



## **CITY OF CONROE, TEXAS**

### ***Management's Discussion and Analysis (Unaudited)***

This section of the City of Conroe, Texas (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2018. Please read it in conjunction with the City's transmittal letter in the preceding section (introductory) and the basic financial statements following this section.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide**

The total government-wide assets and deferred outflows of resources of the City of Conroe exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$179,801,272. This is a net increase of \$4,466,202, which is an increase of \$17,500,344 less the prior period adjustment of \$13,034,142. The majority of the increase is attributable to increased sales tax, gross receipts, and insurance proceeds (reported with miscellaneous revenues) for properties damaged by Hurricane Harvey.

The net position of the primary government is comprised of the following:

- (1) Net investment in capital assets of \$166,187,514 includes land and easements, construction in progress, buildings and improvements, machinery and equipment, and infrastructure, net of accumulated depreciation, and is reduced by outstanding debt, net of unspent proceeds, related to the purchase or construction of capital assets.
- (2) Net position of \$21,001,460 is restricted by constraints imposed from outside the City for debt obligations, special revenue funds, severance pay sinking fund, seized assets, red light cameras, and state cable franchise fees.
- (3) Unrestricted net position of negative \$7,387,702 represents the portion available to meet ongoing obligations. The negative is due to the prior period adjustment for change in the OPEB liability.

#### **Governmental Fund Financial Statements**

- As of September 30, 2018, the City of Conroe's governmental funds reported combined ending fund balances of \$55,347,718, a decrease of \$6,145,473 in comparison with the prior year. Approximately 38 percent of this total amount, \$21,192,243, is available for spending at the government's discretion (unassigned fund balance). The remaining fund balance consists of \$162,507 classified as nonspendable, \$22,229,260 classified as restricted, \$3,327,642 classified as committed, and \$8,436,066 is classified as assigned.
- The General Fund is used to account for the general operations of the City. At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$26,795,709, or 39 percent of total General Fund expenditures. The General Fund had a nonspendable fund balance of \$162,507, restricted fund balance of \$1,853,061, and assigned fund balance of \$8,436,066 at September 30, 2018.
- The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bonds, contractual obligations, and certificates of obligation. The entire fund balance of \$10,802,885 is restricted to meet these obligations.
- The nonmajor governmental funds had total combined fund balances of \$7,297,490 at September 30, 2018. Of this amount, \$6,015,379 is restricted for capital project funds, \$3,557,935 is restricted for special revenue funds, \$3,327,642 is committed, and a negative fund balance of \$5,603,466 is unassigned.

#### **Long-Term Debt**

The City of Conroe issues debt to finance an ongoing capital improvement program. During FY17-18, the City issued \$24,185,000 in limited tax refunding bonds. Note VI to the financial statements provides details of long-term obligations.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## CITY OF CONROE, TEXAS

### *Management's Discussion and Analysis (Unaudited)*

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to those used by private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted. 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.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

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

**Governmental activities** - Most of the City's basic services are reported here, including general government, finance, public safety (police and fire protection), community development, parks and recreation, and public works. Sales and property taxes and franchise fees provide the majority of the financing for these activities.

**Business-type activities** - Activities for which the City charges a fee to customers to pay most or all of the costs of a service it provides are reported here. The City's business-type activities include water and wastewater services.

The government-wide financial statements include not only the City itself but also component units: the Oscar Johnson, Jr. Community Center and the Conroe Industrial Development Corporation (CIDC). Financial information for the component units is reported separately from the financial information presented for the primary government.

Fund Financial Statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants, while others are established by the City Council to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

**Governmental funds**— Governmental funds are used to account for the majority of the City's activities, which are essentially the same functions reported as governmental activities in the government-wide 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 spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of the governmental funds financial statements is narrower than that of the government-wide financial statements. Therefore, 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 government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison. These reconciliations explain the differences between the government's activities as reported in the government-wide statements and the information presented in the governmental funds financial statements.

The City maintains 35 individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Debt Service Fund, which are considered to be major funds. Data for

## CITY OF CONROE, TEXAS

### *Management's Discussion and Analysis (Unaudited)*

the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements later in this report.

**Proprietary funds**—When the City charges customers for services it provides, the activities are generally reported in proprietary funds. The City of Conroe maintains two different types of proprietary funds: enterprise and internal service.

*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 and sewer utilities, which is considered to be a major fund. These services are primarily provided to outside, or non-governmental, customers.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its employee insurance program and fleet services.

**Fiduciary funds**—When the City accounts for resources held for the benefit of parties outside the City, the activities are generally reported in a fiduciary fund. Fiduciary funds are not reflected in the combined financial statements because resources of those funds are not available to support the City's own programs. The City of Conroe maintains one type of fiduciary fund: City of Conroe Other Post-Employment Benefit (OPEB) Trust Fund.

*Notes to the Basic Financial Statements* provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 40 of this report.

*Required Supplementary Information* presents certain required information concerning the City's General Fund budget to actual comparison, and progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. Required supplementary information can be found beginning on page 79 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$179,801,272 for fiscal year 2018 and \$175,335,070 for fiscal year 2017. Revenues exceeded expenses during the current fiscal year, increasing net position by \$4,466,202. This is a net increase which is an increase of \$17,500,344 less the prior period adjustment of \$13,034,142 for implementation of GASB 75.

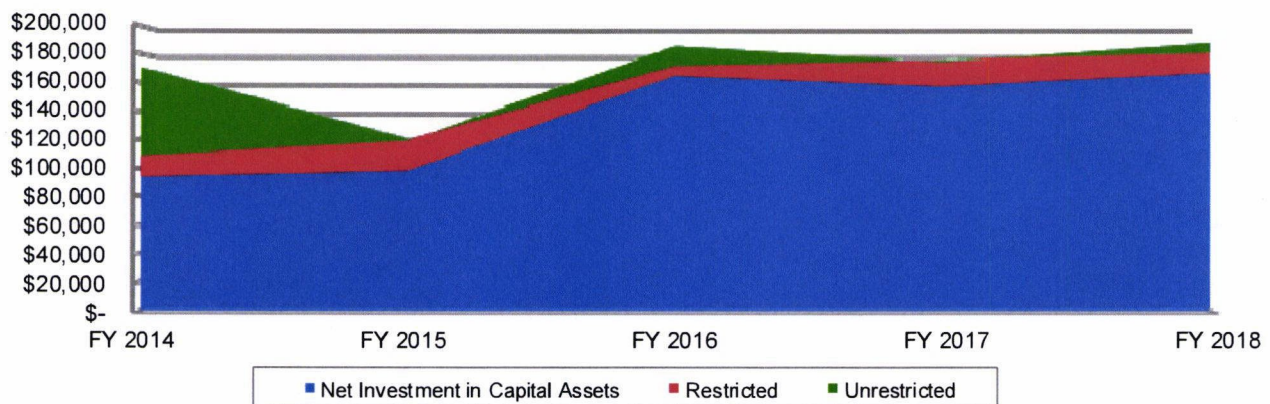
# CITY OF CONROE, TEXAS

## Management's Discussion and Analysis (Unaudited)

### Condensed Statement of Net Position (amounts in thousands)

	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 66,533	\$ 71,223	\$ 40,655	\$ 48,579	\$ 107,188	\$ 119,802
Capital Assets	238,164	230,503	175,770	162,957	413,934	393,460
Total Assets	304,697	301,726	216,425	211,536	521,122	513,262
Deferred Outflows of Resources	12,123	11,484	1,753	1,330	13,876	12,814
Current and Other Liabilities	8,083	8,084	7,908	4,014	15,991	12,098
Long-Term Liabilities	206,165	208,529	125,741	128,840	331,906	337,369
Total Liabilities	214,248	216,613	133,649	132,854	347,897	349,467
Deferred Inflows of Resources	6,300	1,202	1,000	72	7,300	1,274
NetPosition:						
Net Investment in Capital Assets	103,697	96,191	62,490	60,404	166,187	156,595
Restricted	16,000	11,386	5,001	5,779	21,001	17,165
Unrestricted	(23,425)	(12,182)	16,038	13,757	(7,387)	1,575
Total Net Position	\$ 96,272	\$ 95,395	\$ 83,529	\$ 79,940	\$ 179,801	\$ 175,335

### Total Net Position Governmental and Business-Type Activities (in thousands)



Note: There was a change in City's classifications of net position in FY 2015.

The largest portion of the City's net position, \$166,187,514 (92%), reflects its net investment in capital assets (land, improvements, buildings, infrastructure, vehicles, machinery and equipment), less any related outstanding debt used to acquire those assets. The primary use of these capital assets is to provide services to citizens; therefore, 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 resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position, \$21,001,460 (8%), is restricted for debt service, special revenue funds, severance pay sinking fund, seized assets, red light cameras, and state cable franchise PEG fee. Another portion of the City's net position is the unrestricted net position of negative \$7,387,702.

# CITY OF CONROE, TEXAS

## Management's Discussion and Analysis (Unaudited)

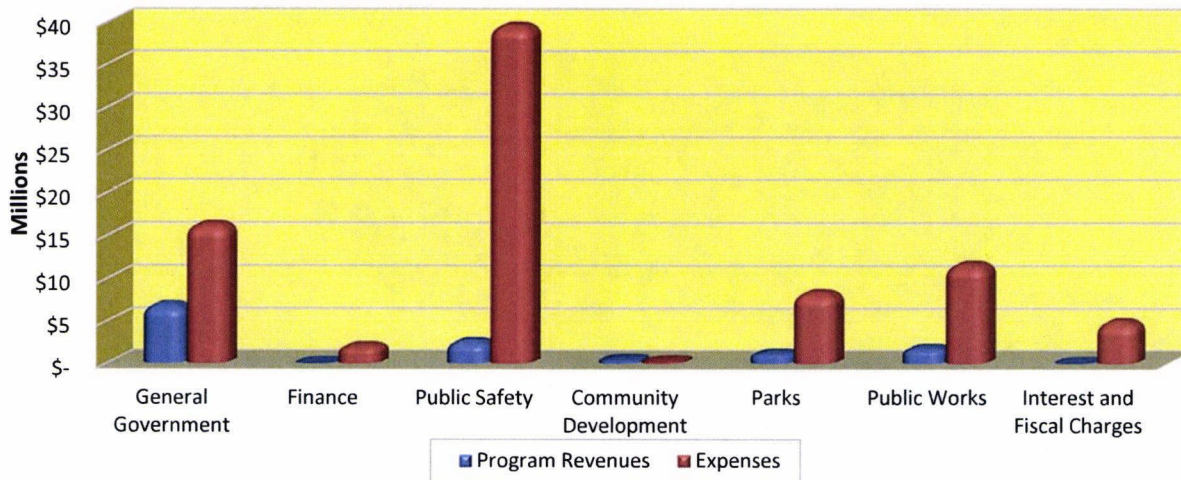
The following table indicates changes in net position for governmental and business-type activities:

Condensed Statement of Activities (amounts in thousands)						
Primary Government						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 7,973	\$ 7,698	\$ 39,098	\$ 35,026	\$ 47,071	\$ 42,724
Operating Grants and Contributions	3,976	4,151	701	698	4,677	4,849
Capital Grants and Contributions	1,270	12	29	2,006	1,299	2,018
General Revenues:						
Property Taxes	31,657	30,262	-	-	31,657	30,262
In Lieu of Taxes	804	777	-	-	804	777
Gross Receipts Taxes	6,786	6,323	-	-	6,786	6,323
Sales and Other Taxes	36,720	32,151	-	-	36,720	32,151
Hotel Occupancy Taxes	1,365	1,163	-	-	1,365	1,163
Mixed Beverage Taxes	332	289	-	-	332	289
Miscellaneous	3,640	2,871	6,723	339	10,363	3,210
Donations	95	52	-	-	95	52
Grants and Contributions Not						
Restricted to Specific Programs	1,572	1,612	-	-	1,572	1,612
Investment Earnings	904	518	618	200	1,522	718
Net Change in Fair Value of Investments	(122)	(120)	(31)	(7)	(153)	(127)
Total Revenues	96,972	87,759	47,138	38,262	144,110	126,021
Expenses:						
General Government	16,321	16,692	-	-	16,321	16,692
Finance	2,124	2,154	-	-	2,124	2,154
Public Safety	39,534	41,127	-	-	39,534	41,127
Community Development	2,143	2,035	-	-	2,143	2,035
Parks	8,374	8,353	-	-	8,374	8,353
Public Works	11,674	13,579	-	-	11,674	13,579
Interest and Fiscal Charges	4,939	4,953	-	-	4,939	4,953
Water and Sewer	-	-	41,500	32,915	41,500	32,915
Total Expenses	85,109	88,893	41,500	32,915	126,609	121,808
Excess (Deficiency) before Transfers	11,863	(1,134)	5,638	5,347	17,501	4,213
Transfers	(568)	241	568	(241)	-	-
Change in Net Position	11,295	(893)	6,206	5,106	17,501	4,213
Net Position - Beginning	95,395	96,288	79,940	74,834	175,335	171,122
Prior Period Adjustment	(10,418)	-	(2,617)	-	(13,035)	-
Net Position - Beginning, as restated	84,977	96,288	77,323	74,834	162,300	171,122
Net Position - Ending	\$ 96,272	\$ 95,395	\$ 83,529	\$ 79,940	\$ 179,801	\$ 175,335

## CITY OF CONROE, TEXAS

### Management's Discussion and Analysis (Unaudited)

#### Program Revenues and Expenses - Governmental Activities



#### Revenues

For fiscal year ended September 30, 2018, revenues for the primary government totaled \$144,109,790. The revenues are categorized by activity type: governmental activities totaled \$96,971,867 and business-type activities totaled \$47,137,923.

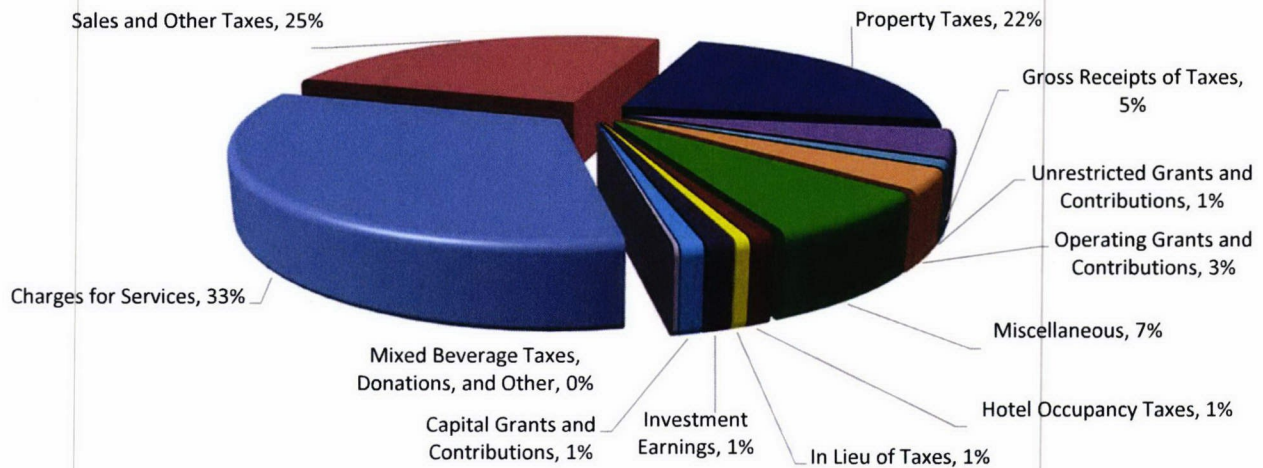
Program revenues are derived from the program itself and reduce the cost of the function to the City. Total program revenues were \$53,045,491 or 37% of total revenues, which increased \$3,454,921 compared to the prior year. The largest portion of program revenues is Charges for Services of \$47,070,968, which is 33% of total revenues. Of that amount, \$7,972,940 is from governmental activities, which includes fees collected by Municipal Court, Police, Parks, and Public Works departments. The business-type Charges for Services of \$39,098,028 are derived from water and sewer charges. The other portions of program revenues are Operating Grants and Contributions of \$4,676,191 (3%) and Capital Grants and Contributions of \$1,298,332 (1%).

General revenues are revenues that cannot be assigned to a specific function. They consist of Sales and Other Taxes of \$36,720,480, one of the largest revenue sources for governmental activities and 25% of total revenues. Property Taxes of \$31,657,147 or 22% of total revenues, which is a \$1.4M increase from prior year Property Taxes of \$30,262,334. Miscellaneous revenues of \$10,363,504 (7%), which increased \$7.2M due mainly to insurance proceeds for Hurricane Harvey damages. Also, Gross Receipts Taxes of \$6,786,464 (5%), Grants and Contributions Not Restricted to Specific Programs of \$1,571,800 (1%), Hotel Occupancy Taxes of \$1,365,057 (1%), In Lieu of Taxes of \$803,625 (1%), and Investment Earnings of \$1,521,889 (1%). The remaining revenue categories are all less than 1% of total revenues: Mixed Beverage Taxes of \$331,830, Donations of \$94,740, and Net Change in Fair Value of Investments of (\$152,237).

## CITY OF CONROE, TEXAS

### Management's Discussion and Analysis (Unaudited)

#### REVENUES BY SOURCE



#### Expenses

For fiscal year ended September 30, 2018, expenses for the primary government totaled \$126,609,446. These expenses are divided by activity type: governmental activities of \$85,109,018 and business-type activities of \$41,500,428.

The City's largest governmental activities function is Public Safety. The main components of this function are the Police and Fire departments. Total expenses for this function were \$39,533,724 or 31% of total expenses. The expenses can be primarily attributed to salaries and vehicle maintenance.

The Water and Sewer business-type activities function expenses were \$41,500,428 or 33% of total expenses. These expenses enable the City to provide water and sewer services to its customers. This was an increase of \$8,585,289 over the prior year due to repairs at the waste water treatment plant for damages done by Hurricane Harvey.

General Government governmental activities function expenses were \$16,320,758 or 13% of total expenses. The expenses can be primarily attributed to salaries.

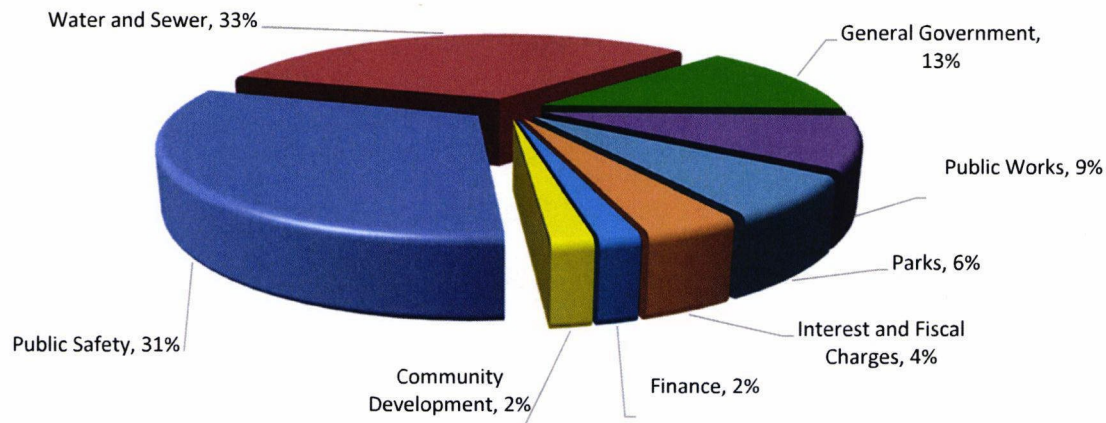
The Public Works governmental activities function had expenses of \$11,674,468 or 9% of total expenses. These services include: street maintenance, drainage maintenance, signal maintenance, and engineering.

The remaining governmental activities functions are Parks with expenses of \$8,374,548 or 6%, Interest and Fiscal Charges with expenses of \$4,938,891 or 4%, Finance with expenses of \$2,123,585 or 2%, and Community Development had expenses of \$2,143,044 or 2%.

## CITY OF CONROE, TEXAS

Management's Discussion and Analysis (Unaudited)

### EXPENSES BY FUNCTION



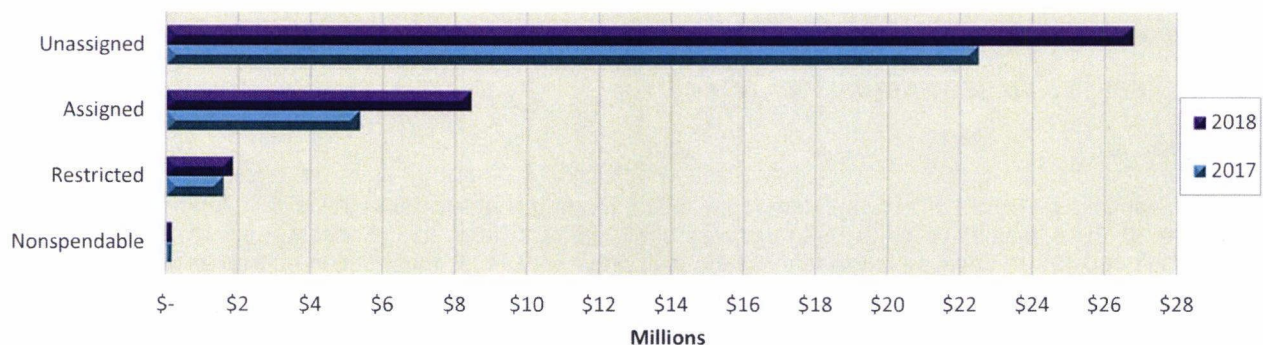
### FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

#### 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 a government's net resources available for spending at the end of the fiscal year.

The **General Fund** is the chief operating fund of the City. At the end of the current year, its unassigned fund balance was \$26,795,709, while the total fund balance reached \$37,247,343. The General Fund total fund balance increased \$7,611,926 due to increased property tax and sales tax revenues. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to its expenditures. Unassigned fund balance was \$26,795,709, or 39% of total General Fund expenditures. Total fund balance was \$37,247,343, or 54% of General Fund expenditures. The General Fund also had nonspendable amounts of \$38,540 for inventories and \$123,967 for prepaid items; restricted amounts of \$24,599 for Severance Pay 2% Sinking Fund, \$1,025,255 for Seized Assets, \$353,663 for Red Light Cameras and, \$449,544 for the State Cable Franchise 1% PEG fee; and assigned amounts of \$376,807 for Tree Mitigation, \$6,347,680 for vehicle and equipment replacement, and \$1,711,579 for General Fund-Balance Appropriations at year end.

### General Fund Components of Fund Balance



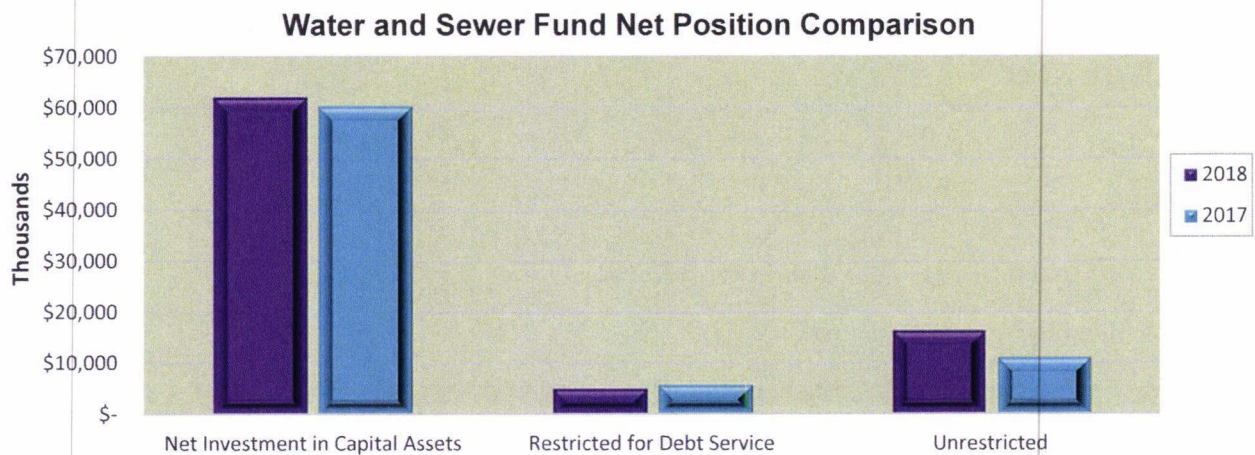
## CITY OF CONROE, TEXAS

### Management's Discussion and Analysis (Unaudited)

The **Debt Service Fund** ended the fiscal year with a total fund balance of \$10,802,885 compared to \$11,569,373 at the end of fiscal year 2017. This fund balance is restricted for the payment of debt.

#### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Unrestricted net position of the **Water and Sewer Fund** at the end of the year amounted to \$16,037,500. The total increase in net position of \$3,588,550, which was an increase of \$6,205,185 less a prior period adjustment of \$2,616,635 for OPEB. The increase was largely due to an increased customer base and monies received from insurance for Hurricane Harvey damage.



#### General Fund Budgetary Highlights

During the year, there was a \$1,202,904 decrease in appropriations between the original and final amended budget. This decrease is primarily due to adjustments for charges for sales and services related to commuter bus service and an increase in transfers out to cover a transfer to the vehicle and equipment replacement fund in advance for FY18-19.

Actual General Fund revenues exceeded budgeted revenues by \$7,900,173 during the year. This increase is primarily due to increased sales tax collections and miscellaneous revenues.

Total expenditures were lower than budgeted amounts by \$1,716,020 for the fiscal year. This decrease is mainly due to less expenditures for capital outlay and personnel costs than were expected.

A more detailed schedule of the General Fund budget to actual comparison is presented in the required supplementary information on page 79.

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

##### Capital Assets

The City's capital assets, net of accumulated depreciation, for its governmental and business-type activities as of September 30, 2018, was \$413,934,046, an increase of \$20,473,917 from capital assets reported September 30, 2017 of \$393,460,129. These capital assets include land and easements, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

# CITY OF CONROE, TEXAS

## Management's Discussion and Analysis (Unaudited)

	Capital Assets					
	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land and Easements	\$ 16,063,105	\$ 15,394,045	\$ 2,156,175	\$ 1,969,344	\$ 18,219,280	\$ 17,363,389
Construction in Progress	30,655,068	49,416,734	24,508,084	29,393,361	55,163,152	78,810,095
Buildings and Improvements	95,972,233	71,700,126	1,973,847	1,973,847	97,946,080	73,673,973
Machinery and Equipment	35,946,570	34,768,702	11,573,358	10,482,668	47,519,928	45,251,370
Infrastructure	181,441,021	171,552,975	232,293,423	211,031,904	413,734,444	382,584,879
	360,077,997	342,832,582	272,504,887	254,851,124	632,582,884	597,683,706
Accumulated Depreciation	(121,913,867)	(112,329,421)	(96,734,971)	(91,894,156)	(218,648,838)	(204,223,577)
Total	\$238,164,130	\$230,503,161	\$175,769,916	\$162,956,968	\$413,934,046	\$393,460,129

More detailed information about the City's capital assets is presented in Note V of the basic financial statements.

### Long-Term Obligations

At year-end the City had \$331,906,001 in long-term obligations outstanding, of which \$258,874,771 is bonded debt. During the year, the City issued \$24,185,000 in Limited Tax Refunding Bonds. The City's Standard & Poor's and Moody's Investor Service, Inc. credit ratings, respectively, for Water and Wastewater Revenue Bonds remained unchanged at AA and Aa3, and General Obligation Bonds were upgraded to AA+ and Aa1.

	Long-Term Obligations					
	Primary Government					
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Bonds Payable, net	\$142,295,795	\$151,254,904	\$116,578,976	\$121,026,014	\$258,874,771	\$272,280,918
Customer Deposits	-	-	745,382	727,856	745,382	727,856
Capital Leases	214,914	279,301	1,570,925	2,057,162	1,785,839	2,336,463
Notes Payable	530,002	648,002	-	-	530,002	648,002
Health Claims Liability	472,822	556,467	-	-	472,822	556,467
OPEB Liability	14,671,945	14,903,693	2,753,168	2,796,655	17,425,113	17,700,348
Net Pension Liability/TMRS	17,174,107	23,281,651	3,222,695	4,238,031	20,396,802	27,519,682
Net Pension Liability/Fire R/R	20,847,726	19,316,952	-	-	20,847,726	19,316,952
Severance Payable	1,229,969	1,248,975	-	-	1,229,969	1,248,975
Compensated Absences	8,727,324	8,415,716	870,251	790,552	9,597,575	9,206,268
Total	\$206,164,604	\$219,905,661	\$125,741,397	\$131,636,270	\$331,906,001	\$351,541,931

More detailed information about the City's long-term obligations is presented in Note VI of the basic financial statements. The OPEB liability has been restated for FY2017 due to the implementation of Governmental Accounting Standards Board statement number 75. Please see Note VIII of the basic financial statements for more information on Other Post Employment Benefits. Also, see Note IX of the basic financial statements for more information on the Pension Plans.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Appraised value used for the FY18-19 budget preparation is up \$796,203,275, or 10.5%, from FY17-18.
- Sales tax revenue for the City was estimated with a 2% increase for FY18-19. This was based on general growth in the local economy.
- Spending in the General Fund increases in the FY18-19 budget from \$71,368,314 to \$77,923,123. This is a 9.2% increase.

These indicators were taken into account when adopting the General Fund budget for FY18-19. Property taxes will increase, due to higher assessed values, annexations, and new construction. The City will use these increases in revenues to finance current services and new programs.

## **CITY OF CONROE, TEXAS**

### ***Management's Discussion and Analysis (Unaudited)***

If these estimates are realized, the City's budgetary General Fund fund balance is expected to increase by approximately \$3,801,814 at the close of FY18-19. Capital expenditures are budgeted at \$2,086,030 in FY18-19.

### **SAN JACINTO RIVER AUTHORITY GROUNDWATER REDUCTION PLAN**

The City is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA has constructed a surface water treatment facility and transmission system to provide treated surface water to the City. The transmission system was interconnected to the City's water system, and in December 2015 the City started receiving treated surface water. Based on the agreement between the City and the SJRA, the City pays the SJRA for groundwater pumped from the Jasper aquifer and for treated surface water from Lake Conroe. More information regarding this agreement can be found in Note X in the Notes to the Financial Statements.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the City's Finance & Administration Department.



**CITY OF CONROE, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2018**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Conroe Industrial Development Corporation	Oscar Johnson, Jr Community Center
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,637,112	\$ 1,184,075	\$ 6,821,187	\$ 6,353,433	\$ -
Investments	49,504,569	33,303,170	82,807,739	26,594,391	-
Receivables (net of allowances for uncollectibles):					
Property Taxes	922,356	-	922,356	-	-
Gross Receipts Tax	990,981	-	990,981	-	-
Accounts	464,004	5,561,145	6,025,149	-	-
Interest	76,457	19,519	95,976	27,285	-
Other	715,522	-	715,522	798,621	63
Due from Other Governments	8,019,734	-	8,019,734	-	-
Due from Primary Government	-	-	-	1,985,066	-
Prepaid Items	123,967	8,000	131,967	-	-
Inventories	78,580	579,007	657,587	-	-
Land Held for Resale	-	-	-	44,028,037	-
Capital Assets:					
Land and Easements	16,063,105	2,156,175	18,219,280	-	108,770
Construction in Progress	30,655,068	24,508,084	55,163,152	-	-
Buildings and Improvements	95,972,233	1,973,847	97,946,080	-	1,421,618
Machinery and Equipment	35,946,570	11,573,358	47,519,928	-	240,063
Infrastructure	181,441,021	232,293,423	413,734,444	-	-
Less Accumulated Depreciation	(121,913,867)	(96,734,971)	(218,648,838)	-	(846,394)
Total Capital Assets (net of depreciation)	238,164,130	175,769,916	413,934,046	-	924,057
<b>TOTAL ASSETS</b>	<b>304,697,412</b>	<b>216,424,832</b>	<b>521,122,244</b>	<b>79,786,833</b>	<b>924,120</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Charges on Refundings	2,088,665	323,959	2,412,624	1,297,450	-
Pension Contributions After Measurement Date	2,852,597	535,285	3,387,882	-	-
Pension Other	5,442,395	567,507	6,009,902	-	-
OPEB Contributions After Measurement Date	1,635,491	306,897	1,942,388	-	-
OPEB Other	104,059	19,526	123,585	-	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>12,123,207</b>	<b>1,753,174</b>	<b>13,876,381</b>	<b>1,297,450</b>	<b>-</b>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts Payable and Other Current Liabilities	4,118,355	6,315,802	10,434,157	21,445	35,692
Payable to Component Unit	1,985,066	-	1,985,066	-	-
Unearned Revenue	1,464,669	-	1,464,669	-	-
Accrued Interest Payable	514,986	1,592,031	2,107,017	94,634	-
Noncurrent Liabilities					
Due within One Year	7,824,578	6,011,583	13,836,161	3,010,000	-
Due in More Than One Year	198,340,026	119,729,814	318,069,840	54,149,440	-
<b>TOTAL LIABILITIES</b>	<b>214,247,680</b>	<b>133,649,230</b>	<b>347,896,910</b>	<b>57,275,519</b>	<b>35,692</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension Other	6,151,513	971,900	7,123,413	-	-
OPEB Other	149,059	27,971	177,030	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>6,300,572</b>	<b>999,871</b>	<b>7,300,443</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	103,697,091	62,490,423	166,187,514	-	924,057
Restricted for:					
Severance Pay 2% Sinking Fund	24,599	-	24,599	-	-
Seized Assets	1,025,255	-	1,025,255	-	-
Red Light Cameras	353,663	-	353,663	-	-
State Cable Franchise 1% PEG Fee	449,544	-	449,544	-	-
Debt Service	10,589,482	5,000,982	15,590,464	5,155,741	-
Special Revenue Funds	3,557,935	-	3,557,935	-	-
Unrestricted	(23,425,202)	16,037,500	(7,387,702)	18,653,023	(35,629)
<b>TOTAL NET POSITION</b>	<b>\$ 96,272,367</b>	<b>\$ 83,528,905</b>	<b>\$ 179,801,272</b>	<b>\$ 23,808,764</b>	<b>\$ 888,428</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF CONROE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$ 16,320,758	\$ 3,863,812	\$ 2,439,828	\$ 650,827
Finance	2,123,585	-	-	-
Public Safety	39,533,724	1,614,644	1,025,017	-
Community Development	2,143,044	-	487,903	-
Parks	8,374,548	1,263,210	-	-
Public Works	11,674,468	1,231,274	22,875	618,705
<b>Debt Service:</b>				
Interest and Fiscal Charges	4,938,891	-	-	-
<b>Total Governmental Activities</b>	<b>85,109,018</b>	<b>7,972,940</b>	<b>3,975,623</b>	<b>1,269,532</b>
<b>Business-type Activities:</b>				
Water and Sewer	41,500,428	39,098,028	700,568	28,800
<b>Total Business-type Activities</b>	<b>41,500,428</b>	<b>39,098,028</b>	<b>700,568</b>	<b>28,800</b>
<b>Total Primary Government</b>	<b>\$126,609,446</b>	<b>\$47,070,968</b>	<b>\$ 4,676,191</b>	<b>\$ 1,298,332</b>
<b>COMPONENT UNITS:</b>				
Conroe Industrial Development Corporation	\$ 7,578,125	\$ -	\$ -	\$ -
Oscar Johnson, Jr. Community Center	\$ 1,396,520	\$ 761,154	\$ 757,044	\$ -

General Revenues:  
Property Taxes  
In Lieu of Taxes  
Gross Receipts Tax  
Sales and Other Taxes  
Hotel Occupancy Taxes  
Mixed Beverage Taxes  
Miscellaneous  
Donations  
Grants and Contributions Not Restricted to Specific Programs  
Investment Earnings  
Net Change in Fair Value of Investments  
Transfers  
Total General Revenues and Transfers  
  
Change in Net Position  
  
Net Position - Beginning  
Prior Period Adjustment  
Net Position - Beginning, as restated  
Net Position - Ending

The accompanying notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			Component Units	
Governmental Activities	Business-type Activities	Total	Conroe Industrial Development Corporation	Oscar Johnson Jr. Community Center
\$ (9,366,291)	\$ -	\$ (9,366,291)	\$ -	\$ -
(2,123,585)	-	(2,123,585)	-	-
(36,894,063)	-	(36,894,063)	-	-
(1,655,141)	-	(1,655,141)	-	-
(7,111,338)	-	(7,111,338)	-	-
(9,801,614)	-	(9,801,614)	-	-
<u>(4,938,891)</u>	<u>-</u>	<u>(4,938,891)</u>	<u>-</u>	<u>-</u>
<u>(71,890,923)</u>	<u>-</u>	<u>(71,890,923)</u>	<u>-</u>	<u>-</u>
-	(1,673,032)	(1,673,032)	-	-
-	(1,673,032)	(1,673,032)	-	-
<u>(71,890,923)</u>	<u>(1,673,032)</u>	<u>(73,563,955)</u>	<u>-</u>	<u>-</u>
			<u>(7,578,125)</u>	<u>121,678</u>
31,657,147	-	31,657,147	-	-
803,625	-	803,625	-	-
6,786,464	-	6,786,464	-	-
36,720,480	-	36,720,480	12,240,160	-
1,365,057	-	1,365,057	-	-
331,830	-	331,830	-	-
3,640,230	6,723,274	10,363,504	3,097,111	3,239
94,740	-	94,740	-	6,785
1,571,800	-	1,571,800	-	-
903,985	617,904	1,521,889	441,498	-
(121,586)	(30,651)	(152,237)	(35,741)	-
<u>(567,690)</u>	<u>567,690</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>83,186,082</u>	<u>7,878,217</u>	<u>91,064,299</u>	<u>15,743,028</u>	<u>10,024</u>
11,295,159	6,205,185	17,500,344	8,164,903	131,702
95,394,715	79,940,355	175,335,070	15,643,861	756,726
<u>(10,417,507)</u>	<u>(2,616,635)</u>	<u>(13,034,142)</u>	<u>-</u>	<u>-</u>
<u>84,977,208</u>	<u>77,323,720</u>	<u>162,300,928</u>	<u>15,643,861</u>	<u>756,726</u>
<u>\$ 96,272,367</u>	<u>\$ 83,528,905</u>	<u>\$ 179,801,272</u>	<u>\$ 23,808,764</u>	<u>\$ 888,428</u>

# CITY OF CONROE, TEXAS

## BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,219,920	\$ 34,651	\$ 1,876,461	\$ 3,131,032
Investments	32,167,205	10,746,872	6,415,922	49,329,999
Receivable (Net of Allowances for Uncollectibles)				
Property Taxes, net	614,588	307,768	-	922,356
Gross Receipts Tax	990,981	-	-	990,981
Accounts	2,500	-	457,206	459,706
Interest	60,808	15,649	-	76,457
Other	433,919	-	93,875	527,794
Due from Other Funds	-	-	5,508,662	5,508,662
Due from Other Governments	8,019,734	-	-	8,019,734
Prepaid Items	123,967	-	-	123,967
Inventories	38,540	-	-	38,540
<b>TOTAL ASSETS</b>	<b>\$ 43,672,162</b>	<b>\$ 11,104,940</b>	<b>\$ 14,352,126</b>	<b>\$ 69,129,228</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 990,608	\$ 472	\$ 1,020,615	\$ 2,011,695
Other Payables	1,420,347	-	7,564	1,427,911
Retainage Payable	-	-	504,055	504,055
Due to Other Funds	-	-	5,508,662	5,508,662
Due to Component Unit	1,985,066	-	-	1,985,066
Customer Deposits	-	-	9,906	9,906
Unearned Revenue	1,460,835	-	3,834	1,464,669
<b>TOTAL LIABILITIES</b>	<b>5,856,856</b>	<b>472</b>	<b>7,054,636</b>	<b>12,911,964</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue-Property Taxes	567,963	301,583	-	869,546
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>567,963</b>	<b>301,583</b>	<b>-</b>	<b>869,546</b>
<b>FUND BALANCES</b>				
Nonspendable:				
Prepaid Items	123,967	-	-	123,967
Inventories	38,540	-	-	38,540
Restricted for:				
Severance Pay 2% Sinking Fund	24,599	-	-	24,599
Seized Assets	1,025,255	-	-	1,025,255
Red Light Cameras	353,663	-	-	353,663
State Cable Franchise 1% PEG Fee	449,544	-	-	449,544
Debt Service	-	10,802,885	-	10,802,885
Capital Project Funds	-	-	6,015,379	6,015,379
Special Revenue Funds	-	-	3,557,935	3,557,935
Committed for:				
TIRZ #3-Property Tax Receipts	-	-	2,931,903	2,931,903
Conroe MMD#1 Agreement	-	-	119,792	119,792
Conroe Tower-Lease Income	-	-	26,460	26,460
Woodlands Township Reg. Participation	-	-	249,487	249,487
Assigned to:				
Tree Mitigation	376,807	-	-	376,807
Equipment Replacement	6,347,680	-	-	6,347,680
Fund Balance Appropriations	1,711,579	-	-	1,711,579
Unassigned	26,795,709	-	(5,603,466)	21,192,243
<b>TOTAL FUND BALANCES</b>	<b>37,247,343</b>	<b>10,802,885</b>	<b>7,297,490</b>	<b>55,347,718</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 43,672,162</b>	<b>\$ 11,104,940</b>	<b>\$ 14,352,126</b>	<b>\$ 69,129,228</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

# CITY OF CONROE, TEXAS

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds \$ 55,347,718

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental Capital Assets	\$ 360,077,997	
Accumulated Depreciation of Governmental Capital Assets	<u>(121,913,867)</u>	238,164,130

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 869,546

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end and related deferred outflows and inflows consist of:

Bonds Payable, at Original Par	\$ (132,955,000)	
Premiums/Discounts on Bonds Payable	(9,340,795)	
Deferred Charge on Refunding	2,088,665	
Accrued Interest on Bonds	(514,986)	
Capital Lease Payable	(214,914)	
Notes Payable	(530,002)	
Net OPEB Liability	(14,340,868)	
Deferred Outflows for OPEB	1,700,297	
Deferred Inflows for OPEB	(145,695)	
Net Pension Liability - TMRS	(16,786,568)	
Net Pension Liability - Firefighters' Retirement	(20,847,726)	
Deferred Outflows for Pensions	8,162,377	
Deferred Inflows for Pensions	(6,034,639)	
Severance Benefits	(1,229,969)	
Compensated Absences	<u>(8,633,747)</u>	(199,623,570)

Internal service funds are used by the City. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. Internal service fund net position is (excluding capital assets).

1,514,543

Total Net Position - Governmental Activities

\$ 96,272,367

# CITY OF CONROE, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 66,575,510	\$ 9,375,527	\$ 1,365,057	\$ 77,316,094
Licenses and Permits	3,194,609	-	-	3,194,609
Charges for Sales and Services	2,537,383	-	-	2,537,383
Lease Income	380,413	-	277,100	657,513
Fines and Forfeitures	1,457,965	-	125,470	1,583,435
Intergovernmental	2,746,961	-	4,069,994	6,816,955
Investment Income	484,063	188,910	219,796	892,769
Net Change in Fair Value of Investments	(87,960)	(33,626)	-	(121,586)
Penalties and Interest	135,871	62,542	1,880	200,293
Miscellaneous Revenue	1,138,616	419,617	2,109,887	3,668,120
<b>TOTAL REVENUES</b>	<b>78,563,431</b>	<b>10,012,970</b>	<b>8,169,184</b>	<b>96,745,585</b>
<b>EXPENDITURES</b>				
Current				
General Government				
Administration	1,434,719	-	-	1,434,719
Legal	537,678	-	-	537,678
Municipal Court	1,058,573	-	7,215	1,065,788
Building Operations	-	-	941,816	941,816
Warehouse/Purchasing	388,469	-	-	388,469
Information Technology	2,513,656	-	-	2,513,656
Transportation	552,015	-	653,830	1,205,845
Human Resources	851,244	-	-	851,244
Culture-Recreation	-	-	1,153,720	1,153,720
Non-Departmental	5,012,781	-	668,760	5,681,541
Finance	2,045,039	-	-	2,045,039
Public Safety				
Police	20,124,259	-	9,980	20,134,239
Fire	15,693,269	-	-	15,693,269
Community Development	2,192,036	-	52,648	2,244,684
Parks				
Parks and Recreation Administration	858,929	-	-	858,929
Recreation Center	1,423,335	-	-	1,423,335
Aquatic Center	1,494,806	-	-	1,494,806
Parks Operations	2,054,096	-	77,429	2,131,525
Public Works				
Drainage Maintenance	870,505	-	-	870,505
Streets	4,515,698	-	378,136	4,893,834
Signal Maintenance	1,003,666	-	57,575	1,061,241
Signs	8,594	-	-	8,594
Engineering	2,574,188	-	-	2,574,188
Debt Service				
Principal Retirement	64,387	8,325,000	118,000	8,507,387
Interest and Fiscal Charges	10,792	5,066,772	36,833	5,114,397
Bond Issuance Costs	-	85,350	-	85,350
Capital Outlay	1,429,879	-	16,936,434	18,366,313
<b>TOTAL EXPENDITURES</b>	<b>68,712,613</b>	<b>13,477,122</b>	<b>21,092,376</b>	<b>103,282,111</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>9,850,818</b>	<b>(3,464,152)</b>	<b>(12,923,192)</b>	<b>(6,536,526)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunding Bonds Issued	-	6,845,000	-	6,845,000
Payment to Escrow Agent	-	(7,875,068)	-	(7,875,068)
Premium on Bonds Issued	-	944,976	-	944,976
Insurance Proceeds	363,722	-	-	363,722
Transfers In	895,211	2,782,756	3,380,763	7,058,730
Transfers Out	(3,497,825)	-	(3,448,482)	(6,946,307)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,238,892)</b>	<b>2,697,664</b>	<b>(67,719)</b>	<b>391,053</b>
<b>Net Change in Fund Balances</b>	<b>7,611,926</b>	<b>(766,488)</b>	<b>(12,990,911)</b>	<b>(6,145,473)</b>
Fund Balances at Beginning of Year	29,635,417	11,569,373	20,288,401	61,493,191
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 37,247,343</b>	<b>\$ 10,802,885</b>	<b>\$ 7,297,490</b>	<b>\$ 55,347,718</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

# **CITY OF CONROE, 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, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$ (6,145,473)
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Amounts reported for governmental activities in the statement of activities are different because.

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay Expenditures	\$ 18,366,313	
Depreciation Expense	<u>(10,369,565)</u>	7,996,748

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.	(315,705)
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Because some property taxes will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.	150,096
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Debt issued		
Bonds	\$ (6,845,000)	
Bond Premiums	(944,976)	
Repayments		
To Refunding Bond Escrow Agent	7,875,068	
To Paying Agent for Bond Principal	8,325,000	
Refunding Interest Expense	31,224	
Capital Lease Principal	64,387	
Notes	<u>118,000</u>	8,623,703

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of:

Accrued Interest Bonds Payable	\$ (168,211)	
Amortization of Bond Premium/Discount	602,885	
Amortization of Deferred Amount on Refunding	(205,042)	
Compensated Absences	(300,701)	
Severance Liability	19,006	
Net OPEB Liability (including deferred amounts)	843,430	
Net Pension Liability - TMRS (including deferred amounts)	(182,610)	
Net Pension Liability - Firefighters' Retirement (including deferred amounts)	<u>(1,189,723)</u>	(580,966)

Internal service funds are used by the City. The net revenue of the internal service funds are reported with governmental activities.	<u>1,566,756</u>
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Change in Net Position - Governmental Activities	<u><u>\$ 11,295,159</u></u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF CONROE, TEXAS, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2018**

	Enterprise Fund Water and Sewer Fund	Internal Service Funds
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,184,075	\$ 2,506,080
Investments	33,303,170	174,570
Receivables (Net of Allowances for Uncollectibles):		
Accounts	5,561,145	4,298
Interest	19,519	-
Other	-	187,728
Prepaid Items	8,000	-
Inventories	579,007	40,040
Total Current Assets	40,654,916	2,912,716
Noncurrent Assets		
Capital Assets (Net of Accumulated Depreciation)	175,769,916	144,580
Total Noncurrent Assets	175,769,916	144,580
<b>TOTAL ASSETS</b>	<b>216,424,832</b>	<b>3,057,296</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refundings	323,959	-
Pension Contributions After Measurement Date	535,285	64,370
Pension Other	567,507	68,245
OPEB Contributions After Measurement Date	306,897	36,905
OPEB Other	19,526	2,348
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,753,174</b>	<b>171,868</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	2,750,686	148,760
Other Payables	3,381,524	16,028
Retainage Payable	183,592	-
Health Claims Liability	-	472,822
Accrued Interest Payable	1,592,031	-
Customer Deposits	335,422	-
Compensated Absences	20,718	3,921
Capital Lease	505,443	-
Bonds Payable	5,150,000	-
Total Current Liabilities	13,919,416	641,531
Noncurrent Liabilities, net of current portion		
Customer Deposits	409,960	-
Compensated Absences	849,533	89,656
Capital Lease	1,065,482	-
Net OPEB Liability	2,753,168	331,077
Net Pension Liability	3,222,695	387,539
Bonds Payable, Net	111,428,976	-
Total Noncurrent Liabilities	119,729,814	808,272
<b>TOTAL LIABILITIES</b>	<b>133,649,230</b>	<b>1,449,803</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Other	971,900	116,874
OPEB Other	27,971	3,364
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>999,871</b>	<b>120,238</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	62,490,423	144,580
Restricted for Debt Service	5,000,982	-
Unrestricted	16,037,500	1,514,543
<b>TOTAL NET POSITION</b>	<b>\$ 83,528,905</b>	<b>\$ 1,659,123</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

# CITY OF CONROE, TEXAS

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Enterprise Fund Water and Sewer Fund	Internal Service Funds
<b>OPERATING REVENUES</b>		
Charges for Sales and Services	\$ 39,098,028	\$ 14,031,442
<b>TOTAL OPERATING REVENUES</b>	<b>39,098,028</b>	<b>14,031,442</b>
<b>OPERATING EXPENSES</b>		
Public Works	4,311,401	-
Utility Billing and Collection	1,093,574	-
Water Production	3,712,969	-
Surface Water	10,621,246	-
Sewage Treatment	11,307,958	-
Pump and Motor Maintenance	1,401,451	-
Fleet Services	-	1,772,033
General Government	-	10,003,682
Depreciation	4,992,237	20,074
<b>TOTAL OPERATING EXPENSES</b>	<b>37,440,836</b>	<b>11,795,789</b>
<b>Operating Income (Loss)</b>	<b>1,657,192</b>	<b>2,235,653</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental	729,368	-
Investment Income	617,904	11,216
Net Change in Fair Value of Investments	(30,651)	-
Other Income	303,787	-
Insurance Recoveries	6,419,487	-
Interest Expense	(4,059,592)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>3,980,303</b>	<b>11,216</b>
<b>Income (Loss) Before Transfers</b>	<b>5,637,495</b>	<b>2,246,869</b>
Transfers In	631,440	-
Transfers Out	(63,750)	(680,113)
<b>NET TRANSFERS</b>	<b>567,690</b>	<b>(680,113)</b>
<b>Change in Net Position</b>	<b>6,205,185</b>	<b>1,566,756</b>
Net Position at Beginning of Year	79,940,355	(3,119,822)
Prior Period Adjustment (see Note I)	(2,616,635)	3,212,189
Net Position at Beginning of Year - as Restated	77,323,720	92,367
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 83,528,905</b>	<b>\$ 1,659,123</b>

The accompanying notes to the basic financial statements are an integral part of this statement.



**CITY OF CONROE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Enterprise Fund Water and Sewer Fund	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>		
Receipts from Customers	\$ 38,930,011	\$ 14,050,319
Payments to Employees	(5,805,972)	(713,341)
Payments to Vendors	(22,854,817)	(10,974,655)
Net Cash Provided by (Used for) Operating Activities	<u>10,269,222</u>	<u>2,362,323</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Intergovernmental Reimbursements	700,568	-
Transfers From Other Funds	631,440	-
Transfers To Other Funds	(63,750)	(680,113)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>1,268,258</u>	<u>(680,113)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Purchase of Capital Assets	(17,805,185)	-
Insurance Recoveries	6,419,487	-
Intergovernmental Reimbursements	28,800	-
Principal Paid	(24,376,879)	-
Interest Paid	(4,219,499)	-
Proceeds from Refunding Debt	19,443,604	-
Net Cash Used for Capital and Related Financing Activities	<u>(20,509,672)</u>	<u>-</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of Investments	(33,303,170)	-
Sale and Maturities of Investments	42,855,228	599,170
Interest and Dividends on Investments	574,217	11,269
Net Cash Provided by Investing Activities	<u>10,126,275</u>	<u>610,439</u>
Net Increase in Cash and Cash Equivalents	1,154,083	2,292,649
Cash and Cash Equivalents at Beginning of Year	29,992	213,431
Cash and Cash Equivalents at End of Year	<u>\$ 1,184,075</u>	<u>\$ 2,506,080</u>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Operating Income	\$ 1,657,192	\$ 2,235,653
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities		
Depreciation	4,992,237	20,074
Other Non-Operating Income	303,787	-
Changes in Assets and Liabilities		
Decrease (Increase) in Receivables	(489,330)	18,877
Decrease (Increase) in Prepaid Items	(8,000)	143,095
Decrease (Increase) in Inventories	36,345	(2,366)
Increase (Decrease) in Payables	3,729,240	28,725
Increase (Decrease) in Compensated Absences	79,699	10,907
Increase (Decrease) of Customer Deposits	17,526	-
Increase (Decrease) in OPEB Liability (including deferred amounts)	(161,919)	(19,470)
Increase (Decrease) in Net Pension Liability (including deferred amounts)	112,445	(73,172)
Net Cash Provided by Operating Activities	<u>\$ 10,269,222</u>	<u>\$ 2,362,323</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF CONROE, TEXAS**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2017**

	City of Conroe OPEB Trust Fund
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 104,854
Investments (Fair Value)	5,975,224
<b>TOTAL ASSETS</b>	<u>6,080,078</u>
<b>NET POSITION</b>	
Assets Held in Trust for OPEB	6,080,078
<b>TOTAL NET POSITION</b>	<u><u>\$ 6,080,078</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF CONROE, TEXAS**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	City of Conroe OPEB Trust Fund
<b>ADDITIONS</b>	
Contributions	
Employer Contributions	\$ 2,276,869
Investment Earnings	
Investment Income	257,472
Net Change in Fair Value of Investment	291,450
<b>TOTAL ADDITIONS</b>	<u>2,825,791</u>
<b>DEDUCTIONS</b>	
Plan Administrative Expense	25,632
Benefits and Refunds Paid to Members and Beneficiaries	1,270,000
<b>TOTAL DEDUCTIONS</b>	<u>1,295,632</u>
<b>Change in Net Position</b>	1,530,159
Net Position at Beginning of the Year	4,549,919
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 6,080,078</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**I. Summary of Significant Accounting Policies**

The combined financial statements of City of Conroe, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following are some of the more significant accounting policies. Fiduciary funds are omitted from the government-wide financial statements.

**A. Reporting Entity**

The City's combined financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB codification, include whether:

- the organization is legally separate
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

**DISCRETE COMPONENT UNITS**

The following entities are included in the financial statements as discrete component units based upon their significant financial and operational relationship to the City:

Oscar Johnson, Jr. Community Center Volunteers, Inc. A nonprofit corporation organized under the Texas Non-Profit Corporation Act to engage in charitable and educational activity related to the Oscar Johnson, Jr. Community Center (OJJCC), a municipal community center owned by the City. The community center provides programs and after school care for the children within the city and surrounding areas. The Directors are appointed by the Mayor subject to confirmation by a majority vote of the City Council. The City can significantly influence the programs, projects, activities or level of service performed by the OJJCC. Oscar Johnson, Jr. Community Center Volunteers, Inc. does not issue separate financial statements.

Conroe Industrial Development Corporation - (CIDC) A nonprofit corporation organized under the Texas Non-Profit Corporation Act whose sole purpose is to promote economic development within the City of Conroe and vicinity. The CIDC expends the proceeds of a sales and use tax levied at the rate of one-half of one percent to be used for promotion and development of new or expanded business enterprises and any other purpose authorized under Section 4B, Article 5190.6, VTCS as amended (The Development Corporation Act of 1979). Directors are appointed by the governing body of the City. There is a financial benefit/burden relationship. The CIDC attracts new businesses to the area, which provide job opportunities to the citizens as well as increased sales and property tax revenues. The CIDC does not issue separate financial statements.

**B. Basis of Presentation, Basis of Accounting**

**Government-wide Statements:** Government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the primary government and its component units. Interfund services that are provided and used are not eliminated in the process of consolidation. 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 government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

for the various functions concerned. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

These 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 at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Statement of Activities demonstrates the degree to which the direct expenses of the City's programs are offset by those programs' revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the Statement of Activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fiduciary funds are excluded from the government-wide presentation of the financial statements.

**Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property and sales taxes. Property tax revenues and revenues received from Federal and State governments are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and claims and judgments which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

All proprietary funds, including the enterprise and internal service funds, and fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when they are incurred. These funds are accounted for using the economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included in the funds' statement of net position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its maintenance of City vehicles and for costs of providing health, dental, and vision insurance to the City's employees, retirees, and dependents. The fiduciary funds financial statements reflect the City's OPEB trust fund.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

The accounts of the City are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means to which spending activities are controlled. Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. The major funds of the City are noted within each category.

**Governmental Funds** are used to account for all or most of a government's general activity.

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, licenses and permits, charges for services, and fines and forfeitures.

The *Debt Service Fund* is used to account for the accumulation of resources and payment of general obligation bonds, contractual obligations, and certificates of obligation. The primary source of revenue is property taxes. Other sources of revenue include intergovernmental revenue from the CIDC to pay for certain parks and recreation debt service, as well as transfers in from the TIRZ #3 fund to pay for certain street improvement debt service.

**Proprietary Funds** are used to account for operations that are financed in a manner similar to those in the private sector, where the determination of net income is appropriate for sound financial administration.

The *Water and Sewer Fund* is an enterprise fund used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

**Fiduciary Funds** are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The City reports one fiduciary fund.

The *City of Conroe OPEB Trust Fund* is used to report resources that are required to be held in trust for the members and beneficiaries of other postemployment benefit plans (i.e., retiree insurance).

**C. Implementation of New Standards**

In the current fiscal year, the City implemented the following new standards:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), changes the focus of accounting of postemployment benefits other than pensions from how much it costs to adequately fund the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. Implementation of GASB 75 is reflected in Note VIII and RSI. Also, with this implementation the beginning net position has been adjusted for the OPEB liability and OPEB expenses attributable to prior years.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

	Governmental Activities	Business-type Activities	Water and Sewer Fund	Fleet Services	Self Funded Insurance
Net Position - Beginning	\$ 95,394,715	\$ 79,940,355	\$ 79,940,355	\$ 407,023	\$ (3,526,845)
Change in OPEB liability	(11,855,737)	(2,886,517)	(2,886,517)	(347,112)	3,526,847
Deferral for OPEB contributions made after the measurement date	1,438,230	269,882	269,882	32,454	-
Net Position - Beginning, as restated	<u>\$ 84,977,208</u>	<u>\$ 77,323,720</u>	<u>\$ 77,323,720</u>	<u>\$ 92,365</u>	<u>\$ 2</u>

GASB Statement 81, *Irrevocable Split-Interest Agreements* ("GASB 81"), establishes recognition and measurement requirements for irrevocable split-interest agreements. Implementation of GASB 81 did not have an impact on the City's financial disclosures.

GASB Statement 85, *Omnibus 2017* ("GASB 85"), addresses practice issues that have been identified during implementation and application of certain GASB Statements. Implementation of GASB 85 did not have an impact on the City's financial disclosures.

GASB Statement 86, *Certain Debt Extinguishment Issues* ("GASB 86"), is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. Also, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and the notes to the financial statements for debt that is defeased in substance. Implementation of GASB 86 did not have an impact on the City's financial disclosures.

**D. Cash and Investments**

The City maintains and controls cash and investment pools in which the primary government's funds share. In addition, cash and investments are separately held and reflected in their respective funds as "cash and cash equivalents" and "investments".

The City, as a reporting entity, considers demand deposits to be cash equivalents.

Investments for the City, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value.

**E. Property Taxes**

Property taxes attach as an enforceable lien on property on February 1. Taxes are levied and become payable on October 1. The Montgomery County Tax Assessor-Collector is responsible for billing and collecting City property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. However, not all outstanding property taxes are expected to be collected within one year of the financial statements. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2018, was \$0.4175 per \$100, allocated \$0.2925 for the General Fund and \$0.1250 for the Debt Service Fund.

**F. Inventories and Prepaid Items**

Inventories consist primarily of supplies, valued at cost, which approximates market. Cost is determined using a weighted average method. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**G. Land Held for Resale**

Land held for resale consists of acquisition and improvements to real property that is purchased with the intent to sell to private-sector purchasers and currently recorded in the City's discretely presented component unit, CIDC. The land held for resale is reported at cost. The CIDC oversees two economic development parks: Conroe Park North Industrial Park and Deison Technology Park.

**H. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. A capitalization threshold of \$5,000 is used.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized cost of the assets constructed. During the year ended September 30, 2018, no interest was capitalized by the City.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	20-50
Machinery and Equipment	5-30
Infrastructure	30-40

**I. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. The City has the following items that qualify for reporting in this category.

- Deferred Charges on Refundings – result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – recognized in the subsequent year.
- Difference in projected and actual earnings on pension assets - amortized on a closed basis over a 5-year period.
- Changes in actuarial assumptions used to determine pension liability - amortized over the weighted average remaining service life of all participants in the respective qualified pension plan.
- OPEB contributions after the measurement date - recognized in the subsequent year.
- Difference in projected and actual earnings on OPEB assets - amortized on a closed basis over a 5-year period.
- Changes in actuarial assumptions used to determine OPEB liability - amortized over the weighted average remaining service life of all participants in the respective OPEB plan.

In addition to liabilities, the statement of financial position and/or balance sheet 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 will

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

not be recognized as an inflow of resources (revenue) until that time. This City has the following items that qualify for reporting in this category.

- Difference in Expected and Actual Pension Experience – recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in Expected and Actual OPEB Experience – recognized over the estimated average remaining service lives of all employees determined as of the beginning of the measurement date.
- Unavailable Revenue-Property Taxes - recognized in the period the amount becomes available.

**J. Compensated Absences**

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. After five years of service, all employees - except 24-hour fire fighters - are entitled to a portion of their sick leave balance not to exceed 90 days or 720 hours. A 24-hour fire fighter's maximum for sick leave is 1,080 hours. A 24 hour-fire fighter must have a minimum of 12 months to be eligible under Civil Service. Civil Service overrides the City's policy for a minimum of 5 years of service to be paid a portion of sick leave. Employees may also accrue a variety of other types of time.

Sick and vacation leave balances are not expected to be liquidated with expendable available resources and therefore, reported as expenses and long-term liabilities in the government-wide and proprietary fund financial statements. A liability is relieved only if they have matured, for example, as a result of employee resignations and retirements. The majority of these have typically been liquidated from the General Fund in previous years. Accumulated compensated absences of Proprietary Funds are recorded as an expense and liability in the respective fund and in the respective column of the government-wide financial statements as the benefit accrues for the employee.

**K. Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide Statement of Activities.

**L. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

**M. Net Position and Fund Balances**

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.

In the fund financial statements, governmental funds report fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which the amounts in the respective governmental funds can be spent. The City reports the following classifications of fund balance:

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**Nonspendable:** Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

**Restricted:** Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

**Committed:** Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance.

**Assigned:** Amounts that are designated by the City Administrator and the Assistant City Administrator/CFO for a specific purpose but are not spendable until a budget ordinance is passed by City Council.

**Unassigned:** All amounts not included in other spendable classifications in the General Fund.

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.

**N. Budgetary Control**

**a. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The following governmental funds do not have an annual budget: Public Improvement District (PID) Assessments, Owen Theatre, Firearms Training Facility and Woodlands Township Regional Participation. Capital project funds and grant funds adopt annual budgets based on project expenditures anticipated during the fiscal year.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- (1) Prior to the beginning of the fiscal year, the City prepares an operating and capital budget for the next succeeding fiscal year. The budget includes proposed expenditures and the means of financing them.
- (2) The proposed budget is submitted to the City Council and placed on file with the City Secretary. It is also posted on the City's website for public review.
- (3) At least 15 days after the budget is filed with the City Secretary, the City holds a public hearing on the proposed budget. The City also follows Texas "Truth-in-Taxation" laws regarding public hearings and notices of the ad valorem (property) tax rate.
- (4) Prior to the start of the fiscal year, the budget is legally adopted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are reflected in the official minutes of the City Council and

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The Assistant City Administrator/CFO may, at any time with the consent of the City Administrator, transfer any unencumbered appropriation from one line item to another line item within the same department, provided however, that no unencumbered appropriation may be transferred from one department or fund to another except upon the express approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is the department level.

**b. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2018, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

- (1) Administration department of the General Fund by \$53,218. These over expenditures were funded by revenues collected during the fiscal year.
- (2) Police department of the General Fund by \$228,063. These over expenditures were funded by revenues collected during the fiscal year.
- (3) Community Development department of the General Fund by \$28,204. These over expenditures were funded by revenues collected during the fiscal year.
- (4) Parks department of the General Fund by \$109,561. These over expenditures were funded by revenues collected during the fiscal year.
- (5) Public Works department of the General Fund by \$118,871 (Streets of \$110,277 & Signs of \$8,594). These over expenditures were funded by under spending within the department's capital budget.

**O. Pensions**

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

**Conroe Fire Fighters' Relief and Retirement Fund:** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Conroe Fire Fighters' Relief and Retirement Fund (CFFR&RF) and additions to/deductions from CFFR&RF's Fiduciary Net Position have been determined on the same basis as they are reported by CFFR&RF. 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.

**P. Other Post Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the Fiduciary Net Position and related additions to/deductions from have been determined on the same basis as they are reported in the OPEB Trust Fund. For this purpose, plan contributions are recognized in the period that compensation is

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

reported for the retiree, 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.

**Q. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders/contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**II. Deposits and Investments**

**Primary Government:**

**Cash Deposit:** Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance Corporation (FDIC) is available for funds deposited at any financial institution up to a maximum of \$250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not insured or collateralized. The City's deposits are not exposed to custodial credit risk since all deposits are covered by FDIC insurance or pledged securities held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. Effective June 18, 2018, the City's deposits, in excess of the FDIC insurance, are covered by a letter of credit from the Federal Home Loan Bank in accordance with Section 2257.021.

**Investments:** The City's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. City policy limits credit risk by authorizing the following investments: 1) Obligations of the United States of America, its agencies and instrumentalities; 2) Certificates of Deposit issued by a bank or broker approved by the City Council and organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) insurance. Effective June 18, 2018, the City's deposits, in excess of the FDIC insurance, are covered by a letter of credit from the Federal Home Loan Bank in accordance with Section 2257.021. 3) Fully collateralized direct repurchase agreements with a defined termination date secured by a combination of cash and obligations of the United States, its agencies or instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. 4) No-Load Money Market Mutual funds that are: a) Registered and regulated by the Securities and Exchange Commission; b) Provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; c) Complies with federal SEC Rule 2a-7; d) Continuously rated AAA by at least one nationally recognized rating service; and e) Mark its portfolio to market daily; 5) Local government investment pools, which: a) Meet the requirements of Chapter 2256.016 of the Public Funds Investment Act; b) Are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, c) Seek to maintain a \$1.00 net asset value, and; d) Are authorized by resolution or ordinance by the City Council; 6) Obligations of the State of Texas or its agencies and instrumentalities; 7) Obligations of States, Agencies, Counties, Cities, and other political subdivisions of any State rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; 8) Commercial Paper that has a stated final maturity of 270 days or fewer from the date of its issuance and is rated A-1, P-1, or equivalent rating by at least two nationally recognized credit rating agencies; 9) Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

instrumentality of the United States; 10) Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States. Investment of City funds in any instrument or security not authorized for investment is prohibited.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets; Level 2 inputs significant other observable inputs; Level 3 inputs are unobservable inputs.

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

The City's measurements of investments are presented in the table below. The City's investment balances and weighted average maturity, and credit risk of such investments are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Total Investments	Weighted Average Maturity (Years)	Credit Risk
<b>Governmental Activities</b>					
Measured at Amortized Cost					
TexPool	\$ 6,479,858	\$ -	13.09%	0.09	AAAm
Measured at Net Asset Value (NAV)					
TexSTAR	8,511,480	-	17.19%	0.07	AAAm
Texas CLASS	13,050,072	-	26.36%	0.15	AAAm
Texas CLASS Government	3,056,723	-	6.17%	0.04	AAAm
Money Market Mutual Fund	25,553	-	0.05%	0.00	Not Rated
Measured at Fair Value					
U.S. Government	17,770,734	17,770,734	35.90%	0.44	Aaa, AA+
Municipal Bonds	610,149	610,149	1.23%	1.00	Aaa
Total Governmental Activities	<u>\$ 49,504,569</u>	<u>\$ 18,380,883</u>	<u>100.00%</u>		
Governmental Portfolio Weighted Average Maturity				0.24	
<b>Business-type Activities</b>					
Measured at Amortized Cost					
TexPool	\$ 13,489,004	\$ -	40.50%	0.09	AAAm
Measured at Net Asset Value (NAV)					
TexSTAR	9,096,886	-	27.32%	0.07	AAAm
Texas CLASS	4,525,997	-	13.59%	0.15	AAAm
Texas CLASS Government	2,038,351	-	6.12%	0.04	AAAm
Measured at Fair Value					
U.S. Government	2,961,721	2,961,721	8.89%	1.01	Aaa
Municipal Bonds	1,191,211	1,191,211	3.58%	1.48	Aa1
Total Business-type Activities	<u>\$ 33,303,170</u>	<u>\$ 4,152,932</u>	<u>100.00%</u>		
Business-type Portfolio Weighted Average Maturity				0.22	
<b>Fiduciary Fund</b>					
Measured at Fair Value					
Mutual Funds - Cash	\$ 206,595	\$ 206,595	3.07%	-	Not Rated
Mutual Funds - Fixed Income	3,112,643	3,112,643	46.21%	7.34	Not Rated
Mutual Funds - Equity	3,416,860	3,416,860	50.72%	N/A	Not Rated
Total Fiduciary Fund	<u>\$ 6,736,098</u>	<u>\$ 6,736,098</u>	<u>100.00%</u>		

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**Investment Pools:** Investment pools are measured at amortized cost or net asset value, i.e. fair value. Such investments are not required to be reported by levels in the table above.

Texpool, an investment pool, is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Texpool has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

Texas CLASS and TexStar investment pools are external investment pools measured at their net asset value. Texas CLASS and TexStar's strategy are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to the investment pools. Texas CLASS and TexStar have a redemption notice period of one day and may redeem daily. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

U.S. Government Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Mutual Funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Municipal Bonds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The City monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the City will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by: structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate prior to maturity; investing operating funds in shorter-term securities, money market mutual funds, local government investment pools functioning as money market mutual funds, or certificates of deposit; and diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

**Credit risk:** For fiscal year 2018, the City invested in various investment types. The credit rating for those investments are noted in the preceding table. In compliance with the City's Investment Policy, as of September 30, 2018, the City minimized credit risk due to default of a security issuer or backer by: limiting investments to the safest types of investments; pre-qualifying the financial institutions and broker/dealers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

**Concentration of credit risk:** With the exception of direct obligations of the United States, the City's Investment Policy does not allow for an investment in securities in any one issuer that is in excess of twenty-five percent of the City's total investments.

**Custodial credit risk – investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial risk due to securities are held by the City's 3<sup>rd</sup> party safekeeping agent.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**Discretely Presented Component Unit:**

The Conroe Industrial Development Corporation's investment balances, weighted average maturity, and credit risk of such investments are as follows:

Component Unit	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Total Investments	Weighted Average Maturity (Years)	Credit Risk
<b>Measured at Net Asset Value (NAV)</b>					
TexSTAR	\$ 2,398,119	\$ -	9.02%	0.07	AAAm
Texas CLASS	16,207,202	-	60.94%	0.15	AAAm
Texas CLASS Government	2,043,709		7.68%	0.04	AAAm
<b>Measured at Fair Value</b>					
U S Government	5,945,361	5,945,361	22.36%	0.67	Aaa, AA+
<b>Total Value</b>	<b>\$ 26,594,391</b>	<b>\$ 5,945,361</b>	<b>100.00%</b>		
Portfolio Weighted Average Maturity				0.25	

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The CIDC monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the CIDC reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio and by holding securities to maturity.

**Credit risk:** For fiscal year 2018, the CIDC invested in various investments. The credit ratings for these investments are noted in the preceding table.

**Concentration of credit risk:** With the exception of direct obligations of the United States, the City's Investment Policy does not allow for an investment in securities in any one issuer that is in excess of twenty-five percent of the City's total investments.

**Custodial credit risk – investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the CIDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The CIDC is not exposed to custodial risk due to securities are held by the City's 3<sup>rd</sup> party safekeeping agent.

**III. Receivables**

The City reports in various funds receivables for amounts to be received from taxes, customers, and interest. A breakdown of these receivables at September 30, 2018 is as follows:

Receivables:	General Fund	Debt Service Fund	Nonmajor Governmental	Water and Sewer Fund	Internal Service Funds	Component Units
Property Taxes	\$ 699,110	\$ 343,888	\$ -	\$ -	\$ -	\$ -
Gross Receipts Tax	990,981	-	-	-	-	-
Accounts	2,500	-	457,206	5,781,145	4,298	-
Interest	60,808	15,649	-	19,519	-	27,285
Other	433,919	-	93,875	-	187,728	798,684
Gross Receivables	2,187,318	359,537	551,081	5,800,664	192,026	825,969
Less: Allowance for Uncollectables	(84,522)	(36,120)	-	(220,000)	-	-
<b>Net Receivables</b>	<b>\$ 2,102,796</b>	<b>\$ 323,417</b>	<b>\$ 551,081</b>	<b>\$ 5,580,664</b>	<b>\$ 192,026</b>	<b>\$ 825,969</b>

Due from other governments of \$8,019,734 consists of monies due from the State of Texas for sales tax revenues.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**IV. Interfund Balances and Transfers**

**A. Due To and From Other Funds**

Interfund balances consist of short-term lending/borrowing arrangements that are the result of normal transactions between funds and will be liquidated in the subsequent fiscal year. Balances between governmental funds are eliminated in the government-wide financial statements.

A summary of interfund receivables and payables at September 30, 2018 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	\$ 5,508,662
Total All Funds		<u>\$ 5,508,662</u>

**B. Transfers To and From Other Funds**

Transfers are used to a) move revenues from the fund that the budget requires to collect them to the fund that the budget requires them to expend them, b) move receipts from bond refundings and residual balances from capital project funds to the Debt Service Fund to pay debt obligations, and c) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers between funds during the year were as follows:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Water and Sewer	\$ 501,696	Administration costs
General Fund	Nonmajor Governmental	349,684	Increase in TIRZ #2 property tax value
General Fund	Nonmajor Governmental	2,335,599	Increase in TIRZ #3 property tax value
General Fund	Nonmajor Governmental	191,250	In lieu of rent for Conroe Tower
General Fund	Nonmajor Governmental	71,261	MMD#1 Reimbursement Agreement
General Fund	Nonmajor Governmental	48,335	MMD#1 Economic Development
Water and Sewer	Nonmajor Governmental	63,750	In lieu of rent for Conroe Tower
Nonmajor Governmental	General Fund	283,236	Administration cost reimbursement
Nonmajor Governmental	General Fund	2,253	To fund vehicle & equipment purchases
Nonmajor Governmental	General Fund	20,000	Cost reimbursement
Nonmajor Governmental	General Fund	40,237	Municipal Court security officer
Nonmajor Governmental	Debt Service	2,782,756	TIRZ #3 principal & interest requirements
Nonmajor Governmental	Nonmajor Governmental	320,000	Administration cost reimbursement
Internal Service	General Fund	8,638	To fund vehicle & equipment purchases
Internal Service	General Fund	540,847	Excess fund balance
Internal Service	Water and Sewer	129,744	Excess fund balance
Internal Service	Nonmajor Governmental	884	Excess fund balance
		<u>\$ 7,690,170</u>	

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**V. Capital Assets**

Capital asset activity for the year ended September 30, 2018, was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land and Easements	\$ 15,394,045	\$ 150,021	\$ -	\$ 519,039	\$ 16,063,105
Construction in Progress	49,416,734	14,351,046	-	(33,112,712)	30,655,068
Total Capital Assets Not Depreciated	64,810,779	14,501,067	-	(32,593,673)	46,718,173
Buildings and Improvements	71,700,126	96,601	-	24,175,506	95,972,233
Machinery and Equipment	34,768,702	1,340,277	(1,120,898)	958,489	35,946,570
Infrastructure	171,552,975	2,428,368	-	7,459,678	181,441,021
	278,021,803	3,865,246	(1,120,898)	32,593,673	313,359,824
Less Accumulated Depreciation for:					
Buildings and Improvements	(31,385,223)	(3,107,744)	-	-	(34,492,967)
Machinery and Equipment	(18,880,182)	(2,627,863)	805,193	-	(20,702,852)
Infrastructure	(62,064,016)	(4,654,032)	-	-	(66,718,048)
	(112,329,421)	(10,389,639)	805,193	-	(121,913,867)
Total Capital Assets being Depreciated, net	165,692,382	(6,524,393)	(315,705)	32,593,673	191,445,957
Governmental Activities Capital Assets, net	\$230,503,161	\$ 7,976,674	\$ (315,705)	\$ -	\$238,164,130

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land and Easements	\$ 1,969,344	\$ 186,831	\$ -	\$ -	\$ 2,156,175
Construction in Progress	29,393,361	16,423,788	-	(21,309,065)	24,508,084
Total Capital Assets Not Depreciated	31,362,705	16,610,619	-	(21,309,065)	26,664,259
Buildings and Improvements	1,973,847	-	-	-	1,973,847
Machinery and Equipment	10,482,668	1,271,244	(228,100)	47,546	11,573,358
Infrastructure	211,031,904	-	-	21,261,519	232,293,423
	223,488,419	1,271,244	(228,100)	21,309,065	245,840,628
Less Accumulated Depreciation for:					
Buildings and Improvements	(539,422)	(75,140)	-	-	(614,562)
Machinery and Equipment	(4,241,702)	(663,448)	151,422	-	(4,753,728)
Infrastructure	(87,113,032)	(4,253,649)	-	-	(91,366,681)
	(91,894,156)	(4,992,237)	151,422	-	(96,734,971)
Total Capital Assets being Depreciated, net	131,594,263	(3,720,993)	(76,678)	21,309,065	149,105,657
Governmental Activities Capital Assets, net	\$162,956,968	\$ 12,889,626	\$ (76,678)	\$ -	\$175,769,916

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 963,536
Finance	76,393
Public Safety	4,206,137
Community Development	266
Parks	2,536,239
Public Works	2,607,068
	<u>\$ 10,389,639</u>
Business-type Activities:	
Water and Sewer	\$ 4,992,237
	<u>\$ 4,992,237</u>

**Discrete Component Units:**

	Beginning Balance	Additions	Deletions	Tranfers	Ending Balance
Oscar Johnson Jr. Community Center					
Land and Easements	\$ 108,770	\$ -	\$ -	\$ -	\$ 108,770
Total Capital Assets Not Depreciated	108,770	-	-	-	108,770
Buildings and Improvements	1,421,618	-	-	-	1,421,618
Machinery and Equipment	240,063	-	-	-	240,063
	<u>1,661,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,661,681</u>
Less Accumulated Depreciation for:					
Buildings and Improvements	(647,084)	(42,502)	-	-	(689,586)
Machinery and Equipment	(139,764)	(17,044)	-	-	(156,808)
	<u>(786,848)</u>	<u>(59,546)</u>	<u>-</u>	<u>-</u>	<u>(846,394)</u>
Total Capital Assets being Depreciated, net	874,833	(59,546)	-	-	815,287
Oscar Johnson Jr. Community Center Capital Assets, net	<u>\$ 983,603</u>	<u>\$ (59,546)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 924,057</u>

Depreciation expense of \$59,546 was charged to the Oscar Johnson Jr. Community Center.

**VI. Long-Term Obligations**

The City issues certificates of obligation bonds and revenue bonds to provide funds for the construction and renovation of facilities, parks, streets, signals, drainage, transportation, and water and sewer improvements. Bonds have been issued for both governmental and business-type activities.

Long-term debt also includes the City's accrued liability for compensated absences, severance payable, notes payable, health claims, OPEB, net pension liabilities, and capital leases. Principal and interest payments on the City's bonded debt are secured by ad valorem property taxes levied on all taxable property within the City limits. Water and sewer revenue bonds are secured by water and sewer enterprise fund revenues. Payments are recorded in the Debt Service Fund and Water & Sewer Fund, respectively.

On May 24, 2018, the City issued \$24,185,000 in Limited Tax Refunding Bonds, Series 2018 to refund and defease a portion of the City's outstanding Certificates of Obligation, Series 2009, Water and Sewer System Revenue Bonds, Series 2006, Series 2007, and Series 2008 and to pay the cost of issuance. Series 2018 had a premium of \$3,048,580, an annual interest rate of 2% to 5%, interest accrues semiannually and the bonds mature in 2030. The refunding resulted in savings of \$3,565,663 due to a decrease in cash flow requirements and had an economic gain of \$2,953,854.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**A. Long-Term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2018, are as follows:

Governmental Activities:	Beginning Balance (as restated)	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Refunding Bonds	\$ 37,915,000	\$ 6,845,000	\$ (1,020,000)	\$ 43,740,000	\$ 2,610,000
Certificates of Obligation	104,320,000	-	(15,105,000)	89,215,000	4,380,000
Unamortized Premiums	9,019,904	944,976	(624,085)	9,340,795	-
Total Bonds Payable	151,254,904	7,789,976	(16,749,085)	142,295,795	6,990,000
Capital Leases	279,301	-	(64,387)	214,914	66,930
Notes Payable	648,002	-	(118,000)	530,002	123,000
Health Claims Liability	556,467	8,423,274	(8,506,919)	472,822	472,822
Net OPEB Liability	14,903,693	3,216,908	(3,448,656)	14,671,945	-
Net Pension Liability/TMRS	23,281,651	14,707,994	(20,815,538)	17,174,107	-
Net Pension Liability/Fire R/R	19,316,952	2,505,494	(974,720)	20,847,726	-
Severance Payable	1,248,975	251,965	(270,971)	1,229,969	-
Compensated Absences	8,415,716	588,857	(277,249)	8,727,324	171,826
Total Governmental Activities	\$ 219,905,661	\$ 37,484,468	\$ (51,225,525)	\$ 206,164,604	\$ 7,824,578

Business-type Activities:	Beginning Balance (as restated)	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue Bonds	\$ 93,200,000	\$ -	\$ (23,595,000)	\$ 69,605,000	\$ 3,410,000
Refunding Bonds	-	17,340,000	-	17,340,000	975,000
Certificates of Obligation	21,590,000	-	-	21,590,000	765,000
Unamortized Premiums	6,353,747	2,103,604	(413,375)	8,043,976	-
Unamortized Discounts	(117,733)	-	117,733	-	-
Total Bonds Payable	121,026,014	19,443,604	(23,890,642)	116,578,976	5,150,000
Customer Deposits	727,856	345,061	(327,535)	745,382	335,422
Capital Leases	2,057,162	-	(486,237)	1,570,925	505,443
Net OPEB Liability	2,796,655	603,648	(647,135)	2,753,168	-
Net Pension Liability/TMRS	4,238,031	2,890,667	(3,906,003)	3,222,695	-
Compensated Absences	790,552	82,665	(2,966)	870,251	20,718
Total Business-type Activities	\$ 131,636,270	\$ 23,365,645	\$ (29,260,518)	\$ 125,741,397	\$ 6,011,583

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated Absences	Governmental	General & Fleet Services
Compensated Absences	Business-type	Water and Sewer
Health Claims Liability	Governmental	Self-Funded Insurance
Net OPEB Liability	Governmental	General & Fleet Services
Net OPEB Liability	Business-type	Water and Sewer
Net Pension Liability/TMRS	Governmental	General & Fleet Services
Net Pension Liability/TMRS	Business-type	Water and Sewer
Net Pension Liability/Fire R/R	Governmental	General

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

A summary of the long-term bonded debt of the City at September 30, 2018 is presented below:

Refunding Bonds	Rate	Issue Date	Amount of Original Issue	Maturity Date	Outstanding
Refunding Bonds, Series 2012	2.00-3.00%	2012	7,560,000	2023	\$ 4,045,000
Refunding Bonds, Series 2015	2.00-5.00%	2015	33,370,000	2030	32,850,000
Refunding Bonds, Series 2018	2.00-5.00%	2018	24,185,000	2030	24,185,000
Total Refunding Bonds Payable					<u>\$ 61,080,000</u>
<b>Contractual and</b>					
<b>Certificates of Obligation</b>					
Series 2005	4.33%	2005	\$ 3,865,000	2030	\$ 3,340,000
Series 2009	2.00-4.25%	2009	12,750,000	2020	1,225,000
Series 2010	2.00-4.00%	2010	9,270,000	2030	6,985,000
Series 2011	1.875-5.00%	2011	18,235,000	2031	14,785,000
Series 2012	2.00-3.125%	2012	8,970,000	2032	2,830,000
Series 2014	2.00-5.00%	2014	31,100,000	2034	28,660,000
Series 2015	2.00-4.00%	2015	8,795,000	2035	5,295,000
Series 2016	2.00-4.00%	2016	11,275,000	2036	7,985,000
Series 2017A	2.00-5.00%	2017	20,110,000	2037	18,110,000
Series 2017B	2.00-5.00%	2017	21,590,000	2038	21,590,000
Total Certificates of Obligations Payable					<u>\$ 110,805,000</u>
<b>Revenue Bonds</b>					
<b>Waterworks and Sewer System</b>					
Bonds, Series 2009	3.00-4.375%	2009	7,350,000	2030	\$ 5,170,000
Bonds, Series 2010	2.00-4.00%	2010	15,715,000	2030	11,290,000
Bonds, Series 2011	1.75-4.25%	2011	5,160,000	2031	3,925,000
Bonds, Series 2012	1.75-5.00%	2012	18,130,000	2032	14,820,000
Bonds, Series 2013	2.00-4.25%	2013	6,790,000	2033	5,740,000
Bonds, Series 2014	2.00-5.00%	2014	17,130,000	2034	15,265,000
Bonds, Series 2015	2.00-5.00%	2015	14,400,000	2035	13,395,000
Total Revenue Bonds					<u>\$ 69,605,000</u>

In prior years, the City defeased certain outstanding general obligation capital improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the City's financial statements. As of September 30, 2018, the City had no outstanding defeased obligations.

**Discrete Component Unit:**

The Conroe Industrial Development Corporation (CIDC) has issued Sales Tax Revenue bonds to purchase land and construct streets, drainage, and water and sewer improvements in the Conroe Park North Industrial Park and Deison Technology Park. Principal and interest payments on the Sales Tax Revenue bonds are secured by 4B sales and use taxes.

On June 21, 2018, the CIDC issued \$23,225,000 in Sales Tax Revenue Bonds, Taxable Series 2018 to purchase a 610 acre land tract to expand the Conroe Park North Industrial Park and to pay the cost of issuance. Series 2018 has an annual interest rate of 4.32%, interest accrues semiannually and the bonds mature in 2033.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Long-term obligations of the CIDC include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2018, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Sales Tax Revenue Bonds	\$ 34,890,000	\$ 23,225,000	\$ (2,145,000)	\$ 55,970,000	\$ 3,010,000
Unamortized Premiums	1,274,400	-	(84,960)	1,189,440	-
Total Bonds Payable	<u>\$ 36,164,400</u>	<u>\$ 23,225,000</u>	<u>\$ (2,229,960)</u>	<u>\$ 57,159,440</u>	<u>\$ 3,010,000</u>

A summary of the long-term bonded debt of the CIDC at September 30, 2018 is presented below:

Sales Tax Revenue Bonds	Rate	Issue Date	Amount of Original Issue	Maturity Date	Outstanding
Series 2012 CIDC	2.00-5.00%	2012	\$ 25,385,000	2032	\$ 20,185,000
Series 2016 Refunding CIDC, Taxable	2.90%	2016	13,815,000	2030	12,560,000
Series 2018, CIDC, Taxable	4.32%	2018	23,225,000	2033	23,225,000
Total Sales Tax Revenue Bonds Payable					<u>\$ 55,970,000</u>

At September 30, 2018, the following outstanding bonds are considered defeased:

2011 Sales Tax Revenue Bonds (maturing 2017-2030, callable September 21, 2020)	<u>\$ 11,460,000</u>
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The CIDC and IRS entered into a Closing Agreement on Final Determination Covering Specific Matters dated March 31, 2016 (the "Closing Agreement"). In the Closing Agreement, the CIDC has agreed to redeem on September 1, 2021, \$8,360,000 of the Series 2012 bonds maturing on and after September 1, 2022. Amounts to be used for such redemption will be deposited with the paying agent for the Series 2012 Bonds by September 1, 2021, and at least 30 days prior to September 1, 2021, the paying agent will give notice of the specific bonds to be redeemed as provided in the bond resolution authorizing the Series 2012 Bonds. More information regarding this issue can be found in the CIDC Event Disclosure Filing dated April 7, 2016 at [www.emma.msrb.org](http://www.emma.msrb.org).

**Arbitrage Rebate:**

In accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Rebate arbitrage is the excess of the amount earned on investments purchased with bond proceeds over the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. Rebateable arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary of the bond issue and upon final redemption of all outstanding bonds of the issue. The City did not have arbitrage liability as of September 30, 2018.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**B. Debt Service Requirements**

**Primary Government:**

Debt service requirements on long-term debt at September 30, 2018, are as follows:

Fiscal Year	Governmental Activities - Bonded Debt		
	Principal	Interest	Total
2019	\$ 6,990,000	\$ 5,038,427	\$ 12,028,427
2020	7,210,000	4,846,543	12,056,543
2021	7,330,000	4,628,117	11,958,117
2022	7,570,000	4,383,543	11,953,543
2023	7,860,000	4,096,955	11,956,955
2024	8,195,000	3,762,350	11,957,350
2025	8,565,000	3,392,419	11,957,419
2026	8,935,000	3,023,834	11,958,834
2027	9,275,000	2,686,845	11,961,845
2028	9,630,000	2,328,926	11,958,926
2029	10,005,000	1,952,029	11,957,029
2030	10,405,000	1,559,297	11,964,297
2031	6,130,000	1,216,122	7,346,122
2032	5,380,000	961,618	6,341,618
2033	5,630,000	713,850	6,343,850
2034	5,890,000	452,075	6,342,075
2035	3,085,000	256,500	3,341,500
2036	2,700,000	140,800	2,840,800
2037	2,170,000	43,400	2,213,400
	<u>\$ 132,955,000</u>	<u>\$ 45,483,650</u>	<u>\$ 178,438,650</u>

Fiscal Year	Governmental Activities - Notes Payable		
	Principal	Interest	Total
2019	\$ 123,000	\$ 30,289	\$ 153,289
2020	129,000	23,369	152,369
2021	135,000	16,039	151,039
2022	143,002	8,284	151,286
	<u>\$ 530,002</u>	<u>\$ 77,981</u>	<u>\$ 607,983</u>

Interest on the Section 108 Loan Guarantee is paid at 0.20% plus LIBOR.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Fiscal Year	Business-type Activities - Bonded Debt		
	Principal	Interest	Total
2019	\$ 5,150,000	\$ 4,201,415	\$ 9,351,415
2020	5,285,000	4,064,461	9,349,461
2021	5,570,000	3,883,136	9,453,136
2022	5,765,000	3,686,061	9,451,061
2023	5,975,000	3,469,349	9,444,349
2024	6,240,000	3,208,424	9,448,424
2025	6,505,000	2,942,199	9,447,199
2026	6,775,000	2,677,599	9,452,599
2027	7,045,000	2,396,733	9,441,733
2028	7,335,000	2,106,836	9,441,836
2029	7,640,000	1,803,903	9,443,903
2030	7,960,000	1,487,775	9,447,775
2031	8,200,000	1,154,341	9,354,341
2032	5,135,000	878,163	6,013,163
2033	4,970,000	674,478	5,644,478
2034	3,905,000	485,019	4,390,019
2035	3,595,000	312,725	3,907,725
2036	2,455,000	175,450	2,630,450
2037	1,485,000	91,500	1,576,500
2038	1,545,000	30,900	1,575,900
	<u>\$ 108,535,000</u>	<u>\$ 39,730,467</u>	<u>\$ 148,265,467</u>

Component Unit requirements on long-term debt for component unit CIDC at September 30, 2018, are as follows:

Fiscal Year	Discrete Component Unit - CIDC - Bonded Debt		
	Principal	Interest	Total
2019	\$ 3,010,000	\$ 2,141,091	\$ 5,151,091
2020	3,140,000	2,014,758	5,154,758
2021	3,270,000	1,882,722	5,152,722
2022	3,410,000	1,745,020	5,155,020
2023	3,550,000	1,604,749	5,154,749
2024	3,685,000	1,470,741	5,155,741
2025	3,820,000	1,331,519	5,151,519
2026	3,965,000	1,187,170	5,152,170
2027	4,100,000	1,055,186	5,155,186
2028	4,235,000	918,593	5,153,593
2029	4,375,000	777,391	5,152,391
2030	4,535,000	616,037	5,151,037
2031	3,800,000	448,614	4,248,614
2032	3,950,000	294,887	4,244,887
2033	3,125,000	135,000	3,260,000
	<u>\$ 55,970,000</u>	<u>\$ 17,623,478</u>	<u>\$ 73,593,478</u>

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**C. Capital Leases**

**Primary Government:**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2018, are as follows:

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2019	\$ 75,179	\$ 567,736
2020	75,178	567,736
2021	81,268	561,646
Total Minimum Lease Payments	231,625	1,697,118
Less: amount representing interest	(16,711)	(126,193)
Present Value of Minimum Lease Payments	<u>\$ 214,914</u>	<u>\$ 1,570,925</u>

The net amount of capital assets (machinery, equipment and improvements) acquired through governmental activities capital leases is \$370,467 and acquired through business-type activities capital leases is \$3,862,126 as of September 30, 2018.

This year, \$253,087 was included in depreciation expense for the assets acquired through the capital lease with Siemens Financial Services, Inc. The related accumulated depreciation is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Machinery & Equipment	\$ -	\$ 2,212,869
Less: Accumulated Depreciation	-	(823,679)
Total	<u>\$ -</u>	<u>\$ 1,389,190</u>
Improvements	\$ 838,793	\$ 4,121,560
Less: Accumulated Depreciation	(468,326)	(1,648,624)
Total	<u>\$ 370,467</u>	<u>\$ 2,472,936</u>

**D. Subsequent Issuance**

On November 15, 2018, the City issued \$42,870,000 in Certificates of Obligation, Series 2018A to fund the design, planning, acquisition, construction, equipping, expansion, repair, renovation, and/or rehabilitation of certain public works projects. Series 2018A had a premium of \$5,428,236, an annual interest rate of 4% to 5%, interest accrues semiannually and the bonds mature in 2038.

On November 15, 2018, the City issued \$86,845,000 in Certificates of Obligation, Series 2018B to fund the design, planning, acquisition, construction, equipping, expansion, repair, renovation, and/or rehabilitation of certain public works projects. Series 2018B had a premium of \$12,058,006, an annual interest rate of 5%, interest accrues semiannually and the bonds mature in 2038. While secured by the City's ad valorem taxes, the City intends to pay debt service on this series from surplus net revenue of the City's water and sewer system to the extent such revenues are available in any year.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**VII. Risk Management**

**A. Health Care Coverage**

City employees are provided traditional health care insurance that covers hospitalization and major medical expenses within specified limits. The plan is self-funded by the City and administered by a third-party administrator. The City pays the administrator a monthly fixed fee for various claim administration services on a per enrolled employee basis.

The City pays all claims. The third-party administrator submits monthly check registers for all processed claims. The City issues payment to the plan administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past three years. The estimate of the claims liability includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims.

The premiums for these policies are billed monthly by the third-party administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2018, was estimated by third party administrators. It is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in the Self-Funded Insurance Fund, which is an internal service fund.

Changes in the health claims for the two fiscal years ended September 30, 2018 and 2017 are as follows.

	2018	2017
Health Claim Liability, Beginning of the Year	\$ 556,467	\$ 542,204
Current-year Claims and Changes in Estimates	8,423,274	8,867,366
Claim Payments	(8,506,919)	(8,853,103)
Health Claim Liability, End of the Year	<u>\$ 472,822</u>	<u>\$ 556,467</u>

**B. Workers' Compensation and Property and Liability Insurance**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverages. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**VIII. Other Post Employment Benefits**

**A. Plan Description**

The City of Conroe Other Post Employment Benefit Trust is a single employer trust established in 2009 to provide medical, vision, and dental insurance coverage for qualified retirees in accordance with its personnel policy through a defined benefit plan. The first irrevocable trust was established in 2009 and was held by ICMA-RC who was also the administrator of the plan. The City discontinued funding its annual contribution to this plan, and the balance of funds was fully liquidated. The City established a new irrevocable trust in 2012, and the trust is held by Public Agency Retirement Services (PARS), who is also

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

the administrator of the plan. Assets held by the trust are valued at fair value. The trust is reported as a fiduciary fund in the City's financial statements and does not issue separate financial statements.

**B. Benefits Provided**

Under certain conditions, employees retiring from the City of Conroe are eligible for continuation of medical, dental, and vision insurance benefits. Effective October 1, 2009, continuation of these benefits is dependent upon the following:

**1) Eligibility**

- a) Years of service and age at retirement must equal 80 (Rule of 80).
  - Years of service will be cumulative.
- b) Must have been employed by the City immediately prior to retirement.
- c) Must have been enrolled in the insurance program(s) three (3) years prior to retirement.
  - Dependents must have been enrolled one (1) year prior to the employee's retirement.
- d) Must be receiving a pension either from Texas Municipal Retirement System (TMRS) or Conroe Fire Fighters' Relief and Retirement Fund (CFFR&RF).

**2) Termination of Coverage**

- a) If other insurance coverage is available, (i.e., another employer, Medicare, Medicaid, etc.), the retiree will not be covered under the City's insurance plan(s).
- b) Retirees are entitled to a one-time, opt-in to re-enroll in the insurance plan(s).

**3) Premiums**

- a) A minimum of fifty (50) percent of the actuarially determined contribution (ADC) cost will be paid by the City in the OPEB trust.
- b) Payment of any remaining ADC will be determined on an annual basis by City Council.
- c) The retiree is responsible for payment of premiums for any dependent covered under the plan(s).

**4) Miscellaneous**

City Council members are not eligible for continuation of insurance benefits upon completion of their term(s) of service.

**5) Exception**

- a) Retirement under the eligibility provisions effective through December 31, 2011.
  - Any employee meeting retirement eligibility under the prior retiree insurance eligibility requirements may retire under those provisions through December 31, 2011.
  - Employees completing twenty-five (25) years of service by December 31, 2011, will be grandfathered under the policy in place at that time.
- b) Receipt of pension requirement for firefighters.
  - The requirement that an employee must be receiving a pension is waived for firefighters through December 31, 2011.
- c) Exchange of sick leave.
  - Through the two year window, employees may use up to 720 hours of their sick balance in exchange for eligibility to reach 25 years. This exception expired December 31, 2011.

**6) Death-in-Service Retirement Benefits**

Surviving spouses of active employees are allowed COBRA coverage only.

**7) Benefits for Spouses of Retired Employees**

Retiree may purchase retiree health care coverage for eligible spouses and dependents. The City's subsidy does not apply to the dependent premiums. Surviving spouses and dependents of deceased retired members may continue retiree health coverage through COBRA. Spouse or other dependents will no longer be eligible to continue when the retiree reaches age 65. COBRA will be sent to dependents at that time.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

8) Non-Medicare and Medicare-Eligible Provisions

- a) Employees retiring after December 31, 2011, cannot remain on the plan once they become eligible for Medicare. Participants who were retired as of December 31, 2011, may remain on the plan after becoming eligible for Medicare, but would be required to pay the full premiums. However, the City will pay the entire retiree premium for one post 65 retiree who is covered under special agreements.
- b) As of the valuation date, December 31, 2016, there were 11 grandfathered retirees who have their Medicare Part B premiums paid for by the City. No other current or future retirees will have their Part B premiums reimbursed by the City. The Part B premiums were \$104.90 per month as of the valuation date.

9) Dental and Vision Coverage

The City's subsidies apply to the member portion of the dental and vision premiums as well. Upon reaching Medicare eligibility, the provisions for continued dental and vision coverage are the same as those for medical coverage.

10) Life Insurance Coverage

The City provides a \$7,500 life insurance benefit for retirees. The life insurance benefit extends past age 65. As of December 31, 2017, there were four retirees who accrued a life insurance benefit of \$12,500.

11) Monthly Unsubsidized Retiree Premiums Effective October 1, 2017

Benefit	Retiree Only	Spouse
Medical - OAP	\$ 668	\$ 218
Medical - HDHP	583	144
Medical - Kelsey	550	104
Dental	36	19
Vision	4	8

The premiums shown above do not include the City subsidies for which retirees may be eligible.

As with all benefits, the benefits provided above are subject to change, amendment, addition or cancellation at any time by City Council, and this document does not provide a guarantee or promise of benefits in the future. As of June 25, 2012, it is the opinion of the City Administrator and City Attorney that those who actually retire, and are eligible for retirement benefits from TMRS, can be covered under the City's insurance plan at their expense if they do not meet the "rule of 80". In order to be covered, they must be already covered before they retire, and they must let the City know no later than their retirement date (last day as an employee) that they wish to continue the same coverage. They may drop individuals from coverage, but they may not add anyone who was not previously covered.

At the measurement date, there was total plan membership of 668, which consisted of 147 retirees and beneficiaries and 521 active members.

C. Contributions

For the year ended September 30, 2018, the City funded 100% of the normal cost and the pay-go amount totaling \$1,945,680 in an irrevocable trust, and reported it in a fiduciary fund in the financial statements. Withdrawals in the amount of \$862,725 were made from the irrevocable trust to reimburse the City for pre-65 and post-65 retirees' claims and administrative fees paid by the Self-Funded Insurance Fund. Administrative fees are those fees related to services that retirees utilize, including, stop-loss premiums and 3<sup>rd</sup> party administrator charges.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**D. OPEB Liability**

**Actuarial Assumptions:**

Actuarial valuations involve the use of estimates and assumption about the probability of events far into the future, including, but not limited to, assumptions about length of employee service, mortality rates, and future costs of health care. The valuation will be updated every two years and actual results compared to past expectations. As a result of these comparisons, new estimates and assumptions will be made about future results of the plan. Valuations are made based on the benefits in place at the time of the valuation. Actuarial techniques include smoothing mechanisms which take a long-term approach in the valuation of assets and liabilities of the plan and are designed to reduce short-term volatility in the measurement of these assets and liabilities. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Discount Rate	6.50%
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Participation Rates	For employees retiring at age 50 or older, it was assumed that 95% of those who are eligible for the rule of 80 and 15% of those who are not eligible for the rule of 80 would choose to receive coverage through the City. No employees retiring before the age of 50 were assumed to elect coverage through the City.
Healthcare Cost Trend Rates	Initial rates of 7.50% declining to ultimate rates of 5.50% after 9 years; Ultimate trend rate includes a 1.25% adjustment for the excise tax.

Fixed income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in the Fidelity "20-Year Municipal GO AA Index" as of December 31, 2017 are incorporated into the discount rate at 3.31%.

The goal of the Plan's investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should earn, on a long-term average basis, a rate of return equal to or in excess of the target rate of return of 6.5%.
- The Plan should seek to earn a return in excess of its policy benchmark over the long-term.
- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic, long-term perspective of the capital markets.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

<u>Asset Class</u>	<u>Target Allocation</u>
Cash	0-30%
Fixed Income	35%-60%
Equity	35%-60%

**Discount Rate and Healthcare Cost Trend Rate:**

The discount rate used to measure the Total OPEB Liability was 6.50%. The asset portfolio of the OPEB trust can support a 6.50% long term rate of return. The total OPEB liability is based on an actuarial valuation performed as of December 31, 2016. Update procedures were used to roll forward the total OPEB liability to the measurement date of December 31, 2017.

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 12/31/2016	\$ 22,250,267	\$ 4,549,919	\$ 17,700,348
Changes for the Year:			
Service Cost	949,634	-	949,634
Interest	1,435,855	-	1,435,855
Differences Between Expected and Actual Experience	139,435	-	139,435
Changes of Assumptions	-	-	-
Contributions - Employer	-	2,276,869	(2,276,869)
Net Investment Income	-	548,922	(548,922)
Benefit Payments, Including Refunds of Employee Contributions	(1,270,000)	(1,270,000)	-
Administrative Expense	-	(25,632)	25,632
Other Changes	-	-	-
Net Changes	<u>1,254,924</u>	<u>1,530,159</u>	<u>(275,235)</u>
Balances at 12/31/2017	<u>\$ 23,505,191</u>	<u>\$ 6,080,078</u>	<u>\$ 17,425,113</u>

**Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate:**

The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 7.5% as well as what the City's net OPEB liability would be if it were calculated using a rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<u>1% Decrease in (6.5% Decreasing to 4.5%)</u>	<u>Current Healthcare Cost Trend Rate (7.5% Decreasing to 5.5%)</u>	<u>1% Increase in (8.5% Decreasing to 6.5%)</u>
City's Net OPEB Liability	\$ 14,672,303	\$ 17,425,113	\$ 20,719,710

**Sensitivity of the net OPEB liability to changes in the discount rate:**

The following presents the net OPEB liability of the City, calculated using the discount rate of 6.5% as well as what the City's net OPEB liability would be if it were calculated using a rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

	1% Decrease 5.50%	Current Single Discount Rate Assumption 6.50%	1% Increase 7.50%
City's Net OPEB Liability	\$ 19,832,742	\$ 17,425,113	\$ 14,640,608

**E. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2018, the City recognized OPEB expense of \$2,055,079. Also, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 123,585	\$ 177,030
Contributions subsequent to the measurement date	1,942,388	-
Totals	<u>\$ 2,065,973</u>	<u>\$ 177,030</u>

\$1,942,388 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 net OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended September 30:	
2019	\$ (28,407)
2020	(28,407)
2021	(28,407)
2022	(28,409)
2023	15,850
Thereafter	44,335
Total	<u>\$ (53,445)</u>

**IX. Pension Plans**

**A. Plan Descriptions**

**Texas Municipal Retirement System (TMRS):** The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

Except for civil service fire fighters, all eligible employees of the City are required to participate in TMRS.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**Conroe Fire Fighters' Relief and Retirement Fund (CFFR&RF):** The City participates in funding a contributory, defined benefit retirement plan for civil service fire fighters, Conroe Fire Fighters' Relief and Retirement Fund. The Fund was established in accordance with the provisions of H.B. 258 passed by the Texas State Legislature in 1937, with the purpose of providing pension benefits to volunteer, part-time and full-time fire fighters. The Fund is administered in accordance with State laws by the members of the Fund's Pension Board of Trustees. The fund is a governmental plan under section 414(d) of the Internal Revenue Code of 1986, as amended, and is established and maintained by the City for its employees as a single-employer defined benefit pension plan covering paid firefighters of the City for the purpose of providing retirement, death, disability, and withdrawal benefits. The fiscal year of the pension fund ends December 31. The most recently available financial statements of the pension fund is for the year ended December 31, 2017.

While contribution requirements are not actuarially determined, state law requires that a qualified actuary approve each plan adopted. The actuary of the plan has certified that the contribution commitment by the participants and the City provides an adequate financing arrangement.

**B. Benefits Provided**

**TMRS:** 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 are used to purchase an annuity. Members may choose to receive their retirement benefits 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% of the member's deposits and interest.

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

	Plan Year 2017	Plan Year 2016
Employee Deposit Rate	7%	7%
Retirement Eligibility	5 Yrs/Age 60, 20 Yrs/Any Age	5 Yrs/Age 60, 20 Yrs/Any Age
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**CFFR&RF:** The Fund provides service retirement, death, disability, and withdrawal benefits for paid fire fighters. These benefits fully vest after the firefighter attains age 50 with at least 20 years of credited service. Firefighters who qualify for a retirement benefit will receive a monthly retirement benefit as long as the firefighter remains alive in an amount equal to the sum of (1) 67.50% of the "Highest 60-month Average Salary" plus (2) an additional service benefit of \$69 per month for each year of service in excess of 20 years of service (for years of service earned after December 31, 2010, this benefit is \$110 per month). A firefighter with both paid and volunteer service is eligible for retirement, disability, or death benefits under the same conditions of a paid firefighter, as long as the service requirement is fulfilled with a combination of paid and volunteer service, where the volunteer service was earned prior to September 1, 2000, according to the Fund provisions. If a firefighter has completed at least 10 years of service prior to December 31, 2010, but has not attained the age of 50 years, the firefighter will receive a benefit ranging from 50% to 100% of the normal retirement benefit as described above. All other firefighters will be eligible upon the completion of 20 years of service.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Effective January 1, 2011, a paid firefighter can elect a FORWARD Deferred Retirement Option Plan (DROP) benefit calculation date no earlier than a date which is the first day of the month following the date of attainment of age 50 and completion of 20 years of service.

The amount of the FORWARD DROP benefit equals a service retirement annuity calculated as of the date the firefighter enters DROP plus a DROP lump sum. The DROP lump sum equals the accumulated annuity payments and firefighter contributions from the DROP entry date until the earlier of termination or seven years.

The Fund provides for an optional form of payment if elected by the retiring firefighter. The firefighter may elect a 100% joint and survivor service retirement benefit at a lower benefit amount for the eligible spouses at the time of retirement, according to the Benefit Reduction Factors table in the Fund.

The benefit provisions of this Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

Plan provisions for the Fund were as follows:

	Plan Year 2017	Plan Year 2016
Employee Deposit Rate	13.24%	13.24%
Matching Ratio (City to Employee)	15%	15%
Years Required for Vesting	20	20
Service Retirement Eligibility (expressed as age/years of service)	50/20	50/20
Annuity Increase (to retirees)	Not automatic; may provide ad hoc increases	Not automatic; may provide ad hoc increases

At the respective valuation and measurement dates, the following employees were covered by the benefit terms:

	TMRS	CFFR&RF
Inactive Employees or Beneficiaries Currently Receiving Benefits	175	34
Inactive Employees Entitled to But Not Yet Receiving Benefits	163	6
Active Employees	419	121
Totals	757	161

**C. Contributions**

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

Employees for the City of Conroe, Texas, were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.35% and 16.46% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$4,457,729, and were equal to the required contributions.

**CFFR&RF:** Contributions to the Fund are based on the TLFFRA requirements rather than an actuarially determined rate. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each paid firefighter. The funding policy of the Fund requires contributions from both the City and the firefighters. The City's contribution rate is currently 15% of

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

member payroll with each active member contributing 13.24% of plan compensation. The City's contribution rate is set by and subject to change by ordinance; subject to the minimum rate with TLFFRA. The City's contributions to the Fund for the year ended September 30, 2018 were \$1,315,771, and were equal to the required contributions.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Fund must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the Fund's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the Fund's unfunded actuarial accrued liability (UAAL), and the number of years needed to amortize the Fund's UAAL is determined using a level percentage of payroll method.

**D. Net Pension Liability**

For the year ended September 30, 2018, the City recognized \$41,244,528 in net pension liability (TMRS of \$20,396,802 and CFFR&RF of \$20,847,726).

**TMRS:** The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**CFFR&RF:** The Total Pension Liability, Net Pension Liability, and the associated sensitivity information provided was based on the December 31, 2017 actuarial valuation. The Total Pension Liability was rolled-forward to the fiscal year ending September 30, 2018 (measurement date), using generally accepted actuarial principles. There have been no significant events or changes in benefit provisions that required an adjustment to the roll-forward liability.

**Actuarial Assumptions:**

**TMRS:** The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Increases	3.50% to 10.5 % including inflation
Investment Rate of Return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

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, GRS 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

**CFFR&RF:** The Total Pension Liability, Net Pension Liability, and the associated sensitivity information provided are derived from the results of the December 31, 2017, valuation. The Total Pension Liability was rolled-forward from the 2017 valuation date to the fiscal year ending September 30, 2018, using generally accepted actuarial principles. A full experience study is not available due to the size of the fund.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Open period, level percentage of pay
Asset Valuation Method	The fair value of assets plus 20% of the unrecognized gains and losses from each of the past four years. The resulting value is further limited to be no less than 90% and no greater than 110% of the fair value of assets.
Investment Rate of Return	7.75% per annum (net of expenses)
Salary Scale	3.50%-8.50%
General Inflation Rate	2.50% per annum
Interest on Employee Contributions	2.5% per annum
Contribution Rates	Rates in effect are assumed to remain constant for future years.
Mortality Rates	RP-2014 combined healthy tables for blue collar males and females with adjustment backwards to 2006 using Scale MP-2014 and projected with Scale MP-2016.
Termination Rates	0% to 6%

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

Historical trend information is provided as required supplemental information. This information is intended to demonstrate progress the Fund has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

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 expenses and inflation assumed at 2.5%) 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of December 31, 2017, (see the discussion of the pension plan's investment policy for more details) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity	6.5%
Fixed Income	3.5%
Real Estate	5.0%
Cash	0.0%

The following long term strategic asset allocation, which serves as the primary asset allocation of the Fund, was adopted by the Board through its Investment Policy:

Asset Class	Target Allocation
Domestic and International Equity	60%
Fixed Income	25%
Alternative Investments	
Real Estate Investment Trusts	
and Return Commodity	10%
Cash and Cash Equivalents	5%
Total	100%

**TMRS:**

**Discount Rate:**

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

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 128,080,243	\$ 100,560,561	\$ 27,519,682
Changes for the Year:			
Service Cost	4,510,555	-	4,510,555
Interest	8,644,965	-	8,644,965
Differences Between Expected and Actual Experience	(156,668)	-	(156,668)
Changes of Assumptions	-	-	-
Contributions - Employer	-	4,381,013	(4,381,013)
Contributions - Employee	-	1,873,821	(1,873,821)
Net Investment Income	-	13,942,787	(13,942,787)
Benefit Payments, Including Refunds of Employee Contributions	(4,523,920)	(4,523,920)	-
Administrative Expense	-	(72,229)	72,229
Other Changes	-	(3,660)	3,660
Net Changes	8,474,932	15,597,812	(7,122,880)
Balances at 12/31/2017	\$ 136,555,175	\$ 116,158,373	\$ 20,396,802

**CFFR&RF:** The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the City contributions would equal 15.00% of payroll and that member contributions would equal 13.24% of payroll. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability. The Net Pension Liability amounts shown below were measured as of the City's fiscal year end. The Total Pension Liability used to calculate the Net Pension Liability and certain sensitivity information was based on the December 31, 2017, actuarial valuation. The Total Pension Liability was rolled forward to the fiscal year end measurement dates using generally accepted actuarial principles.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 9/30/2017	\$ 43,587,687	\$ 24,270,735	\$ 19,316,952
Changes for the Year:			
Service Cost	1,729,454	-	1,729,454
Interest	3,309,384	-	3,309,384
Differences Between Expected and Actual Experience	901,136	-	901,136
Changes of Assumptions	-	-	-
Contributions - Employer	-	1,315,771	(1,315,771)
Contributions - Employee	-	1,161,385	(1,161,385)
Net Investment Income	-	1,770,185	(1,770,185)
Benefit Payments	(1,639,706)	(1,639,706)	-
Refunds	(132,200)	(132,200)	-
Administrative Expense	-	(100,190)	100,190
Assumption Changes	(262,049)	-	(262,049)
Net Changes	3,906,019	2,375,245	1,530,774
Balances at 9/30/2018	\$ 47,493,706	\$ 26,645,980	\$ 20,847,726

**Sensitivity of the net pension liability to changes in the discount rate:**

**TMRS:** The following presents the net pension liability of the City, calculated using the discount rate of 6.75% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 41,474,501	\$ 20,396,802	\$ 3,262,812

**CFFR&RF:** The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
CFFR&RF Net Pension Liability	\$ 27,351,354	\$ 20,847,726	\$ 15,489,291

**Pension Plan Fiduciary Net Position:**

**TMRS:** Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

**CFFR&RF:** Detailed information about the plan's Fiduciary Net Position is available in a separately issued Conroe Fire Fighters' Relief and Retirement Fund financial report. That report may be obtained by contacting Jordan Stepanski at P.O. Box 497, Conroe, TX 77305, or [admin@conroefirepension.com](mailto:admin@conroefirepension.com).

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2018, the City recognized \$7,189,409 in pension expense (TMRS of \$4,683,915 and CFFR&RF of \$2,505,494). At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	TMRS		CFFR&RF		Total Pension	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 872,457	\$ 287,892	\$ 2,204,592	\$ -	\$ 3,077,049	\$ 287,892
Change in actuarial assumption	-	133,597	-	972,150	-	1,105,747
Difference between projected and actual investment earnings	2,719,359	5,729,774	213,494	-	2,932,853	5,729,774
Contributions subsequent to the measurement date	3,387,882	-	-	-	3,387,882	-
Totals	<u>\$ 6,979,698</u>	<u>\$ 6,151,263</u>	<u>\$ 2,418,086</u>	<u>\$ 972,150</u>	<u>\$ 9,397,784</u>	<u>\$ 7,123,413</u>

\$3,387,882 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the TMRS net pension liability for the year ending September 30, 2019. 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:	TMRS	CFFR&RF	Total Pensions
2019	\$ 114,167	\$ 431,842	\$ 546,009
2020	(54,237)	4,223	(50,014)
2021	(1,248,812)	111,945	(1,136,867)
2022	(1,359,772)	147,188	(1,212,584)
2023	(10,793)	120,426	109,633
Thereafter	-	630,312	630,312
Total	<u>\$ (2,559,447)</u>	<u>\$ 1,445,936</u>	<u>\$ (1,113,511)</u>

**X. Commitments and Contingencies**

**A. Contingencies**

The City participates in a number of federal and state financial assistance programs. Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act through September 30, 2018, these programs are subject to financial and compliance audits by the granting agencies. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

The City of Conroe is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA has constructed a surface water treatment facility and transmission system to provide treated surface water to the City. Based on the agreement between the City and the SJRA, the City pays the SJRA for groundwater pumped from the Jasper aquifer and for treated surface water from Lake Conroe. During FY 15-16, the SJRA notified the City of their intent to increase rates effective September 1, 2016. The groundwater pumpage rate was increased by \$0.18 from \$2.32 to \$2.50 per 1,000 gallons, and the surface water rate was increased by \$0.18 from \$2.51 to \$2.69 per 1,000 gallons. On August 16, 2016, the City Council adopted a resolution refusing to pay the proposed increase in SJRA fees. The SJRA filed suit in Travis County for an expedited declaratory judgement confirming the validity of the GRP Contracts and the SJRA's legal authority to enforce the GRP Contract terms, including the fiscal year

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**2017 GRP Rates.** On September 1, 2017, the groundwater pumpage rate was increased by \$0.14 from \$2.50 to \$2.64 per 1,000 gallons, and the surface water rate was increased by \$0.14 from \$2.69 to \$2.83 per 1,000 gallons. This City continues to withhold the payment of this increase. The City's financial statements include a liability of \$2,255,872 for the portion of the increased SJRA rates that the City has refused to pay, as well as any applicable penalties and interest, while the litigation is pending.

The Lone Star Groundwater Conservation District (LSGCD) charges a groundwater allocation fee through the San Jacinto River Authority (SJRA). For 2017, the LSGCD increased the fee from \$0.06 to \$0.075 per 1,000 gallons. On February 23, 2017, the City Council voted to withhold payment of the 2017 increase. For 2018, the LSGCD increased the fee to \$0.105 per 1,000 gallons. On January 11, 2018, the City Council voted to withhold payment of the fee increase implemented on January 1, 2018. The City's financial statements include a liability in the amount of \$128,102 for the portion of the increased rates that the City has refused to pay, as well as any applicable penalties and interest.

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

**B. Construction Commitments**

The City has active construction projects as of September 30, 2018. Total accumulated commitments for ongoing capital projects are composed of the following:

	Spent-to-Date	Remaining Commitment
Water and Sewer	\$ 3,497,871	\$ 1,396,274
Streets CIP Fund	6,317,388	3,831,152
Facilities CIP Fund	4,161,081	634,962
Transportation CIP Fund	794,034	328,860
Signals CIP Fund	720,144	890,938
Totals	<u>\$ 15,490,518</u>	<u>\$ 7,082,186</u>

A majority of these commitments will be funded by bond proceeds.

**C. Encumbrances**

Encumbrances are reported in the financial statements as restricted, committed, or assigned for specific purposes in the governmental funds. As of September 30, 2018, significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:	
	Restricted	Assigned
	Fund Balance	Fund Balance
General Fund	\$ -	\$ 876,009
Nonmajor Governmental	7,950,278	-
Total Encumbrances	<u>\$ 7,950,278</u>	<u>\$ 876,009</u>

**D. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination of employment, retirement, death or unforeseeable emergency.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are assets of the plan, and are required to be held in trust for the exclusive benefit of the participants and their beneficiaries. A fiduciary relationship does not exist between the City and the plan; therefore, in accordance with GASB Statement 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the plan is not reported within the City's financial statements.

**XI. Closure and Postclosure Care Cost**

State and Federal laws and regulations require that a landfill permit holder place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The City has transferred the financial obligation related to these costs to another party. Therefore, no liability has been recorded for these costs.

**XII. Tax Abatements**

The City and the City's component unit, CIDC, enter into economic development agreements designed to promote development and redevelopment within the City, spur economic improvement, stimulate commercial activity, generate additional sales tax, and enhance the property tax base and economic vitality of the City. These programs abate or rebate property taxes and sales tax, and also include incentive payments and reductions in fees that are not tied to taxes. The City's economic development agreements are authorized under Chapter 380 of the Texas Local Government Code and Chapter 311 (Tax Increment Financing Act) and 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code. Recipients may be eligible to receive economic assistance based on the employment impact, economic impact or community impact of the project requesting assistance. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, demolishing and redeveloping outdated properties, expanding operations, renewing facility leases, or bringing targeted businesses to the City. Agreements generally contain recapture provisions which may require repayment or termination if recipients do not meet the required provisions of the economic incentives.

The City has four categories of economic development agreements:

*Property Tax Abatements* – Tax abatements under Local Government Code 43.0751 authorized the City to enter into a Strategic Partnership Agreement for the creation of a Municipal Utility District (MUD) for full purpose annexation. These agreements authorize the City to pay the districts an amount equal to the ad valorem taxes generated from the City's tax levy. Property taxes abated under this program were \$29,570 in fiscal year 2018.

*General Economic Development* – The City enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. The agreements may rebate a flat amount or percentage of sales tax received by the City. For fiscal year 2018, the City rebated \$40,610 in sales tax.

*Tax Abatements* – Tax abatements under Chapter 312 of the Texas Tax Code allow the City to create tax abatement agreements with applicants that promise large scale investments. These investments create new jobs and expand the City's tax base. The City agrees to grant the owner an abatement of the City ad valorem taxes on the certified appraised value. Property taxes abated under this program were \$446,218 in fiscal year 2018.

*Tourism Promotion* – The City entered into an agreement to dedicate Hotel Occupancy Tax revenue for the promotion of tourism and the convention and hotel industry. Hotel Occupancy Tax abated under this program is \$330,258 during fiscal year 2018.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

The CIDC has one type of economic development agreements:

*Tax Abatements* – Tax abatements under Chapter 312 of the Texas Tax Code allow the Conroe Industrial Development Corporation to enter into development incentive agreements with businesses that relocate or expand their business in Conroe. These businesses create new jobs and add additional property value resulting from the business expansion. These organizations are reimbursed a portion of the property taxes they pay to Montgomery County and the City of Conroe. Taxes abated under this program were \$1,282,496 in fiscal year 2018.

**XIII. Fund Balances**

The following funds had negative fund balance or net position at September 30, 2018:

Longmire Creek Estates PID (\$190) - which will be recovered in the subsequent year from revenues.

Wedgewood Falls PID (\$3,949) - which will be recovered in the subsequent year from revenues.

The Certificates of Obligation, Series 2018A CIP Fund (\$5,599,327) - which will be recovered by the issuance of certificates of obligation in November 2018.

Fleet Services had a deficit net position of \$447,195 at September 30, 2018. Exclusive of Fleet's portion the City's OPEB liability of \$331,077, related deferred inflows (\$3,364) and deferred outflows (\$39,253), and a prior period adjustment related to OPEB (\$314,658), this fund would recognize a positive net position of \$162,651.

**XIV. Recent Accounting Pronouncements**

GASB Statement 83, *Certain Asset Retirement Obligations* ("GASB 83"), addresses accounting and financial reporting for certain asset retirement obligations (AROs), establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. GASB 83 will be implemented by the City in fiscal year 2019 and the impact has not yet been determined.

GASB Statement 84, *Fiduciary Activities* ("GASB 84"), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. GASB 84 will be implemented by the City in fiscal year 2020 and the impact has not yet been determined.

GASB Statement 87, *Leases* ("GASB 87"), increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 will be implemented by the City in 2021 and the impact has not yet been determined.

GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"), improves and clarifies the information disclosed in the notes to the financial statements related to debt. GASB 88 will be implemented by the City in 2019 and the impact has not yet been determined.

GASB Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* ("GASB 89"), enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. GASB 89 will be implemented by the City in 2021 and the impact has not yet been determined.

**CITY OF CONROE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

GASB Statement 90, *Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61* ("GASB 90"), improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. GASB 90 will be implemented by the City in 2020 and the impact has not yet been determined.

# CITY OF CONROE, TEXAS

## GENERAL FUND

### SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes	\$ 61,127,447	\$ 61,127,447	\$ 66,575,510	\$ 5,448,063
Licenses and Permits	3,021,987	3,021,987	3,194,609	172,622
Charges for Sales and Services	2,491,400	2,081,450	2,537,383	455,933
Lease Income	171,755	171,755	380,413	208,658
Fines and Forfeitures	1,407,440	1,407,440	1,457,965	50,525
Intergovernmental	2,192,779	2,353,506	2,746,961	393,455
Investment Income	164,833	164,833	484,063	319,230
Net Change in Fair Value of Investments	-	-	(87,960)	(87,960)
Penalties and Interest	155,190	155,190	135,871	(19,319)
Miscellaneous Revenue	156,020	179,650	1,138,616	958,966
<b>TOTAL REVENUES</b>	<b>70,888,851</b>	<b>70,663,258</b>	<b>78,563,431</b>	<b>7,900,173</b>
<b>EXPENDITURES</b>				
Current				
General Government				
Administration	1,129,068	1,381,501	1,434,719	(53,218)
Legal	622,444	627,484	537,678	89,806
Municipal Court	1,356,755	1,362,213	1,058,573	303,640
Warehouse/Purchasing	396,098	399,380	388,469	10,911
Information Technology	2,417,235	2,585,567	2,513,656	71,911
Transportation	1,259,029	676,721	552,015	124,706
Human Resources	872,595	881,728	851,244	30,484
Non-Departmental	5,347,436	5,575,930	5,012,781	563,149
Finance	2,063,305	2,116,072	2,045,039	71,033
Public Safety				
Police	19,428,092	19,896,196	20,124,259	(228,063)
Fire	15,623,621	15,922,847	15,693,269	229,578
Community Development	2,146,400	2,163,832	2,192,036	(28,204)
Parks				
Parks and Recreation Administration	841,632	848,050	858,929	(10,879)
Recreation Center	1,336,795	1,348,835	1,423,335	(74,500)
Aquatic Center	1,473,190	1,487,998	1,494,806	(6,808)
Parks Operations	1,995,519	2,036,722	2,054,096	(17,374)
Public Works				
Drainage Maintenance	968,406	974,225	870,505	103,720
Streets	4,377,542	4,405,421	4,515,698	(110,277)
Signal Maintenance	1,187,773	1,167,209	1,003,666	163,543
Signs	-	-	8,594	(8,594)
Engineering	2,699,499	2,749,475	2,574,188	175,287
Debt Service				
Principal Retirement	64,387	64,387	64,387	-
Interest and Fiscal Charges	10,792	10,792	10,792	-
Capital Outlay	1,013,921	1,746,048	1,429,879	316,169
<b>TOTAL EXPENDITURES</b>	<b>68,631,534</b>	<b>70,428,633</b>	<b>68,712,613</b>	<b>1,716,020</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,257,317	234,625	9,850,818	9,616,193
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance Proceeds	-	230,191	363,722	133,531
Transfers In	402,678	3,751,796	895,211	(2,856,585)
Transfers Out	(3,623,741)	(6,383,262)	(3,497,825)	2,885,437
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(3,221,063)</b>	<b>(2,401,275)</b>	<b>(2,238,892)</b>	<b>162,383</b>
Net Change in Fund Balance	(963,746)	(2,166,650)	7,611,926	9,778,576
Fund Balance at Beginning of Year	29,635,417	29,635,417	29,635,417	-
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 28,671,671</b>	<b>\$ 27,468,767</b>	<b>\$ 37,247,343</b>	<b>\$ 9,778,576</b>

**CITY OF CONROE, TEXAS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS****OTHER POST EMPLOYMENT BENEFITS (OPEB)****LAST TEN FISCAL YEARS\*\***

	<b>December 31, 2017</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 949,634
Interest	1,435,855
Differences between expected and actual experience	139,435
Change of assumptions	-
Benefit payments	(1,270,000)
<b>Net Change in Total OPEB Liability</b>	<b>1,254,924</b>
 <b>Total OPEB Liability - Beginning</b>	 <b>22,250,267</b>
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 23,505,191</b>
 <b>Plan Fiduciary Net Position</b>	
Employer Contributions	\$ 2,276,869
Net Investment Income	548,922
Benefit payments	(1,270,000)
Administrative expense	(25,632)
Other	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,530,159</b>
 <b>Plan Fiduciary Net Position - Beginning</b>	 <b>4,549,919</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 6,080,078</b>
 <b>Net OPEB Liability - Ending (a) - (b)</b>	 <b>17,425,113</b>
 <b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	 <b>25.87%</b>
 <b>Covered Payroll</b>	 <b>\$ 35,151,413</b>
 <b>Net OPEB Liability as a Percentage of Covered Payroll</b>	 <b>49.57%</b>

\*The amounts presented for the City's current fiscal year were determined as of the plan's fiscal year end December 31.

\*\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying notes to required supplementary information.

**CITY OF CONROE, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS**  
**OTHER POST EMPLOYMENT BENEFITS (OPEB)**  
**LAST TEN FISCAL YEARS\***

<b>Year Ending September 30</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in relation to the actuarially determined contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contributions as a % of covered payroll</b>
2018	\$ 1,945,680	\$ 2,520,944	\$ (575,264)	\$ 35,214,358	7.16%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying notes to the required supplementary information.

**CITY OF CONROE, TEXAS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS****TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)****LAST TEN FISCAL YEARS\*\***

	<b>Year Ended December 31,</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Total Pension Liability</b>				
Service cost	\$ 3,488,323	\$ 4,033,744	\$ 4,454,682	\$ 4,510,555
Interest	7,342,819	7,807,423	8,039,127	8,644,965
Differences between expected and actual experience	(577,351)	302,517	1,168,367	(156,668)
Change of assumptions	-	(307,855)	-	-
Benefit payments, including refunds of employee contributions	(3,718,726)	(4,059,893)	(4,905,554)	(4,523,920)
<b>Net Change in Total Pension Liability</b>	<b>6,535,065</b>	<b>7,775,936</b>	<b>8,756,622</b>	<b>8,474,932</b>
<b>Total Pension Liability - Beginning</b>	<b>105,012,620</b>	<b>111,547,685</b>	<b>119,323,621</b>	<b>128,080,243</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$111,547,685</b>	<b>\$119,323,621</b>	<b>\$128,080,243</b>	<b>\$136,555,175</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - Employer	\$ 3,975,261	\$ 4,102,398	\$ 4,247,873	\$ 4,381,013
Contributions - Employee	1,625,218	1,742,976	1,848,416	1,873,821
Net Investment Income	4,842,663	134,753	6,297,154	13,942,787
Benefit payments, including refunds of employee contributions	(3,718,726)	(4,059,893)	(4,905,554)	(4,523,920)
Administrative expense	(50,554)	(82,069)	(71,095)	(72,229)
Other	(4,156)	(4,054)	(3,830)	(3,660)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>6,669,706</b>	<b>1,834,111</b>	<b>7,412,964</b>	<b>15,597,812</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>84,643,780</b>	<b>91,313,486</b>	<b>93,147,597</b>	<b>100,560,561</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 91,313,486</b>	<b>\$ 93,147,597</b>	<b>\$100,560,561</b>	<b>\$116,158,373</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>20,234,199</b>	<b>26,176,024</b>	<b>27,519,682</b>	<b>20,396,802</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>81.86%</b>	<b>78.06%</b>	<b>78.51%</b>	<b>85.06%</b>
<b>Covered Payroll</b>	<b>\$ 23,217,402</b>	<b>\$ 24,899,652</b>	<b>\$ 26,405,939</b>	<b>\$ 26,768,870</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>87.15%</b>	<b>105.13%</b>	<b>104.22%</b>	<b>76.20%</b>

\*The amounts presented for the City's current fiscal year were determined as of the plan's fiscal year end December 31.

\*\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying notes to the required supplementary information.

**CITY OF CONROE, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**LAST TEN FISCAL YEARS\***

<b>Year Ending September 30</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in relation to the actuarially determined contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contributions as a % of covered payroll</b>
2015	\$ 4,057,674	\$ 4,057,674	\$ -	\$ 24,365,506	16.7%
2016	4,393,653	4,393,653	-	27,183,590	16.2%
2017	4,333,658	4,333,658	-	26,618,956	16.3%
2018	4,457,729	4,457,729	-	27,125,922	16.4%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying notes to the required supplementary information.

**CITY OF CONROE, TEXAS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS****CONROE FIRE FIGHTERS' RELIEF AND RETIREMENT FUND****LAST TEN FISCAL YEARS\***

	Year Ended September 30,			
	2015	2016	2017	2018
<b>Total Pension Liability</b>				
Service cost	\$ 1,310,699	\$ 1,591,635	\$ 1,714,987	\$ 1,729,454
Interest	2,703,863	2,803,599	3,080,627	3,309,384
Difference between expected and actual experience	-	1,819,271	-	901,136
Changes in assumptions	-	(966,892)	-	(262,049)
Benefit payments, including refunds of member contributions	(1,333,500)	(1,500,407)	(1,880,802)	(1,771,906)
<b>Net Change in Total Pension Liability</b>	<b>2,681,062</b>	<b>3,747,206</b>	<b>2,914,812</b>	<b>3,906,019</b>
<b>Total Pension Liability - Beginning</b>	<b>34,244,607</b>	<b>36,925,669</b>	<b>40,672,875</b>	<b>43,587,687</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 36,925,669</b>	<b>\$ 40,672,875</b>	<b>\$ 43,587,687</b>	<b>\$ 47,493,706</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 1,102,093	\$ 1,194,547	\$ 1,386,732	\$ 1,315,771
Contributions - member	972,779	1,054,387	1,049,846	1,161,385
Net Investment Income	(626,136)	2,052,206	1,891,994	1,770,185
Benefit payments, including refunds of member contributions	(1,333,500)	(1,500,407)	(1,880,802)	(1,771,906)
Administrative expense	(99,850)	(96,019)	(85,583)	(100,190)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>15,386</b>	<b>2,704,714</b>	<b>2,362,187</b>	<b>2,375,245</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>19,188,448</b>	<b>19,203,834</b>	<b>21,908,548</b>	<b>24,270,735</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 19,203,834</b>	<b>\$ 21,908,548</b>	<b>\$ 24,270,735</b>	<b>\$ 26,645,980</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 17,721,835</b>	<b>\$ 18,764,327</b>	<b>\$ 19,316,952</b>	<b>\$ 20,847,726</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>52.01%</b>	<b>53.87%</b>	<b>55.68%</b>	<b>56.10%</b>
<b>Covered Payroll</b>	<b>\$ 7,347,278</b>	<b>\$ 8,401,284</b>	<b>\$ 8,326,520</b>	<b>\$ 8,771,792</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>241.20%</b>	<b>223.35%</b>	<b>231.99%</b>	<b>237.67%</b>

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See accompanying notes to the required supplementary information.

**CITY OF CONROE, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS**  
**CONROE FIRE FIGHTERS' RELIEF AND RETIREMENT FUND**  
**LAST TEN FISCAL YEARS\***

<b>Year Ending September 30</b>	<b>Actuarially Determined Contribution</b>	<b>Contributions in relation to the actuarially determined contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered payroll</b>	<b>Contributions as a % of covered payroll</b>
2015	\$ 1,102,093	\$ 1,102,093	\$ -	\$ 7,347,278	15.0%
2016	1,260,195	1,260,195	-	8,401,284	15.0%
2017	1,248,980	1,248,980	-	8,326,520	15.0%
2018	1,315,771	1,315,771	-	8,771,792	15.0%

\*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying notes to the required supplementary information.

## CITY OF CONROE, TEXAS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

#### OPEB AND PENSIONS

SEPTEMBER 30, 2018

##### A. OPEB

<b>Valuation date:</b>	December 31, 2016
<b>Methods and assumptions:</b>	
Actuarial Cost Method	Entry Age Normal
Discount Rate	6.50%
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.50%, net of expenses
Demographic Assumptions	Based on experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Participation Rates	For employees retiring at age 50 or older, it was assumed that 95% of those who are eligible for the rule of 80 and 15% of those who are not eligible for the rule of 80 would choose to receive coverage through the City. No employees retiring before the age of 50 were assumed to elect coverage through the City.
Healthcare Cost Trend Rates	Initial rates of 7.50% declining to ultimate rates of 5.50% after 9 years; Ultimate trend rate includes a 1.25% adjustment for the excise tax.

##### B. Pensions

###### **TMRS:**

<b>Valuation date:</b>	
Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.
<b>Methods and assumptions used to determine contribution rates:</b>	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10-year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**CITY OF CONROE, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**OPEB AND PENSIONS**  
**SEPTEMBER 30, 2018**

**Conroe Fire Fighters' Relief and Retirement Fund:**

**Valuation date:** December 31, 2017, the total pension liability was rolled forward to the fiscal year end.

**Methods and assumptions used to determine contribution rates:**

Actuarial Cost Method	Entry Age Normal														
Amortization Method	Open period, level percentage of pay														
Asset Valuation Method	The fair value of assets plus 20% of the unrecognized gains and losses from each of the past four years. The resulting value is further limited to be no less than 90% and no greater than 110% of the fair value of assets.														
Investment Rate of Return	7.75% per annum (net of expenses)														
Salary Scale	The salary increase is based on years of service according to the following														
	<table> <tr> <th><u>Years of Service</u></th><th><u>Salary Increase</u></th></tr> <tr> <td>0-4</td><td>8.50%</td></tr> <tr> <td>5-9</td><td>7.50%</td></tr> <tr> <td>10-14</td><td>5.50%</td></tr> <tr> <td>15-19</td><td>4.50%</td></tr> <tr> <td>20-24</td><td>4.50%</td></tr> <tr> <td>25+</td><td>3.50%</td></tr> </table>	<u>Years of Service</u>	<u>Salary Increase</u>	0-4	8.50%	5-9	7.50%	10-14	5.50%	15-19	4.50%	20-24	4.50%	25+	3.50%
<u>Years of Service</u>	<u>Salary Increase</u>														
0-4	8.50%														
5-9	7.50%														
10-14	5.50%														
15-19	4.50%														
20-24	4.50%														
25+	3.50%														
General Inflation Rate	2.50% per annum														
Interest on Employee Contributions	2.50% per annum														
Contribution Rates	Rates in effect are assumed to remain constant for future years														
Mortality Rates	RP-2014 combined healthy tables for blue collar males and females with adjustment backwards to 2006 using Scale MP-2014 and projected with scale MP-2016.														
Termination Rates	0% to 6%														



**CITY OF CONROE, TEXAS**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2018**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,247,001	\$ 629,460	\$ 1,876,461
Investments	2,498,857	3,917,065	6,415,922
Receivables (Net of Allowances for Uncollectibles).			
Accounts	457,206	-	457,206
Other	90,654	3,221	93,875
Due from Other Funds	4,139	5,504,523	5,508,662
<b>TOTAL ASSETS</b>	<b>\$ 4,297,857</b>	<b>\$ 10,054,269</b>	<b>\$ 14,352,126</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 326,081	\$ 694,534	\$ 1,020,615
Other Payables	7,564	-	7,564
Retainage Payable	-	504,055	504,055
Due to Other Funds	120,729	5,387,933	5,508,662
Customer Deposits	9,906	-	9,906
Unearned Revenue	3,834	-	3,834
<b>TOTAL LIABILITIES</b>	<b>468,114</b>	<b>6,586,522</b>	<b>7,054,636</b>
<b>FUND BALANCES</b>			
Restricted for:			
Capital Project Funds	-	6,015,379	6,015,379
Special Revenue Funds	3,557,935	-	3,557,935
Committed for:			
TIRZ #3-Property Tax Receipts	-	2,931,903	2,931,903
Conroe MMD#1 Agreement	-	119,792	119,792
Conroe Tower-Lease Income	26,460	-	26,460
Woodlands Township Reg. Participation	249,487	-	249,487
Unassigned	(4,139)	(5,599,327)	(5,603,466)
<b>TOTAL FUND BALANCES</b>	<b>3,829,743</b>	<b>3,467,747</b>	<b>7,297,490</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,297,857</b>	<b>\$ 10,054,269</b>	<b>\$ 14,352,126</b>

**CITY OF CONROE, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 1,365,057	\$ -	\$ 1,365,057
Lease Income	277,100	-	277,100
Fines and Forfeitures	125,470	-	125,470
Intergovernmental	1,934,230	2,135,764	4,069,994
Investment Income	46,645	173,151	219,796
Penalties and Interest	1,880	-	1,880
Miscellaneous Revenue	776,689	1,333,198	2,109,887
<b>TOTAL REVENUES</b>	<b>4,527,071</b>	<b>3,642,113</b>	<b>8,169,184</b>
<b>EXPENDITURES</b>			
Current			
General Government			
Municipal Court	7,215	-	7,215
Building Operations	705,500	236,316	941,816
Transportation	651,059	2,771	653,830
Culture-Recreation	1,153,720	-	1,153,720
Non-Departmental	318,934	349,826	668,760
Police	9,980	-	9,980
Community Development	52,648	-	52,648
Parks			
Parks Operations	-	77,429	77,429
Public Works			
Streets	-	378,136	378,136
Signal Maintenance	-	57,575	57,575
Debt Service			
Principal Retirement	118,000	-	118,000
Interest and Fiscal Charges	36,833	-	36,833
Capital Outlay	1,004,012	15,932,422	16,936,434
<b>TOTAL EXPENDITURES</b>	<b>4,057,901</b>	<b>17,034,475</b>	<b>21,092,376</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>469,170</b>	<b>(13,392,362)</b>	<b>(12,923,192)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	255,884	3,124,879	3,380,763
Transfers Out	(345,726)	(3,102,756)	(3,448,482)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(89,842)</b>	<b>22,123</b>	<b>(67,719)</b>
<b>Net Change in Fund Balances</b>	<b>379,328</b>	<b>(13,370,239)</b>	<b>(12,990,911)</b>
Fund Balances at Beginning of Year	3,450,415	16,837,986	20,288,401
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 3,829,743</b>	<b>\$ 3,467,747</b>	<b>\$ 7,297,490</b>

Special Revenue Funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

**Hotel/Motel Occupancy Tax** – This fund was established per Texas Tax Code Chapter 352, to account for revenues primarily generated from hotel/motel occupancy tax and expenditures that serve the purpose of attracting visitors and promoting tourism.

**Public Improvement District “PID” Assessments** – This fund accounts for the revenues and expenditures of various public improvement districts.

**Community Development Block Grant Entitlement** – This fund is used to account for the revenues and expenditures of the Community Development Block Grant programs that are awarded by the U.S. Department of Housing and Urban Development.

**Conroe Tower** – This fund accounts for rentals and expenditures related to the maintenance of the Conroe Tower building.

**Owen Theatre** – This fund accounts for the maintenance of the Owen Theatre building and the revenues are generated from the charges to patrons who attend the programs.

**Woodlands Township Regional Participation** – This fund manages the activity of the agreement between The Woodlands Township and the City.

**Longmire Creek Estates PID** - This fund accounts for the revenues and expenditures of the Longmire Creek Estates Public Improvement District.

**Wedgewood Falls PID** - This fund accounts for the revenues and expenditures of the Wedgewood Falls Public Improvement District.

**Municipal Court Technology Fund** – This fund was authorized under Texas Code of Criminal Procedure, Article 102.0172, for the purposes of financing the purchase of or to maintain technological enhancements for a municipal court or municipal court of record.

**Municipal Court Building Security Fund** – This fund was authorized under Texas Code of Criminal Procedure, Article 102.017 to account for fees collected and expended for purposes of defraying the costs of courthouse security.

**Municipal Court Juvenile Case Manager** – This fund was authorized under Texas Code of Criminal Procedure, Article 102.0174 and provides for a fee to be assessed to defendants convicted of fine-only misdemeanor offenses in a justice court, county court, or county court at law. The funds may only be used for the salary and benefits of a juvenile case manager.

**Municipal Court Efficiency Fee** – This fund was authorized under Texas Local Government Code, Section 133.103 and provides for a fee to be assessed and used for the efficiency of judicial administration.

**Municipal Court Truancy Prevention** – This fund was authorized under House Bill 2398 (84<sup>th</sup> Legislature) to account for the fines and expenditures related to a court appointed guardian ad litem to protect the interests of a child in truancy offense proceedings.

**Animal Shelter Reserve** – This fund was authorized under Texas Local Government Code, Chapter 791 and provides a reserve of funds to replace equipment necessary for the City’s animal shelter.

**Transportation Grants** – These funds (Section 5307, Section 5310, and State funded) were established to account for the transportation grant programs applicable to the City.

**CITY OF CONROE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**SEPTEMBER 30, 2018**

	Hotel/Motel Occupancy Tax Fund	Public Improvement District "PID" Assessments	Community Development Block Grant Entitlement	The Conroe Tower	Owen Theatre
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 337,373	\$ 267,391	\$ -	\$ 41,906	\$ -
Investments	2,498,857	-	-	-	-
Receivables (Net of Allowances for Uncollectibles):					
Accounts	149,948	-	-	2,384	-
Other	-	3,834	71,650	-	-
Due from Other Funds	-	4,139	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 2,986,178</u>	<u>\$ 275,364</u>	<u>\$ 71,650</u>	<u>\$ 44,290</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 60,127	\$ -	\$ 6,988	\$ 5,715	\$ -
Other Payables	5,355	-	-	2,209	-
Due to Other Funds	-	-	64,662	-	-
Customer Deposits	-	-	-	9,906	-
Unearned Revenue	-	3,834	-	-	-
<b>TOTAL LIABILITIES</b>	<u>65,482</u>	<u>3,834</u>	<u>71,650</u>	<u>17,830</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted for:					
Special Revenue Funds	2,920,696	271,530	-	-	-
Committed for:					
Conroe Tower-Lease Income	-	-	-	26,460	-
Woodlands Township Reg. Participation	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>2,920,696</u>	<u>271,530</u>	<u>-</u>	<u>26,460</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,986,178</u>	<u>\$ 275,364</u>	<u>\$ 71,650</u>	<u>\$ 44,290</u>	<u>\$ -</u>

Woodlands Township Regional Participation	Longmire Creek Estates PID	Wedgewood Falls PID	Municipal Court Technology Fund	Municipal Court Building Security Fund	Municipal Court Juvenile Case Manager	Municipal Court Efficiency Fee
\$ 234,317	\$ -	\$ -	\$ 51,473	\$ 11,712	\$ 14,520	\$ 186,819
-	-	-	-	-	-	-
-	-	-	-	-	-	-
15,170	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 249,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,473</u>	<u>\$ 11,712</u>	<u>\$ 14,520</u>	<u>\$ 186,819</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	190	3,949	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>190</u>	<u>3,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	51,473	11,712	14,520	186,819
-	-	-	-	-	-	-
249,487	-	-	-	-	-	-
-	(190)	(3,949)	-	-	-	-
<u>249,487</u>	<u>(190)</u>	<u>(3,949)</u>	<u>51,473</u>	<u>11,712</u>	<u>14,520</u>	<u>186,819</u>
<u>\$ 249,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,473</u>	<u>\$ 11,712</u>	<u>\$ 14,520</u>	<u>\$ 186,819</u>

Continued

**CITY OF CONROE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**SEPTEMBER 30, 2018**

	Municipal Court Truancy Prevention	Animal Shelter Reserve	FY13 Section 5307 Grant	FY14 Section 5307 Grant
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 21,451	\$ 79,734	\$ 305	\$ -
Investments	-	-	-	-
Receivables (Net of Allowances for Uncollectibles):				
Accounts	-	-	-	-
Other	-	-	-	-
Due from Other Funds	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 21,451</u>	<u>\$ 79,734</u>	<u>\$ 305</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$ -	\$ 305	\$ -
Other Payables	-	-	-	-
Due to Other Funds	-	-	-	-
Customer Deposits	-	-	-	-
Unearned Revenue	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>305</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted for:				
Special Revenue Funds	21,451	79,734	-	-
Committed for:				
Conroe Tower-Lease Income	-	-	-	-
Woodlands Township Reg. Participation	-	-	-	-
Unassigned	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>21,451</u>	<u>79,734</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 21,451</u>	<u>\$ 79,734</u>	<u>\$ 305</u>	<u>\$ -</u>

FY15 Section 5307 Grant	H-GAC Federal Transit Administration Grant	FY13-14 Section 5310 Grant	FY15-16 Section 5310 Grant	FY16 Section 5307 Grant	State Public Transportation Grant	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,247,001
-	-	-	-	-	-	2,498,857
9,967	230,315	585	671	63,336	-	457,206
-	-	-	-	-	-	90,654
-	-	-	-	-	-	4,139
<u>\$ 9,967</u>	<u>\$ 230,315</u>	<u>\$ 585</u>	<u>\$ 671</u>	<u>\$ 63,336</u>	<u>\$ -</u>	<u>\$ 4,297,857</u>
\$ 9,967	\$ 230,315	\$ 585	\$ 671	\$ 11,408	\$ -	\$ 326,081
-	-	-	-	-	-	7,564
-	-	-	-	51,928	-	120,729
-	-	-	-	-	-	9,906
-	-	-	-	-	-	3,834
<u>9,967</u>	<u>230,315</u>	<u>585</u>	<u>671</u>	<u>63,336</u>	<u>-</u>	<u>468,114</u>
-	-	-	-	-	-	3,557,935
-	-	-	-	-	-	26,460
-	-	-	-	-	-	249,487
-	-	-	-	-	-	(4,139)
-	-	-	-	-	-	3,829,743
<u>\$ 9,967</u>	<u>\$ 230,315</u>	<u>\$ 585</u>	<u>\$ 671</u>	<u>\$ 63,336</u>	<u>\$ -</u>	<u>\$ 4,297,857</u>

# **CITY OF CONROE, TEXAS**

## **COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Hotel/Motel Occupancy Tax Fund	Public Improvement District "PID" Assessments	Community Development Block Grant Entitlement	The Conroe Tower	Owen Theatre
<b>REVENUES</b>					
Taxes	\$ 1,365,057	\$ -	\$ -	\$ -	\$ -
Lease Income	-	-	-	265,168	11,932
Fines and Forfeitures	-	-	-	-	-
Intergovernmental	-	-	487,903	-	-
Investment Income	38,333	6,502	-	301	389
Penalties and Interest	-	1,157	-	-	-
Miscellaneous Revenue	862	533,407	-	-	20,223
<b>TOTAL REVENUES</b>	<u>1,404,252</u>	<u>541,066</u>	<u>487,903</u>	<u>265,469</u>	<u>32,544</u>
<b>EXPENDITURES</b>					
Current					
General Government					
Municipal Court	-	-	-	-	-
Building Operations	-	-	-	705,500	-
Transportation	-	-	-	-	-
Culture-Recreation	1,072,121	-	-	-	81,599
Non-Departmental	-	297,886	-	-	-
Public Safety - Police	-	-	-	-	-
Community Development	-	-	52,648	-	-
Debt Service					
Principal Retirement	-	-	118,000	-	-
Interest and Fiscal Charges	-	-	36,833	-	-
Capital Outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>1,072,121</u>	<u>297,886</u>	<u>207,481</u>	<u>705,500</u>	<u>81,599</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>332,131</u>	<u>243,180</u>	<u>280,422</u>	<u>(440,031)</u>	<u>(49,055)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	144	-	-	255,740	-
Transfers Out	-	-	(283,236)	(2,253)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>144</u>	<u>-</u>	<u>(283,236)</u>	<u>253,487</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	332,275	243,180	(2,814)	(186,544)	(49,055)
Fund Balances at Beginning of Year	2,588,421	28,350	2,814	213,004	49,055
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 2,920,696</u>	<u>\$ 271,530</u>	<u>\$ -</u>	<u>\$ 26,460</u>	<u>\$ -</u>

Woodlands Township Regional Participation	Longmire Creek Estates PID	Wedgewood Falls PID	Municipal Court Technology Fund	Municipal Court Building Security Fund	Municipal Court Juvenile Case Manager	Municipal Court Efficiency Fee
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	35,743	26,835	35,619	10,103
54,741	-	-	-	-	-	-
478	-	-	69	35	78	420
-	396	327	-	-	-	-
-	60,089	162,108	-	-	-	-
<u>55,219</u>	<u>60,485</u>	<u>162,435</u>	<u>35,812</u>	<u>26,870</u>	<u>35,697</u>	<u>10,523</u>
-	-	-	-	-	1,265	750
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	7,132	13,916	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	98,185	255,000	-	-	-	-
<u>-</u>	<u>105,317</u>	<u>268,916</u>	<u>-</u>	<u>-</u>	<u>1,265</u>	<u>750</u>
<u>55,219</u>	<u>(44,832)</u>	<u>(106,481)</u>	<u>35,812</u>	<u>26,870</u>	<u>34,432</u>	<u>9,773</u>
-	-	-	-	-	-	-
-	-	-	-	(20,000)	(40,237)	-
-	-	-	-	(20,000)	(40,237)	-
55,219	(44,832)	(106,481)	35,812	6,870	(5,805)	9,773
194,268	44,642	102,532	15,661	4,842	20,325	177,046
<u>\$ 249,487</u>	<u>\$ (190)</u>	<u>\$ (3,949)</u>	<u>\$ 51,473</u>	<u>\$ 11,712</u>	<u>\$ 14,520</u>	<u>\$ 186,819</u>

Continued

**CITY OF CONROE, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Municipal Court Truancy Prevention	Animal Shelter Reserve	FY13 Section 5307 Grant	FY14 Section 5307 Grant
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Lease Income	-	-	-	-
Fines and Forfeitures	17,170	-	-	-
Intergovernmental	-	89,700	2,791	20,634
Investment Income	26	14	-	-
Penalties and Interest	-	-	-	-
Miscellaneous Revenue	-	-	-	-
<b>TOTAL REVENUES</b>	<u>17,196</u>	<u>89,714</u>	<u>2,791</u>	<u>20,634</u>
<b>EXPENDITURES</b>				
Current				
General Government				
Municipal Court	5,200	-	-	-
Building Operations	-	-	-	-
Transportation	-	-	2,791	20,634
Culture-Recreation	-	-	-	-
Non-Departmental	-	-	-	-
Public Safety - Police	-	9,980	-	-
Community Development	-	-	-	-
Debt Service				
Principal Retirement	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>5,200</u>	<u>9,980</u>	<u>2,791</u>	<u>20,634</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>11,996</u>	<u>79,734</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	11,996	79,734	-	-
Fund Balances at Beginning of Year	9,455	-	-	-
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 21,451</u>	<u>\$ 79,734</u>	<u>\$ -</u>	<u>\$ -</u>

FY15 Section 5307 Grant	H-GAC Federal Transit Administration Grant	FY13-14 Section 5310 Grant	FY15-16 Section 5310 Grant	FY16 Section 5307 Grant	State Public Transportation Grant	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,365,057
-	-	-	-	-	-	277,100
-	-	-	-	-	-	125,470
178,829	650,827	11,314	131,946	218,765	86,780	1,934,230
-	-	-	-	-	-	46,645
-	-	-	-	-	-	1,880
-	-	-	-	-	-	776,689
<u>178,829</u>	<u>650,827</u>	<u>11,314</u>	<u>131,946</u>	<u>218,765</u>	<u>86,780</u>	<u>4,527,071</u>
-	-	-	-	-	-	7,215
-	-	-	-	-	-	705,500
178,829	-	11,314	131,946	218,765	86,780	651,059
-	-	-	-	-	-	1,153,720
-	-	-	-	-	-	318,934
-	-	-	-	-	-	9,980
-	-	-	-	-	-	52,648
-	-	-	-	-	-	118,000
-	-	-	-	-	-	36,833
-	650,827	-	-	-	-	1,004,012
<u>178,829</u>	<u>650,827</u>	<u>11,314</u>	<u>131,946</u>	<u>218,765</u>	<u>86,780</u>	<u>4,057,901</u>
-	-	-	-	-	-	469,170
-	-	-	-	-	-	255,884
-	-	-	-	-	-	(345,726)
-	-	-	-	-	-	(89,842)
-	-	-	-	-	-	379,328
-	-	-	-	-	-	3,450,415
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,829,743</u>

**CITY OF CONROE, TEXAS**  
**HOTEL/MOTEL OCCUPANCY TAX FUND**  
**SPECIAL REVENUE FUND**  
**BUDGET COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,042,751	\$ 1,042,751	\$ 1,365,057	\$ 322,306
Investment Income	-	-	38,333	38,333
Miscellaneous Revenue	-	-	862	862
<b>TOTAL REVENUES</b>	<u>1,042,751</u>	<u>1,042,751</u>	<u>1,404,252</u>	<u>361,501</u>
<b>EXPENDITURES</b>				
General Government				
Culture-Recreation	985,986	1,072,748	1,072,121	627
<b>TOTAL EXPENDITURES</b>	<u>985,986</u>	<u>1,072,748</u>	<u>1,072,121</u>	<u>627</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>56,765</u>	<u>(29,997)</u>	<u>332,131</u>	<u>362,128</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	144	144	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>144</u>	<u>144</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	56,765	(29,853)	332,275	362,128
Fund Balance at Beginning of Year	2,588,421	2,588,421	2,588,421	-
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,645,186</u>	<u>\$ 2,558,568</u>	<u>\$ 2,920,696</u>	<u>\$ 362,128</u>

**CITY OF CONROE, TEXAS**  
**COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT**  
**SPECIAL REVENUE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 623,759	\$ 623,759	\$ 487,903	\$ (135,856)
<b>TOTAL REVENUES</b>	<u>623,759</u>	<u>623,759</u>	<u>487,903</u>	<u>(135,856)</u>
<b>EXPENDITURES</b>				
Current:				
General Government				
Community Development	344,000	344,000	52,648	291,352
Debt Service:				
Principal Retirement	118,000	118,000	118,000	-
Interest and Fiscal Charges	36,833	36,833	36,833	-
<b>TOTAL EXPENDITURES</b>	<u>498,833</u>	<u>498,833</u>	<u>207,481</u>	<u>291,352</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>124,926</u>	<u>124,926</u>	<u>280,422</u>	<u>155,496</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(124,926)	(124,926)	(283,236)	158,310
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(124,926)</u>	<u>(124,926)</u>	<u>(283,236)</u>	<u>158,310</u>
<b>Net Change in Fund Balance</b>	-	-	(2,814)	(2,814)
Fund Balance at Beginning of Year	2,814	2,814	2,814	-
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,814</u>	<u>\$ 2,814</u>	<u>\$ -</u>	<u>\$ (2,814)</u>

**CITY OF CONROE, TEXAS**  
**THE CONROE TOWER**  
**SPECIAL REVENUE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Lease Income	\$ 340,000	\$ 340,000	\$ 265,168	\$ (74,832)
Investment Income	-	-	301	301
<b>TOTAL REVENUES</b>	<u>340,000</u>	<u>340,000</u>	<u>265,469</u>	<u>(74,531)</u>
<b>EXPENDITURES</b>				
Current				
General Government				
Building Operations	630,550	745,873	705,500	40,373
Capital Outlay	-	51	-	51
<b>TOTAL EXPENDITURES</b>	<u>630,550</u>	<u>745,924</u>	<u>705,500</u>	<u>40,424</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(290,550)</u>	<u>(405,924)</u>	<u>(440,031)</u>	<u>(34,107)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance Proceeds	-	5,116	-	(5,116)
Transfers In	-	255,740	255,740	-
Transfers Out	(2,253)	(2,253)	(2,253)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,253)</u>	<u>258,603</u>	<u>253,487</u>	<u>(5,116)</u>
<b>Net Change in Fund Balance</b>	<u>(292,803)</u>	<u>(147,321)</u>	<u>(186,544)</u>	<u>(39,223)</u>
Fund Balance at Beginning of Year	213,004	213,004	213,004	-
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ (79,799)</u>	<u>\$ 65,683</u>	<u>\$ 26,460</u>	<u>\$ (39,223)</u>

# CITY OF CONROE, TEXAS

## DEBT SERVICE FUND

### BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 9,313,718	\$ 9,313,718	\$ 9,375,527	\$ 61,809
Investment Income	78,871	78,871	188,910	110,039
Net Change in Fair Value of Investments	-	-	(33,626)	(33,626)
Penalties and Interest	81,740	81,740	62,542	(19,198)
Miscellaneous Revenue	-	-	419,617	419,617
<b>TOTAL REVENUES</b>	<u>9,474,329</u>	<u>9,474,329</u>	<u>10,012,970</u>	<u>538,641</u>
<b>EXPENDITURES</b>				
Debt Service				
Principal Retirement	8,325,000	8,325,000	8,325,000	-
Interest and Fiscal Charges	6,082,207	5,440,201	5,066,772	373,429
Bond Issuance Costs	55,000	87,477	85,350	2,127
<b>TOTAL EXPENDITURES</b>	<u>14,462,207</u>	<u>13,852,678</u>	<u>13,477,122</u>	<u>375,556</u>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over (Under) Expenditures</b>	<u>(4,987,878)</u>	<u>(4,378,349)</u>	<u>(3,464,152)</u>	<u>914,197</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunding Bonds Issued	-	6,845,000	6,845,000	-
Payment to Escrow Agent	-	(7,800,000)	(7,875,068)	(75,068)
Premium on Bonds Issued	-	923,776	944,976	21,200
Transfers In	3,901,894	3,206,020	2,782,756	(423,264)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>3,901,894</u>	<u>3,174,796</u>	<u>2,697,664</u>	<u>(477,132)</u>
<b>Net Change in Fund Balance</b>	<u>(1,085,984)</u>	<u>(1,203,553)</u>	<u>(766,488)</u>	<u>437,065</u>
Fund Balance at Beginning of Year	11,569,373	11,569,373	11,569,373	-
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 10,483,389</u>	<u>\$ 10,365,820</u>	<u>\$ 10,802,885</u>	<u>\$ 437,065</u>



Capital Projects Funds are used to account for bond sale proceeds and other revenues which are used for the construction and acquisition of major capital projects of the City.

**Signals CIP Fund** – This fund is used to account for the design, construction, and improvement of traffic signals in the City.

**Facilities CIP Fund** – This fund is used to account for the design, construction, and improvement of City buildings, facilities, and related infrastructure.

**Transportation Grants CIP Fund** – This fund is used to account for capital projects related to design, construction and improvement of transportation infrastructure funded primarily with grant proceeds.

**Firearms Training Facility** – This fund used to account for the design, construction, and improvement of the City's firearms training facility.

**Drainage CIP Fund** – This fund is used to account for the design, construction, and improvement of City drainage infrastructure.

**Parks CIP Fund** – This fund is used to account for the design, construction, and improvement of City parks and recreation facilities and infrastructure.

**Streets CIP Fund** – This fund is used to account for the design, construction, improvement, and rehabilitation of streets and roads.

**Tax Increment Reinvestment Zone 2** – This fund was established as an incentive to develop the West Fork subdivision on State Highway 105 west of Loop 336. All property tax revenues that is generated by increased values in the zone that is above the base value when the TIRZ was created will be deposited to this fund. The funds will be used to reimburse the developer for certain infrastructure costs related to the development.

**Tax Increment Reinvestment Zone 3** – This fund was established in 2001 to generate money for street improvements in the zone to serve an expected surge in housing starts. All property tax revenues that is generated by increased values in the zone that is above the base value when the TIRZ was created will be deposited to this fund. The funds will be used to support the debt service payments on certificates of obligation issued for improvements in the TIRZ.

**Conroe MMD#1 Agreement** – This fund is used to account for a Reimbursement Agreement and an Economic Development Agreement both entered into in 2013 between the City and the developer of Grand Central Park, acting through the Conroe Municipal Management District No.1 (Conroe MMD#1). The reimbursement agreement calls for the City to reimburse Conroe MMD#1 for the improvement costs, not to exceed \$10,000,000 plus interest, for infrastructure costs necessary for development of the property. The economic development agreement calls for the City to reimburse Conroe MMD#1 for costs, not to exceed \$10,000,000 plus interest, necessary for development of the property.

**Certificates of Obligation, Series 2018A CIP Fund** – This fund used to account for related to design, planning, acquisition, construction, equipping, expansion, repair, renovation, and/or rehabilitation of capital projects of the City.

**CITY OF CONROE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
**SEPTEMBER 30, 2018**

	Signals CIP Fund	Facilities CIP Fund	Transportation Grants CIP Fund	Firearms Training Facility	Drainage CIP Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ -	\$ -	\$ 318,610	\$ 60,374	\$ 129,685
Investments	-	792,608	-	-	-
Receivables (net of allowances for uncollectibles)					
Other	-	-	-	-	-
Due from Other Funds	556,816	518,710	116,590	-	27,745
<b>TOTAL ASSETS</b>	<u>\$ 556,816</u>	<u>\$ 1,311,318</u>	<u>\$ 435,200</u>	<u>\$ 60,374</u>	<u>\$ 157,430</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 53,261	\$ 217,392	\$ 3,910	\$ -	\$ -
Retainage Payable	37,672	105,099	-	-	-
Due to Other Funds	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>90,933</u>	<u>322,491</u>	<u>3,910</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted for					
Capital Project Funds	465,883	988,827	431,290	60,374	157,430
Committed for					
TIRZ #3-Property Tax Receipts	-	-	-	-	-
Conroe MMD#1 Agreement	-	-	-	-	-
Unassigned	-	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>465,883</u>	<u>988,827</u>	<u>431,290</u>	<u>60,374</u>	<u>157,430</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 556,816</u>	<u>\$ 1,311,318</u>	<u>\$ 435,200</u>	<u>\$ 60,374</u>	<u>\$ 157,430</u>

Parks CIP Fund	Streets CIP Fund	Tax Incr Reinv Zone 2	Tax Incr Reinv. Zone 3	Conroe MMD #1 Agreement	Certificates of Obligation, Series 2018A CIP Fund	Total Nonmajor Capital Projects Funds
\$ -	\$ -	\$ -	\$ 999	\$ 119,792	\$ -	\$ 629,460
168,000	25,553	-	2,930,904	-	-	3,917,065
-	3,221	-	-	-	-	3,221
309,666	3,974,996	-	-	-	-	5,504,523
<u>\$ 477,666</u>	<u>\$ 4,003,770</u>	<u>\$ -</u>	<u>\$ 2,931,903</u>	<u>\$ 119,792</u>	<u>\$ -</u>	<u>\$ 10,054,269</u>
\$ -	\$ 330,182	\$ -	\$ -	\$ -	\$ 89,789	\$ 694,534
-	239,679	-	-	-	121,605	504,055
-	-	-	-	-	5,387,933	5,387,933
-	569,861	-	-	-	5,599,327	6,586,522
477,666	3,433,909	-	-	-	-	6,015,379
-	-	-	2,931,903	-	-	2,931,903
-	-	-	-	119,792	-	119,792
-	-	-	-	-	(5,599,327)	(5,599,327)
<u>477,666</u>	<u>3,433,909</u>	<u>-</u>	<u>2,931,903</u>	<u>119,792</u>	<u>(5,599,327)</u>	<u>3,467,747</u>
<u>\$ 477,666</u>	<u>\$ 4,003,770</u>	<u>\$ -</u>	<u>\$ 2,931,903</u>	<u>\$ 119,792</u>	<u>\$ -</u>	<u>\$ 10,054,269</u>

**CITY OF CONROE, TEXAS****COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Signals CIP Fund	Facilities CIP Fund	Transportation Grants CIP Fund	Firearms Training Facility	Drainage CIP Fund
<b>REVENUES</b>					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Income	8,576	22,330	1,152	140	2,496
Miscellaneous Revenue	285,551	-	-	-	-
<b>TOTAL REVENUES</b>	<u>294,127</u>	<u>22,330</u>	<u>1,152</u>	<u>140</u>	<u>2,496</u>
<b>EXPENDITURES</b>					
Current:					
General Government					
Building Operations	-	236,316	-	-	-
Transportation	-	-	2,771	-	-
Non-Departmental	-	-	-	-	-
Parks					
Parks Operations	-	-	-	-	-
Public Works					
Streets	-	-	-	-	-
Signal Maintenance	57,575	-	-	-	-
Capital Outlay	624,527	1,742,559	65,606	-	-
<b>TOTAL EXPENDITURES</b>	<u>682,102</u>	<u>1,978,875</u>	<u>68,377</u>	<u>-</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(387,975)</u>	<u>(1,956,545)</u>	<u>(67,225)</u>	<u>140</u>	<u>2,496</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	(320,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(320,000)</u>
<b>Net Change in Fund Balances</b>	<u>(387,975)</u>	<u>(1,956,545)</u>	<u>(67,225)</u>	<u>140</u>	<u>(317,504)</u>
Fund Balances at Beginning of Year	853,858	2,945,372	498,515	60,234	474,934
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 465,883</u>	<u>\$ 988,827</u>	<u>\$ 431,290</u>	<u>\$ 60,374</u>	<u>\$ 157,430</u>

Parks CIP Fund	Streets CIP Fund	Tax Incr Reinv. Zone 2	Tax Incr Reinv Zone 3	Conroe MMD #1 Agreement	Certificates of Obligation, Series 2018A CIP Fund	Total Nonmajor Capital Projects Funds
\$ -	\$ 616,205	\$ -	\$ 1,517,059	\$ -	\$ 2,500	\$ 2,135,764
4,758	89,370	-	44,133	196	-	173,151
-	959,395	-	-	-	88,252	1,333,198
4,758	1,664,970	-	1,561,192	196	90,752	3,642,113
-	-	-	-	-	-	236,316
-	-	-	-	-	-	2,771
-	-	349,826	-	-	-	349,826
51,294	-	-	-	-	26,135	77,429
-	-	-	-	-	378,136	378,136
-	-	-	-	-	-	57,575
120,947	8,092,975	-	-	-	5,285,808	15,932,422
172,241	8,092,975	349,826	-	-	5,690,079	17,034,475
(167,483)	(6,428,005)	(349,826)	1,561,192	196	(5,599,327)	(13,392,362)
-	320,000	349,684	2,335,599	119,596	-	3,124,879
-	-	-	(2,782,756)	-	-	(3,102,756)
-	320,000	349,684	(447,157)	119,596	-	22,123
(167,483)	(6,108,005)	(142)	1,114,035	119,792	(5,599,327)	(13,370,239)
645,149	9,541,914	142	1,817,868	-	-	16,837,986
\$ 477,666	\$ 3,433,909	\$ -	\$ 2,931,903	\$ 119,792	\$ (5,599,327)	\$ 3,467,747



Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

**Fleet Services** – This fund is used to account for the operations and maintenance of the City's vehicles and is financed through user charges.

**Self-Funded Insurance** – This fund is used to account for the group health insurance activities, including other post-employment benefits not covered by the trust fund assets.

**CITY OF CONROE, TEXAS**  
**COMBINING STATEMENT OF NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**SEPTEMBER 30, 2018**

	Fleet Services	Self-Funded Insurance	Total Internal Service Funds
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 20,369	\$ 2,485,711	\$ 2,506,080
Investments	174,570	-	174,570
Receivable (Net of Allowances for Uncollectibles).			
Accounts	4,298	-	4,298
Interest	-	-	-
Other	-	187,728	187,728
Prepaid Items	-	-	-
Inventories	40,040	-	40,040
Total Current Assets	239,277	2,673,439	2,912,716
Noncurrent Assets:			
Capital Assets (Net of Accumulated Depreciation)	144,580	-	144,580
Total Noncurrent Assets	144,580	-	144,580
<b>TOTAL ASSETS</b>	383,857	2,673,439	3,057,296
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Contributions After Measurement Date	64,370	-	64,370
Pension Other	68,245	-	68,245
OPEB Contributions After Measurement Date	36,905	-	36,905
OPEB Other	2,348	-	2,348
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	171,868	-	171,868
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	55,229	93,531	148,760
Other Payables	15,260	768	16,028
Health Claims Liability	-	472,822	472,822
Compensated Absences	3,921	-	3,921
Total Current Liabilities	74,410	567,121	641,531
Noncurrent Liabilities, net of current portion			
Compensated Absences	89,656	-	89,656
Net OPEB Liability	331,077	-	331,077
Net Pension Liability	387,539	-	387,539
Total Noncurrent Liabilities	808,272	-	808,272
<b>TOTAL LIABILITIES</b>	882,682	567,121	1,449,803
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Other	116,874	-	116,874
OPEB Other	3,364	-	3,364
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	120,238	-	120,238
<b>NET POSITION</b>			
Net Investment in Capital Assets	144,580	-	144,580
Unrestricted	(591,775)	2,106,318	1,514,543
<b>TOTAL NET POSITION</b>	\$ (447,195)	\$ 2,106,318	\$ 1,659,123

**CITY OF CONROE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Fleet Services</u>	<u>Self-Funded Insurance</u>	<u>Total Internal Service Funds</u>
<b>OPERATING REVENUES</b>			
Charges for Sales and Services	\$ 1,924,006	\$ 12,107,436	\$ 14,031,442
<b>TOTAL OPERATING REVENUES</b>	<u>1,924,006</u>	<u>12,107,436</u>	<u>14,031,442</u>
<b>OPERATING EXPENSES</b>			
Fleet Services	1,772,033	-	1,772,033
General Government	-	10,003,682	10,003,682
Depreciation	20,074	-	20,074
<b>TOTAL OPERATING EXPENSES</b>	<u>1,792,107</u>	<u>10,003,682</u>	<u>11,795,789</u>
<b>Operating Income (Loss)</b>	<u>131,899</u>	<u>2,103,754</u>	<u>2,235,653</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment Income	8,654	2,562	11,216
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>8,654</u>	<u>2,562</u>	<u>11,216</u>
<b>Income (Loss) Before Transfers</b>	<u>140,553</u>	<u>2,106,316</u>	<u>2,246,869</u>
Transfers In	-	-	-
Transfer Out	(680,113)	-	(680,113)
<b>NET TRANSFERS</b>	<u>(680,113)</u>	<u>-</u>	<u>(680,113)</u>
<b>Change in Net Position</b>	<u>(539,560)</u>	<u>2,106,316</u>	<u>1,566,756</u>
Net Position at Beginning of Year	407,023	(3,526,845)	(3,119,822)
Prior Period Adjustment	(314,658)	3,526,847	3,212,189
Net Position at Beginning of Year - as Restated	92,365	2	92,367
<b>NET POSITION AT END OF YEAR</b>	<u>\$ (447,195)</u>	<u>\$ 2,106,318</u>	<u>\$ 1,659,123</u>