ANNUAL FINANCIAL REPORT

of the

CITY OF MONTGOMERY, TEXAS

For the Year Ended
September 30, 2017

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CITY OF MONTGOMERY, TEXAS

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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, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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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, 2017, 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

Change in Financial Statement and Single Audit Reporting

As discussed in Note IV.E. to the financial statements, the financial statements and the opinion letter on the financial statements for the fiscal year ending September 30, 2017 have been reissued based on a subsequently discovered fact. The independent auditors' report dated March 23, 2018 should not be relied upon by financial statement users. Additionally, based on the subsequently discovered fact, which included the discovery that the City exceeded the threshold requiring a Single Audit, additional audit procedures were preformed to satisfy the requirements of *Government Auditing Standards*, as well as the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for the year ended September 30, 2017.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
July 17, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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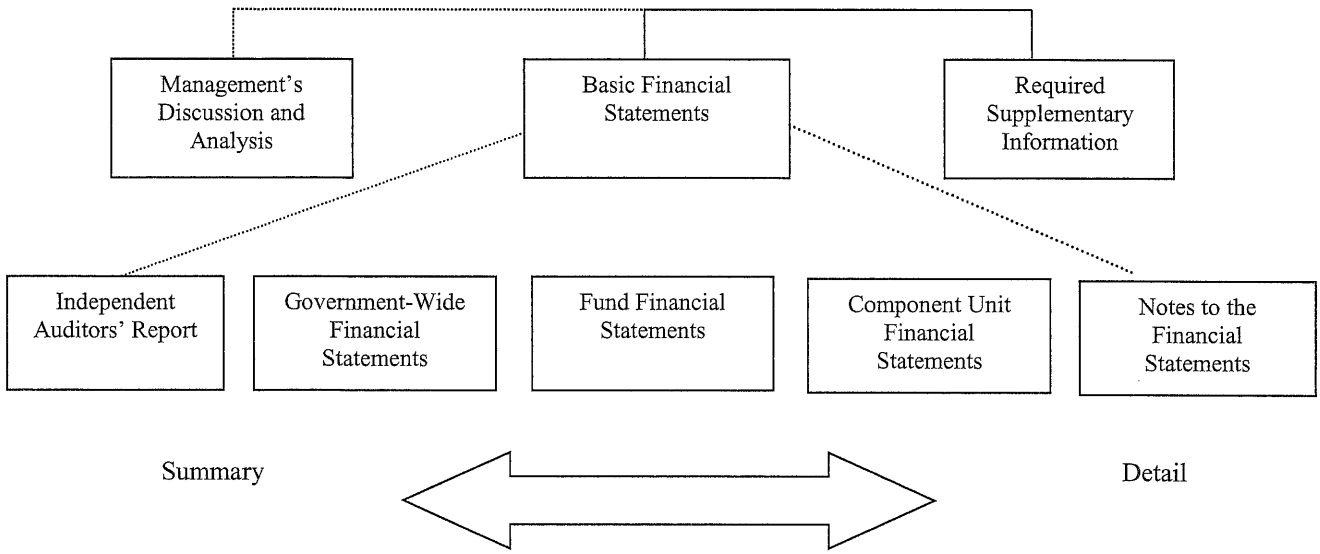
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Montgomery, Texas (the "City") for the year ending September 30, 2017. The analysis is based on currently known facts, decisions, 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

Components of the Financial Section



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.

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 police and fire protection, municipal court, streets, drainage, leisure services, community development, and general administrative services. Sales tax, property tax, franchise taxes, 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, the capital projects fund, and the CDBG grant fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, and select 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 $6,265,495 as of September 30, 2017. A portion of the City's net position, 66%, 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.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	September 30, 2017			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	$ 4,634,468	$ 717,262	$ -	$ 5,351,730
Capital assets, net	3,695,291	7,252,610	-	10,947,901
Total Assets	8,329,759	7,969,872	-	16,299,631
Deferred outflows - pensions	99,623	9,192	-	108,815
Deferred charge on refunding	4,316	-	-	4,316
Total Deferred Outflows of Resources	103,939	9,192	-	113,131
Long-term liabilities	9,498,006	6,707	-	9,504,713
Other liabilities	461,082	160,282	-	621,364
Total Liabilities	9,959,088	166,989	-	10,126,077
Deferred inflows - pensions	18,905	2,285	-	21,190
Total Deferred Inflows of Resources	18,905	2,285	-	21,190
Net Position:				
Net investment in capital assets	6,293,278	7,252,610	(9,415,110)	4,130,778
Restricted	255,202	-	-	255,202
Unrestricted	(8,092,775)	557,180	9,415,110	1,879,515
Total Net Position	$ (1,544,295)	$ 7,809,790	$ -	$ 6,265,495

	September 30, 2016			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	$ 1,797,326	$ 348,402	$ -	$ 2,145,728
Capital assets, net	2,563,372	7,596,238	-	10,159,610
Total Assets	4,360,698	7,944,640	-	12,305,338
Deferred outflows - pensions	85,714	8,424	-	94,138
Deferred charge on refunding	4,932	-	-	4,932
Total Deferred Outflows of Resources	90,646	8,424	-	99,070
Long-term liabilities	6,633,016	441	-	6,633,457
Other liabilities	647,355	116,361	-	763,716
Total Liabilities	7,280,371	116,802	-	7,397,173
Deferred inflows - pensions	11,625	1,810	-	13,435
Total Deferred Inflows of Resources	11,625	1,810	-	13,435
Net Position:				
Net investment in capital assets	2,563,372	7,596,238	(6,905,938)	3,253,672
Restricted	323,364	16,684	-	340,048
Unrestricted	(5,727,388)	221,530	6,905,938	1,400,080
Total Net Position	$ (2,840,652)	$ 7,834,452	$ -	$ 4,993,800

A portion of the City's net position, $255,202 or 4%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $1,879,515 or 30%, may be used to meet the City's ongoing obligation to citizens and creditors.

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 $9,415,110, 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 $1,271,695 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 increased due to the issuance of the tax and revenue certificates of obligation, series 2017A and 2017B in the amounts of $1,090,000 and $1,730,000, respectively.

Statement of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	$ 565,486	$ 547,294	$ 1,364,997	$ 974,922	$ 1,930,483	$ 1,522,216
Operating grants and contributions	333,087	155,000	-	-	333,087	155,000
Capital grants and contributions	962,487	93,183	-	34,826	962,487	128,009
General revenues:						
Property taxes	701,428	527,372	-	-	701,428	527,372
Sales taxes	1,501,672	1,456,952	-	-	1,501,672	1,456,952
Other taxes	90,976	75,048	-	-	90,976	75,048
Other revenues	143,009	68,874	188,853	1,516	331,862	70,390
Total Revenues	4,298,145	2,923,723	1,553,850	1,011,264	5,851,995	3,934,987
Expenses						
General government	750,180	708,016	-	-	750,180	708,016
Municipal court	312,643	919,762	-	-	312,643	919,762
Public safety	849,021	218,138	-	-	849,021	218,138
Public works	841,888	836,945	-	-	841,888	836,945
Interest and fiscal agent fees	413,681	210,700	-	-	413,681	210,700
Water, sewer, and sanitation	-	-	1,412,887	1,137,835	1,412,887	1,137,835
Total Expenses	3,167,413	2,893,561	1,412,887	1,137,835	4,580,300	4,031,396
Increase/(Decrease) in Net Position Before Transfers	1,130,732	30,162	140,963	(126,571)	1,271,695	(96,409)
Transfers in (out)	165,625	125,300	(165,625)	(125,300)	-	-
Change in Net Position	1,296,357	155,462	(24,662)	(251,871)	1,271,695	(96,409)
Beginning net position	(2,840,652)	(2,996,114)	7,834,452	8,086,323	4,993,800	5,090,209
Ending Net Position	$ (1,544,295)	$ (2,840,652)	$ 7,809,790	$ 7,834,452	$ 6,265,495	$ 4,993,800

For the year ended September 30, 2017, revenues from governmental activities totaled $4,298,145, which is an increase of $1,374,422 from last year. This is primarily due to an increase in capital grants and contributions, along with property and sales tax increases. The increase in property tax is due to an increase in the property valuations, and the increase in sales tax is due to improved sales within the City. Capital grants and contributions increased as a result of the CDBG grant program administered through the Texas Department of Agriculture.

For the year ended September 30, 2017, expenses for governmental activities totaled $3,167,413. Overall governmental expenses increased by $273,852 due to increases in personnel costs, pension expense, group insurance, and contracted services.

Net position before transfers for business-type activities increased $140,963 compared to the prior year. Revenues increased $542,586 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 $275,052 compared to the prior year due to increases in personnel costs, pension expense, maintenance projects, and contracted services.

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 $4,113,985. Of this, $2,848,873 is restricted for various purposes and $30,000 is committed for public safety. The remaining net balance of $1,235,112 is unassigned in the general fund and CDBG grant fund.

There was a net increase in the combined fund balance of $2,669,186 compared to the prior year, due mainly to increases in property tax revenues and sales tax revenues, as well as the issuance of debt. 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 $1,236,011. 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. Unassigned and total fund balance represents 46 and 47 percent, respectively, of total general fund expenditures. The general fund demonstrated an overall decrease of $4,001, which is comparable to the prior year. Expenditures increased compared to the prior year due to increases in expenditures from personnel costs, group insurance, and contracted services.

The debt service fund has a total fund balance of $210,766, all of which is restricted for the payment of debt service. The net increase in fund balance during the year was $88,427. This increase can be attributed to the transfer in from the water, sewer, and sanitation fund.

The capital projects fund recorded an increase of $2,592,583 in fund balance. This is primarily due to the issuance of the tax and revenue certificates of obligation, series 2017A and 2017B in the amounts of $1,090,000 and $1,730,000, respectively. The funds are in escrow and are restricted to future capital projects for the City.

The CDBG grant fund had a decrease in fund balance of $1,081, which resulted in a deficit fund balance of $899. This was due to expenditures recorded in this fund that were not reimbursed by the grant.

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 $19,472 in the general fund. However, the net change in fund balance decreased by $4,001, resulting in a negative variance of $23,473 from budgeted over actual.

Original budgeted revenues were less than actual general fund revenues by $309,436 during 2017. This is mainly due to less sales taxes and fines and forfeitures received than anticipated.

Actual expenditures were less than budgeted amounts by $285,963 for the fiscal year. Expenditures were more than anticipated in municipal court and public works.

CAPITAL ASSETS

At the end of the current fiscal year, the City's governmental and business-type activities had invested $10,947,901 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of $788,291.

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

- Purchase of three vehicles for the police department
- 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 $9,295,000. Of this amount, $3,060,000 was general obligation debt, and tax and revenue certificates of obligation accounted for $6,235,000.

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 2017-2018 expenditure budget of $3,109,992, which is an increase of $228,622 from the prior year budget. The City budgeted for fiscal year 2017-2018 revenues of $3,069,092, which is an increase of $117,950 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 2017-2018 fiscal year.

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 Jack Yates, 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, 2017

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Cash and cash equivalents	$ 3,788,100	$ 508,151	$ -	$ 4,296,251
Investments	200,000	-	-	200,000
Receivables, net of allowances	480,283	190,451	-	670,734
Internal balances	67,602	(67,602)	-	-
Due from others	44,410	-	-	44,410
Restricted assets:				
Cash and cash equivalents	-	78,260	-	78,260
	4,580,395	709,260	-	5,289,655
Net pension asset - TMRS	54,073	8,002	-	62,075
Capital assets:				
Nondepreciable capital assets	895,323	105,938	-	1,001,261
Depreciable capital assets, net	2,799,968	7,146,672	-	9,946,640
	3,749,364	7,260,612	-	11,009,976
Total Assets	8,329,759	7,969,872	-	16,299,631
Deferred Outflows of Resources				
Deferred outflows - pensions	99,623	9,192	-	108,815
Deferred charge on refunding	4,316	-	-	4,316
Total Deferred Outflows of Resources	103,939	9,192	-	113,131
Liabilities				
Accounts payable and accrued liabilities	442,251	82,022	-	524,273
Accrued interest payable	18,831	-	-	18,831
Due to others	-	-	-	-
Customer deposits	-	78,260	-	78,260
Noncurrent liabilities:				
Long-term liabilities due within one year	512,361	6,036	-	518,398
Long-term liabilities due in more than one year	8,985,645	671	-	8,986,315
Total Liabilities	9,959,088	166,989	-	10,126,077
Deferred Inflows of Resources				
Deferred inflows - pensions	18,905	2,285	-	21,190
Total Deferred Inflows of Resources	18,905	2,285	-	21,190
Net Position				
Net investment in capital assets	6,293,278	7,252,610	(9,415,110)	4,130,778
Restricted for:				
Economic development	-	-	-	-
Debt service	210,766	-	-	210,766
Enabling legislation	34,968	-	-	34,968
Tourism	9,468	-	-	9,468
Unrestricted	(8,092,775)	557,180	9,415,110	1,879,515
Total Net Position	$ (1,544,295)	$ 7,809,790	$ -	$ 6,265,495

See Notes to Financial Statements.

Component Unit
MEDC
$ 543,234
250,000
95,727
-
-
-
888,961
-
-
-
-
888,961
-
-
-
49,338
-
44,410
-
9,183
-
102,931
-
-
-
786,030
-
-
-
-
$ 786,030

CITY OF MONTGOMERY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	$ 750,180	$ 197,630	$ 333,087	962,487
Municipal court	312,643	367,856	-	-
Public safety	849,021	-	-	-
Public works	841,888	-	-	-
Interest and fiscal agent fees	413,681	-	-	-
Total Governmental Activities	3,167,413	565,486	333,087	962,487
Business-Type Activities				
Water, sewer, and sanitation services	1,412,887	1,364,997	-	-
Total Business-Type Activities	1,412,887	1,364,997	-	-
Total Primary Government	$ 4,580,300	$ 1,930,483	$ 333,087	$ 962,487
Component Unit				
Montgomery Economic Development Corporation	$ 552,321	$ -	$ -	$ -
Total Component Unit	$ 552,321	$ -	$ -	$ -
		General Revenues:		
		Property taxes		
		Sales taxes		
		Franchise fees and 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			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	MEDC
$ 743,024	$ -	$ 743,024	$ -
55,213	-	55,213	-
(849,021)	-	(849,021)	-
(841,888)	-	(841,888)	-
(413,681)	-	(413,681)	-
(1,306,353)	-	(1,306,353)	-
-	(47,890)	(47,890)	-
-	(47,890)	(47,890)	-
(1,306,353)	(47,890)	(1,354,243)	-
-	-	-	(552,321)
-	-	-	(552,321)
701,428	-	701,428	-
1,501,672	-	1,501,672	500,557
80,891	-	80,891	-
10,085	-	10,085	-
6,625	239	6,864	2,979
136,384	188,614	324,998	-
165,625	(165,625)	-	-
2,602,710	23,228	2,625,938	503,536
1,296,357	(24,662)	1,271,695	(48,785)
(2,840,652)	7,834,452	4,993,800	834,815
$ (1,544,295)	$ 7,809,790	$ 6,265,495	$ 786,030

CITY OF MONTGOMERY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2017

	General	Debt Service	Capital Projects	CDBG Grant
Assets				
Cash and cash equivalents	$ 904,734	$ 143,693	$ 2,689,173	$ 5,123
Investments	200,000	-	-	-
Receivables, net	361,653	13,624	-	105,006
Due from others	9,535	34,875	-	-
Due from other funds	45,006	32,198		
Total Assets	$ 1,520,928	$ 224,390	$ 2,689,173	$ 110,129
Liabilities				
Accounts payable and accrued liabilities	$ 228,140	$ -	$ 95,502	$ 103,934
Due to other funds	1,567	-	-	7,094
Due to others	14,675	-	-	-
Total Liabilities	244,382	-	95,502	111,028
Deferred Inflows of Resources				
Unavailable revenue - property taxes	10,535	13,624	-	-
Fund Balances				
Restricted for:				
Debt service	-	210,766	-	-
Tourism	-	-	-	-
Enabling legislation	-	-	-	-
Capital projects	-	-	2,593,671	-
Committed for:				
Public safety	30,000	-	-	-
Unassigned	1,236,011	-	-	(899)
Total Fund Balances	1,266,011	210,766	2,593,671	(899)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 1,520,928	$ 224,390	$ 2,689,173	$ 110,129

See Notes to Financial Statements.

Nonmajor Governmental	Total
$ 45,377	$ 3,788,100
-	200,000
-	480,283
-	44,410
769	77,973
$ 46,146	$ 4,590,766
$ -	$ 427,576
1,710	10,371
-	14,675
1,710	452,622
-	24,159
-	210,766
9,468	9,468
34,968	34,968
-	2,593,671
-	30,000
-	1,235,112
44,436	4,113,985
$ 46,146	$ 4,590,766

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CITY OF MONTGOMERY, TEXAS

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

September 30, 2017

Total fund balances - total governmental funds	$	4,113,985
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		895,323
Capital assets, net depreciable		2,799,968
Long-term liabilities and deferred outflows and deferred inflows related to the net pension asset are deferred in the governmental funds.		
Net pension asset		54,073
Deferred outflows - pensions		99,623
Deferred inflows - pensions		(18,905)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		24,159
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Accrued interest payable		(18,831)
Noncurrent liabilities due in one year		(512,361)
Noncurrent liabilities due in more than one year		(8,985,645)
Deferred charge on refunding		4,316
Net Position of Governmental Activities	$	(1,544,295)

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, 2017

	General	Debt Service	Capital Projects	CDBG Grant
Revenues				
Property taxes	$ 340,809	$ 356,222	$ -	$ -
Sales taxes	1,501,672	-	-	-
Franchise fees and taxes	80,891	-	-	-
Other taxes	10,017	-	-	-
Licenses and permits	197,630	-	-	-
Fines and forfeitures	351,217	-	-	-
Other revenue	61,384	-	-	75,000
Intergovernmental	132,599	130,500	69,988	962,487
Investment revenue	2,987	207	3,426	-
Total Revenues	2,679,206	486,929	73,414	1,037,487
Expenditures				
Current:				
General government	400,083	-	-	1,046,504
Municipal court	310,127	-	-	-
Public safety	870,981	-	-	-
Public works	818,193	-	-	-
Capital outlay	259,672	-	144,981	-
Debt service:				
Principal	27,551	305,000	-	-
Interest and fiscal agent fees	-	219,102	-	-
Bond issuance costs	-	-	187,939	-
Total Expenditures	2,686,607	524,102	332,920	1,046,504
(Deficiency) of Revenues (Under) Expenditures	(7,401)	(37,173)	(259,506)	(9,017)
Other Financing Sources (Uses)				
Debt issued	-	-	2,820,000	-
Transfers in	3,400	125,600	32,089	7,936
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	3,400	125,600	2,852,089	7,936
Net Change in Fund Balances	(4,001)	88,427	2,592,583	(1,081)
Beginning fund balances	1,270,012	122,339	1,088	182
Ending Fund Balances	$ 1,266,011	$ 210,766	$ 2,593,671	$ (899)

See Notes to Financial Statements.

Nonmajor Governmental	Total
$ -	$ 697,031
-	1,501,672
-	80,891
68	10,085
-	197,630
16,639	367,856
-	136,384
-	1,295,574
5	6,625
16,712	4,293,748
-	1,446,587
-	310,127
3,274	874,255
-	818,193
16,780	421,433
-	332,551
-	219,102
-	187,939
20,054	4,610,187
(3,342)	(316,439)
-	2,820,000
-	169,025
(3,400)	(3,400)
(3,400)	2,985,625
(6,742)	2,669,186
51,178	1,444,799
$ 44,436	$ 4,113,985

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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, 2017

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

Net changes in fund balances - total governmental funds	$	2,669,186
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		1,366,991
Depreciation expense		(226,446)
Disposal of capital assets		(8,626)
Net pension asset and deferred outflows and inflows related to the net pension asset are not reported in the governmental funds.		
Net pension asset		(21,684)
Deferred outflows - pensions		14,381
Deferred inflows - pensions		(7,753)
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		332,551
Debt issued		(2,820,000)
Compensated absences		(10,062)
Net change in deferred charges on refunding		(616)
Accrued interest		(1,790)
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.		4,397
Change in Net Position of Governmental Activities	$	1,296,357

See Notes to Financial Statements.

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CITY OF MONTGOMERY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2017

		Business-Type Activities
		Water, Sewer, and Sanitation
Assets		
Current assets		
Cash and equity in cash and investments		$ 508,151
Accounts receivable (net of allowance for uncollectibles)		190,451
Due from other funds		10
Restricted cash and cash equivalents		
Customer deposits		78,260
	Total Current Assets	776,872
Noncurrent assets		
Net pension asset		8,002
Capital assets:		
Nondepreciable		105,938
Depreciable		7,146,672
	Total Capital Assets (Net)	7,252,610
	Total Noncurrent Assets	7,260,612
	Total Assets	8,037,484
Deferred Outflows of Resources		
Deferred outflows - pensions		9,192
	Total Deferred Outflows of Resources	9,192
Liabilities and Net Position		
Current Liabilities		
Accounts payable and accrued liabilities		$ 82,022
Due to other funds		67,612
Compensated absences		6,036
Payable from restricted assets		
Customer deposits		78,260
	Total Current Liabilities	233,930
Noncurrent liabilities		
Compensated absences		671
	Total Noncurrent Liabilities	671
	Total Liabilities	234,601
Deferred Inflows of Resources		
Deferred inflows - pensions		2,285
Net Position		
Net investment in capital assets		7,252,610
Unrestricted net position		557,180
	Total Net Position	$ 7,809,790

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, 2017

	Business-Type Activities Water, Sewer, and Sanitation
Operating Revenues	
Water service	$ 555,476
Sewer service	417,914
Sanitation service	107,313
Meter installations	284,294
Other revenue	188,614
Total Operating Revenues	1,553,611
Operating Expenses	
Water, sewer, and sanitation	939,495
Salary and wages	128,202
Depreciation	345,190
Total Operating Expenses	1,412,887
Operating Income Before Transfers	140,724
Nonoperating Revenues (Expenses)	
Investment revenue	239
Total Nonoperating Revenues	239
Income Before Transfers	140,963
Transfers	
Transfers (out)	(165,625)
Total Transfers	(165,625)
Change in Net Position	(24,662)
Beginning net position	7,834,452
Ending Net Position	$ 7,809,790

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, 2017

	Business-Type Activities Water, Sewer, and Sanitation
Cash Flows from Operating Activities	
Receipts from customers and users	$ 1,525,639
Payments to suppliers	(846,282)
Payments to employees	(124,133)
Net Cash Provided by Operating Activities	555,224
Cash Flows from Noncapital Financing Activities	
Transfer to other funds	(165,625)
Net Cash (Used) by Noncapital Financing Activities	(165,625)
Cash Flows from Capital and Related Financing Activities	
Financing Activities	
Acquisition and construction of capital assets	(1,562)
Net Cash (Used) by Capital and Related Financing Activities	(1,562)
Cash Flows from Investing Activities	
Interest on investments	239
Net Cash Provided by Investing Activities	239
Net change in cash and cash equivalents	388,276
Beginning cash and cash equivalents	198,135
Ending Cash and Cash equivalents	$ 586,411
Ending Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	$ 508,151
Restricted cash and cash equivalents	78,260
	$ 586,411

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, 2017

	Business-Type Activities	
	Water, Sewer, and Sanitation	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income	$	140,724
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		345,190
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Current Assets:		
Accounts receivable		(46,347)
Deferred outflows - pensions		(768)
Due from other funds		(10)
Net pension asset		2,068
Increase (Decrease) in Current Liabilities:		
Accounts payable		29,518
Due to other funds		63,705
Compensated absences		2,294
Customer deposits		18,375
Deferred inflows - pensions		475
Net Cash Provided by Operating Activities	$	555,224

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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; 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 unit, as listed below, although legally separate, is 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 purpose. Separate financial statements of the MEDC are not prepared.

The component unit 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 organizations' 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. There was no activity related to the PID No. 1 as of September 30, 2017.

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 and wastewater 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.

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 and franchise taxes, 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 CDBG grant fund, hotel occupancy fund, court security fund, court technology fund, and police asset forfeiture fund. The CDBG grant fund is considered a major fund for reporting purposes. The remaining special revenue funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise funds:

The *enterprise funds* are 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.

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 taxes, 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.

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 pools operate 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 deposits, 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.

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:

Asset Description	Estimated Useful Life
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. The City has four items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as an increase to the net pension asset during the measurement period in which the contributions were made. Another deferred charge has been recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for the changes in actuarial assumptions related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. 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.

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. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. A deferral is recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. 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.

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.

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.

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 select special revenue funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the 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. Deficit Net Position/Fund Balance

As of the end of the year, governmental activities reported deficit net position of $1,544,295. This deficit is due to business-type assets financed with debt paid by governmental activities. The deficit will be resolved as the debt balance is paid and overall net position improves.

In addition, the CDBG grant reported a deficit fund balance of $899 as of year end. The deficit is due to expenditures reported in this fund that were not reimbursed by the grant. The City will transfer funds to cover these costs in the future.

B. Expenditures in Excess of Appropriations

For the year ended September 30, 2017, expenditures exceeded appropriations at the legal level of control as follows:

General Fund	
Municipal court	$ 8,267
Public works	$194,953
Court Security Fund	
Capital outlay	$ 16,780

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2017, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 550,670	0.24
TexPool	483,576	-
Total	$ 1,034,246	
Porfolio weighted average maturity		0.13

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, 2017, 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, 2017, 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 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, the investment pool 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's authority 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:

	General	Debt Service	CDBG Grant	Water, Sewer, and Sanitation	Total
Property taxes	$ 12,660	$ 13,624	$ -	$ -	$ 26,284
Sales taxes	283,855	-	-	-	283,855
Accounts receivable	65,138	-	105,006	202,929	373,073
Less allowance	-	-	-	(12,478)	(12,478)
	$ 361,653	$ 13,624	$ 105,006	$ 190,451	$ 670,734

	MEDC
Sales taxes	$ 94,618
Other receivables	1,109
	95,727

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 768,985	$ 10,585	$ -	$ 779,570
Construction in progress	-	115,753	-	115,753
Total capital assets not being depreciated	768,985	126,338	-	895,323
Other capital assets:				
Buildings and improvements	961,721	41,093	-	1,002,814
Infrastructure	1,268,119	1,048,181	-	2,316,300
Vehicles	708,636	126,859	(57,801)	777,694
Furniture and fixtures	385,665	24,520	-	410,185
Total other capital assets	3,324,141	1,240,653	(57,801)	4,506,993
Less accumulated depreciation for:				
Buildings and improvements	(399,383)	(50,141)	-	(449,524)
Infrastructure	(305,064)	(78,192)	-	(383,256)
Vehicles	(527,804)	(80,264)	49,175	(558,893)
Furniture and fixtures	(297,503)	(17,849)	-	(315,352)
Total accumulated depreciation	(1,529,754)	(226,446)	49,175	(1,707,025)
Other capital assets, net	1,794,387	1,014,207	(8,626)	2,799,968
Governmental Activities Capital Assets, Net	$ 2,563,372	$ 1,140,545	$ (8,626)	3,695,291
			Plus unspent bond proceeds	2,593,671
			Plus deferred charge on refunding	4,316
			Net Investment in Capital Assets	$ 6,293,278

Depreciation was charged to governmental functions as follows:

General government	$ 61,753
Public safety	84,827
Public works	79,866
Total Governmental Activities Depreciation Expense	$ 226,446

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

	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 66,581	$ -	$ -	$ 66,581
Construction in progress	37,795	1,562	-	39,357
Total capital assets not being depreciated	104,376	1,562	-	105,938
Other capital assets:				
Infrastructure	11,020,036	-	-	11,020,036
Furniture and equipment	173,642	-	-	173,642
Vehicles	102,404	-	-	102,404
Total other capital assets	11,296,082	-	-	11,296,082
Less accumulated depreciation for:			-	
Infrastructure	(3,574,957)	(326,184)	-	(3,901,141)
Furniture and equipment	(142,336)	(3,531)	-	(145,867)
Vehicles	(86,927)	(15,475)	-	(102,402)
Total accumulated depreciation	(3,804,220)	(345,190)	-	(4,149,410)
Other capital assets, net	7,491,862	(345,190)	-	7,146,672
Business-Type Activities Capital Assets, Net	$ 7,596,238	$ (343,628)	$ -	$ 7,252,610

Depreciation was charged to business-type functions as follows:

Water, sewer, and sanitation	$ 345,190
Total Business-Type Activities Depreciation Expense	$ 345,190

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.

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Governmental Activities:						
Bonds, notes and other payables:						
General obligation refunding bonds	$ 3,245,000	$ -	$ (185,000)	$ 3,060,000		$ 185,000
Tax and revenue certificates of obligation	3,535,000	2,820,000	(120,000)	6,235,000		250,000
Deferred amounts:						
For issuance discounts/premiums	125,938	-	(5,828)	120,110		-
	6,905,938	2,820,000	(310,828)	9,415,110	*	435,000
Other liabilities:						
Sales tax due to State Comptroller	55,101	-	(27,551)	27,550		27,550
Compensated absences	45,284	10,062	-	55,346		49,811
Total Governmental Activities	$ 7,006,323	$ 2,830,062	$ (338,379)	$ 9,498,006		$ 512,361
			Long-term debt due in more than one year	$ 8,985,645		
			***Debt associated with business-type assets**	$ 9,415,110		

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Other liabilities:					
Compensated absences	$ 4,413	$ 2,294	$ -	$ 6,707	$ 6,036
Total Business-Type Activities	$ 4,413	$ 2,294	$ -	$ 6,707	$ 6,036
			Long-term debt due in more than one year	$ 671	

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.

Montgomery Economic Development Corporation

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Other liabilities:					
Sales tax due to State Comptroller	$ 18,367	$ -	$ (9,183)	$ 9,184	$ 9,184
Total Component Unit	$ 18,367	$ -	$ (9,183)	$ 9,184	$ 9,184

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.

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities			
General Obligation Bonds			
General obligation refunding bonds, series 2012	2.00-4.00%	$ 2,830,000	$ 2,370,000
General obligation refunding bonds, series 2015	0.85-2.80%	845,000	690,000
Total General Obligation Bonds		3,675,000	3,060,000
Certificates of Obligation			
Tax and revenue certificates of obligation, series 2012	3.00-3.50%	3,760,000	3,415,000
Tax and revenue certificates of obligation, series 2017A	0.10% - 1.6%	1,090,000	1,090,000
Tax and revenue certificates of obligation, series 2017B	0.01% - 1.9%	1,730,000	1,730,000
Total Certificates of Obligation		6,580,000	6,235,000
Total Governmental Activities Long-Term Debt		$ 10,255,000	$ 9,295,000

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

Year Ending	Governmental Activities			
	General Obligation		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2018	$ 185,000	$ 90,171	$ 250,000	$ 141,424
2019	190,000	86,621	255,000	137,749
2020	195,000	82,653	260,000	133,920
2021	195,000	78,247	260,000	129,944
2022	200,000	73,494	265,000	125,712
2023-2027	915,000	285,490	1,415,000	550,480
2028-2032	665,000	161,806	1,565,000	376,763
2033-2037	515,000	41,900	1,755,000	158,118
2038	-	-	210,000	3,675
Total	$ 3,060,000	$ 900,381	$ 6,235,000	$ 1,757,786

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:

Due To	Due From	Amounts
General	Water, sewer, and sanitation	$ 36,212
General	CDBG grant	7,094
General	Nonmajor governmental	1,700
Debt service	Water, sewer, and sanitation	31,400
Debt service	General	798
Nonmajor governmental	General	769
Water, sewer, and sanitation	Nonmajor governmental	10
		$ 77,983

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

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

Transfer In	Transfer Out	Amounts
Debt service	Water, sewer, and sanitation	$ 125,600
Capital projects	Water, sewer, and sanitation	32,089
CDBG grant	Water, sewer, and sanitation	7,936
General	Nonmajor governmental	3,400
		$ 169,025

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

F. Fund Equity

As of September 30, 2017, $34,968 of the City's total fund balance is restricted by enabling legislation.

G. Restatement of Fund Balances/Net Position

The City restated beginning fund balance in the general fund and CDBG grants fund to reclassify the CDBG grants fund as its own special revenue fund. In addition, the CDBG grant fund balance, along with net position for governmental activities, were restated to account for a grant receivable that should have been recognized in the prior year. See note IV.E. for additional information. Beginning fund balance and net position have been restated as follows:

	General	CDBG Grant	Governmental Activities
Beginning fund balances/net position, as reported	$ 1,212,911	$ -	$ (2,897,935)
Restatement - reclassification of CDBG grant fund	57,101	(57,101)	-
Restatement - grant receivable	-	57,283	57,283
Beginning Fund Balances/Net Position-Restated	$ 1,270,012	$ 182	$ (2,840,652)

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.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of 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.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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:

	2017	2016
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service 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% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits		8
Inactive employees entitled to, but not yet, receiving benefits		25
Active employees		20
	Total	53

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 4.13 percent and 5.89 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were $61,309 and were equal to the required contributions.

Net Pension Liability/(Asset)

The City's Net Pension Liability/(Asset) (NPL(A)) was measured as of December 31, 2016 and the Total Pension Liability (TPL) used to calculate the NPL(A) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2016 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.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

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.

Changes in the NPL(A)

	Increase (Decrease)		
	Total Liability (A)	**Plan Fiduciary Net Position (B)**	**Net Pension Liability/(Asset) (A) - (B)**
Changes for the year:			
Service cost	$ 144,267	$ -	$ 144,267
Interest	66,121	-	66,121
Change in current period benefits	-	-	-
Difference between expected and actual experience	(1,206)	-	(1,206)
Changes in assumptions	-	-	-
Contributions - employer	-	43,778	(43,778)
Contributions - employee	-	74,200	(74,200)
Net investment income	-	68,262	(68,262)
Benefit payments, including refunds of employee contributions	(31,829)	(31,829)	-
Administrative expense	-	(770)	770
Other changes	-	(41)	41
Net Changes	177,353	153,600	23,753
Balance at December 31, 2015	923,346	1,009,174	(85,828)
Balance at December 31, 2016	$ 1,100,699	$ 1,162,774	$ (62,075)

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

The following presents the NPL(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL(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:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability/(Asset)	$ 126,754	$ (62,075)	$ (211,510)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2017, the City recognized net pension expense of $78,158.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ (21,190)
Changes in actuarial assumptions	13,014	-
Net difference between projected and actual investment earnings	44,950	-
Contributions subsequent to the measurement date	50,851	-
Total	$ 108,815	$ (21,190)

$50,851 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL(A) for the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense
2018	$ (9,280)
2019	(14,247)
2020	(13,276)
2021	29
2022	-
Thereafter	-
Total	$ (36,774)

D. Tax Abatements

Chapter 380 Economic Development Agreement

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:

- A group of developers 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 and submit a petition to the City to annex the property. Subject to annexation of the property and upon final completion of the Utility Extension Project, the City has agreed to 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.

- A developer 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.

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 development Agreement with a developer who intends and proposed to develop property in the City for residential, commercial, and retail use. As part of the Agreement, the developer has agreed to accelerate construction of the Utility Extension Project and convey it to the City. Subject to annexation of the property and upon final completion of the Utility Extension 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 a ten-year term development Agreement with a developer to develop property that is partially in the City and partially in the ETJ of the City for residential, commercial, and retail use. As part of the Agreement, the developer has agreed to accelerate construction of the Utility Extension Project and convey it to the City and to submit a petition to the City to annex the ETJ property into the City. Subject to annexation of the ETJ property and upon final completion of the Utility Extension Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer limited to the lesser of 70 percent of the construction costs incurred, as well as up to $12,000 for escrowed funds for the City's engineering expenses, or $512,000, and will be paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2008).

- The City entered into an Agreement with a developer and a school 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. As part of the Agreement, the developer has agreed to accelerate the construction of the Utility Extension Project and to convey it to the City and petition the City to annex 13.773 acres of land currently located in the ETJ of the City. Other considerations include transfers of property and facilities from the school district and the developer to the City and transfer of property from the developer to the school district. Subject to the final completion of the Utility Extension Project, dedication of the facilities and easements to the City, other considerations, and annexation of the ETJ, 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).

- A developer 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.

E. Subsequently Discovered Fact

On May 16, 2018, subsequent to completion of the audit for the fiscal year ending September 30, 2017, the City concluded that monies received from the Texas Department of Agriculture (TDA), a pass-through agency for the U.S. Department of Housing and Urban Development, had been netted against the related expenditures. As a result, the City did not identify that a Single Audit was necessary. These revised financial statements have been updated to reflect the gross amounts of grant revenues and expenditures, as well as to capture any related impact to capital asset reporting.

Based on this subsequently discovered fact, the City engaged its auditors to perform a Single Audit, as well as audit procedures to satisfy the requirements of *Government Auditing Standards,* and as a result of this work and procedures related to the revisions of the financial statements noted above, the opinion letter on the financial statements for the fiscal year ending September 30, 2017 has been reissued. The independent auditors' report dated March 23, 2018, along with the related financial statements referenced in the report, should not be relied upon by financial statement users.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF MONTGOMERY, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2017

	Orginal and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)	
Revenues				
Property taxes	$ 342,612	$ 340,809	$ (1,803)	
Sales taxes	1,650,000	1,501,672	(148,328)	
Franchise fees and taxes	74,000	80,891	6,891	
Other taxes	8,580	10,017	1,437	
Licenses and permits	133,600	197,630	64,030	
Fines and forfeitures	730,850	351,217	(379,633)	
Other revenue	10,000	61,384	51,384	
Intergovernmental	37,500	132,599	95,099	
Investment revenue	1,500	2,987	1,487	
Total Revenues	2,988,642	2,679,206	(309,436)	
Expenditures				
Current:				
General government	684,820	400,083	284,737	
Municipal court	301,860	310,127	(8,267)	*
Public safety	919,050	870,981	48,069	
Public works	623,240	818,193	(194,953)	*
Capital outlay	388,499	259,672	128,827	
Debt service:				
Principal	55,101	27,551	27,550	
Total Expenditures	2,972,570	2,686,607	285,963	
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,072	(7,401)	(23,473)	
Other Financing Sources (Uses)				
Transfers in	3,400	3,400	-	
Total Other Financing Sources	3,400	3,400	-	
Net Change in Fund Balance	$ 19,472	(4,001)	$ (23,473)	
Beginning fund balance		1,270,012		
Ending Fund Balance		$ 1,266,011		

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.

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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, 2017

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

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

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CITY OF MONTGOMERY, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

For the Year Ended September 30, 2017

	Fiscal Year*		
	2015	**2016**	**2017**
Actuarially determined contribution	$ 26,103	$ 44,811	$ $61,309
Contributions in relation to the actuarially determined contribution	26,103	44,811	$61,309
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 918,710	$ 1,085,450	$ 1,116,575
Contributions as a percentage of covered employee payroll	2.84%	4.13%	5.49%

*Only three years of information is currently available. The City will build this schedule over the next seven 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	3.5% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male 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.

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COMBINING STATEMENTS AND SCHEDULES

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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, 2017

	Orginal and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Property taxes	$ 351,391	$ 356,222	$ 4,831
Intergovernmental	127,500	130,500	3,000
Investment revenue	1,500	207	(1,293)
Total Revenues	480,391	486,929	6,538
Expenditures			
Debt service:			
Principal	305,000	305,000	-
Interest and fiscal agent fees	241,867	219,102	22,765
Total Expenditures	546,867	524,102	22,765
Other Financing Sources (Uses)			
Transfers in	125,600	125,600	-
Total Other Financing Sources	125,600	125,600	-
Net Change in Fund Balance	$ 59,124	88,427	$ 29,303
Beginning fund balance		122,339	
Ending Fund Balance		$ 210,766	

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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.

CITY OF MONTGOMERY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2017

	Special Revenue Funds			
	Hotel Occupancy	Court Security	Court Technology	Police Asset Forfeiture
Assets				
Cash and cash equivalents	$ 9,468	$ 6,211	$ 25,426	$ 4,272
Due from other funds	-	330	439	-
Total Assets	$ 9,468	$ 6,541	$ 25,865	$ 4,272
Liabilities				
Due to other funds	$ -	$ 1,710	$ -	$ -
Total Liabilities	-	1,710	-	-
Fund balances				
Restricted for:				
Tourism	9,468	-	-	-
Enabling legislation	-	4,831	25,865	4,272
Total Fund Balances	9,468	4,831	25,865	4,272
Total Liabilities and Fund Balances	$ 9,468	$ 6,541	$ 25,865	$ 4,272

Total Nonmajor Governmental Funds
$ 45,377
769
$ 46,146
$ 1,710
1,710
9,468
34,968
44,436
$ 46,146

CITY OF MONTGOMERY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	Special Revenue Funds			
	Hotel Occupancy	Court Security	Court Technology	Police Asset Forfeiture
Revenues				
Other taxes	$ 68	$ -	$ -	$ -
Fines and forfeitures	-	6,954	9,685	-
Investment revenue	-	2	3	-
Total Revenues	68	6,956	9,688	-
Expenditures				
Current:				
Public safety	-	447	2,827	-
Capital outlay	-	16,780	-	-
Total Expenditures	-	17,227	2,827	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	68	(10,271)	6,861	-
Other Financing Sources (Uses)				
Transfers (out)	-	(3,400)	-	-
Total Other Financing (Uses)	-	(3,400)	-	-
Net Change in Fund Balances	68	(13,671)	6,861	-
Beginning fund balances	9,400	18,502	19,004	4,272
Ending Fund Balances	$ 9,468	$ 4,831	$ 25,865	$ 4,272

Total Nonmajor Governmental Funds
$ 68
16,639
5
16,712
3,274
16,780
20,054
(3,342)
(3,400)
(3,400)
(6,742)
51,178
$ 44,436

CITY OF MONTGOMERY, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the Year Ended September 30, 2017

	Hotel Occupancy		
	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Other taxes	$ 600	$ 68	$ (532)
Other revenues	10	-	(10)
Total Revenues	610	68	(542)
Expenditures			
Current:			
General government	100	-	100
Total Expenditures	100	-	100
Net Change in Fund Balance	$ 510	68	$ (442)
Beginning fund balance		9,400	
Ending Fund Balance		$ 9,468	

	Court Security		
	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Fines and forfeitures	$ 5,500	$ 6,954	$ 1,454
Investment revenue	5	2	(3)
Total Revenues	5,505	6,956	1,451
Expenditures			
Current:			
Public safety	1,000	447	553
Capital outlay	-	16,780	(16,780) *
Total Expenditures	1,000	17,227	(16,227)
Excess (Deficency) of Revenues Over (Under) Expenditures	4,505	(10,271)	(14,776)
Other Financing Sources (Uses)			
Transfers (out)	(3,400)	(3,400)	-
Total Other Financing (Uses)	(3,400)	(3,400)	-
Net Change in Fund Balance	$ 1,105	(13,671)	$ (14,776)
Beginning fund balance		18,502	
Ending Fund Balance		$ 4,831	

*Expenditures exceeded appropriations at the legal level of control.

CITY OF MONTGOMERY, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Continued)

For the Year Ended September 30, 2017

	Court Technology Fund		
	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Fines and forfeitures	$ 6,000	$ 9,685	$ 3,685
Other revenue	2	3	1
Total Revenues	6,002	9,688	3,686
Expenditures			
Current:			
Public safety	4,800	2,827	1,973
Total Expenditures	4,800	2,827	1,973
Net Change in Fund Balance	$ 1,202	6,861	$ 5,659
Beginning fund balance		19,004	
Ending Fund Balance		$ 25,865	

	Police Asset Forfeiture		
	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Fines and forfeitures	$ 1,000	$ -	$ (1,000)
Total Revenues	1,000	-	(1,000)
Net Change in Fund Balance	$ 1,000	-	$ (1,000)
Beginning fund balance		4,272	
Ending Fund Balance		$ 4,272	

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