion of fines	-	114,388	-	-	114,388
Capital assets	17,077	-	83,056	108,762	208,895
Capital assets - MEDC	51,319	-	-	-	51,319
Health insurance	13,082	13,848	39,315	15,590	81,835
Equipment	-	8,027	17,599	6,718	32,344
Accounting	57,130	-	-	-	57,130
Payroll taxes	9,453	6,506	24,885	8,036	48,880
Repairs & maintenance	11,943	-	10,636	32,589	55,168
Mowing	-	-	-	68,363	68,363
Engineering	1,078	-	-	49,519	50,597
Fuel	-	-	27,913	6,073	33,986
Utilities	5,186	-	-	23,701	28,887
Employees retirement fund	5,404	2,620	10,223	3,454	21,700
Computer software & IT	4,837	5,364	2,066	-	12,267
Phone & internet	11,481	1,200	9,626	3,084	25,391
Prosecutors & Judges	-	18,300	-	-	18,300
Legal	28,331	-	-	-	28,331
Park maintenance	-	-	-	13,127	13,127
Consultant/Contractual	6,470	5,036	16,800	2,070	30,376
Insurance	5,205	140	6,457	711	12,513
Office supplies	12,028	2,092	467	243	14,830
Audit	14,750	-	-	-	14,750
Workers' Comp	317	188	4,923	1,833	7,260

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Expenses**  
**General Fund - Continued**  
**For the Year Ended September 30, 2013**

	General Government	Court	Public Safety	Public Works	Total
Inspection services	-	-	-	21,608	21,608
175th Birthday	-	-	-	1,000	1,000
Supplies	-	-	10,293	16,921	27,214
Uniforms	-	-	7,947	2,685	10,632
Education & travel	9,016	2,079	2,792	173	14,060
Copier lease	1,960	-	1,960	-	3,920
Advertising	2,146	-	-	357	2,503
Dues & memberships	2,409	254	195	-	2,859
Miscellaneous	1,043	-	29	25	1,097
Postage	721	549	93	244	1,607
Appraisal District	2,415	-	-	-	2,415
Street signs	-	-	-	1,735	1,735
<b>Total</b>	<b>433,579</b>	<b>257,129</b>	<b>576,206</b>	<b>490,606</b>	<b>1,757,519</b>
Adjustments to the Statement of Activities:					
Depreciation	53,473	-	56,377	35,915	145,765
Compensated absences	(4,688)	(4,687)	(4,688)	-	(14,063)
Capital assets	(68,396)	-	(83,056)	(108,762)	(260,214)
<b>Total Primary Government Expenses</b>	<b>\$ 413,968</b>	<b>\$ 252,442</b>	<b>\$ 544,839</b>	<b>\$ 417,759</b>	<b>\$ 1,629,007</b>

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Expenses**  
**Proprietary Fund - Business-Type Activities**  
**For the Year Ended September 30, 2013**

<b>Operating Expenses</b>	<u>Utility</u>
Depreciation	\$ 256,803
Groundwater reduction	81,574
Salaries	76,087
Repairs & maintenance	71,350
Garbage service	64,283
Utilities	50,043
Operator	24,825
Supplies	18,196
Engineering	17,845
Chemicals	16,872
Permits	15,183
Health insurance	12,344
Billing & collections	11,107
Legal	10,059
Insurance	8,472
Sludge hauling	7,027
Payroll tax	6,247
Fuel	5,658
Compensated Absences	4,962
Accounting	4,400
Tap fees & inspections	4,215
Copier lease	3,920
Uniforms	2,685
Retirement	2,590
Testing	1,835
Miscellaneous	1,822
Staff development	1,617
Telephone	1,332
Workers' Comp	960
Postage	722
	<hr/>
Total Operating Expenses	<u>\$ 785,035</u>

**CITY OF MONTGOMERY, TEXAS**  
**Statement of Revenues & Expenses**  
**Component Unit - Montgomery Economic Development Corporation**  
**For the Year Ended September 30, 2013**

Revenues	
Sales tax	\$ 431,296
Interest	220
Total Revenues	<u>431,516</u>
Expenses	
Historical Society	24,800
Promotional services	20,723
Banners & advertising	12,599
Wine Fest	9,737
Antique show	9,500
Liberty Bell Antiques	9,500
Christmas programs	5,400
Sign	5,000
Administration	578
Other	2,424
Total Expenses	<u>100,261</u>
Capital Expenditures (transfers)	
Downtown restrooms	26,319
Cedar Brake Park	25,000
Total capital expenditures	<u>51,319</u>
Net income before transfers	279,936
Transfers out	<u>(154,999)</u>
Increase in fund balance	124,937
Fund balance-beginning	<u>439,712</u>
Fund balance-ending	<u>\$ 564,649</u>

## STATISTICAL INFORMATION

**City of Montgomery, Texas**  
**Tax & Revenue Certificates of Obligation, Series 2005**  
**Governmental Activities**

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>March 1</u>	<u>Total</u>
		<u>March 1</u>	<u>September 1</u>		
2014	4.64	\$ 23,841	\$ 23,029	\$ 35,000	\$ 81,870
2015	4.79	23,029	22,191	35,000	80,220
2016	4.89	22,191	21,335	35,000	78,526
2017	4.99	21,335	20,337	40,000	81,672
2018	5.09	20,337	19,319	40,000	79,656
2019	5.14	19,319	18,163	45,000	82,482
2020	5.24	18,163	16,984	45,000	80,146
2021	5.34	16,984	15,782	45,000	77,766
2022	5.39	15,782	14,435	50,000	80,217
2023	5.49	14,435	12,925	55,000	82,359
2024	5.54	12,925	11,401	55,000	79,326
2025	5.64	11,401	9,709	60,000	81,111
2026	5.69	9,709	8,002	60,000	77,712
2027	5.69	8,002	6,153	65,000	79,155
2028	5.69	6,153	4,162	70,000	80,315
2029	5.74	4,162	2,153	70,000	76,314
2030	5.74	2,153	-	75,000	77,153
<b>Total Remaining</b>		<u>\$ 249,919</u>	<u>\$ 226,078</u>	<u>\$ 880,000</u>	<u>\$ 1,355,997</u>

**City of Montgomery, Texas**  
**General Obligation Refunding Bonds, Series 2012**  
**Governmental Activities**

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>March 1</u>	<u>Total</u>
		<u>March 1</u>	<u>September 1</u>		
2014	2.000	\$ 42,259	\$ 41,259	\$ 100,000	\$ 183,519
2015	2.000	41,259	40,259	100,000	181,519
2016	2.000	40,259	39,209	105,000	184,469
2017	2.000	39,209	38,159	105,000	182,369
2018	2.000	38,159	37,109	105,000	180,269
2019	2.125	37,109	35,994	105,000	178,103
2020	2.250	35,994	34,756	110,000	180,750
2021	2.500	34,756	33,319	115,000	183,075
2022	2.500	33,319	31,881	115,000	180,200
2023	2.750	31,881	30,231	120,000	182,113
2024	2.750	30,231	28,513	125,000	183,744
2025	3.000	28,513	26,563	130,000	185,075
2026	3.000	26,563	24,613	130,000	181,175
2027	3.250	24,613	22,419	135,000	182,031
2028	3.250	22,419	20,144	140,000	182,563
2029	3.750	20,144	17,425	145,000	182,569
2030	3.750	17,425	14,519	155,000	186,944
2031	3.750	14,519	12,456	110,000	136,975
2032	3.750	12,456	10,300	115,000	137,756
2033	4.000	10,300	7,800	125,000	143,100
2034	4.000	7,800	5,300	125,000	138,100
2035	4.000	5,300	2,700	130,000	138,000
2036	4.000	2,700	-	135,000	137,700
Total Remaining		<u>\$ 597,188</u>	<u>\$ 554,928</u>	<u>\$ 2,780,000</u>	<u>\$ 3,932,116</u>

**City of Montgomery, Texas**  
**Tax & Obligation Certificates of Obligation, Series 2012**  
**Governmental Activities**

<u>FYE</u> <u>September</u>	<u>Interest</u> <u>Rate</u>	<u>Interest Due</u>		<u>Principal</u> <u>March 1</u>	<u>Total</u>
		<u>March 1</u>	<u>September 1</u>		
2014	3.000	\$ 62,263	\$ 62,263	\$ -	\$ 124,525
2015	3.000	62,263	60,613	110,000	232,875
2016	3.000	60,613	58,888	115,000	234,500
2017	3.000	58,888	57,088	120,000	235,975
2018	3.000	57,088	55,288	120,000	232,375
2019	3.000	55,288	53,413	125,000	233,700
2020	3.000	53,413	51,463	130,000	234,875
2021	3.000	51,463	49,513	130,000	230,975
2022	3.000	49,513	47,488	135,000	232,000
2023	3.000	47,488	45,388	140,000	232,875
2024	3.000	45,388	43,213	145,000	233,600
2025	3.000	43,213	41,038	145,000	229,250
2026	3.500	41,038	38,413	150,000	229,450
2027	3.500	38,413	35,700	155,000	229,113
2028	3.500	35,700	32,900	160,000	228,600
2029	3.500	32,900	30,013	165,000	227,913
2030	3.500	30,013	27,038	170,000	227,050
2031	3.500	27,038	23,975	175,000	226,013
2032	3.500	23,975	20,825	180,000	224,800
2033	3.500	20,825	17,500	190,000	228,325
2034	3.500	17,500	14,175	190,000	221,675
2035	3.500	14,175	10,763	195,000	219,938
2036	3.500	10,763	7,263	200,000	218,025
2037	3.500	7,263	3,675	205,000	215,938
2038	3.500	<u>3,675</u>	<u>-</u>	<u>210,000</u>	<u>213,675</u>
<b>Total Remaining</b>		<u><u>\$ 950,150</u></u>	<u><u>\$ 887,888</u></u>	<u><u>\$ 3,760,000</u></u>	<u><u>\$ 5,598,038</u></u>

**City of Montgomery, Texas**  
**Total Long-Term Debt Requirements**  
**Governmental Activities**

FYE September	Interest Due		Principal	Total
	March 1	September 1	March 1	
2014	\$ 128,363	\$ 126,551	\$ 135,000	\$ 389,914
2015	126,551	123,063	245,000	494,614
2016	123,063	119,432	255,000	497,495
2017	119,432	115,584	265,000	500,016
2018	115,584	111,716	265,000	492,300
2019	111,716	107,569	275,000	494,285
2020	107,569	103,202	285,000	495,771
2021	103,202	98,613	290,000	491,816
2022	98,613	93,803	300,000	492,417
2023	93,803	88,544	315,000	497,347
2024	88,544	83,126	325,000	496,670
2025	83,126	77,309	335,000	495,436
2026	77,309	71,027	340,000	488,337
2027	71,027	64,272	355,000	490,299
2028	64,272	57,205	370,000	491,477
2029	57,205	49,590	380,000	486,795
2030	49,590	41,556	400,000	491,146
2031	41,556	36,431	285,000	362,988
2032	36,431	31,125	295,000	362,556
2033	31,125	25,300	315,000	371,425
2034	25,300	19,475	315,000	359,775
2035	19,475	13,463	325,000	357,938
2036	13,463	7,263	335,000	355,725
2037	7,263	3,675	205,000	215,938
2038	3,676	-	210,000	213,676
Total Long-Term Debt	<u>\$1,797,257</u>	<u>\$1,668,893</u>	<u>\$ 7,420,000</u>	<u>\$10,886,151</u>

**CITY OF MONTGOMERY**  
**Property Tax Data**

<u>Year</u> <u>September</u>	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Service</u>	<u>Total</u>	<u>Valuation</u>	<u>Levy</u>
2009	\$0.1657	\$0.2793	\$0.4450	\$ 58,804,366	\$ 261,679
2010	0.1562	0.2637	0.4199	65,487,108	274,980
2011	0.1575	0.2580	0.4155	69,971,917	290,733
2012	0.1617	0.2538	0.4155	75,928,967	315,485

Receivables, by years:

2009 and prior	\$ 7,551
2010	2,333
2011	2,860
2012	<u>6,422</u>
	<u>\$ 19,166</u>

