

ANNUAL FINANCIAL REPORT

of the

CITY OF MONTGOMERY, TEXAS

**For the Year Ended
September 30, 2021**

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CITY OF MONTGOMERY, TEXAS

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September 30, 2021

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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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and total other postemployment benefits 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 combined statements and schedules listed as supplementary information on the table of contents are presented for purposes of additional analysis and are not a required part 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.

BELT HARRIS PECHACEK, LLLP

Certified Public Accountants

Houston, Texas

April 18, 2022

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

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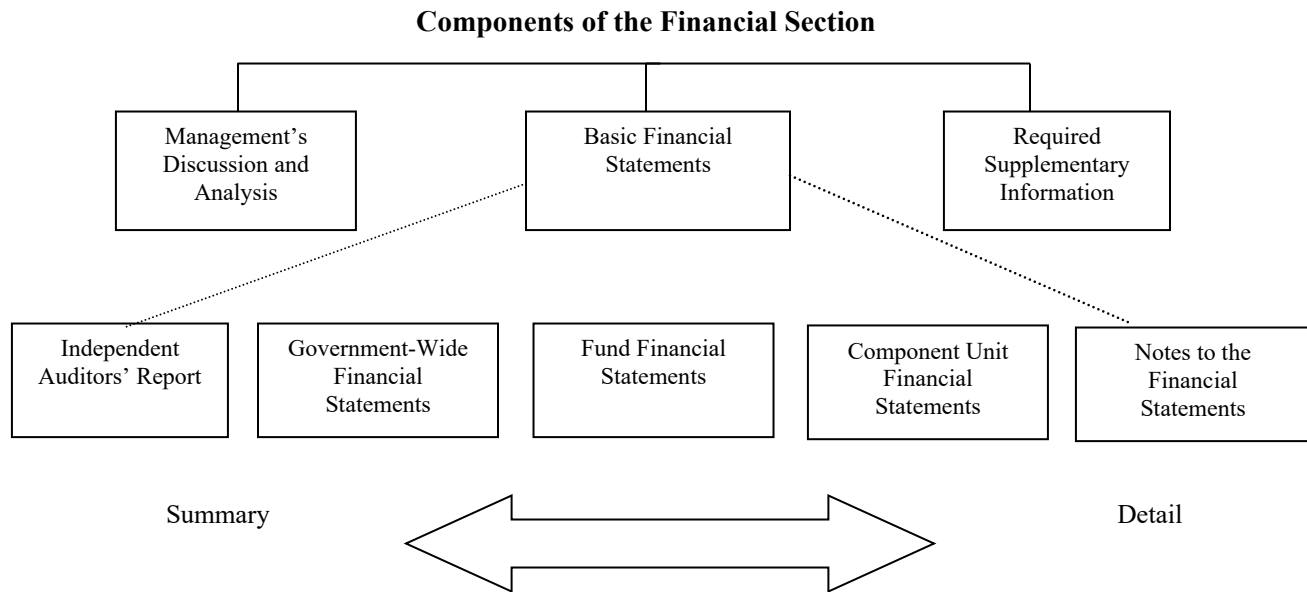
CITY OF MONTGOMERY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2021

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, 2021. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

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

CITY OF MONTGOMERY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation, the Montgomery Economic Development Corporation 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 No. 1, although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

CITY OF MONTGOMERY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

The City adopts an annual appropriated budget for its general fund, debt service fund, and certain 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 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 and total other postemployment benefits 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 \$12,848,049 as of September 30, 2021. A portion of the City's net position, 71%, 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.

A portion of the City's net position, \$281,782 or 2%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$3,411,557 or 27%, may be used to meet the City's ongoing obligation to citizens and creditors.

CITY OF MONTGOMERY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	September 30, 2021			
	Governmental	Business-Type	Reconciliation	Total
	Activities	Activities		Primary Government
Current and other assets	\$ 4,531,840	\$ 2,327,685	\$ -	\$ 6,859,525
Capital assets, net	5,404,053	10,235,277	-	15,639,330
Total Assets	9,935,893	12,562,962	-	22,498,855
Deferred outflows - pensions	128,836	11,011	-	139,847
Deferred outflows - OPEB	11,154	953	-	12,107
Deferred charge on refunding	44,874	-	-	44,874
Total Deferred Outflows of Resources	184,864	11,964	-	196,828
Long-term liabilities	8,060,687	23,307	-	8,083,994
Other liabilities	1,377,725	259,375	-	1,637,100
Total Liabilities	9,438,412	282,682	-	9,721,094
Deferred inflows - pensions	116,849	9,691	-	126,540
Total Deferred Inflows of Resources	116,849	9,691	-	126,540
Net Position:				
Net investment in capital assets	6,743,155	10,235,277	(7,823,722)	9,154,710
Restricted	281,782	-	-	281,782
Unrestricted	(6,459,441)	2,047,276	7,823,722	3,411,557
Total Net Position	\$ 565,496	\$ 12,282,553	\$ -	\$ 12,848,049
	September 30, 2020			
	Governmental	Business-Type	Reconciliation	Total
	Activities	Activities		Primary Government
Current and other assets	\$ 4,900,271	\$ 1,893,584	\$ -	\$ 6,793,855
Capital assets, net	4,779,295	9,581,966	-	14,361,261
Total Assets	9,679,566	11,475,550	-	21,155,116
Deferred outflows - pensions	72,524	6,412	-	78,936
Deferred charge on refunding	2,466	-	-	2,466
Total Deferred Outflows of Resources	74,990	6,412	-	81,402
Long-term liabilities	8,151,506	9,005	-	8,160,511
Other liabilities	880,165	278,207	-	1,158,372
Total Liabilities	9,031,671	287,212	-	9,318,883
Deferred inflows - pensions	110,959	9,188	-	120,147
Total Deferred Inflows of Resources	110,959	9,188	-	120,147
Net Position:				
Net investment in capital assets	6,321,923	9,581,966	(8,062,626)	7,841,263
Restricted	510,952	-	-	510,952
Unrestricted	(6,220,949)	1,603,596	8,062,626	3,445,273
Total Net Position	\$ 611,926	\$ 11,185,562	\$ -	\$ 11,797,488

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for the governmental and business-type activities. With one activity carrying the 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 \$7,823,722, is being used to finance capital assets reported. 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.

CITY OF MONTGOMERY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

The City's total net position increased by \$1,050,561 as compared to the prior year. Both the deferred outflows and deferred inflows of resources related to the City's pension and other postemployment benefits plans increased during the fiscal year when compared to the prior year. This is primarily due to the City's adoption of supplemental death benefits for active employees and retirees in the current year. Long-term liabilities experienced a slight decrease during the year due to the refunding of series 2012 debt from a debt refund issuance and scheduled debt principal payments. Other liabilities experienced an increase due to an increase in unearned revenue from grant awards and tax rebates payable. Total assets experienced an increase primarily due to capital additions net of depreciation.

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	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues:						
Charges for services	\$ 617,070	\$ 520,720	\$ 2,076,795	\$ 1,819,370	\$ 2,693,865	\$ 2,340,090
Operating grants and contributions	537,404	773,673	-	-	537,404	773,673
General revenues:						
Property taxes	1,232,084	1,104,722	-	-	1,232,084	1,104,722
Sales taxes	3,008,921	2,360,712	-	-	3,008,921	2,360,712
Other fees and taxes	158,600	151,396	-	-	158,600	151,396
Other revenues	269,315	175,650	275,858	241,317	545,173	416,967
Total Revenues	5,823,394	5,086,873	2,352,653	2,060,687	8,176,047	7,147,560
Expenses						
General government	1,716,093	1,303,043	-	-	1,716,093	1,303,043
Municipal court	444,184	329,869	-	-	444,184	329,869
Public safety	1,839,730	1,315,651	-	-	1,839,730	1,315,651
Public works	910,768	890,712	-	-	910,768	890,712
Interest and fiscal agent fees	331,768	211,976	-	-	331,768	211,976
Water, sewer, and sanitation	-	-	1,882,943	1,828,212	1,882,943	1,828,212
Total Expenses	5,242,543	4,051,251	1,882,943	1,828,212	7,125,486	5,879,463
Increase in Net Position Before Transfers	580,851	1,035,622	469,710	232,475	1,050,561	1,268,097
Transfers in (out)	(627,281)	(1,612,108)	627,281	1,612,108	-	-
Change in Net Position	(46,430)	(576,486)	1,096,991	1,844,583	1,050,561	1,268,097
Beginning net position	611,926	1,188,412	11,185,562	9,340,979	11,797,488	10,529,391
Ending Net Position	\$ 565,496	\$ 611,926	\$ 12,282,553	\$ 11,185,562	\$ 12,848,049	\$ 11,797,488

For the year ended September 30, 2021, revenues from governmental activities totaled \$5,823,394, which is a net increase of \$736,521 from the prior year. Significant increases were reported in sales and property taxes due to an increase in economic activity and increases in property tax collections related to increases in property valuations within the City. These increases were offset by a decrease in operating grants and contributions, which were attributed to Federal Emergency Management Agency revenues received in the prior year for disaster-related expenses.

CITY OF MONTGOMERY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

For the year ended September 30, 2021, expenses for governmental activities totaled \$5,242,543, which was an overall increase of \$1,191,292 from the prior year. The largest increases were in the general government due to HOME Investment Partnerships Program (HOME) grant expenses and increased 380 agreement reimbursements, and in the public safety related to payroll expenses.

Net position before transfers for business-type activities increased \$237,235 compared to the prior year. Revenues experience an increased by \$291,966 compared to the prior year due to an increase in charges for services and other revenues. Expenses increased \$54,731 compared to the prior year due to an increase in operating expenses for the City during the year to support water, sewer, and sanitation operations.

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 \$3,144,122. Of this, \$1,576,010 is restricted or committed for various purposes. The remaining balance of \$1,568,112 is unassigned in the general fund.

There was a net decrease in the combined fund balance of \$620,478 compared to the prior year. This net reduction is largely seen in the capital projects fund, which had an overall decrease in fund balance of \$245,934 due primarily to transfers to the water, sewer, and sanitation fund for capital purposes. The debt service fund also had a large decrease in fund balance of \$228,165, which can be contributed to scheduled debt service payments.

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 \$1,568,112. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Both unassigned and total fund balance represents 30 percent of total general fund expenditures. Revenue increased over the prior year primarily due to increases in sales and property tax revenues, which can be attributed to an increase in residents shopping locally during COVID-19 and an increase in property tax valuations. Expenditures also experienced an increase compared to the prior year totaling \$1,616,219 with the largest increases seen in general government and capital outlay. The general government increase of \$593,840 can be attributed to construction cost for the HOME grant and increases in Chapter 380 agreement reimbursements. Increase in capital outlay expenditures of \$590,730 is largely due to purchase of land in the current year. The net increase of revenue and expenditures demonstrated an overall decrease of \$145,374 in the general fund when compared to the prior year.

The debt service fund has a total fund balance of \$195,630, all of which is restricted for the payment of debt service. The net decrease in fund balance during the year was \$228,165. This decrease can be attributed to scheduled debt service payments net of property tax revenues and other sources and uses from issuance of refunding debt.

The capital projects fund reported a decrease of \$245,934 in fund balance. This is primarily the result of transfers to the water, sewer, and sanitation fund for capital purposes.

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.

CITY OF MONTGOMERY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2021

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned use of fund balance in the amount of \$1,108,012 in the general fund. However, the net change in fund balance was a decrease of \$145,374, resulting in a net positive variance of \$962,638 from budget over actual. Actual general fund revenues were more than final budgeted revenues by \$915,903 during 2021. The majority of this increase is due from HOME grant revenue received to reimburse the City for reconstruction costs of resident homes that was not anticipated for in the budget. Additionally, there was a positive budget variance for expenditures of \$40,937 that also contributed to the net positive variance.

CAPITAL ASSETS

At the end of the current fiscal year, the City's governmental and business-type activities had invested \$15,639,330 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$1,278,069.

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

- Infrastructure improvements
- Construction in progress

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

LONG-TERM DEBT

At the end of the current fiscal year, the City had total bonds and certificates of obligation outstanding of \$7,155,000. Of this amount, \$4,855,000 was general obligation debt and tax and revenue certificates of obligation accounted for \$2,300,000.

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 2021-2022 expenditure budget of \$5,247,715 which is an increase of \$1,345,980 from the prior year budget. The City budgeted for fiscal year 2021-2022 revenues of \$5,190,215 which is an increase of \$1,338,480 from the prior year budget. The tax rate for 2021-2022 fiscal year will be \$0.4000 per \$100 of taxable property value. All of these factors were considered in preparing the City's budget for the 2021-2022 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 Richard Tramm, City Administrator, 101 Old Plantersville Rd., Montgomery, Texas 77316; 936-597-6434.

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BASIC FINANCIAL STATEMENTS

CITY OF MONTGOMERY, TEXAS

STATEMENT OF NET POSITION

September 30, 2021

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 2,458,624	\$ 1,809,525	\$ -	\$ 4,268,149
Cash with fiscal agent	988,256	-	-	988,256
Investments	353,000	100,000	-	453,000
Receivables, net of allowances	725,321	299,779	-	1,025,100
Internal balances	5,498	(5,498)	-	-
Due from component unit	1,141	119	-	1,260
Restricted assets:				
Cash and cash equivalents	-	123,760	-	123,760
	4,531,840	2,327,685	-	6,859,525
Capital assets:				
Nondepreciable capital assets	1,743,730	1,253,131	-	2,996,861
Depreciable capital assets, net	3,660,323	8,982,146	-	12,642,469
	5,404,053	10,235,277	-	15,639,330
Total Assets	9,935,893	12,562,962	-	22,498,855
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	128,836	11,011	-	139,847
Deferred outflows - OPEB	11,154	953	-	12,107
Deferred charge on refunding	44,874	-	-	44,874
Total Deferred Outflows of Resources	184,864	11,964	-	196,828
<u>Liabilities</u>				
Accounts payable and accrued liabilities	1,191,128	135,615	-	1,326,743
Unearned revenue	170,592	-	-	170,592
Accrued interest payable	16,005	-	-	16,005
Due to primary government	-	-	-	-
Customer deposits	-	123,760	-	123,760
Noncurrent liabilities:				
Long-term liabilities due within one year	530,796	6,255	-	537,051
Long-term liabilities due in more than one year	7,529,891	17,052	-	7,546,943
Total Liabilities	9,438,412	282,682	-	9,721,094
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	116,849	9,691	-	126,540
Total Deferred Inflows of Resources	116,849	9,691	-	126,540
<u>Net Position</u>				
Net investment in capital assets	6,743,155	10,235,277	(7,823,722)	9,154,710
Restricted for:				
Economic development	-	-	-	-
Debt service	195,630	-	-	195,630
Tourism	17,392	-	-	17,392
Public safety	68,740	-	-	68,740
Grants	20	-	-	20
Unrestricted	(6,459,441)	2,047,276	7,823,722	3,411,557
Total Net Position	\$ 565,496	\$ 12,282,553	\$ -	\$ 12,848,049

See Notes to Financial Statements.

Component Unit	
MEDC	
\$	2,103,230
	-
	-
	203,931
	-
	-
	-
	<u>2,307,161</u>
	-
	-
	-
	<u>2,307,161</u>
	-
	-
	-
	-
	<u>346,717</u>
	-
	-
	1,260
	-
	-
	-
	<u>347,977</u>
	-
	-
	-
	-
	1,959,184
	-
	-
	-
	-
	-
\$	<u><u>1,959,184</u></u>

CITY OF MONTGOMERY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,716,093	\$ 211,192	\$ 537,404
Municipal court	444,184	405,878	-
Public safety	1,839,730	-	-
Public works	910,768	-	-
Interest and fiscal agent fees	331,768	-	-
Total Governmental Activities	5,242,543	617,070	537,404
Business-Type Activities			
Water, sewer, and sanitation services	1,882,943	2,076,795	-
Total Business-Type Activities	1,882,943	2,076,795	-
Total Primary Government	\$ 7,125,486	\$ 2,693,865	\$ 537,404
Component Unit			
Montgomery Economic Development Corporation	\$ 671,946	\$ -	\$ -
Total Component Unit	\$ 671,946	\$ -	\$ -

General Revenues:

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

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	MEDC
\$ (967,497)	\$ -	\$ (967,497)	\$ -
(38,306)	-	(38,306)	-
(1,839,730)	-	(1,839,730)	-
(910,768)	-	(910,768)	-
(331,768)	-	(331,768)	-
<u>(4,088,069)</u>	<u>-</u>	<u>(4,088,069)</u>	<u>-</u>
<u>-</u>	<u>193,852</u>	<u>193,852</u>	<u>-</u>
<u>-</u>	<u>193,852</u>	<u>193,852</u>	<u>-</u>
<u>(4,088,069)</u>	<u>193,852</u>	<u>(3,894,217)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(671,946)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(671,946)</u>
1,232,084	-	1,232,084	-
3,008,921	-	3,008,921	1,002,974
91,147	-	91,147	-
67,453	-	67,453	-
2,102	970	3,072	6,398
267,213	274,888	542,101	1,320
(627,281)	627,281	-	-
<u>4,041,639</u>	<u>903,139</u>	<u>4,944,778</u>	<u>1,010,692</u>
(46,430)	1,096,991	1,050,561	338,746
<u>611,926</u>	<u>11,185,562</u>	<u>11,797,488</u>	<u>1,620,438</u>
<u>\$ 565,496</u>	<u>\$ 12,282,553</u>	<u>\$ 12,848,049</u>	<u>\$ 1,959,184</u>

CITY OF MONTGOMERY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2021

	General	Debt Service	Capital Projects	Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 1,590,994	\$ 195,630	\$ 596,629	\$ 75,371
Cash with fiscal agent	-	-	988,256	-
Investments	353,000	-	-	-
Receivables, net	675,401	12,121	37,799	-
Due from component unit	1,141	-	-	-
Due from other funds	5,498	-	-	105
Total Assets	\$ 2,626,034	\$ 207,751	\$ 1,622,684	\$ 75,476
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 532,516	\$ -	\$ 328,456	\$ -
Due to other funds	105	-	-	-
Due to others	330,156	-	-	-
Unearned revenue	170,592	-	-	-
Total Liabilities	1,033,369	-	328,456	-
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	13,877	12,121	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	195,630	-	-
Tourism	-	-	-	17,392
Capital projects	-	-	1,294,228	-
Grants	-	-	-	20
Committed for:				
Public safety	10,676	-	-	58,064
Unassigned	1,568,112	-	-	-
Total Fund Balances	1,578,788	195,630	1,294,228	75,476
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,626,034	\$ 207,751	\$ 1,622,684	\$ 75,476

See Notes to Financial Statements.

Total

\$ 2,458,624
988,256
353,000
725,321
1,141
5,603
\$ 4,531,945

\$ 860,972
105
330,156
170,592
1,361,825

25,998

195,630
17,392
1,294,228
20

68,740
1,568,112
3,144,122

\$ 4,531,945

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CITY OF MONTGOMERY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL
FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
September 30, 2021

Total fund balances - total governmental funds \$ 3,144,122

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	1,743,730
Capital assets, net depreciable	3,660,323

Long-term liabilities and deferred outflows and deferred inflows related to pensions and other postemployment benefits (OPEB) are deferred in the governmental funds.

Net pension liability	(48,604)
Deferred outflows - pensions	128,836
Deferred inflows - pensions	(116,849)
Total OPEB liability	(76,366)
Deferred outflows - OPEB	11,154

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

25,998

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

Accrued interest payable	(16,005)
Noncurrent liabilities due in one year	(530,796)
Noncurrent liabilities due in more than one year	(7,404,921)
Deferred charge on refunding	44,874

Net Position of Governmental Activities	\$ 565,496
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See Notes to Financial Statements.

CITY OF MONTGOMERY, TEXAS

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

For the Year Ended September 30, 2021

	General	Debt Service	Capital Projects	Nonmajor Governmental
Revenues				
Property taxes	\$ 876,606	\$ 385,756	\$ -	\$ -
Sales taxes	3,008,921	-	-	-
Franchise fees	91,147	-	-	-
Other taxes	65,104	-	-	2,349
Licenses and permits	211,192	-	-	-
Fines and forfeitures	400,949	-	-	4,929
Other revenue	107,213	-	160,000	-
Intergovernmental	505,196	-	32,208	-
Investment revenue	1,810	179	98	15
Total Revenues	5,268,138	385,935	192,306	7,293
Expenditures				
Current:				
General government	1,617,410	-	-	-
Municipal court	425,891	-	-	-
Public safety	1,608,457	-	-	-
Public works	724,152	-	-	-
Capital outlay	805,706	-	51,153	-
Debt service:				
Principal	-	455,000	-	-
Interest and fiscal agent fees	-	369,109	-	-
Total Expenditures	5,181,616	824,109	51,153	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	86,522	(438,174)	141,153	7,293
Other Financing Sources (Uses)				
Refunding bonds issued	-	4,495,000	-	-
Premium on refunding bonds	-	605,566	-	-
Payment to refunded bond escrow agent	-	(4,890,557)	-	-
Transfers in	8,298	-	240,194	-
Transfers (out)	(240,194)	-	(627,281)	(8,298)
Total Other Financing Sources (Uses)	(231,896)	210,009	(387,087)	(8,298)
Net Change in Fund Balances	(145,374)	(228,165)	(245,934)	(1,005)
Beginning fund balances	1,724,162	423,795	1,540,162	76,481
Ending Fund Balances	\$ 1,578,788	\$ 195,630	\$ 1,294,228	\$ 75,476

See Notes to Financial Statements.

Total

\$ 1,262,362
3,008,921
91,147
67,453
211,192
405,878
267,213
537,404
2,102

5,853,672

1,617,410
425,891
1,608,457
724,152
856,859

455,000
369,109

6,056,878

(203,206)

4,495,000
605,566
(4,890,557)
248,492
(875,773)

(417,272)

(620,478)

3,764,600

\$ 3,144,122

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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, 2021

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

Net changes in fund balances - total governmental funds	\$	(620,478)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital additions		909,347
Depreciation expense		(284,589)

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 Activities.

Principal payments		455,000
Debt issued		(4,495,000)
Payment to escrow agent		4,890,557
Net change in deferred charges on refunding		(3,149)
Accrued interest		1,020
Premium on refunding		(605,566)
Premium amortization		39,470

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences		(23,115)
Net pension liability		(264,859)
Deferred outflows - pensions		104,539
Deferred inflows - pensions		(54,117)
Total OPEB liability		(76,366)
Deferred outflows - OPEB		11,154

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

		(30,278)
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		(46,430)
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See Notes to Financial Statements.

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CITY OF MONTGOMERY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2021

	<u>Business-Type Activities</u> <u>Water, Sewer, and Sanitation</u>
<u>Assets</u>	
Current assets	
Cash and equity in cash and investments	\$ 1,809,525
Investments	100,000
Accounts receivable (net of allowance for uncollectibles)	299,779
Due from component unit	119
Restricted cash and cash equivalents	
Customer deposits	123,760
Total Current Assets	<u>2,333,183</u>
Noncurrent assets	
Capital assets:	
Nondepreciable	1,253,131
Depreciable (net of depreciation)	8,982,146
Total Capital Assets (Net)	<u>10,235,277</u>
Total Noncurrent Assets	<u>10,235,277</u>
Total Assets	<u>12,568,460</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	11,011
Deferred outflows - OPEB	953
Total Deferred Outflows of Resources	<u>11,964</u>
<u>Liabilities and Net Position</u>	
Current Liabilities	
Accounts payable and accrued liabilities	135,615
Due to other funds	5,498
Compensated absences	6,255
Payable from restricted assets	
Customer deposits	123,760
Total Current Liabilities	<u>271,128</u>
Noncurrent liabilities	
Net pension liability	1,225
Total OPEB liability	6,523
Compensated absences	9,304
Total Noncurrent Liabilities	<u>17,052</u>
Total Liabilities	<u>288,180</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	9,691
Total Deferred Inflows of Resources	<u>9,691</u>
Net Position	
Net investment in capital assets	10,235,277
Unrestricted net position	2,047,276
Total Net Position	<u>\$ 12,282,553</u>

See Notes to Financial Statements.

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CITY OF MONTGOMERY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2021

	Business-Type Activities
	Water, Sewer, and Sanitation
<u>Operating Revenues</u>	
Water service	\$ 795,495
Sewer service	734,723
Sanitation service	193,738
Meter installations	352,839
Other revenue	274,888
Total Operating Revenues	2,351,683
<u>Operating Expenses</u>	
Water, sewer, and sanitation	1,064,061
Salaries and wages	390,188
Depreciation	428,694
Total Operating Expenses	1,882,943
Operating Income	468,740
<u>Nonoperating Revenues (Expenses)</u>	
Investment revenue	970
Total Nonoperating Revenues	970
Income Before Transfers	469,710
<u>Transfers</u>	
Transfers in	627,281
Total Transfers	627,281
Change in Net Position	1,096,991
Beginning net position	11,185,562
Ending Net Position	\$ 12,282,553

See Notes to Financial Statements.

CITY OF MONTGOMERY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2021

	Business-Type Activities
	Water, Sewer, and Sanitation
<u>Cash Flows from Operating Activities</u>	
Receipts from customers and users	\$ 2,327,176
Payments to suppliers	(1,154,453)
Payments to employees	(359,539)
Net Cash Provided by Operating Activities	813,184
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers from other funds	627,281
Net Cash Provided by Noncapital Financing Activities	627,281
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(1,082,005)
Net Cash (Used) by Capital and Related Financing Activities	(1,082,005)
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	(100,000)
Interest on investments	970
Net Cash(Used) by Investing Activities	(99,030)
Net Change in Cash and Cash Equivalents	259,430
Beginning cash and cash equivalents	1,673,855
Ending Cash and Cash Equivalents	\$ 1,933,285
Ending Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	\$ 1,809,525
Restricted cash and cash equivalents	123,760
	\$ 1,933,285

See Notes to Financial Statements.

CITY OF MONTGOMERY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2021

	<u>Business-Type Activities</u> <u>Water, Sewer, and Sanitation</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 468,740
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	428,694
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(32,757)
Deferred outflows - pensions	(4,599)
Deferred outflows - OPEB	(953)
Due from other funds	3,462
Net pension liability	22,621
Total OPEB liability	6,523
Increase (Decrease) in Current Liabilities:	
Accounts payable	(27,082)
Due to other funds	(66,772)
Compensated absences	6,554
Customer deposits	8,250
Deferred inflows - pensions	503
Net Cash Provided by Operating Activities	<u>\$ 813,184</u>

See Notes to Financial Statements.

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CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2021

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, (the “State”) in 1935.

The City operates under a “General Law” City, which provides for a “Mayor-Council” form of government. The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all affairs of the City. The City Administrator is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The City provides the following services: general administration; municipal court; public safety; public works; and water, sewer, and sanitation services.

The City is an independent political subdivision of the State governed by an elected council and a mayor and is considered a primary government. Its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

Discretely Presented Component Unit

Montgomery Economic Development Corporation

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

Blended Component Unit

Public Improvement District (PID) No. 1

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

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

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

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

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

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

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the operations that provide water, sewer, and sanitation services. 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 fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

1. Cash and Cash Equivalents

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

2. Investments

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

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

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

3. Restricted Assets

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

4. Capital Assets

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

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

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

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

5. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

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

6. Compensated Employee Absences

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

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

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

7. Long-Term Obligations

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

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

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

8. Net Position Flow Assumption

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

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

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

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

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

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

13. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

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.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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 certain 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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2021, the City had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 453,000	0.41
TexPool	1,684,362	0.06
Total	<u>\$ 2,137,362</u>	
Portfolio 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, 2021, 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, 2021, 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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Water, Sewer, and Sanitation</u>	<u>Total</u>
Property taxes	\$ 13,877	\$ 12,121	\$ -	\$ -	\$ 25,998
Sales taxes	611,792	-	-	-	611,792
Mixed beverage taxes	2,274	-	-	-	2,274
Accounts receivable	47,458	-	37,799	300,347	385,604
Less allowance	-	-	-	(568)	(568)
	<u>\$ 675,401</u>	<u>\$ 12,121</u>	<u>\$ 37,799</u>	<u>\$ 299,779</u>	<u>\$ 1,025,100</u>
	<u>MEDC</u>				
Sales taxes	<u>\$ 203,931</u>				
	<u>\$ 203,931</u>				

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 864,009	\$ 755,513	\$ -	\$ 1,619,522
Construction in progress	20,567	103,641	-	124,208
Total capital assets not being depreciated	<u>884,576</u>	<u>859,154</u>	<u>-</u>	<u>1,743,730</u>
Other capital assets:				
Buildings and improvements	1,022,614	5,275	-	1,027,889
Infrastructure	3,869,242	9,425	-	3,878,667
Vehicles	1,034,488	-	-	1,034,488
Furniture and fixtures	447,150	35,493	-	482,643
Total other capital assets	<u>6,373,494</u>	<u>50,193</u>	<u>-</u>	<u>6,423,687</u>
Less accumulated depreciation for:				
Buildings and improvements	(601,678)	(51,271)	-	(652,949)
Infrastructure	(727,267)	(131,208)	-	(858,475)
Vehicles	(806,478)	(89,302)	-	(895,780)
Furniture and fixtures	(343,352)	(12,808)	-	(356,160)
Total accumulated depreciation	<u>(2,478,775)</u>	<u>(284,589)</u>	<u>-</u>	<u>(2,763,364)</u>
Other capital assets, net	<u>3,894,719</u>	<u>(234,396)</u>	<u>-</u>	<u>3,660,323</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,779,295</u>	<u>\$ 624,758</u>	<u>\$ -</u>	<u>5,404,053</u>
			Plus unspent bond proceeds	1,294,228
			Plus deferred charge on refunding	44,874
			Net Investment in Capital Assets	<u>\$ 6,743,155</u>

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Depreciation was charged to governmental functions as follows:

General government	\$	57,531
Public safety		81,760
Public works		145,298
Total Governmental Activities Depreciation Expense	\$	<u>284,589</u>

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	1,589,956	1,029,567	(1,432,973)	1,186,550
Total capital assets not being depreciated	1,656,537	1,029,567	(1,432,973)	1,253,131
Other capital assets:				
Infrastructure	12,802,663	1,485,411	-	14,288,074
Furniture and equipment	179,037	-	-	179,037
Vehicles	181,554	-	-	181,554
Total other capital assets	13,163,254	1,485,411	-	14,648,665
Less accumulated depreciation for:				
Infrastructure	(4,951,948)	(410,545)	-	(5,362,493)
Furniture and equipment	(153,765)	(2,319)	-	(156,084)
Vehicles	(132,112)	(15,830)	-	(147,942)
Total accumulated depreciation	(5,237,825)	(428,694)	-	(5,666,519)
Other capital assets, net	7,925,429	1,056,717	-	8,982,146
Business-Type Activities Capital Assets, Net	\$ 9,581,966	\$ 2,086,284	\$ (1,432,973)	\$ 10,235,277

Depreciation was charged to business-type functions as follows:

Water, sewer, and sanitation	\$	428,694
Total Business-Type Activities Depreciation Expense	\$	<u>428,694</u>

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

D. Long-Term Debt

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

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation refunding bonds	\$ 2,050,000	\$ 4,495,000	\$ (2,050,000)	\$ 4,495,000	\$ 215,000
Certificates of obligation	3,040,000	-	(3,040,000)	-	-
Direct borrowings/placements:					
General obligation refunding bonds	440,000	-	(80,000)	360,000	85,000
Certificates of obligation	2,430,000	-	(130,000)	2,300,000	130,000
Deferred amounts:					
For issuance discounts/premiums	102,626	605,566	(39,470)	668,722	-
	<u>8,062,626</u>	<u>5,100,566</u>	<u>(5,339,470)</u>	<u>7,823,722</u>	<u>* 430,000</u>
Other liabilities:					
Net pension liability/(asset)	(216,255)	264,859	-	48,604	-
Total OPEB liability	-	76,366	-	76,366	-
Compensated absences	88,880	96,509	(73,394)	111,995	100,796
Total Governmental Activities	<u>\$ 7,935,251</u>	<u>\$ 5,538,300</u>	<u>\$ (5,412,864)</u>	<u>\$ 8,060,687</u>	<u>\$ 530,796</u>
				<u>Long-term debt due in more than one year</u>	
				<u>\$ 7,529,891</u>	
				<u>* Debt associated with capital assets</u>	
				<u>\$ 7,823,722</u>	
					Amounts Due Within One Year
Business-Type Activities:					
Other liabilities:					
Net pension liability/(asset)	\$ (21,396)	\$ 22,621	\$ -	\$ 1,225	\$ -
Total OPEB liability	-	6,523	-	6,523	-
Compensated absences	9,005	14,416	(7,862)	15,559	14,003
Total Business-Type Activities	<u>\$ (12,391)</u>	<u>\$ 43,560</u>	<u>\$ (7,862)</u>	<u>\$ 23,307</u>	<u>\$ 14,003</u>
				<u>Long-term debt due in more than one year</u>	
				<u>\$ 9,304</u>	

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

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 2021	2.00-5.00%	\$ 4,495,000	\$ 4,495,000
From direct borrowings/placements:			
General obligation refunding bonds, series 2015	0.85-2.80%	845,000	360,000
Total General Obligation Bonds		<u>5,340,000</u>	<u>4,855,000</u>
Certificates of Obligation			
From direct borrowings/placements:			
Tax and revenue certificates of obligation, series 2017A	0.10 - 1.60%	1,090,000	890,000
Tax and revenue certificates of obligation, series 2017B	0.01 - 1.90%	1,730,000	1,410,000
Total Certificates of Obligation		<u>2,820,000</u>	<u>2,300,000</u>
Total Governmental Activities Long-Term Debt		<u>\$ 8,160,000</u>	<u>\$ 7,155,000</u>

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

Fiscal Year	General Obligation	
	Ending	Interest
2022	\$ 215,000	\$ 156,225
2023	230,000	145,100
2024	245,000	133,225
2025	250,000	120,850
2026	260,000	108,100
2027-2031	1,470,000	330,450
2032-2036	1,485,000	109,050
2037-2038	340,000	6,800
Total	<u>\$ 4,495,000</u>	<u>\$ 1,109,800</u>

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

Fiscal Year	General Obligation		Certificates of Obligation		Total	
	Ending	Interest	Principal	Interest	Principal	Interest
2022	\$ 85,000	8,293	\$ 130,000	\$ 28,712	\$ 215,000	\$ 37,005
2023	90,000	6,170	130,000	28,219	220,000	34,389
2024	90,000	3,852	130,000	27,478	220,000	31,330
2025	95,000	1,330	140,000	26,471	235,000	27,801
2026	-	-	140,000	25,222	140,000	25,222
2027-2031	-	-	710,000	101,796	710,000	101,796
2032-2036	-	-	760,000	47,185	760,000	47,185
2037-2039	-	-	160,000	1,430	160,000	1,430
Total	<u>\$ 360,000</u>	<u>\$ 19,645</u>	<u>\$ 2,300,000</u>	<u>\$ 286,512</u>	<u>\$ 2,660,000</u>	<u>\$ 306,157</u>

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.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Advanced Refunding of Debt

In the current fiscal year, the City issued \$4,495,000 of General Obligation Refunding Bonds, Series 2021 with interest rates ranging from 2.00% to 5.00%. The proceeds were used to advance refund \$1,935,000 of the General Obligation Refunding Bonds, Series 2012, which had interest rates ranging from 2.00% to 4.00%, and \$2,910,000 of the Tax and Revenue Certificates of Obligation, Series 2012 (the “Refunded Bonds”), which had interest rates ranging of 3.00 to 3.35%. The net proceeds of \$4,890,557 (including a \$605,565 premium and after payment of \$206,158 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the Refunded Bonds. As a result, the Refunded Bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$45,557. This amount is being amortized over the remaining life of the refunded debt, which is the same life as the new debt issued. The refunding was undertaken to reduce debt service payments over the next 17 years by \$757,953 and resulted in an economic gain of \$691,745.

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	Utility	\$ 5,498
Nonmajor governmental	General	105
		\$ 5,603

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 governmental funds during the year were as follows:

Transfer In	Transfer Out	Amounts
General	Nonmajor governmental	\$ 8,298
General	Capital projects	240,194
Utility	Capital projects	627,281
		\$ 875,773

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

The continued spread of COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and result of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are unknown at this time.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 895 plans in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide public retirement plan created by the State 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees, however, TMRS is not fiscally dependent on the State. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.thrs.com.

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

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Benefits Provided

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

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

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

	<u>2021</u>	<u>2020</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to, but not yet, receiving benefits	24
Active employees	28
Total	<u><u>63</u></u>

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 City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.05 percent and 9.72 percent in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2021 were \$168,402 and were equal to the required contributions.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
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 are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-Distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3.0 percent minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for the annuity purchase rates is based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. 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).

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	<u>100.00%</u>	

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 TMRS 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

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability / (Asset)</u>
	<u>(A)</u>	<u>(B)</u>	<u>(A) - (B)</u>
Changes for the year:			
Service cost	\$ 283,792	\$ -	\$ 283,792
Interest	129,656	-	129,656
Changes in current period benefits	289,106	-	289,106
Difference between expected and actual experience	(51,273)	-	(51,273)
Changes in assumptions	-	-	-
Contributions - employer	-	107,207	(107,207)
Contributions - employee	-	124,081	(124,081)
Net investment income	-	133,417	(133,417)
Benefit payments, including refunds of employee contributions	(94,655)	(94,655)	-
Administrative expense	-	(872)	872
Other changes	-	(32)	32
Net Changes	<u>556,626</u>	<u>269,146</u>	<u>287,479</u>
Balance at December 31, 2019	1,537,152	1,774,802	(237,650)
Balance at December 31, 2020	<u>\$ 2,093,778</u>	<u>\$ 2,043,948</u>	<u>\$ 49,829</u>

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL 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	\$ 445,554	\$ 49,829	\$ 260,103

Pension Plan Fiduciary Net Position

Detailed information about the TMRS 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, 2021, the City recognized net pension expense of \$402,004.

At September 30, 2021, 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	\$ -	\$ 79,810
Changes in actuarial assumptions	1,750	-
Net difference between projected and actual investment earnings	-	46,730
Contributions subsequent to the measurement date	138,097	-
Total	\$ 139,847	\$ 126,540

\$138,097 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of the NPL for the fiscal year ending September 30, 2022.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2022	\$ (54,149)
2023	(24,669)
2024	(39,450)
2025	(6,522)
Total	\$ (124,790)

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

D. Other Postemployment Benefits

TMRS Supplemental Death Benefits

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employee’s entire career. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer’s yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SBDF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2020 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>28</u>
Total	<u><u>45</u></u>

Total OPEB Liability

The City’s total OPEB liability of \$82,890 was measured as of December 31, 2020 and was determined by an actuarial valuation as of that date.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.00%*
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements of GASB 68.
Mortality rates - service retirees	2019 Municipal retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject on the floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Change in the Total OPEB Liability

	Total OPEB Liability
Changes for the year:	
Service cost	\$ 4,786
Interest	1,831
Changes in benefit terms including TMRS plan participation	64,174
Differences between expected and actual experience	-
Changes of assumptions	12,099
Benefit payments	-
	Net Changes
	82,890
Beginning balance	-
	Ending Balance
	\$ 82,890

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (1.00%)	Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
City's Total OPEB Liability	\$ 104,168	\$ 82,890	\$ 67,305

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2021, the City recognized OPEB expense of \$70,783. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ 9,976	\$ -
Contributions subsequent to the measurement date	2,131	-
Total	\$ 12,107	\$ -

\$2,131 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2022.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended September 30	OPEB Expense
2022	\$ 2,123
2023	2,123
2024	2,123
2025	2,123
2026	1,484
Total	\$ 9,976

E. Chapter 380 Economic Development Agreements

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

During the 2021 fiscal year, the City has accrued \$206,925 in sales tax rebates and an additional \$113,763 in ad valorem tax rebates. These amounts are being held in a liability account until disbursement.

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

Sales Taxes

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

- The developer for “Milestone” will construct a new grocery retail store with approximately 124,000 square feet (the “Development”) for the purpose of creating and/or retaining at least 144 full-time equivalent employees. The City has granted the developer a tax limitation of about \$5.6 million for a period of 15 years. In order to be eligible to receive the limitation, the developer must create 52 permanent new jobs and have invested at least \$7.5 million during the construction of the Development. The City will make annual payments to the developer from sales tax revenues at an amount equal to 55 percent of annual sales tax collected at the Development paid by the City, and the MEDC will make annual payments at an amount equal to 100 percent of annual sales tax collected at the Development. Annual installments will begin the first anniversary after the grocery store opens to the public. An assignment of economic development was entered into with Kroger Texas L.P (the “Company”). on December 11, 2018. On February 14, 2019, the Company was reimbursed sales tax for the 2018 year in the amount of \$104,218 by the City and \$50,917 by MEDC. On December 19, 2019, the Company was reimbursed sales tax for the 2019 in the amount of \$36,071 by the City and \$77,405 by MEDC. For the fiscal year 2021, the City and MEDC trued up the 2018 and 2019 sales tax reimbursements and reimbursed the 2020 sales taxes in the amounts of \$189,613 and \$132,391, respectively, to the Company.

Property Taxes

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

- The City has entered into a ten-year term Agreement with a developer for “The Estates of Mia Lago, Section 1”, who intends and proposed to develop property in the City for residential, commercial, and retail use (the “Project”). As part of the Agreement, the developer has agreed to accelerate construction of the Project and convey it to the City. Subject to annexation of the property and upon final completion of the Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer in the sum of \$148,803 paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2011).
- The City entered into an Agreement with a developer for the “Hills of Town Creek, Section 1” and a school district (the “District”). The developer intends and proposed to develop property that was recently annexed into the City for primarily high-density, multi-family

CITY OF MONTGOMERY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2021

residential use, with a limited amount of commercial and retail uses (the “Project”). As part of the Agreement, the developer has agreed to accelerate the construction of the Project and to convey it to the City and petition the City to annex 13.773 acres of land currently located in the extraterritorial jurisdiction (ETJ) of the City. Other considerations include transfers of property and facilities from the District and the developer to the City and transfer of property from the developer to the District. Subject to the final completion of the Project, dedication of the facilities and easements to the City, other considerations, and annexation of the ETJ, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer limited to 100 percent of the cost to oversize utility lines and 70 percent of the remaining construction costs incurred, as well as up to \$16,000 for escrowed funds for the City’s engineering expenses. The amount of reimbursement to the developer is limited to \$400,000 and will be paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2012). For the fiscal years 2019, 2020, and 2021, the City abated property taxes totaling \$9,901, \$23,368, and \$36,892, respectively, under this Agreement.

- A developer for “Milestone” will construct a new retail grocery store with approximately 124,000 square feet (the “Development”) for the purpose of creating and/or retaining at least 144 full-time equivalent employees. The City has granted the developer a tax limitation of about \$5.6 million for a period of 15 years. In order to be eligible to receive the limitation, the developer must create 52 permanent new jobs and have invested at least \$7.5 million during the construction of the Development. The City will make annual payments to the developer from property tax collected by March 1 of each year that the property tax rebate is in effect. Annual installments will begin the first tax year after the grocery store opens to the public. An assignment of economic development was entered into with Kroger Texas L.P. on December 11, 2018. For the fiscal years 2019, 2020, and 2021, the City abated property taxes totaling \$78,789, \$78,207, and \$77,565, respectively, under this Agreement.
- The City has entered into a twelve-year term Agreement with a developer for “The Estates of Mia Lago, Section 2”, who intends and proposed to develop property in the City for residential use (the “Project”). As part of the Agreement, the developer has agreed to accelerate construction of the Project and convey it to the City. Subject to annexation of the property and upon final completion of the Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer in the sum of not more than \$100,000 paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2017).

REQUIRED SUPPLEMENTARY INFORMATION

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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, 2021

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 852,070	\$ 852,070	\$ 876,606	\$ 24,536
Sales taxes	2,250,000	2,250,000	3,008,921	758,921
Franchise fees	94,000	94,000	91,147	(2,853)
Other taxes	69,815	69,815	65,104	(4,711)
Licenses and permits	245,600	245,600	211,192	(34,408)
Fines and forfeitures	292,350	292,350	400,949	108,599
Other revenue	82,700	82,700	107,213	24,513
Intergovernmental	7,200	460,200	505,196	44,996
Investment revenue	5,500	5,500	1,810	(3,690)
Total Revenues	<u>3,899,235</u>	<u>4,352,235</u>	<u>5,268,138</u>	<u>915,903</u>
Expenditures				
Current:				
General government	1,183,756	1,640,202	1,617,410	22,792
Municipal court	396,985	430,235	425,891	4,344
Public safety	1,329,208	1,612,683	1,608,457	4,226
Public works	885,986	733,727	724,152	9,575
Capital outlay	-	805,706	805,706	-
Total Expenditures	<u>3,795,935</u>	<u>5,222,553</u>	<u>5,181,616</u>	<u>40,937</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>103,300</u>	<u>(870,318)</u>	<u>86,522</u>	<u>956,840</u>
Other Financing Sources (Uses)				
Transfers in	2,500	2,500	8,298	5,798
Transfers (out)	(105,800)	(240,194)	(240,194)	-
Total Other Financing (Uses)	<u>(103,300)</u>	<u>(237,694)</u>	<u>(231,896)</u>	<u>5,798</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (1,108,012)</u>	<u>(145,374)</u>	<u>\$ 962,638</u>
Beginning fund balance			1,724,162	
Ending Fund Balance			<u>\$ 1,578,788</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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, 2021

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

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

Measurement Year*		
2018	2019	2020
\$ 176,697	\$ 205,160	\$ 283,792
87,871	94,711	129,656
-	-	289,106
(85,189)	(28,118)	(51,273)
-	3,592	-
(107,065)	(77,480)	(94,655)
<u>72,314</u>	<u>197,865</u>	<u>556,626</u>
<u>1,266,973</u>	<u>1,339,287</u>	<u>1,537,152</u>
<u>\$ 1,339,287</u>	<u>\$ 1,537,152</u>	<u>\$ 2,093,778</u>
\$ 79,080	\$ 91,000	\$ 107,207
90,747	103,916	124,081
(42,554)	221,310	133,417
(107,065)	(77,480)	(94,655)
(821)	(1,255)	(872)
(43)	(38)	(32)
<u>19,345</u>	<u>337,453</u>	<u>269,146</u>
<u>1,418,005</u>	<u>1,437,350</u>	<u>1,774,803</u>
<u>\$ 1,437,350</u>	<u>\$ 1,774,803</u>	<u>\$ 2,043,949</u>
<u>\$ (98,063)</u>	<u>\$ (237,651)</u>	<u>\$ 49,829</u>
107.32%	115.46%	97.62%
\$ 1,296,384	\$ 1,484,512	\$ 1,772,592
-7.56%	-16.01%	2.81%

CITY OF MONTGOMERY, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
For the Year Ended September 30, 2021

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

*Only seven years of information is currently available. The City will build this schedule over the next three-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	N/A
Asset valuation method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period December 31, 2014 - December 31, 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Fiscal Year*		
2019	2020	2021
\$ 86,378	\$ 99,240	\$ 168,402
<u>86,378</u>	<u>99,240</u>	<u>168,402</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,439,928	\$ 1,635,373	\$ 1,921,658
6.00%	6.07%	8.76%

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CITY OF MONTGOMERY, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2021

	Measurement Year*
	2020
Total OPEB Liability	
Service cost	\$ 4,786
Interest (on the total OPEB liability)	1,831
Changes in benefit terms including TMRS plan participation	64,174
Differences between expected and actual experience	-
Changes of assumptions	12,099
Benefit payments	-
Net Change in Total OPEB Liability	82,890
Beginning total OPEB liability	-
Ending Total OPEB Liability	\$ 82,890
Covered Payroll	\$ 1,772,592
Total OPEB Liability as a Percentage of Covered Payroll	4.68%

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

**Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.75%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.
Mortality - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who became disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

3. Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay benefits.

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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, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 360,873	\$ 360,873	\$ 385,756	\$ 24,883
Investment revenue	5,000	5,000	179	(4,821)
Total Revenues	<u>365,873</u>	<u>365,873</u>	<u>385,935</u>	<u>20,062</u>
<u>Expenditures</u>				
Debt service:				
Principal	501,050	501,050	455,000	46,050
Interest and fiscal agent fees	162,950	369,109	369,109	-
Total Expenditures	<u>664,000</u>	<u>870,159</u>	<u>824,109</u>	<u>46,050</u>
(Deficiency) of Revenues				
(Under) Expenditures	<u>(298,127)</u>	<u>(504,286)</u>	<u>(438,174)</u>	<u>(25,988)</u>
<u>Other Financing Sources (Uses)</u>				
Refunding bonds issued	-	4,495,000	4,495,000	-
Premium on refunding bond	-	605,566	605,566	-
Payment to refunded bond escrow agent	-	(4,890,557)	(4,890,557)	-
Total Other Financing Sources	<u>-</u>	<u>210,009</u>	<u>210,009</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (298,127)</u>	<u>\$ (294,277)</u>	<u>(228,165)</u>	<u>\$ 66,112</u>
Beginning fund balance			<u>423,795</u>	
Ending Fund Balance			<u>\$ 195,630</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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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.

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.

Grants Fund

This fund is used to account for revenues from grants.

CITY OF MONTGOMERY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2021

Special Revenue Funds

	<u>Hotel Occupancy</u>	<u>Court Security</u>	<u>Court Technology</u>	<u>Police Asset Forfeiture</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 17,392	\$ 5,279	\$ 40,593	\$ 12,087
Due from other funds	-	45	60	-
Total Assets	\$ 17,392	\$ 5,324	\$ 40,653	\$ 12,087
<u>Fund balances</u>				
Restricted for:				
Tourism	17,392	-	-	-
Public safety	-	5,324	40,653	12,087
Grants	-	-	-	-
Total Fund Balances	17,392	5,324	40,653	12,087
Total Liabilities and Fund Balances	\$ 17,392	\$ 5,324	\$ 40,653	\$ 12,087

Special Revenue Funds		Total Nonmajor Governmental Funds	
Grants			
\$	20	\$	75,371
	-		105
<u>\$</u>	<u>20</u>	<u>\$</u>	<u>75,476</u>
	-		17,392
	-		58,064
	20		20
<u></u>	<u>20</u>	<u></u>	<u>75,476</u>
<u>\$</u>	<u>20</u>	<u>\$</u>	<u>75,476</u>

CITY OF MONTGOMERY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

		Special Revenue Funds			
		Hotel Occupancy	Court Security	Court Technology	Police Asset Forfeiture
<u>Revenues</u>					
Other taxes		\$ 2,349	\$ -	\$ -	\$ -
Fines and forfeitures		-	606	828	3,495
Investment revenue		4	-	11	-
	Total Revenues	2,353	606	839	3,495
<u>Expenditures</u>					
	Total Expenditures	-	-	-	-
	Excess of Revenues Over Expenditures	2,353	606	839	3,495
<u>Other Financing Sources (Uses)</u>					
Transfers (out)		-	(2,500)	-	-
	Total Other Financing (Uses)	-	(2,500)	-	-
	Net Change in Fund Balances	2,353	(1,894)	839	3,495
Beginning fund balances		15,039	7,218	39,814	8,592
	Ending Fund Balances	\$ 17,392	\$ 5,324	\$ 40,653	\$ 12,087

Special Revenue Funds		Total Nonmajor Governmental Funds	
Grants			
\$	-	\$	2,349
	-		4,929
	-		15
	-		7,293
	-		-
	-		7,293
	(5,798)		(8,298)
	(5,798)		(8,298)
	(5,798)		(1,005)
	5,818		76,481
\$	20	\$	75,476

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

For the Year Ended September 30, 2021

		Hotel Occupancy			
		Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues					
Other taxes		\$ 2,000	\$ 2,000	\$ 2,349	\$ 349
Investment revenue		3	3	4	1
	Total Revenues	<u>2,003</u>	<u>2,003</u>	<u>2,353</u>	<u>350</u>
Expenditures					
Current:					
General government		1,000	1,000	-	1,000
	Total Expenditures	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
	Net Change in Fund Balance	<u>\$ 1,003</u>	<u>\$ 1,003</u>	<u>2,353</u>	<u>\$ 1,350</u>
Beginning fund balance				<u>15,039</u>	
	Ending Fund Balance			<u>\$ 17,392</u>	

		Court Security			
		Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues					
Fines and forfeitures		\$ 4,000	\$ 4,000	\$ 606	\$ (3,394)
	Total Revenues	<u>4,000</u>	<u>4,000</u>	<u>606</u>	<u>(3,394)</u>
Expenditures					
	Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Excess of Revenues Over Expenditures	<u>4,000</u>	<u>4,000</u>	<u>606</u>	<u>(3,394)</u>
Other Financing Sources (Uses)					
Transfers (out)		(2,500)	(2,500)	(2,500)	-
	Total Other Financing (Uses)	<u>(2,500)</u>	<u>(2,500)</u>	<u>(2,500)</u>	<u>-</u>
	Net Change in Fund Balance	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>(1,894)</u>	<u>\$ (3,394)</u>
Beginning fund balance				<u>7,218</u>	
	Ending Fund Balance			<u>\$ 5,324</u>	

CITY OF MONTGOMERY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (Continued)
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2021

Court Technology				
	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines and forfeitures	\$ 3,500	\$ 3,500	\$ 828	\$ (2,672)
Investment revenue	-	-	11	11
Total Revenues	3,500	3,500	839	(2,661)
Expenditures				
Current:				
Public safety	2,000	2,000	-	2,000
Total Expenditures	2,000	2,000	-	2,000
Net Change in Fund Balance	\$ 1,500	\$ 1,500	839	\$ (661)
Beginning fund balance			39,814	
Ending Fund Balance			\$ 40,653	

Police Asset Forfeiture				
	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines and forfeitures	\$ -	\$ -	\$ 3,495	\$ 3,495
Total Revenues	-	-	3,495	3,495
Expenditures				
Total Expenditures	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	3,495	\$ 3,495
Beginning fund balance			8,592	
Ending Fund Balance			\$ 12,087	

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