

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF MONTGOMERY, TEXAS**

For the Year Ended  
September 30, 2019

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**CITY OF MONTGOMERY, TEXAS**  
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September 30, 2019

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## ***FINANCIAL SECTION***

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## ***INDEPENDENT AUDITORS' REPORT***

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Texas (the "City") as of and for the year ended September 30, 2019, 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.

### **Auditors' 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 auditors' 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 City'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 City'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.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2019, 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, schedules of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

The logo for Belt Harris Pechacek, LLP features the firm's name in a stylized, cursive script. The letters 'B', 'H', and 'P' are significantly larger and more ornate than the other letters, which are in a smaller, simpler font. The name is followed by 'LLP' in a small, sans-serif font.

Belt Harris Pechacek, LLP  
Certified Public Accountants  
Houston, Texas  
June 2, 2020

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

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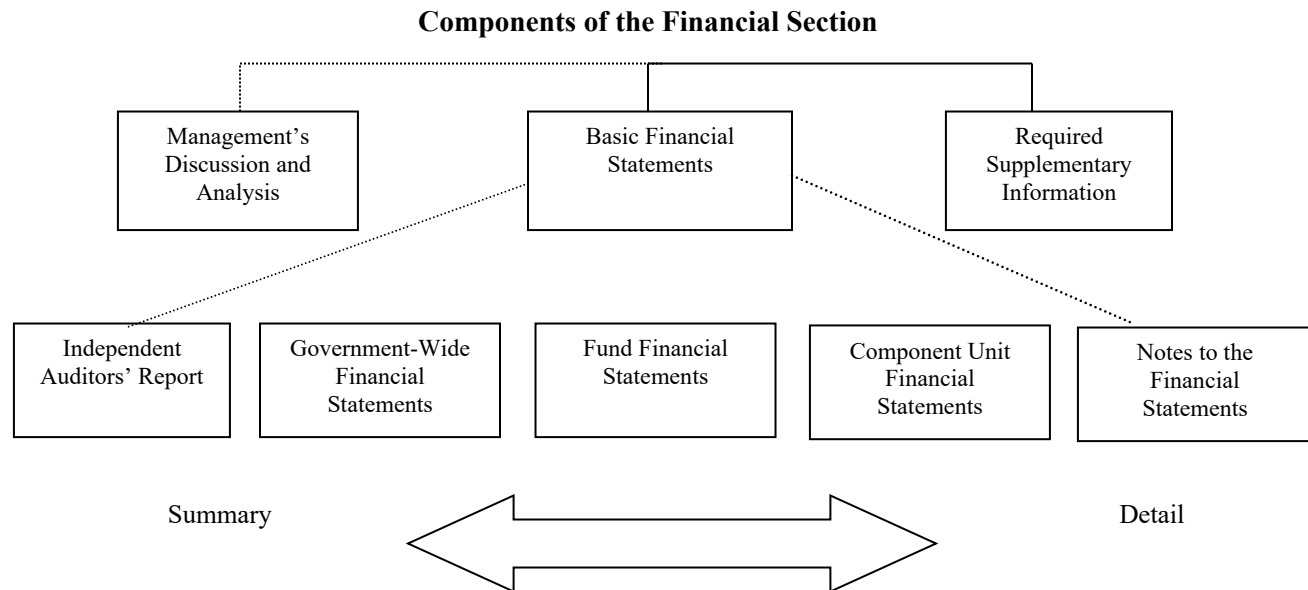
# CITY OF MONTGOMERY, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Montgomery, Texas (the "City") for the year ending September 30, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

### Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared 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 even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including general government, municipal court, public safety and public works. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation, the Montgomery Economic Development Corporation (MEDC), for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Public Improvement District (PID) No. 1, although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, which are considered to be major funds for reporting purposes.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

The City adopts an annual appropriated budget for its general fund, debt service fund, and the special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

**Proprietary Funds**

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, and sanitation services. The proprietary fund financial statements provide separate information for the water, sewer, and sanitation fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

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

**Other Information**

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of changes in net pension liability and related ratios and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$10,529,391 as of September 30, 2019. A portion of the City's net position, 69%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2019

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

September 30, 2019				
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 5,878,874	\$ 1,632,963	\$ -	\$ 7,511,837
Capital assets, net	4,979,842	7,897,453	-	12,877,295
<b>Total Assets</b>	<b>10,858,716</b>	<b>9,530,416</b>	<b>-</b>	<b>20,389,132</b>
Deferred outflows - pensions	126,450	15,973	-	142,423
Deferred charge on refunding	3,082	-	-	3,082
<b>Total Deferred Outflows of Resources</b>	<b>129,532</b>	<b>15,973</b>	<b>-</b>	<b>145,505</b>
Long-term liabilities	8,594,783	6,582	-	8,601,365
Other liabilities	1,140,065	190,853	-	1,330,918
<b>Total Liabilities</b>	<b>9,734,848</b>	<b>197,435</b>	<b>-</b>	<b>9,932,283</b>
Deferred inflows - pensions	64,988	7,975	-	72,963
<b>Total Deferred Inflows of Resources</b>	<b>64,988</b>	<b>7,975</b>	<b>-</b>	<b>72,963</b>
<b>Net Position:</b>				
Net investment in capital assets	7,882,829	7,897,453	(8,523,454)	7,256,828
Restricted	503,525	-	-	503,525
Unrestricted	(7,197,942)	1,443,526	8,523,454	2,769,038
<b>Total Net Position</b>	<b>\$ 1,188,412</b>	<b>\$ 9,340,979</b>	<b>\$ -</b>	<b>\$ 10,529,391</b>
September 30, 2018				
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 5,986,741	\$ 971,859	\$ -	\$ 6,958,600
Capital assets, net	4,871,716	7,401,438	-	12,273,154
<b>Total Assets</b>	<b>10,858,457</b>	<b>8,373,297</b>	<b>-</b>	<b>19,231,754</b>
Deferred outflows - pensions	56,331	5,154	-	61,485
Deferred charge on refunding	3,699	-	-	3,699
<b>Total Deferred Outflows of Resources</b>	<b>60,030</b>	<b>5,154</b>	<b>-</b>	<b>65,184</b>
Long-term liabilities	9,043,072	7,589	-	9,050,661
Other liabilities	1,041,747	150,644	-	1,192,391
<b>Total Liabilities</b>	<b>10,084,819</b>	<b>158,233</b>	<b>-</b>	<b>10,243,052</b>
Deferred inflows - pensions	46,962	5,053	-	52,015
<b>Total Deferred Inflows of Resources</b>	<b>46,962</b>	<b>5,053</b>	<b>-</b>	<b>52,015</b>
<b>Net Position:</b>				
Net investment in capital assets	8,063,525	7,401,438	(8,974,282)	6,490,681
Restricted	343,835	-	-	343,835
Unrestricted	(7,620,654)	813,727	8,974,282	2,167,355
<b>Total Net Position</b>	<b>\$ 786,706</b>	<b>\$ 8,215,165</b>	<b>\$ -</b>	<b>\$ 9,001,871</b>

A portion of the City's net position, \$503,525 or 5%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$2,769,038 or 26%, may be used to meet the City's ongoing obligation to citizens and creditors.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Debt associated with governmental activities, in the amount of \$8,523,454, is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

The City's total net position increased by \$1,527,520 as compared to the prior year. Deferred outflows and deferred inflows of resources related to the City's pension plans increased compared to the prior year. Long-term liabilities decreased due to the reduction of debt during the year.

**Statement of Activities**

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 749,056	\$ 777,099	\$ 1,830,305	\$ 1,597,783	\$ 2,579,361	\$ 2,374,882
Operating grants and contributions	422,936	1,365,967	-	115,753	422,936	1,481,720
Capital grants and contributions	8,500	10,125	-	-	8,500	10,125
General revenues:						
Property taxes	1,026,980	827,025	-	-	1,026,980	827,025
Sales taxes	2,071,895	1,801,067	-	-	2,071,895	1,801,067
Other fees and taxes	155,097	136,322	-	-	155,097	136,322
Other revenues	545,179	856,094	278,771	302,933	823,950	1,159,027
<b>Total Revenues</b>	<b>4,979,643</b>	<b>5,773,699</b>	<b>2,109,076</b>	<b>2,016,469</b>	<b>7,088,719</b>	<b>7,790,168</b>
<b>Expenses</b>						
General government	1,166,038	655,202	-	-	1,166,038	655,202
Municipal court	358,875	427,661	-	-	358,875	427,661
Public safety	1,145,482	1,308,579	-	-	1,145,482	1,308,579
Public works	1,120,070	1,014,724	-	-	1,120,070	1,014,724
Interest and fiscal agent fees	220,507	240,753	-	-	220,507	240,753
Water, sewer, and sanitation	-	-	1,550,227	1,406,873	1,550,227	1,406,873
<b>Total Expenses</b>	<b>4,010,972</b>	<b>3,646,919</b>	<b>1,550,227</b>	<b>1,406,873</b>	<b>5,561,199</b>	<b>5,053,792</b>
<b>Increase in Net Position Before Transfers</b>	<b>968,671</b>	<b>2,126,780</b>	<b>558,849</b>	<b>609,596</b>	<b>1,527,520</b>	<b>2,736,376</b>
Transfers in (out)	(566,965)	204,221	566,965	(204,221)	-	-
<b>Change in Net Position</b>	<b>401,706</b>	<b>2,331,001</b>	<b>1,125,814</b>	<b>405,375</b>	<b>1,527,520</b>	<b>2,736,376</b>
Beginning net position	786,706	(1,544,295)	8,215,165	7,809,790	9,001,871	6,265,495
<b>Ending Net Position</b>	<b>\$ 1,188,412</b>	<b>\$ 786,706</b>	<b>\$ 9,340,979</b>	<b>\$ 8,215,165</b>	<b>\$ 10,529,391</b>	<b>\$ 9,001,871</b>

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

For the year ended September 30, 2019, revenues from governmental activities totaled \$4,979,643, which is a decrease of \$794,056 from last year. This is primarily due to a decrease in operating grants and contributions, along with decreases in other revenues. These decreases were offset by increases in property tax, which is due to an increase in the property valuations, and the increase in sales tax, which is due to improved sales within the City. Capital grants and contributions decreased as a result of the completed projects in Community Development Block Grant and Federal Emergency Disaster Reimbursement grant program, administered through the Texas Department of Agriculture and the Texas Department of Public Safety, respectively. The decrease in other revenue was primarily due to funds received for sanitation sewer line extensions from a developer in the prior year.

For the year ended September 30, 2019, expenses for governmental activities totaled \$4,010,972. Municipal court and public safety expenses decreased but were offset by increases in general government and public works. The increase in expenses for general government can be mainly attributed to expenses associated with the chapter 380 property tax rebate and the PID property tax reimbursement.

Net position before transfers for business-type activities increased \$558,849 compared to the prior year. Revenues increased \$92,607 compared to the prior year due to an increase in charges for services, which can be attributed to the growth the City has experienced. Expenses increased \$143,354 compared to the prior year due to an increase in operating expenses for the City during the year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

**Governmental Funds** – The focus of the City's governmental funds is to provide information 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 the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$4,643,591. Of this, \$3,403,430 is restricted for various purposes. The remaining balance of \$1,240,161 is unassigned in the general fund.

There was a net decrease in the combined fund balance of \$160,148 compared to the prior year, due mainly to the capital projects fund. Capital projects had a use of fund balance to complete projects associated with the proprietary funds. Expenditures increased compared to the prior year mainly due to an increase in demand for City services.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,240,161. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Both unassigned and total fund balance represents 34 percent of total general fund expenditures. The general fund demonstrated an overall decrease of \$25,815. Revenue increased over the prior year primarily due to increases in property and sales tax. Expenditures also increased compared to the prior year due to increases in personnel costs, group insurance, and contracted services.

The debt service fund has a total fund balance of \$419,906, all of which is restricted for the payment of debt service. The net increase in fund balance during the year was \$143,462. This increase can be attributed to the increase in property taxes for the year.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

The capital projects fund recorded a decrease of \$288,205 in fund balance. This is primarily due to the expenses for projects related to new businesses in connection with capital projects.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There had been a planned increase in budgeted fund balance in the amount of \$400 in the general fund. However, the net change in fund balance decreased by \$25,815, resulting in a net negative variance of \$26,215 from actual over budget.

Actual general fund revenues were less than final budgeted revenues by \$32,317 during 2019. This is mainly due to less sales taxes collected than anticipated, along with less fines and forfeiture revenue than expected.

Actual expenditures were more than budgeted amounts by a net \$20,303 for the fiscal year. Expenditures were more than anticipated in general government, public works, and capital outlay.

**CAPITAL ASSETS**

At the end of the current fiscal year, the City's governmental and business-type activities had invested \$12,877,295 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$604,141.

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

- Infrastructure improvements
- Construction in progress

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

**LONG-TERM DEBT**

At the end of the current fiscal year, the City had total bonds and certificates of obligation outstanding of \$8,415,000. Of this amount, \$2,685,000 was general obligation debt, and tax and revenue certificates of obligation accounted for \$5,730,000.

More detailed information about the City's long-term liabilities is presented in note III. D. to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City adopted a fiscal year 2019-2020 expenditure budget of \$4,195,558, which is an increase of \$600,692 from the prior year budget. The City budgeted for fiscal year 2019-2020 revenues of \$4,195,558, which is an increase of \$371,399 from the prior year budget. The tax rate is unchanged from the prior year, which was \$0.4155 per \$100 of taxable property value. All of these factors were considered in preparing the City's budget for the 2019-2020 fiscal year.

**CITY OF MONTGOMERY, TEXAS**  
***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***  
**For the Year Ended September 30, 2019**

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard Tramm, City Administrator, 101 Old Plantersville Rd., Montgomery, Texas 77316; 936-597-6434.

## ***BASIC FINANCIAL STATEMENTS***

# CITY OF MONTGOMERY, TEXAS

## STATEMENT OF NET POSITION

September 30, 2019

### Primary Government

	Governmental Activities	Business-Type Activities	Reconciliation	Total
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 2,566,517	\$ 1,152,907	\$ -	\$ 3,719,424
Cash with fiscal agent	2,526,197	-	-	2,526,197
Investments	200,000	-	-	200,000
Receivables, net of allowances	495,135	368,158	-	863,293
Internal balances	3,019	(3,019)	-	-
Due from primary government	-	-	-	-
Restricted assets:				
Cash and cash equivalents	-	104,860	-	104,860
	<u>5,790,868</u>	<u>1,622,906</u>	<u>-</u>	<u>7,413,774</u>
Net pension asset	88,006	10,057	-	98,063
Capital assets:				
Nondepreciable capital assets	931,249	622,259	-	1,553,508
Depreciable capital assets, net	4,048,593	7,275,194	-	11,323,787
	<u>5,067,848</u>	<u>7,907,510</u>	<u>-</u>	<u>12,975,358</u>
<b>Total Assets</b>	<u>10,858,716</u>	<u>9,530,416</u>	<u>-</u>	<u>20,389,132</u>
<b><u>Deferred Outflows of Resources</u></b>				
Deferred outflows - pensions	126,450	15,973	-	142,423
Deferred charge on refunding	3,082	-	-	3,082
<b>Total Deferred Outflows of Resources</b>	<u>129,532</u>	<u>15,973</u>	<u>-</u>	<u>145,505</u>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	1,067,947	85,993	-	1,153,940
Accrued interest payable	17,893	-	-	17,893
Due to other units	54,225	-	-	54,225
Customer deposits	-	104,860	-	104,860
Noncurrent liabilities:				
Long-term liabilities due within one year	519,196	5,924	-	525,120
Long-term liabilities due in more than one year	8,075,587	658	-	8,076,245
<b>Total Liabilities</b>	<u>9,734,848</u>	<u>197,435</u>	<u>-</u>	<u>9,932,283</u>
<b><u>Deferred Inflows of Resources</u></b>				
Deferred inflows - pensions	64,988	7,975	-	72,963
<b>Total Deferred Inflows of Resources</b>	<u>64,988</u>	<u>7,975</u>	<u>-</u>	<u>72,963</u>
<b><u>Net Position</u></b>				
Net investment in capital assets	7,882,829	7,897,453	(8,523,454)	7,256,828
Restricted for:				
Economic development	-	-	-	-
Debt service	419,906	-	-	419,906
Tourism	13,117	-	-	13,117
Public safety	64,684	-	-	64,684
Grants	5,818	-	-	5,818
Unrestricted	(7,197,942)	1,443,526	8,523,454	2,769,038
<b>Total Net Position</b>	<u>\$ 1,188,412</u>	<u>\$ 9,340,979</u>	<u>\$ -</u>	<u>\$ 10,529,391</u>

See Notes to Financial Statements.

Component Unit	
MEDC	
\$	899,626
	-
	150,000
	141,413
	-
	54,225
	-
	1,245,264
	-
	-
	-
	1,245,264
	-
	-
	-
	108,772
	-
	-
	-
	-
	108,772
	-
	-
	-
	1,136,492
	-
	-
	-
	-
	-
\$	1,136,492

# CITY OF MONTGOMERY, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 1,166,038	\$ 319,447	\$ 422,936	\$ 8,500
Municipal court	358,875	429,609	-	-
Public safety	1,145,482	-	-	-
Public works	1,120,070	-	-	-
Interest and fiscal agent fees	220,507	-	-	-
<b>Total Governmental Activities</b>	<u>4,010,972</u>	<u>749,056</u>	<u>422,936</u>	<u>8,500</u>
<b>Business-Type Activities</b>				
Water, sewer, and sanitation services	<u>1,550,227</u>	<u>1,830,305</u>	<u>-</u>	<u>-</u>
<b>Total Business-Type Activities</b>	<u>1,550,227</u>	<u>1,830,305</u>	<u>-</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 5,561,199</u>	<u>\$ 2,579,361</u>	<u>\$ 422,936</u>	<u>\$ 8,500</u>
<b>Component Unit</b>				
Montgomery Economic Development Corporation	\$ 454,082	\$ -	\$ -	\$ -
<b>Total Component Unit</b>	<u>\$ 454,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### General Revenues:

Property taxes  
Sales taxes  
Franchise fees and other taxes  
Other taxes  
Investment revenue  
Other revenues  
Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

**Net Revenue (Expense) and Changes in Net Position**

<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>MEDC</b>
\$ (415,155)	\$ -	\$ (415,155)	\$ -
70,734	-	70,734	-
(1,145,482)	-	(1,145,482)	-
(1,120,070)	-	(1,120,070)	-
(220,507)	-	(220,507)	-
(2,830,480)	-	(2,830,480)	-
-	280,078	280,078	-
-	280,078	280,078	-
(2,830,480)	280,078	(2,550,402)	-
-	-	-	(454,082)
-	-	-	(454,082)
1,026,980	-	1,026,980	-
2,071,895	-	2,071,895	690,632
92,228	-	92,228	-
62,869	-	62,869	-
73,426	11,607	85,033	15,819
471,753	267,164	738,917	161
(566,965)	566,965	-	-
3,232,186	845,736	4,077,922	706,612
401,706	1,125,814	1,527,520	252,530
786,706	8,215,165	9,001,871	883,962
\$ 1,188,412	\$ 9,340,979	\$ 10,529,391	\$ 1,136,492

# CITY OF MONTGOMERY, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,417,196	\$ 419,806	\$ 662,486	\$ 67,029
Cash with fiscal agent	-	-	2,526,197	-
Investments	200,000	-	-	-
Receivables, net	476,517	13,553	5,065	-
Due from other funds	3,019	100	-	5,914
<b>Total Assets</b>	<b><u>\$ 2,096,732</u></b>	<b><u>\$ 433,459</u></b>	<b><u>\$ 3,193,748</u></b>	<b><u>\$ 72,943</u></b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 312,502	\$ -	\$ 293,843	\$ -
Due to other funds	6,014	-	-	-
Due to others	461,602	-	-	-
Due to other units	54,225	-	-	-
<b>Total Liabilities</b>	<b><u>834,343</u></b>	<b><u>-</u></b>	<b><u>293,843</u></b>	<b><u>-</u></b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	<u>11,552</u>	<u>13,553</u>	<u>-</u>	<u>-</u>
<b><u>Fund Balances</u></b>				
Restricted for:				
Debt service	-	419,906	-	-
Tourism	-	-	-	13,117
Capital projects	-	-	2,899,905	-
Grants	-	-	-	5,818
Public safety	10,676	-	-	54,008
Unassigned	1,240,161	-	-	-
<b>Total Fund Balances</b>	<b><u>1,250,837</u></b>	<b><u>419,906</u></b>	<b><u>2,899,905</u></b>	<b><u>72,943</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 2,096,732</u></b>	<b><u>\$ 433,459</u></b>	<b><u>\$ 3,193,748</u></b>	<b><u>\$ 72,943</u></b>

See Notes to Financial Statements.

**Total**

\$	2,566,517
	2,526,197
	200,000
	495,135
	9,033
\$	5,796,882

\$	606,345
	6,014
	461,602
	54,225
	1,128,186

25,105

419,906

13,117

2,899,905

5,818

64,684

1,240,161

4,643,591

\$	5,796,882
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**CITY OF MONTGOMERY, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL**  
**FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
**September 30, 2019**

Total fund balances - total governmental funds	\$	4,643,591
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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 the governmental funds.

Capital assets, nondepreciable		931,249
Capital assets, net depreciable		4,048,593

Long-term assets and deferred outflows and deferred inflows related to pensions are deferred in the governmental funds.

Net pension asset		88,006
Deferred outflows - pensions		126,450
Deferred inflows - pensions		(64,988)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

25,105

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Accrued interest payable		(17,893)
Noncurrent liabilities due in one year		(519,196)
Noncurrent liabilities due in more than one year		(8,075,587)
Deferred charge on refunding		3,082

<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>1,188,412</u></b>
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See Notes to Financial Statements.

**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2019**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>
<b><u>Revenues</u></b>				
Property taxes	\$ 527,050	\$ 499,071	\$ -	\$ -
Sales taxes	2,071,895	-	-	-
Franchise fees	92,228	-	-	-
Other taxes	60,776	-	-	2,093
Licenses and permits	319,447	-	-	-
Fines and forfeitures	410,884	-	-	18,725
Other revenue	175,786	-	295,967	-
Intergovernmental	3,768	160,000	259,168	8,500
Investment revenue	16,748	2,451	54,215	12
<b>Total Revenues</b>	<u>3,678,582</u>	<u>661,522</u>	<u>609,350</u>	<u>29,330</u>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
General government	1,019,753	-	-	-
Municipal court	359,416	-	-	-
Public safety	1,065,938	-	-	7,540
Public works	965,533	-	-	8,500
<b>Capital outlay</b>	281,637	-	192,550	-
<b>Debt service:</b>				
Principal	-	445,000	-	-
Interest and fiscal agent fees	-	226,100	-	-
<b>Total Expenditures</b>	<u>3,692,277</u>	<u>671,100</u>	<u>192,550</u>	<u>16,040</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(13,695)</u>	<u>(9,578)</u>	<u>416,800</u>	<u>13,290</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	2,880	153,040	169,800	-
Transfers (out)	(15,000)	-	(874,805)	(2,880)
<b>Total Other Financing Sources (Uses)</b>	<u>(12,120)</u>	<u>153,040</u>	<u>(705,005)</u>	<u>(2,880)</u>
<b>Net Change in Fund Balances</b>	(25,815)	143,462	(288,205)	10,410
Beginning fund balances	<u>1,276,652</u>	<u>276,444</u>	<u>3,188,110</u>	<u>62,533</u>
<b>Ending Fund Balances</b>	<u><u>\$ 1,250,837</u></u>	<u><u>\$ 419,906</u></u>	<u><u>\$ 2,899,905</u></u>	<u><u>\$ 72,943</u></u>

See Notes to Financial Statements.

<b>Total</b>	
\$	1,026,121
	2,071,895
	92,228
	62,869
	319,447
	429,609
	471,753
	431,436
	73,426
	<u>4,978,784</u>
	1,019,753
	359,416
	1,073,478
	974,033
	474,187
	445,000
	226,100
	<u>4,571,967</u>
	<u>406,817</u>
	325,720
	<u>(892,685)</u>
	<u>(566,965)</u>
	(160,148)
	<u>4,803,739</u>
\$	<u><u>4,643,591</u></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, 2019**

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

Net changes in fund balances - total governmental funds	\$	(160,148)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		384,421
Depreciation expense		(276,295)

The net pension asset and deferred outflows and inflows related to pensions are not reported in the governmental funds.

Net pension asset		(47,278)
Deferred outflows - pensions		(51,790)
Deferred inflows - pensions		103,883

The issuance of long-term debt (e.g., bonds and certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Net Position.

Principal payments		445,000
Compensated absences		(2,539)
Net change in deferred charges on refunding		(617)
Accrued interest		382
Premium amortization		5,828

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.

		859
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<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>401,706</u></b>
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See Notes to Financial Statements.



# CITY OF MONTGOMERY, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

September 30, 2019

	<u>Business-Type Activities Water, Sewer, and Sanitation</u>
<b><u>Assets</u></b>	
<b>Current assets</b>	
Cash and equity in cash and investments	\$ 1,152,907
Accounts receivable (net of allowance for uncollectibles)	368,158
Restricted cash and cash equivalents	
Customer deposits	104,860
<b>Total Current Assets</b>	<u>1,625,925</u>
<b>Noncurrent assets</b>	
Net pension asset	10,057
Capital assets:	
Nondepreciable	622,259
Depreciable	7,275,194
<b>Total Capital Assets (Net)</b>	<u>7,897,453</u>
<b>Total Noncurrent Assets</b>	<u>7,907,510</u>
<b>Total Assets</b>	<u>9,533,435</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pensions	15,973
<b>Total Deferred Outflows of Resources</b>	<u>15,973</u>
<b><u>Liabilities and Net Position</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	85,993
Due to other funds	3,019
Compensated absences	5,924
Payable from restricted assets	
Customer deposits	104,860
<b>Total Current Liabilities</b>	<u>199,796</u>
<b>Noncurrent liabilities</b>	
Compensated absences	658
<b>Total Noncurrent Liabilities</b>	<u>658</u>
<b>Total Liabilities</b>	<u>200,454</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	7,975
<b>Net Position</b>	
Net investment in capital assets	7,897,453
Unrestricted net position	1,443,526
<b>Total Net Position</b>	<u>\$ 9,340,979</u>

See Notes to Financial Statements.

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**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2019

	<u>Business-Type Activities</u> <u>Water, Sewer, and Sanitation</u>
<b><u>Operating Revenues</u></b>	
Water service	\$ 660,268
Sewer service	591,563
Sanitation service	150,191
Meter installations	428,283
Other revenue	<u>267,164</u>
<b>Total Operating Revenues</b>	<u>2,097,469</u>
<b><u>Operating Expenses</u></b>	
Water, sewer, and sanitation	1,032,873
Salaries and wages	151,075
Depreciation	<u>366,279</u>
<b>Total Operating Expenses</b>	<u>1,550,227</u>
<b>Operating Income</b>	<u>547,242</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment revenue	<u>11,607</u>
<b>Total Nonoperating Revenues</b>	<u>11,607</u>
<b>Income Before Transfers</b>	<u>558,849</u>
<b><u>Transfers</u></b>	
Transfers in	874,805
Transfers (out)	<u>(307,840)</u>
<b>Total Transfers</b>	<u>566,965</u>
<b>Change in Net Position</b>	1,125,814
Beginning net position	<u>8,215,165</u>
<b>Ending Net Position</b>	<u><u>\$ 9,340,979</u></u>

See Notes to Financial Statements.

# CITY OF MONTGOMERY, TEXAS

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2019

	<u>Business-Type Activities</u> <u>Water, Sewer, and Sanitation</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers and users	\$ 1,968,648
Payments to suppliers	(1,021,317)
Payments to employees	(154,288)
<b>Net Cash Provided by Operating Activities</b>	<u>793,043</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfers from other funds	874,805
Transfer to other funds	(307,840)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>566,965</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
<b><u>Financing Activities</u></b>	
Acquisition and construction of capital assets	(862,294)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(862,294)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	11,607
<b>Net Cash Provided by Investing Activities</b>	<u>11,607</u>
<b>Net Change in Cash and Cash Equivalents</b>	509,321
Beginning cash and cash equivalents	748,446
<b>Ending Cash and Cash Equivalents</b>	<u><u>\$ 1,257,767</u></u>
<b>Ending Cash and Cash Equivalents:</b>	
Unrestricted cash and cash equivalents	\$ 1,152,907
Restricted cash and cash equivalents	104,860
	<u><u>\$ 1,257,767</u></u>

See Notes to Financial Statements.

# CITY OF MONTGOMERY, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2019

	<b>Business-Type Activities</b>
	<b>Water, Sewer, and Sanitation</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income	\$ 547,242
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Depreciation	366,279
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in Current Assets:</b>	
Accounts receivable	(140,445)
Due from other governments	74
Deferred outflows - pensions	(10,819)
Net pension asset	5,691
<b>Increase (Decrease) in Current Liabilities:</b>	
Accounts payable	28,659
Due to other funds	(17,103)
Compensated absences	(1,007)
Customer deposits	11,550
Deferred inflows - pensions	2,922
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 793,043</b>



**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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; municipal court; public safety; public works; and water, sewer, and sanitation services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. 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 units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and 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.

**Discretely Presented Component Unit**

**Montgomery Economic Development Corporation**

On December 14, 1995, the City incorporated the Montgomery Industrial Development Corporation. In July 2013, the name was changed to Montgomery Economic Development Corporation (MEDC). The purpose of this nonprofit corporation is to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment; 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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

purpose. Separate financial statements of the MEDC are not prepared. The MEDC identified above is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. The City appoints a majority of this MEDC's board members and is either able to impose its will on it or a financial benefit/burden exists.

**Blended Component Unit**

**Public Improvement District (PID) No. 1**

Following a public hearing on September 30, 2014, the City Council created the City of Montgomery Public Improvement District (PID) No. 1 in accordance with Chapter 372 of the Local Government Code. The PID was created to provide a method of financing certain public improvements for the benefit of property in the PID, the costs of which would be paid by owners of real property located in the PID, subject to limitations contained in the service and assessment plan. Public improvements included creation costs of the PID, as well as roadway, water distribution system, storm sewer collection system, and wastewater collection system improvements. These public improvements were funded from developer revenues before construction began. The developer will be repaid in annual installments over a fifteen-year period through assessments to the property owners in the PID, the timing of which begins after the City has issued a certificate of occupancy for completed permanent structures; however, such date shall not occur before the trigger date of September 1, 2017. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**C. Basis of Presentation – Government-Wide Financial Statements**

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

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is the City's primary operating fund. It is used to account for and report all financial resources not accounted for and reported in other funds. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, municipal court, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition of capital facilities and other capital assets. The capital projects fund is considered major for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The special revenue funds include the grant fund, the hotel occupancy fund, the court security fund, the court technology fund, and the police asset forfeiture fund. The remaining special revenue funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise funds:

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

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

**1. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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

- Direct obligations of the U.S. Government or U.S. Government agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Bankers' acceptances
- Statewide investment pools

**3. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 years
Furniture and equipment	5 to 20 years
Vehicles	5 years
Infrastructure	20 to 40 years

#### **5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the average of the expected service lives of pension plan members, except for the net differences between the projected and actual investment earnings on the pension plan assets, which are amortized over a period of five years.
- For employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

#### **6. Compensated Employee 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.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when they are paid.

**7. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**8. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**9. Fund Balance Flow Assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**10. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

By resolution, the City Council has also authorized the City Administrator as the official authorized to assign fund balance to a specific purpose as approved by the City's fund balance policy. Assignments of fund balance by the City Administrator do not require formal action by the City Council.

The City strives to maintain an unassigned fund balance of not less than 25 percent of the budgeted operational expenditures in all City funds. The purpose of the unassigned balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to citizens. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**11. Estimates**

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

**12. Pensions**

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

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property Taxes**

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

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, debt service, and special revenue funds. The original budget is adopted by the City Council prior to

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without City Council approval. Appropriations lapse at the end of the year.

**A. Expenditures in Excess of Appropriations**

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

General Fund	
General government	\$ 29,897
Public works	\$ 47,391
Capital outlay	\$ 87,169
Court Technology Fund	
Total expenditures	\$ 4,340

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2019, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 350,000	0.31
TexPool	2,746,155	0.09
<b>Total</b>	<u><u>\$ 3,096,155</u></u>	
Portfolio weighted average maturity		0.12

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*Credit risk.* The City's investment policy limits investments in public fund investment pools rated as to investment quality not less than "AAA" or "AAA-m", or at an equivalent rating by at least one nationally recognized rating service. Investments in U.S. Securities Exchange Commission registered and regulated money market mutual funds must have an investment quality not less than "AAA-", or at an equivalent rating by at least one nationally recognized rating service. As of September 30, 2019, the City's investments in TexPool were rated "AAAm" by Standard & Poor's.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2019, fair market values of pledged securities and FDIC coverage exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

deposited in the City's safekeeping account prior to the release of funds.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

**B. Receivables**

The following comprise receivable balances at year end:

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Water, Sewer, and Sanitation</b>	<b>Total</b>
Property taxes	\$ 21,238	\$ 13,553	\$ -	\$ -	\$ 34,791
Sales taxes	415,900	-	-	-	415,900
Accounts receivable	37,695	-	5,065	386,441	429,201
Less allowance	-	-	-	(18,283)	(18,283)
	<u>\$ 476,517</u>	<u>\$ 13,553</u>	<u>\$ 5,065</u>	<u>\$ 368,158</u>	<u>\$ 863,293</u>
	<b>MEDC</b>				
Sales taxes	\$ 138,633				
Other receivables	2,780				
	<u>\$ 141,413</u>				

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

**C. Capital Assets**

A summary of changes in capital assets for the year end is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 784,570	\$ 79,439	\$ -	\$ 864,009
Construction in progress	1,283,299	175,400	(1,391,459)	67,240
Total capital assets not being depreciated	<u>2,067,869</u>	<u>254,839</u>	<u>(1,391,459)</u>	<u>931,249</u>
Other capital assets:				
Buildings and improvements	1,002,814	19,800	-	1,022,614
Infrastructure	2,459,636	1,391,459	-	3,851,095
Vehicles	859,110	102,582	-	961,692
Furniture and fixtures	417,035	7,200	-	424,235
Total other capital assets	<u>4,738,595</u>	<u>1,521,041</u>	<u>-</u>	<u>6,259,636</u>
Less accumulated depreciation for:				
Buildings and improvements	(499,664)	(51,007)	-	(550,671)
Infrastructure	(466,702)	(129,829)	-	(596,531)
Vehicles	(641,301)	(88,446)	-	(729,747)
Furniture and fixtures	(327,081)	(7,013)	-	(334,094)
Total accumulated depreciation	<u>(1,934,748)</u>	<u>(276,295)</u>	<u>-</u>	<u>(2,211,043)</u>
Other capital assets, net	<u>2,803,847</u>	<u>1,244,746</u>	<u>-</u>	<u>4,048,593</u>
<b>Governmental Activities Capital Assets, Net</b>	<u><u>\$ 4,871,716</u></u>	<u><u>\$ 1,499,585</u></u>	<u><u>\$ (1,391,459)</u></u>	<u><u>4,979,842</u></u>
		Plus unspent bond proceeds		2,899,905
		Plus deferred charge on refunding		3,082
		<b>Net Investment in Capital Assets</b>		<u><u>\$ 7,882,829</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 54,826
Public safety	74,689
Public works	<u>146,780</u>
<b>Total Governmental Activities Depreciation Expense</b>	<u><u>\$ 276,295</u></u>

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The following is a summary of changes in capital assets for business-type activities for the year end:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 66,581	\$ -	\$ -	\$ 66,581
Construction in progress	214,837	754,866	(414,025)	555,678
Total capital assets not being depreciated	<u>281,418</u>	<u>754,866</u>	<u>(414,025)</u>	<u>622,259</u>
Other capital assets:				
Infrastructure	11,319,108	521,453	-	11,840,561
Furniture and equipment	173,642	-	-	173,642
Vehicles	137,104	-	-	137,104
Total other capital assets	<u>11,629,854</u>	<u>521,453</u>	<u>-</u>	<u>12,151,307</u>
Less accumulated depreciation for:			-	
Infrastructure	(4,239,403)	(344,116)	-	(4,583,519)
Furniture and equipment	(149,397)	(3,531)	-	(152,928)
Vehicles	(121,034)	(18,632)	-	(139,666)
Total accumulated depreciation	<u>(4,509,834)</u>	<u>(366,279)</u>	<u>-</u>	<u>(4,876,113)</u>
Other capital assets, net	<u>7,120,020</u>	<u>155,174</u>	<u>-</u>	<u>7,275,194</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u><u>\$ 7,401,438</u></u>	<u><u>\$ 910,040</u></u>	<u><u>\$ (414,025)</u></u>	<u><u>\$ 7,897,453</u></u>

Depreciation was charged to business-type functions as follows:

Water, sewer, and sanitation	<u>\$ 366,279</u>
<b>Total Business-Type Activities Depreciation Expense</b>	<u><u>\$ 366,279</u></u>

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

**D. Long-Term Debt**

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

The long-term liabilities for the governmental activities at year end are as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
<b>Governmental Activities:</b>					
General obligation refunding bonds	\$ 2,265,000	\$ -	\$ (105,000)	\$ 2,160,000	\$ 110,000
Certificates of obligation	3,295,000	-	(125,000)	3,170,000	130,000
Direct borrowings/placements					
General obligation refunding bonds	610,000	-	(85,000)	525,000	85,000
Certificates of obligation	2,690,000	-	(130,000)	2,560,000	130,000
Deferred amounts:					
For issuance discounts/premiums	114,282	-	(5,828)	108,454	-
	<u>8,974,282</u>	<u>-</u>	<u>(450,828)</u>	<u>8,523,454</u>	<u>455,000</u>
Other liabilities:					
Compensated absences	68,790	65,885	(63,346)	71,329	64,196
<b>Total Governmental Activities</b>	<u>\$ 9,043,072</u>	<u>\$ 65,885</u>	<u>\$ (514,174)</u>	<u>\$ 8,594,783</u>	<u>\$ 519,196</u>
<b>Long-term debt due in more than one year</b>				<u>\$ 8,075,587</u>	
<b>*Debt associated with business-type assets</b>				<u>\$ 8,523,454</u>	
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
<b>Business-Type Activities:</b>					
Other liabilities:					
Compensated absences	\$ 7,589	\$ 5,523	\$ (6,530)	\$ 6,582	\$ 5,924
<b>Total Business-Type Activities</b>	<u>\$ 7,589</u>	<u>\$ 5,523</u>	<u>\$ (6,530)</u>	<u>\$ 6,582</u>	<u>\$ 5,924</u>

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

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

Description	Interest Rates	Original Balance	Current Balance
<b><u>Governmental Activities</u></b>			
<b>General Obligation Bonds</b>			
General obligation refunding bonds, series 2012	2.00-4.00%	\$ 2,830,000	\$ 2,160,000
From direct borrowings/placements:			
General obligation refunding bonds, series 2015	0.85-2.80%	845,000	525,000
<b>Total General Obligation Bonds</b>		<u>3,675,000</u>	<u>2,685,000</u>
<b>Certificates of Obligation</b>			
Tax and revenue certificates of obligation, series 2012	3.00-3.50%	3,760,000	3,170,000
From direct borrowings/placements:			
Tax and revenue certificates of obligation, series 2017A	0.10 - 1.60%	1,090,000	990,000
Tax and revenue certificates of obligation, series 2017B	0.01 - 1.90%	1,730,000	1,570,000
<b>Total Certificates of Obligation</b>		<u>6,580,000</u>	<u>5,730,000</u>
<b>Total Governmental Activities Long-Term Debt</b>		<u>\$ 10,255,000</u>	<u>\$ 8,415,000</u>

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

Year Ending	General Obligation		Certificates of Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 110,000	\$ 70,750	\$ 130,000	\$ 104,875	\$ 240,000	\$ 175,625
2021	115,000	68,075	130,000	100,975	245,000	169,050
2022	115,000	65,200	135,000	97,000	250,000	162,200
2023	120,000	62,113	140,000	92,875	260,000	154,988
2024	125,000	58,744	145,000	88,600	270,000	147,344
2025-2029	680,000	233,412	775,000	369,325	1,455,000	602,737
2030-2034	630,000	112,875	905,000	222,862	1,535,000	335,737
2035-2038	265,000	10,700	810,000	57,576	1,075,000	68,276
<b>Total</b>	<u>\$ 2,160,000</u>	<u>\$ 681,869</u>	<u>\$ 3,170,000</u>	<u>\$ 1,134,088</u>	<u>\$ 5,330,000</u>	<u>\$ 1,815,957</u>

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

The annual requirements to amortize debt issues outstanding for the direct borrowings/placements at year end are as follows:

<b>Year Ending</b>	<b>General Obligation</b>		<b>Certificates of Obligation</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2020	\$ 85,000	\$ 11,903	\$ 130,000	\$ 29,045	\$ 215,000	\$ 40,948
2021	80,000	10,173	130,000	28,969	210,000	39,142
2022	85,000	8,293	130,000	28,712	215,000	37,005
2023	90,000	6,170	130,000	28,219	220,000	34,389
2024	90,000	3,852	130,000	27,478	220,000	31,330
2025-2029	95,000	1,330	700,000	118,266	795,000	119,596
2030-2034	-	-	740,000	71,249	740,000	71,249
2035-2038	-	-	470,000	12,587	470,000	12,587
<b>Total</b>	<b>\$ 525,000</b>	<b>\$ 41,721</b>	<b>\$ 2,560,000</b>	<b>\$ 344,525</b>	<b>\$ 3,085,000</b>	<b>\$ 386,246</b>

The City's long-term debt includes all outstanding bonded debt secured by the full faith and credit of the City. The bonds are certificates of obligation, general obligation, and contractual obligation bonds that are secured by the full faith and credit of the City and are paid through the debt service fund from tax revenues.

**Federal Arbitrage**

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

**E. Interfund Transactions**

The composition of due to/from balances as of year end was as follows:

<b>Due To</b>	<b>Due From</b>	<b>Amounts</b>
General	Water, sewer, and sanitation	\$ 3,019
Nonmajor governmental	General	5,914
Debt service	General	100
		<u>\$ 9,033</u>

Amounts recorded as due to/from are considered to be temporary loans and will generally be repaid in more than one year.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
Debt Service	Water and sewer	153,040
General	Nonmajor governmental	2,880
Water and sewer	Capital projects	874,805
Capital projects	Water and sewer	154,800
Capital projects	General	15,000
		<u>\$ 1,200,525</u>

Amounts transferred between funds related to amounts collected by the general; capital projects; water, sewer, and sanitation; and other nonmajor governmental funds for various governmental and business-type expenditures.

#### **IV. OTHER INFORMATION**

##### **A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

##### **B. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

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

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

**C. Pension Plan**

**Texas Municipal Retirement System**

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tmr.com](http://www.tmr.com).

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

Benefits Provided

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

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

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

	<u>2019</u>	<u>2018</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0%	0%

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to, but not yet, receiving benefits	25
Active employees	23
<b>Total</b>	<b>57</b>

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.10 percent and 6.13 percent in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$86,378 and were equal to the required contributions.

Net Pension (Asset)

The City's Net Pension (Asset) NP(A)) was measured as of December 31, 2018 and the Total Pension Liability (TPL) used to calculate the NP(A) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
<b>Total</b>	<b>100.00%</b>	

**Discount Rate**

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

Changes in the NP(A)

	<b>Increase (Decrease)</b>		
	<b>Total Liability (A)</b>	<b>Plan Fiduciary Net Position (B)</b>	<b>Net Pension (Asset) (A) - (B)</b>
Changes for the year:			
Service cost	\$ 176,697	\$ -	\$ 176,697
Interest	87,871	-	87,871
Changes in current period benefits	-	-	-
Difference between expected and actual experience	(85,189)	-	(85,189)
Changes in assumptions	-	-	-
Contributions - employer	-	79,080	(79,080)
Contributions - employee	-	90,747	(90,747)
Net investment income	-	(42,554)	42,554
Benefit payments, including refunds of employee contributions	(107,065)	(107,065)	-
Administrative expense	-	(821)	821
Other changes	-	(43)	43
<b>Net Changes</b>	<b>72,314</b>	<b>19,345</b>	<b>52,969</b>
Balance at December 31, 2017	1,266,973	1,418,005	(151,032)
<b>Balance at December 31, 2018</b>	<b>\$ 1,339,287</b>	<b>\$ 1,437,350</b>	<b>\$ (98,063)</b>

Sensitivity of the NP(A) to Changes in the Discount Rate

The following presents the NP(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NP(A) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75%)</b>
City's Net Pension Liability/(Asset)	\$ 114,062	\$ (98,063)	\$ (267,378)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

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

For the fiscal year ended September 30, 2019, the City recognized net pension expense of \$81,153.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ (72,963)
Changes in actuarial assumptions	-	-
Net difference between projected and actual investment earnings	74,367	-
Contributions subsequent to the measurement date	68,056	-
<b>Total</b>	<b>\$ 142,423</b>	<b>\$ (72,963)</b>

\$68,056 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of the NP(A) for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Fiscal Year ended September 30</b>	<b>Pension Expense</b>
2020	\$ 1,210
2021	(11,836)
2022	(8,409)
2023	20,439
2024	-
Thereafter	-
<b>Total</b>	<b>\$ 1,404</b>

#### **D. Tax Abatements**

##### **Chapter 380 Economic Development Agreements**

Chapter 380 of the Texas Local Government Code, *Miscellaneous Provisions Relating to Municipal Planning and Development*, provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs to promote state or local economic development and to stimulate business and commercial activity in the municipality.

##### Sales Taxes

The City has entered into sales tax abatement agreements (the “Agreements”) with several developers as authorized by Chapter 380 of the Texas Local Government Code. Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their sales taxes abated. The minimum limitation value varies by Agreement. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements:

- The group of developers for “The Shoppes At Montgomery” intend and propose to develop property in the City’s extraterritorial jurisdiction (ETJ) for residential, commercial, and retail use. As part of the Agreement, the developers have agreed to convey to the City the Utility Extension Project (the “Project”) and submit a petition to the City to annex the property. Subject to annexation of the property and upon final completion of the Project, the City has

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

agreed to provide a grant to the developers limited to the lesser of 70 percent of the construction costs or \$410,500. The amount of reimbursement will be paid from one percent sales and use taxes charged on the taxable sales collected by the City as generated by businesses on the property. The first monthly payment amount is due the fifteenth day following the receipt by the City of the sales and use tax funds from the State Comptroller in the first month in which sales tax revenue is first generated on the property.

- The developer for “Milestone” will construct a new grocery retail store with approximately 124,000 square-feet (the “Development”) for the purpose of creating and/or retaining at least 144 full-time equivalent employees. The City has granted the developer a tax limitation of about \$5.6 million for a period of 15 years. In order to be eligible to receive the limitation, the developer must create 52 permanent new jobs and have invested at least \$7.5 million during the construction of the Development. The City will make annual payments to the developer from sales tax revenues at an amount equal to 55 percent of annual sales tax collected at the Development paid by the City, and the MEDC will make annual payments at an amount equal to 100 percent of annual sales tax collected at the Development. Annual installments will begin the first anniversary after the grocery store opens to the public. An assignment of economic development was entered into with the Kroger Texas L.P. on December 11, 2018. On February 14, 2019, the City reimbursed sales tax for the 2018 year in the amount of \$104,218 to the Kroger Company and \$36,071 was reimbursed for the 2019 fiscal year. On February 14, 2019, the MEDC reimbursed sales tax for the 2018 year in the amount of \$50,917 to the Kroger Company and \$77,405 was reimbursed for the 2019 fiscal year.

Property Taxes

The City has entered into property tax abatement agreements (the “Agreements”) with several developers as authorized by Chapter 380 of the Texas Local Government Code. Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their property taxes abated. The minimum limitation value varies by Agreement. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements:

- The City has entered into a ten-year term Agreement with a developer for “The Estates of Mia Lago, Section 1”, who intends and proposed to develop property in the City for residential, commercial, and retail use (the “Project”). As part of the Agreement, the developer has agreed to accelerate construction of the Project and convey it to the City. Subject to annexation of the property and upon final completion of the Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer in the sum of \$148,803 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).
- The City entered into an Agreement with a developer for the “Hills of Town Creek, Section 1” and a school district (the “District”). The developer intends and proposed to develop property that was recently annexed into the City for primarily high-density, multi-family residential use, with a limited amount of commercial and retail uses (the “Project”). As part of the Agreement, the developer has agreed to accelerate the construction of the Project and to convey it to the City and petition the City to annex 13.773 acres of land currently located

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

in the ETJ of the City. Other considerations include transfers of property and facilities from the District and the developer to the City and transfer of property from the developer to the District. Subject to the final completion of the Project, dedication of the facilities and easements to the City, other considerations, and annexation of the ETJ, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer limited to 100 percent 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). For the fiscal year ended September 30, 2019, the City abated property taxes totaling \$9,901 under this agreement.

- A developer for "Milestone" will construct a new retail grocery store with approximately 124,000 square feet (the "Development") for the purpose of creating and/or retaining at least 144 full-time equivalent employees. The City has granted the developer a tax limitation of about \$5.6 million for a period of 15 years. In order to be eligible to receive the limitation, the developer must create 52 permanent new jobs and have invested at least \$7.5 million during the construction of the Development. The City will make annual payments to the developer from property tax collected by March 1 of each year that the property tax rebate is in effect. Annual installments will begin the first tax year after the grocery store opens to the public. An assignment of economic development was entered into with the Kroger Texas L.P. on December 11, 2018. For the fiscal year ended September 30, 2019, the City abated property taxes totaling \$78,789 under this agreement.
- The City has entered into a twelve-year term Agreement with a developer for "The Estates of Mia Lago, Section 2", who intends and proposed to develop property in the City for residential use (the "Project"). As part of the Agreement, the developer has agreed to accelerate construction of the Project and convey it to the City. Subject to annexation of the property and upon final completion of the Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer in the sum of not more than \$100,000 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, 2017).

***REQUIRED SUPPLEMENTARY INFORMATION***



**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended September 30, 2019

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Property taxes	\$ 523,085	\$ 527,050	\$ 3,965
Sales taxes	2,240,539	2,071,895	(168,644)
Franchise fees	72,000	92,228	20,228
Other taxes	47,775	60,776	13,001
Licenses and permits	200,600	319,447	118,847
Fines and forfeitures	497,970	410,884	(87,086)
Other revenue	122,530	175,786	53,256
Intergovernmental	300	3,768	3,468
Investment revenue	6,100	16,748	10,648
<b>Total Revenues</b>	<b>3,710,899</b>	<b>3,678,582</b>	<b>(32,317)</b>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
General government	989,856	1,019,753	(29,897) *
Municipal court	457,340	359,416	97,924
Public safety	1,112,168	1,065,938	46,230
Public works	918,142	965,533	(47,391) *
<b>Capital outlay</b>	194,468	281,637	(87,169) *
<b>Total Expenditures</b>	<b>3,671,974</b>	<b>3,692,277</b>	<b>(20,303)</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>38,925</b>	<b>(13,695)</b>	<b>(52,620)</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	2,880	2,880	-
Transfers (out)	(41,405)	(15,000)	26,405
<b>Total Other Financing (Uses)</b>	<b>(38,525)</b>	<b>(12,120)</b>	<b>26,405</b>
<b>Net Change in Fund Balance</b>	<b>\$ 400</b>	<b>(25,815)</b>	<b>\$ (26,215)</b>
Beginning fund balance		1,276,652	
<b>Ending Fund Balance</b>		<b>\$ 1,250,837</b>	

Notes to Required Supplementary Information:

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

**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2019**

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 81,979	\$ 110,914	\$ 144,267	\$ 157,252
Interest (on the total pension liability)	55,068	57,948	66,121	77,769
Difference between expected and actual experience	(54,092)	(12,311)	(1,206)	(14,363)
Changes in assumptions	-	34,004	-	-
Benefit payments, including refunds of employee contributions	(33,403)	(79,160)	(31,829)	(54,384)
<b>Net Change in Total Pension Liability</b>	<b>49,552</b>	<b>111,395</b>	<b>177,353</b>	<b>166,274</b>
Beginning total pension liability	762,399	811,951	923,346	1,100,699
<b>Ending Total Pension Liability</b>	<b>\$ 811,951</b>	<b>\$ 923,346</b>	<b>\$ 1,100,699</b>	<b>\$ 1,266,973</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 26,597	\$ 37,600	\$ 43,778	\$ 68,154
Contributions - employee	61,367	63,744	74,200	80,998
Net investment income	50,475	1,456	68,262	161,340
Benefit payments, including refunds of employee contributions	(33,403)	(79,160)	(31,829)	(54,384)
Administrative expense	(527)	(887)	(770)	(835)
Other	(43)	(44)	(41)	(42)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>104,466</b>	<b>22,709</b>	<b>153,600</b>	<b>255,231</b>
Beginning plan fiduciary net position	881,999	986,465	1,009,174	1,162,774
<b>Ending Plan Fiduciary Net Position</b>	<b>\$ 986,465</b>	<b>\$ 1,009,174</b>	<b>\$ 1,162,774</b>	<b>\$ 1,418,005</b>
<b>Net Pension (Asset)</b>	<b>\$ (174,514)</b>	<b>\$ (85,828)</b>	<b>\$ (62,075)</b>	<b>\$ (151,032)</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension (Asset)</b>	121.49%	109.30%	105.64%	111.92%
<b>Covered Payroll</b>	<b>\$ 876,672</b>	<b>\$ 910,624</b>	<b>\$ 1,060,007</b>	<b>\$ 1,157,117</b>
<b>Net Pension (Asset) as a Percentage of Covered Payroll</b>	-19.91%	-9.43%	-5.86%	-13.05%

\*Only five years of information is currently available. The City will build this schedule over the next five-year period.

Meaurement
Year*
2018

\$	176,697
	87,871

(85,189)
----------

-
---

(107,065)
-----------

72,314
--------

1,266,973
-----------

\$	1,339,287
----	-----------

\$	79,080
	90,747
	(42,554)

(107,065)
-----------

(821)
-------

(43)
------

19,345
--------

1,418,005
-----------

\$	1,437,350
----	-----------

\$	(98,063)
----	----------

107.32%
---------

\$	1,296,384
----	-----------

-7.56%
--------

**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2019**

	Fiscal Year*			
	2015	2016	2017	2018
Actuarially determined contribution	\$ 26,103	\$ 44,811	\$ 61,309	\$ 76,271
Contributions in relation to the actuarially determined contribution	26,103	44,811	61,309	76,271
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 918,710	\$ 1,085,450	\$ 1,116,575	\$ 1,260,456
Contributions as a percentage of covered payroll	2.84%	4.13%	5.49%	6.05%

\*Only five years of information is currently available. The City will build this schedule over the next five-year period.

**Notes to Required Supplementary Information:**

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

<b>Fiscal</b> <b>Year</b> <b>2019</b>	
\$	86,378
	86,378
\$	-
\$	1,439,928
	6.00%



***COMBINING STATEMENTS  
AND SCHEDULES***



**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

For the Year Ended September 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Property taxes	\$ 490,771	\$ 499,071	\$ 8,300
Intergovernmental	4,000	160,000	156,000
Investment revenue	-	2,451	2,451
<b>Total Revenues</b>	<u>494,771</u>	<u>661,522</u>	<u>166,751</u>
<b><u>Expenditures</u></b>			
<b>Debt service:</b>			
Principal	445,000	445,000	-
Interest and fiscal agent fees	226,869	226,100	769
<b>Total Expenditures</b>	<u>671,869</u>	<u>671,100</u>	<u>769</u>
<b>(Deficiency) of Revenues</b>			
<b>(Under) Expenditures</b>	<u>(177,098)</u>	<u>(9,578)</u>	<u>165,982</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	313,040	153,040	(160,000)
<b>Total Other Financing Sources</b>	<u>313,040</u>	<u>153,040</u>	<u>(160,000)</u>
<b>Net Change in Fund Balance</b>	<u>\$ 135,942</u>	<u>143,462</u>	<u>\$ 7,520</u>
Beginning fund balance		<u>276,444</u>	
<b>Ending Fund Balance</b>		<u>\$ 419,906</u>	



# **CITY OF MONTGOMERY, TEXAS**

## ***NONMAJOR GOVERNMENTAL FUNDS***

### **SPECIAL REVENUE FUNDS**

**Special Revenue Funds** are used to account for specific revenues that are legally restricted, committed, or assigned to expenditures for particular purposes.

#### **Hotel Occupancy Fund**

This fund is used to account for hotel tax revenue from local hotels.

#### **Court Security Fund**

This fund is used to account for collection and disbursement of money used for court security.

#### **Municipal Court Technology Fund**

This fund is used to account for municipal court computer technology.

#### **Police Asset Forfeiture Fund**

This fund is used to account for revenues from seized contraband used for law enforcement purposes.

#### **Grant Fund**

This fund is used to account for revenues from grants.

# CITY OF MONTGOMERY, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS

September 30, 2019

#### Special Revenue Funds

	<u>Hotel Occupancy</u>	<u>Court Security</u>	<u>Court Technology</u>	<u>Police Asset Forfeiture</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 13,117	\$ 5,587	\$ 36,285	\$ 6,222
Due from other funds	-	497	670	4,747
<b>Total Assets</b>	<u><u>\$ 13,117</u></u>	<u><u>\$ 6,084</u></u>	<u><u>\$ 36,955</u></u>	<u><u>\$ 10,969</u></u>
<b><u>Fund balances</u></b>				
Restricted for:				
Tourism	13,117	-	-	-
Public safety	-	6,084	36,955	10,969
Grants	-	-	-	-
<b>Total Fund Balances</b>	<u>13,117</u>	<u>6,084</u>	<u>36,955</u>	<u>10,969</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 13,117</u></u>	<u><u>\$ 6,084</u></u>	<u><u>\$ 36,955</u></u>	<u><u>\$ 10,969</u></u>

<b>Special Revenue Funds</b>			
<b>Grants</b>		<b>Total Nonmajor Governmental Funds</b>	
\$	5,818	\$	67,029
	-		5,914
<u>\$</u>	<u>5,818</u>	<u>\$</u>	<u>72,943</u>

	-		13,117
	-		54,008
	5,818		5,818
<u></u>	<u>5,818</u>	<u></u>	<u>72,943</u>
<u>\$</u>	<u>5,818</u>	<u>\$</u>	<u>72,943</u>

**CITY OF MONTGOMERY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2019

		Special Revenue Funds			
		Hotel Occupancy	Court Security	Court Technology	Police Asset Forfeiture
<b><u>Revenues</u></b>					
Other taxes		\$ 2,093	\$ -	\$ -	\$ -
Fines and forfeitures		-	5,972	8,006	4,747
Intergovernmental		-	-	-	-
Investment revenue		3	-	9	-
<b>Total Revenues</b>		<u>2,096</u>	<u>5,972</u>	<u>8,015</u>	<u>4,747</u>
<b><u>Expenditures</u></b>					
<b>Current:</b>					
Public safety		-	1,200	6,340	-
Public works		-	-	-	-
<b>Total Expenditures</b>		<u>-</u>	<u>1,200</u>	<u>6,340</u>	<u>-</u>
<b>Excess of Revenues</b>					
<b>Over Expenditures</b>		<u>2,096</u>	<u>4,772</u>	<u>1,675</u>	<u>4,747</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Transfers (out)		-	(2,880)	-	-
<b>Total Other Financing (Uses)</b>		<u>-</u>	<u>(2,880)</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>		2,096	1,892	1,675	4,747
Beginning fund balances		<u>11,021</u>	<u>4,192</u>	<u>35,280</u>	<u>6,222</u>
<b>Ending Fund Balances</b>		<u>\$ 13,117</u>	<u>\$ 6,084</u>	<u>\$ 36,955</u>	<u>\$ 10,969</u>

<b>Special Revenue Funds</b>		<b>Total Nonmajor Governmental Funds</b>
<b>Grants</b>		
\$ -	\$	2,093
-		18,725
8,500		8,500
-		12
<u>8,500</u>		<u>29,330</u>
-		7,540
<u>8,500</u>		<u>8,500</u>
<u>8,500</u>		<u>16,040</u>
-		13,290
-		(2,880)
-		(2,880)
-		10,410
<u>5,818</u>		<u>62,533</u>
<u>\$ 5,818</u>	<u>\$</u>	<u>72,943</u>

**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**

For the Year Ended September 30, 2019

<b>Hotel Occupancy</b>			
	<b>Original and Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Other taxes	\$ 1,000	\$ 2,093	\$ 1,093
Other revenues	7	3	(4)
<b>Total Revenues</b>	<b>1,007</b>	<b>2,096</b>	<b>1,089</b>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
General government	4,000	-	4,000
<b>Total Expenditures</b>	<b>4,000</b>	<b>-</b>	<b>4,000</b>
<b>Net Change in Fund Balance</b>	<b>\$ (2,993)</b>	<b>2,096</b>	<b>\$ 5,089</b>
Beginning fund balance		11,021	
<b>Ending Fund Balance</b>		<b>\$ 13,117</b>	

<b>Court Security</b>			
	<b>Original and Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Fines and forfeitures	\$ 6,500	\$ 5,972	\$ (528)
Investment revenue	5	-	(5)
<b>Total Revenues</b>	<b>6,505</b>	<b>5,972</b>	<b>(533)</b>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
Public safety	3,900	1,200	2,700
<b>Total Expenditures</b>	<b>3,900</b>	<b>1,200</b>	<b>2,700</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,605</b>	<b>4,772</b>	<b>2,167</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(3,600)	(2,880)	720
<b>Total Other Financing (Uses)</b>	<b>(3,600)</b>	<b>(2,880)</b>	<b>720</b>
<b>Net Change in Fund Balance</b>	<b>\$ (995)</b>	<b>1,892</b>	<b>\$ 2,887</b>
Beginning fund balance		4,192	
<b>Ending Fund Balance</b>		<b>\$ 6,084</b>	

**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL (Continued)**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**For the Year Ended September 30, 2019**

<b>Court Technology</b>			
	<b>Original and Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Fines and forfeitures	\$ 10,000	\$ 8,006	\$ (1,994)
Investment revenue	2	9	7
<b>Total Revenues</b>	<b>10,002</b>	<b>8,015</b>	<b>(1,987)</b>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
Public safety	2,000	6,340	(4,340) *
<b>Total Expenditures</b>	<b>2,000</b>	<b>6,340</b>	<b>(4,340)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 8,002</b>	<b>1,675</b>	<b>\$ (6,327)</b>
Beginning fund balance		35,280	
<b>Ending Fund Balance</b>		<b>\$ 36,955</b>	

<b>Police Asset Forfeiture</b>			
	<b>Original and Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Fines and forfeitures	\$ 100	\$ 4,747	\$ 4,647
<b>Total Revenues</b>	<b>100</b>	<b>4,747</b>	<b>4,647</b>
<b>Net Change in Fund Balance</b>	<b>\$ 100</b>	<b>4,747</b>	<b>\$ 4,647</b>
Beginning fund balance		6,222	
<b>Ending Fund Balance</b>		<b>\$ 10,969</b>	

Notes to Supplementary Information:

\*Expenditures exceeded appropriations at the legal level of control.

