

ANNUAL FINANCIAL REPORT

of the

CITY OF MONT BELVIEU, TEXAS

**For the Year Ended
September 30, 2019**

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CITY OF MONT BELVIEU, TEXAS

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CITY OF MONT BELVIEU, TEXAS

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mont Belvieu, Texas (the "City"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and other postemployment benefits liabilities and related ratios, schedule of the City's proportionate share of the net pension liability, and schedules of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 3, 2020

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

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

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

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police, fire, and EMS), community services (building permits/inspection), community development, and general government (City administrator, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – City-provided services where a fee is paid for those services are reported here. These services include the City's golf course, recreation center, water and wastewater public utility, high speed internet, solid waste services, and beverage corporation.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects-CIP fund, capital projects fund, fixed asset replacement fund, and 2019 construction fund which are considered to be major funds for reporting purposes.

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

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

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its golf course, recreation center, water distribution and wastewater collection/treatment, high speed internet, beverage services operations, and solid waste. The proprietary fund financial statements provide separate information for the respective enterprise funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System (TMRS), schedule of the City's proportionate share of the net pension liability – Texas Emergency Services Retirement System (TESRS), schedule of changes in the total OPEB liability and related ratios – Supplemental Death Benefit Fund, and schedules of contributions for TMRS and TESRS. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows by \$159,691,304 as of year end, representing an increase of \$20,472,404 over the prior year. A portion of the City's net position, 54 percent, reflects its investments in capital assets (e.g., land, City Hall, police station, fleet equipment, drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

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

The City's governmental activities net position increased from \$92,320,200 to \$112,202,558, largely as a result of increases in capital assets and cash holdings during the year. The net position of business-type activities increased to \$47,488,746 from \$46,898,700 primarily due to increases in capital assets as a result of several developer contributions. The City can use the unrestricted portion of net position of \$71,113,113 as needed to provide municipal services.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$5,507,381 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

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

Statement of Activities

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

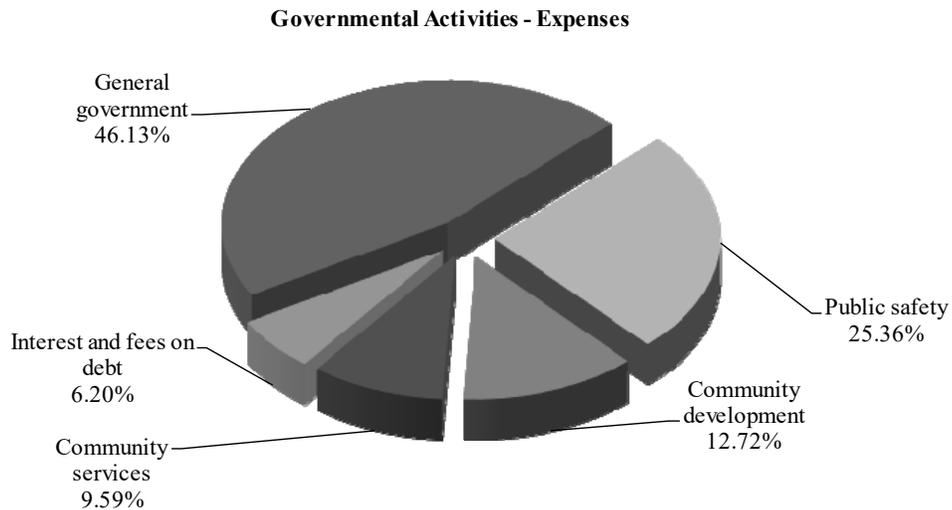
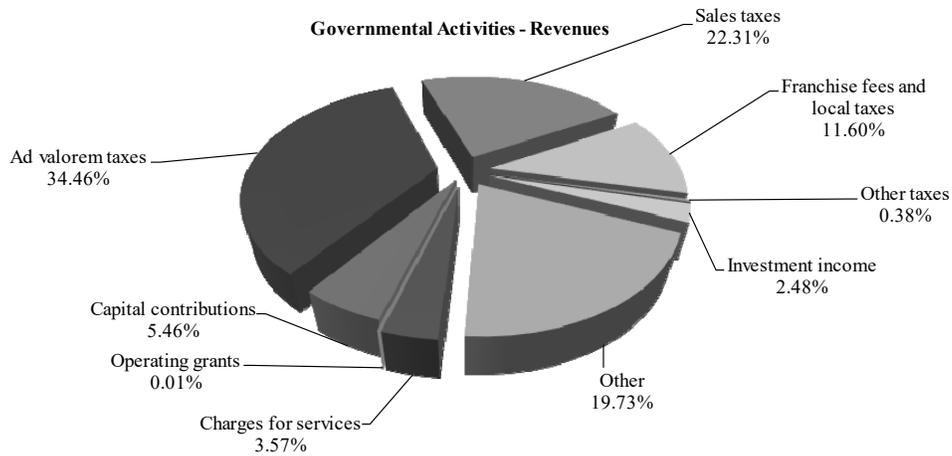
	For the Year Ended September 30, 2019			For the Year Ended September 30, 2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,692,736	\$ 7,190,380	\$ 8,883,116	\$ 1,467,479	\$ 6,206,253	\$ 7,673,732
Operating grants	5,788	-	5,788	322,083	-	322,083
Capital contributions	2,589,088	5,759,265	8,348,353	2,174,816	583,000	2,757,816
General revenues:						
Ad valorem taxes	16,346,302	-	16,346,302	14,592,901	-	14,592,901
Sales taxes	10,583,478	-	10,583,478	6,318,077	-	6,318,077
Franchise fees and local taxes	5,500,799	-	5,500,799	4,906,131	-	4,906,131
Other taxes	181,905	-	181,905	111,991	-	111,991
Investment income	1,174,914	164,949	1,339,863	520,834	175,345	696,179
Other	9,361,359	4,500	9,365,859	4,239,263	-	4,239,263
Total Revenues	47,436,369	13,119,094	60,555,463	34,653,575	6,964,598	41,618,173
Expenses						
General government	11,636,234	-	11,636,234	7,182,763	-	7,182,763
Public safety	6,396,228	-	6,396,228	5,242,774	-	5,242,774
Community development	3,208,703	-	3,208,703	3,181,361	-	3,181,361
Community services	2,419,148	-	2,419,148	1,100,863	-	1,100,863
Interest and fees on debt	1,563,552	-	1,563,552	1,240,539	-	1,240,539
Golf course	-	2,462,188	2,462,188	-	2,685,426	2,685,426
Recreation center	-	3,283,768	3,283,768	-	3,524,501	3,524,501
Public utilities	-	4,606,234	4,606,234	-	4,201,608	4,201,608
High speed internet	-	3,763,719	3,763,719	-	809,635	809,635
Beverage corporation	-	80,926	80,926	-	85,055	85,055
Solid waste	-	662,359	662,359	-	-	-
Total Expenses	25,223,865	14,859,194	40,083,059	17,948,300	11,306,225	29,254,525
Increase (Decrease) in Net Position Before Transfers	22,212,504	(1,740,100)	20,472,404	16,705,275	(4,341,627)	12,363,648
Transfers in (out)	(2,330,146)	2,330,146	-	(2,743,254)	2,743,254	-
Change in Net Position	19,882,358	590,046	20,472,404	13,962,021	(1,598,373)	12,363,648
Beginning net position	92,320,200	46,898,700	139,218,900	78,358,179	48,497,073	126,855,252
Ending Net Position	\$ 112,202,558	\$ 47,488,746	\$ 159,691,304	\$ 92,320,200	\$ 46,898,700	\$ 139,218,900

CITY OF MONT BELVIEU, TEXAS

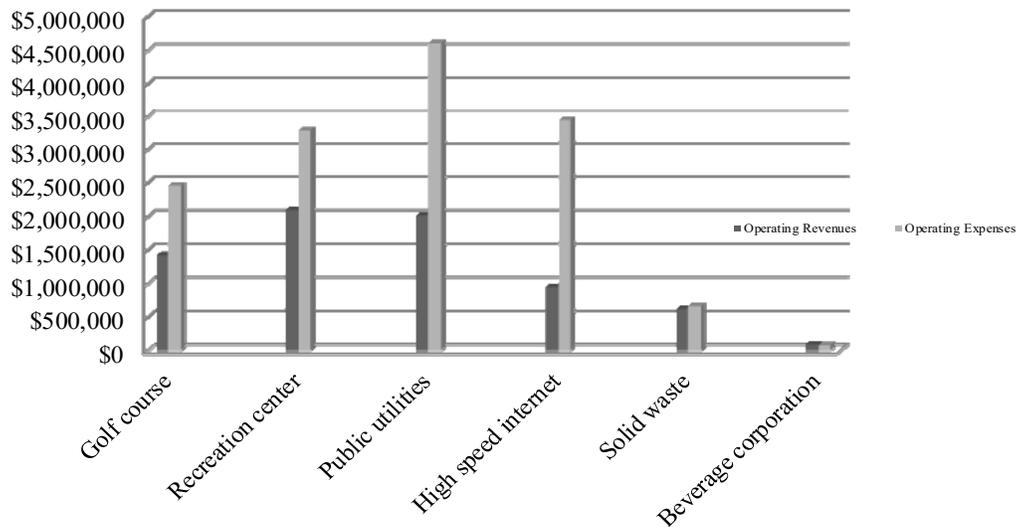
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2019

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.



Business-Type Activities Revenues and Expenses



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

For the year ended September 30, 2019, revenue from governmental activities before transfers totaled \$47,436,369, which represents a 37 percent increase. The increase is primarily due to increases in sales tax revenue related to new oil and gas companies in the City, as well as increases in other revenue as a result of increases in payments related to the City's Chapter 380 agreements. For the year ended September 30, 2019, expenses from governmental activities before transfers totaled \$25,223,865, which is a 41 percent increase from the previous year. The increase is primarily due to an increase in expenses in general government as the City created new positions and increased its staff size.

Business-type activities are shown comparing expenses of \$14,859,194 to total revenues of \$13,119,094 generated by related services. Business-type revenue increased by \$6,154,496 from the prior year mainly due to capital contributions from developers related to new housing developments in the area, as well as the first year of full operation of the high speed internet fund. Business-type expenses increased by \$3,552,969 primarily related to cost of services for the high speed internet fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$83,200,338. Of this, \$23,834,506 is unassigned and available for day-to-day operations of the City, \$20,544,228 is assigned to capital projects, \$37,113,661 is restricted for capital projects, \$578,039 is restricted for debt service, \$1,033,601 is restricted by legal statutes and for special revenue projects, and \$96,303 is nonspendable.

The general fund is the chief operating fund of the City. At the end of the fiscal year, unassigned fund balance in the general fund was \$18,451,101, while total fund balance reached \$18,486,806. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 157 percent of total general fund expenditures, while total fund balance also represents 157 percent of total general fund expenditures. There was an increase in fund balance of \$2,228,888 from the prior year for the general fund. This increase is primarily due to increases in sales tax revenue, as a result of new oil and gas companies doing business within the City, as well as an increase in payments related to the City's chapter 380 tax abatement agreements.

The debt service fund fund balance totaled \$578,039 as of year end, which is an increase of \$155,202 from the previous year. This increase can be attributed primarily to an increase in property tax revenue as a result of increases in property values in the area.

There was an increase of \$4,268,225 in the capital projects – CIP fund fund balance for a total of \$13,730,762 at year end. This increase is primarily due to transfers in from the general fund.

The capital projects fund fund balance decreased by \$5,811,931 for a total fund balance of \$8,916,154 at year end. This decrease is due to ongoing construction projects throughout the City.

The fixed asset replacement fund fund balance increased by \$6,122,438 for a total fund balance of \$9,633,405 at year end. This increase is primarily due to transfers in from the general fund.

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

The 2019 construction fund fund balance was created this year. The fund issued the Series 2019 certificates of obligation and ended the year with a fund balance of \$28,197,507

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

GENERAL FUND BUDGETARY HIGHLIGHTS

General fund actual revenues exceeded budgeted revenues by \$6,902,138. This is largely due to actual sales tax revenue exceeding the budget by \$5,010,100.

Total expenses in the general fund were less than budgeted by \$635,923. The positive variance in the parks department and community development department contributed to the overall positive variance. This variance is primarily due to less personnel related expenditures and capital outlay expenditures than anticipated during the year.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$150,108,459 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$8,794,266.

Significant capital asset acquisitions during the current year included the following:

- Additional road and infrastructure improvements
- New broadband fiber infrastructure

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

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$58,070,000 related to governmental activities and \$13,515,000 related to business-type activities. In 2019, the City issued Series 2019 Certificates of Obligation in the amount of \$27,115,000. The purpose of this debt issuance was to fund improvements and new construction of City buildings as well as the water and sewer system infrastructure.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Mont Belvieu continues to be one of the fastest growing cities in the Greater Houston MSA. This is led by a sizable and growing industrial oil and gas tax base, new housing starts, and retail growth. New housing starts increased 47% from 2018 to 2019 for a total of 227 permits issued. The average home value of these new starts ranges from \$300,000 to \$450,000. Mont Belvieu will have over 700 residential lots available for construction in 2020. In previous years, the City did not have a surplus of lots available for construction which limited growth. Retail developers will have 35,000 square feet of leasable space in 2020 which builds upon the 44,900 square feet of retail space that was built and leased in 2019. The combination of rooftops, retailers and industry in Mont Belvieu helps the local economy with jobs and investment and provides tremendous value to our local government operations.

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

Each year, the budget is prepared on key objectives and assumptions. The annual budget process is part of a broader long-term strategic planning process that includes at its foundation a comprehensive plan for the City and priorities established by City Council. In 2019, sales tax grew 68% or \$4 million. Sales tax provides a significant source of revenue and is primarily related to oil and gas expansions. The additional revenue offsets long-term debt and allows for cash capital for needed growth projects. Property tax revenue increased as well due to an increase in assessed value of \$338 million. The additional projected revenue allows for much needed capital improvements to mitigate the unprecedented growth in Mont Belvieu. The City continues to maintain 365 days of general fund reserves.

The City of Mont Belvieu has nearly \$47,000,000 budgeted in new capital for 2020. These projects are funded by general obligation bonds, as well as cash capital. Major highlights for 2020 are: design and construction of a 30,000 square feet City Hall, design and construction of an 8,900 square feet fire substation, design and construction of the Waste Water Treatment Plant expansion to accommodate imminent development, and 11 miles of new roadways through the City to include Perry Avenue, Langston Boulevard, FM 1409, and Grand Parkway 99.

In 2019, Moody's Investor Services upgraded the City of Mont Belvieu to a credit rating of Aa2. The Bond Series 2019 for \$27,155,000 was the City's single largest bond issuance to date and did not require an increase in taxes. Moody's reasoning for the upgrade as stated in the press release was, "strong financial position bolstered by liquidity available outside of the general fund" and "sizable, growing tax base that plays a critical role in the nation's energy infrastructure." The City anticipates issuing additional debt in 2020 for approximately \$25,000,000. Predictable growth allows for long-range financial planning, permits debt issuances to be spread over a larger tax base, and provides the ability to conservatively manage the debt service rate.

MBLink, a fiber to the home network, is the City's newest utility and a first for the State of Texas. After its first year of operations, MBLink has over 1,500 residential customers and 30 business partners. MBLink achieved a 60% penetration rate in the first 12 months of operations. MBLink's success serves as the case study for municipal broadband across the nation and is the benchmark for those to follow.

The tax rate for 2019/2020 remains at \$0.436659 per \$100 of assessed valuation, where it has been for the previous 10 years. The City's fiscally conservative principle is to budget for future maintenance, operations, and capital without a tax increase.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Calyn Wesson, Finance Director, City of Mont Belvieu, P.O. Box 1048, Mont Belvieu, Texas, 77580.

BASIC FINANCIAL STATEMENTS

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CITY OF MONT BELVIEU, TEXAS

STATEMENT OF NET POSITION

September 30, 2019

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash and equity in pooled cash	\$ 16,467,968	\$ 1,484,791	\$ -	\$ 17,952,759
Investments	66,919,676	5,294,859	-	72,214,535
Receivables, net	3,990,940	715,380	-	4,706,320
Prepaid items	91,003	-	-	91,003
Inventory	5,300	116,939	-	122,239
Internal balances	(11,757)	11,757	-	-
Total Current Assets	87,463,130	7,623,726	-	95,086,856
Capital assets:				
Nondepreciable	19,171,196	12,883,493	-	32,054,689
Net depreciable capital assets	75,465,168	42,588,602	-	118,053,770
Total Noncurrent Assets	94,636,364	55,472,095	-	150,108,459
Total Assets	182,099,494	63,095,821	-	245,195,315
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions - TMRS	1,575,144	231,696	-	1,806,840
Deferred outflows - pensions - TESRS	20,100	-	-	20,100
Deferred outflows - OPEB - TMRS	1,049	-	-	1,049
Total Deferred Outflows of Resources	1,596,293	231,696	-	1,827,989
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	2,737,152	693,557	-	3,430,709
Unearned revenue	199,719	99,742	-	299,461
Accrued interest payable	253,425	59,696	-	313,121
Total Current Liabilities	3,190,296	852,995	-	4,043,291
Noncurrent liabilities:				
Due within one year	7,010,229	613,194	-	7,623,423
Due in more than one year	60,872,297	14,312,379	-	75,184,676
Total Noncurrent Liabilities	67,882,526	14,925,573	-	82,808,099
Total Liabilities	71,072,822	15,778,568	-	86,851,390
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions - TMRS	412,753	60,203	-	472,956
Deferred inflows - OPEB - TMRS	7,654	-	-	7,654
Total Deferred Inflows of Resources	420,407	60,203	-	480,610
<u>Net Position</u>				
Net investment in capital assets	46,575,553	45,898,379	(5,507,381)	86,966,551
Restricted for:				
Debt service	578,039	-	-	578,039
Special projects	1,033,601	-	-	1,033,601
Unrestricted	64,015,365	1,590,367	5,507,381	71,113,113
Total Net Position	\$ 112,202,558	\$ 47,488,746	\$ -	\$ 159,691,304

See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 11,636,234	\$ -	\$ -	\$ 2,589,088
Public safety	6,396,228	1,224,247	-	-
Community development	3,208,703	468,489	-	-
Community services	2,419,148	-	5,788	-
Interest and fees on debt	1,563,552	-	-	-
Total Governmental Activities	25,223,865	1,692,736	5,788	2,589,088
Business-Type Activities				
Golf course	2,462,188	1,419,941	-	-
Recreation center	3,283,768	2,096,672	-	-
Public utilities	4,606,234	2,016,181	-	2,656,503
High speed internet	3,763,719	946,754	-	2,482,049
Beverage corporation	80,926	91,285	-	-
Solid waste	662,359	619,547	-	620,713
Total Business-Type Activities	14,859,194	7,190,380	-	5,759,265
Total Primary Government	\$ 40,083,059	\$ 8,883,116	\$ 5,788	\$ 8,348,353

General Revenues:

- Taxes
 - Ad valorem taxes
 - Sales taxes
 - Franchise fees and local taxes
 - Other taxes
- Investment income
- Other revenues
- Gain on sale of capital assets
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (9,047,146)	\$ -	\$ (9,047,146)
(5,171,981)	-	(5,171,981)
(2,740,214)	-	(2,740,214)
(2,413,360)	-	(2,413,360)
(1,563,552)	-	(1,563,552)
<u>(20,936,253)</u>	<u>-</u>	<u>(20,936,253)</u>
-	(1,042,247)	(1,042,247)
-	(1,187,096)	(1,187,096)
-	66,450	66,450
-	(334,916)	(334,916)
-	10,359	10,359
-	577,901	577,901
-	<u>(1,909,549)</u>	<u>(1,909,549)</u>
<u>(20,936,253)</u>	<u>(1,909,549)</u>	<u>(22,845,802)</u>
16,346,302	-	16,346,302
10,583,478	-	10,583,478
5,500,799	-	5,500,799
181,905	-	181,905
1,174,914	164,949	1,339,863
8,707,177	-	8,707,177
654,182	4,500	658,682
<u>(2,330,146)</u>	<u>2,330,146</u>	<u>-</u>
<u>40,818,611</u>	<u>2,499,595</u>	<u>43,318,206</u>
19,882,358	590,046	20,472,404
92,320,200	46,898,700	139,218,900
<u>\$ 112,202,558</u>	<u>\$ 47,488,746</u>	<u>\$ 159,691,304</u>

CITY OF MONT BELVIEU, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2019

	General	Debt Service	Capital Projects - CIP	Capital Projects
Assets				
Cash and equity in pooled cash	\$ 2,086,861	\$ 230,081	\$ 5,752,078	\$ 363,988
Investments	15,432,430	361,116	8,122,700	9,179,217
Receivables, net	3,650,027	24,405	274,076	-
Inventory	5,300	-	-	-
Prepaid items	30,405	-	60,598	-
Total Assets	\$ 21,205,023	\$ 615,602	\$ 14,209,452	\$ 9,543,205
Liabilities				
Accounts payable and accrued liabilities	\$ 1,236,982	\$ 1,401	\$ 478,690	\$ 627,051
Due to other funds	-	11,757	-	-
Unearned revenue	179,719	-	-	-
Total Liabilities	1,416,701	13,158	478,690	627,051
Deferred Inflows of Resources				
Unavailable revenue - property taxes	18,962	24,405	-	-
Unavailable revenue - EMS services	1,282,554	-	-	-
Total Deferred Inflows of Resources	1,301,516	24,405	-	-
Fund Balances				
Nonspendable:				
Inventory	5,300	-	-	-
Prepaid items	30,405	-	60,598	-
Restricted for:				
Debt service	-	578,039	-	-
Special projects	-	-	-	-
Capital projects	-	-	-	8,916,154
Assigned:				
Eagle Pointe golf club	-	-	-	-
Eagle Pointe rec center	-	-	-	-
City park	-	-	-	-
Capital projects	-	-	13,670,164	-
Unassigned	18,451,101	-	-	-
Total Fund Balances	18,486,806	578,039	13,730,762	8,916,154
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 21,205,023	\$ 615,602	\$ 14,209,452	\$ 9,543,205

See Notes to Financial Statements.

Fixed Asset Replacement	2019 Construction	Nonmajor Governmental	Total Governmental Funds
\$ 5,725,051	\$ 283,705	\$ 2,026,204	\$ 16,467,968
4,061,350	28,099,467	1,663,396	66,919,676
-	-	42,432	3,990,940
-	-	-	5,300
-	-	-	91,003
<u>\$ 9,786,401</u>	<u>\$ 28,383,172</u>	<u>\$ 3,732,032</u>	<u>\$ 87,474,887</u>
\$ 152,996	\$ 185,665	\$ 54,367	\$ 2,737,152
-	-	-	11,757
-	-	20,000	199,719
<u>152,996</u>	<u>185,665</u>	<u>74,367</u>	<u>2,948,628</u>
-	-	-	43,367
-	-	-	1,282,554
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,325,921</u>
-	-	-	5,300
-	-	-	91,003
-	-	-	578,039
-	-	1,033,601	1,033,601
-	28,197,507	-	37,113,661
1,750,000	-	-	1,750,000
1,750,000	-	-	1,750,000
750,000	-	-	750,000
-	-	2,624,064	16,294,228
5,383,405	-	-	23,834,506
<u>9,633,405</u>	<u>28,197,507</u>	<u>3,657,665</u>	<u>83,200,338</u>
<u>\$ 9,786,401</u>	<u>\$ 28,383,172</u>	<u>\$ 3,732,032</u>	<u>\$ 87,474,887</u>

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CITY OF MONT BELVIEU, TEXAS
RECONCILIATION OF THE GOVERNMENTAL
FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
September 30, 2019

Total fund balances - governmental funds \$ 83,200,338

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Capital assets, nondepreciable	19,171,196
Capital assets, net depreciable	75,465,168

Long-term liabilities and deferred outflows/inflows related to the net pension and OPEB liabilities are deferred in the governmental funds.

Net pension liability	(4,702,083)
Net OPEB liability	(155,650)
Deferred outflows - pensions	1,595,244
Deferred outflows - OPEB	1,049
Deferred inflows - pensions	(412,753)
Deferred inflows - OPEB	(7,654)

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

1,325,921

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	(253,425)
Noncurrent liabilities due in one year	(7,010,229)
Noncurrent liabilities due in more than one year	(56,014,564)

Net Position of Governmental Activities	<u>\$ 112,202,558</u>
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See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

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

For the Year Ended September 30, 2019

	General	Debt Service	Capital Projects-CIP	Capital Projects
Revenues				
Ad valorem taxes	\$ 7,437,551	\$ 8,906,466	\$ -	\$ -
Sales tax	10,541,165	-	-	-
Franchise fees and local taxes	5,500,799	-	-	-
Other taxes	16,651	-	-	-
Licenses and permits	468,489	-	-	-
Fines and forfeitures	228,970	-	-	-
Charges for services	986,165	-	-	-
Intergovernmental	-	-	-	-
Investment income	401,662	103,060	159,672	275,176
Contribution revenue	-	-	-	592,077
Other revenue	6,291,436	-	486,495	-
Total Revenues	31,872,888	9,009,526	646,167	867,253
Expenditures				
Current:				
General government	3,144,458	-	-	331,533
Public safety	4,953,902	-	-	-
Community development	1,683,452	-	154,434	-
Community services	1,982,042	-	-	-
Capital outlay	-	-	4,292,723	6,347,651
Debt service:				
Principal	-	7,535,000	-	-
Interest and fiscal charges	-	1,319,324	-	-
Total Expenditures	11,763,854	8,854,324	4,447,157	6,679,184
Excess (Deficiency) of Revenues Over (Under) Expenditures	20,109,034	155,202	(3,800,990)	(5,811,931)
Other Financing Sources (Uses)				
Bonds issued	-	-	-	-
Bond premium	-	-	-	-
Transfers in	-	-	7,550,000	-
Transfers (out)	(17,880,146)	-	(364,225)	-
Sale of capital assets	-	-	883,440	-
Total Other Financing Sources (Uses)	(17,880,146)	-	8,069,215	-
Net Change in Fund Balances	2,228,888	155,202	4,268,225	(5,811,931)
Beginning fund balances	16,257,918	422,837	9,462,537	14,728,085
Ending Fund Balances	\$ 18,486,806	\$ 578,039	\$ 13,730,762	\$ 8,916,154

See Notes to Financial Statements.

<u>Fixed Asset Replacement</u>	<u>2019 Construction</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 16,344,017
-	-	-	10,541,165
-	-	-	5,500,799
-	-	165,254	181,905
-	-	-	468,489
-	-	9,112	238,082
-	-	-	986,165
-	-	5,788	5,788
78,597	100,142	56,605	1,174,914
-	-	-	592,077
7,421	-	1,271,128	8,056,480
<u>86,018</u>	<u>100,142</u>	<u>1,507,887</u>	<u>44,089,881</u>
-	-	370,016	3,846,007
-	-	15,131	4,969,033
-	-	-	1,837,886
-	-	168,680	2,150,722
2,036,257	653,241	1,000,402	14,330,274
-	-	-	7,535,000
-	424,784	-	1,744,108
<u>2,036,257</u>	<u>1,078,025</u>	<u>1,554,229</u>	<u>36,413,030</u>
<u>(1,950,239)</u>	<u>(977,883)</u>	<u>(46,342)</u>	<u>7,676,851</u>
-	27,155,000	-	27,155,000
-	2,020,390	-	2,020,390
8,072,677	-	364,226	15,986,903
-	-	(72,678)	(18,317,049)
-	-	-	883,440
<u>8,072,677</u>	<u>29,175,390</u>	<u>291,548</u>	<u>27,728,684</u>
6,122,438	28,197,507	245,206	35,405,535
3,510,967	-	3,412,459	47,794,803
<u>\$ 9,633,405</u>	<u>\$ 28,197,507</u>	<u>\$ 3,657,665</u>	<u>\$ 83,200,338</u>

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CITY OF MONT BELVIEU, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

Net change in fund balances - governmental funds \$ 35,405,535

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	7,699,507
Developer contribution	2,589,088
Depreciation expense	(3,941,841)
Disposal of capital assets	(229,258)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred ad valorem tax revenue	2,285
Deferred emergency services revenue	58,620

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

Bond premium, net	(1,750,856)
Proceeds from notes payable	(27,155,000)
Principal expenditures	7,535,000
Accrued interest payable	(88,978)
Sales tax refund agreement	42,313
Compensated absences	(113,701)
Deferred outflows - pensions	1,233,511
Deferred inflows - pensions	(224,319)
Deferred outflows - OPEB	232
Deferred inflows - OPEB	(19,512)
Net pension liability	(1,167,251)
Net OPEB liability	6,983

Change in Net Position of Governmental Activities **\$ 19,882,358**

See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2019

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	High Speed Internet
Assets				
Current assets:				
Cash and equity in pooled cash	\$ 473,592	\$ 1,038	\$ 701,962	\$ 112,243
Investments	-	-	2,030,675	3,264,184
Receivables, net	40,339	25,674	327,899	194,401
Due from other funds	4,316	-	-	11,757
Inventory	99,848	11,510	2,866	-
Total Current Assets	618,095	38,222	3,063,402	3,582,585
Noncurrent assets:				
Capital assets:				
Nondepreciable	2,018,248	45,629	1,153,071	9,666,545
Net depreciable	2,215,267	4,496,153	34,673,615	135,878
Total Noncurrent Assets	4,233,515	4,541,782	35,826,686	9,802,423
Total Assets	4,851,610	4,580,004	38,890,088	13,385,008
Deferred Outflows of Resources:				
Deferred outflows - pensions	-	-	231,696	-
Total Deferred Outflows of Resources	-	-	231,696	-
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	59,817	67,968	283,130	276,089
Compensated absences	-	-	78,194	-
Due to other funds	5,522	-	-	-
Unearned revenue	27,888	71,854	-	-
Bonds payable within one year	-	-	-	535,000
Total Current Liabilities	93,227	139,822	361,324	811,089
Noncurrent liabilities:				
Compensated absences	-	-	8,688	-
Net pension liability	-	-	665,106	-
Capital leases payable	-	-	-	-
Bonds payable, net	-	-	-	13,638,585
Total Liabilities	93,227	139,822	1,035,118	14,449,674
Deferred Inflows of Resources:				
Deferred inflows - pensions	-	-	60,203	-
Total Deferred Inflows of Resources	-	-	60,203	-
Net Position				
Net investment in capital assets	4,233,515	4,541,782	35,826,686	228,707
Unrestricted	524,868	(101,600)	2,199,777	(1,293,373)
Total Net Position	\$ 4,758,383	\$ 4,440,182	\$ 38,026,463	\$ (1,064,666)

See Notes to Financial Statements.

Business-Type Activities - Enterprise Funds

<u>Solid Waste</u>	<u>Nonmajor Fund Bev Co</u>	<u>Total Funds</u>
\$ 31,535	\$ 164,421	\$ 1,484,791
-	-	5,294,859
127,067	-	715,380
-	5,522	21,595
-	2,715	116,939
<u>158,602</u>	<u>172,658</u>	<u>7,633,564</u>
-	-	12,883,493
<u>1,067,689</u>	<u>-</u>	<u>42,588,602</u>
<u>1,067,689</u>	<u>-</u>	<u>55,472,095</u>
<u>1,226,291</u>	<u>172,658</u>	<u>63,105,659</u>
-	-	231,696
<u>-</u>	<u>-</u>	<u>231,696</u>
65,387	862	753,253
-	-	78,194
-	4,316	9,838
-	-	99,742
-	-	535,000
<u>65,387</u>	<u>5,178</u>	<u>1,476,027</u>
-	-	8,688
-	-	665,106
-	-	-
-	-	13,638,585
<u>65,387</u>	<u>5,178</u>	<u>15,788,406</u>
-	-	60,203
<u>-</u>	<u>-</u>	<u>60,203</u>
1,067,689	-	45,898,379
<u>93,215</u>	<u>167,480</u>	<u>1,590,367</u>
<u>\$ 1,160,904</u>	<u>\$ 167,480</u>	<u>\$ 47,488,746</u>

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	High Speed Internet
<u>Operating Revenues</u>				
Water charges	\$ -	\$ -	\$ 1,050,592	\$ -
Sewer charges	-	-	708,664	-
Sanitation	-	-	-	-
Other services	1,419,941	2,096,672	256,925	946,754
Total Operating Revenues	1,419,941	2,096,672	2,016,181	946,754
<u>Operating Expenses</u>				
Personnel	1,026,888	1,319,086	1,342,973	863,324
Costs of sales and services	1,049,648	1,125,184	1,272,541	2,562,334
Depreciation	385,652	839,498	1,990,720	16,556
Total Operating Expenses	2,462,188	3,283,768	4,606,234	3,442,214
Operating Income (Loss)	(1,042,247)	(1,187,096)	(2,590,053)	(2,495,460)
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	2,165	-	36,704	126,080
Interest and fiscal charges	-	-	-	(321,505)
Gain on sale of capital assets	-	-	4,500	-
Total Nonoperating Revenues (Expenses)	2,165	-	41,204	(195,425)
Income (Loss) Before Contributions and Transfers	(1,040,082)	(1,187,096)	(2,548,849)	(2,690,885)
<u>Contributions and Transfers</u>				
Capital contributions	-	-	2,656,503	2,482,049
Transfers in	830,586	676,560	823,000	-
Change in Net Position	(209,496)	(510,536)	930,654	(208,836)
Beginning net position	4,967,879	4,950,718	37,095,809	(855,830)
Ending Net Position	\$ 4,758,383	\$ 4,440,182	\$ 38,026,463	\$ (1,064,666)

See Notes to Financial Statements.

Business-Type Activities - Enterprise Funds

<u>Solid Waste</u>	<u>Nonmajor Funds Bev Co</u>	<u>Total Funds</u>
\$ -	\$ -	\$ 1,050,592
-	-	708,664
619,547	-	619,547
-	91,285	4,811,577
<u>619,547</u>	<u>91,285</u>	<u>7,190,380</u>
323,888	-	4,876,159
202,444	80,926	6,293,077
136,027	-	3,368,453
<u>662,359</u>	<u>80,926</u>	<u>14,537,689</u>
<u>(42,812)</u>	<u>10,359</u>	<u>(7,347,309)</u>
-	-	164,949
-	-	(321,505)
-	-	4,500
<u>-</u>	<u>-</u>	<u>(152,056)</u>
(42,812)	10,359	(7,499,365)
620,713	-	5,759,265
-	-	2,330,146
<u>577,901</u>	<u>10,359</u>	<u>590,046</u>
583,003	157,121	46,898,700
<u>\$ 1,160,904</u>	<u>\$ 167,480</u>	<u>\$ 47,488,746</u>

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2019

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	High Speed Internet
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,398,276	\$ 2,042,278	\$ 2,132,691	\$ 796,830
Payments to employees	(1,026,888)	(1,319,086)	(1,328,149)	(863,324)
Payments to suppliers	(1,001,623)	(1,257,922)	(1,222,216)	(3,120,346)
Net Cash Provided (Used) by Operating Activities	(630,235)	(534,730)	(417,674)	(3,186,840)
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers from other funds	830,586	676,560	823,000	-
Net Cash Provided by Noncapital Financing Activities	830,586	676,560	823,000	-
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(140,665)	(140,792)	-	-
Interest and fiscal charges	-	-	-	(321,505)
Net Cash (Used) by Capital and Related Financing Activities	(140,665)	(140,792)	-	(321,505)
<u>Cash Flows from Investing Activities</u>				
Sale of investments	-	-	(2,030,675)	-
Purchase of investments	-	-	-	(3,261,064)
Interest on investments	2,165	-	36,704	126,080
Net Cash Provided (Used) by Investing Activities	2,165	-	(1,993,971)	(3,134,984)
Net Increase (Decrease) in Cash and Equity in Pooled Cash	61,851	1,038	(1,588,645)	(6,643,329)
Beginning cash and equity in pooled cash	411,741	-	2,290,607	6,755,572
Ending Cash and Equity in Pooled Cash	\$ 473,592	\$ 1,038	\$ 701,962	\$ 112,243

Business-Type Activities - Enterprise Funds

Solid Waste	Nonmajor Fund Bev Co	Total Funds
\$ 492,480	\$ 87,583	\$ 6,950,138
(323,888)	-	(4,861,335)
(137,057)	(78,105)	(6,817,269)
31,535	9,478	(4,728,466)
-	-	2,330,146
-	-	2,330,146
-	-	(281,457)
-	-	(321,505)
-	-	(602,962)
-	-	(2,030,675)
-	-	(3,261,064)
-	-	164,949
-	-	(5,126,790)
31,535	9,478	(8,128,072)
-	154,943	9,612,863
\$ 31,535	\$ 164,421	\$ 1,484,791

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2019

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	High Speed Internet
Reconciliation of Operating Income (Loss)				
To Net Cash Provided (Used) by				
Operating Activities				
Operating income (loss)	\$ (1,042,247)	\$ (1,187,096)	\$ (2,590,053)	\$ (2,495,460)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	385,652	839,498	1,990,720	16,556
Changes in Operating				
Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(22,286)	558,449	116,510	(149,924)
Deferred outflows - pensions	-	-	(127,704)	-
Due from other funds	(2,754)	-	-	-
Inventory	24,095	5,123	1,026	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	20,228	2,928	49,299	(521,339)
Bonds payable	-	-	-	(36,673)
Deferred inflows - pensions	-	-	(25,257)	-
Net pension liability	-	-	167,785	-
Due to other funds	3,702	(140,789)	-	-
Deferred revenue	3,375	(612,843)	-	-
Net Cash Provided (Used)				
by Operating Activities	\$ (630,235)	\$ (534,730)	\$ (417,674)	\$ (3,186,840)
 Noncash Investing, Capital, and Financing				
Activities:				
Contributions of capital assets from governmental funds/developers	\$ -	\$ -	\$ 2,656,503	\$ 2,482,049

See Notes to Financial Statements.

Business-Type Activities - Enterprise Funds

Solid Waste	Nonmajor Fund Bev Co	Total Funds
\$ (42,812)	\$ 10,359	\$ (7,347,309)
136,027	-	3,368,453
(127,067)	-	375,682
-	-	(127,704)
-	(3,702)	(6,456)
-	(326)	29,918
65,387	393	(383,104)
-	-	(36,673)
-	-	(25,257)
-	-	167,785
-	2,754	(134,333)
-	-	(609,468)
<u>\$ 31,535</u>	<u>\$ 9,478</u>	<u>\$ (4,728,466)</u>
<u>\$ 620,713</u>	<u>\$ -</u>	<u>\$ 5,759,265</u>

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CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Mont Belvieu, Texas (the “City”) was incorporated as a “Home Rule Charter” on November 11, 2013. The City has a “Council-Manager” form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police, fire, and emergency medical services; parks; sanitation, water, and sewer services; recreation; public improvements; planning and zoning; general administration; high speed internet; and solid waste.

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

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

Blended Component Unit

Beverage Corporation

The Beverage Corporation (“Bev Co”) is a legally separate entity from the City but is so closely related to the City that it is, in essence, an extension of the City. This entity is considered a blended component unit for reporting purposes. The financial data of this unit is combined with that of the City as an enterprise fund as Bev Co since the unit is, in substance, part of the City’s operations.

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

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly included in other funds. The principal sources of revenue include local property taxes, sales taxes and franchise fees, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, community development, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects funds* are used to account for the expenditures of resources accumulated from the issuance of debt and related interest earnings as well as other monies assigned for capital improvement projects. The capital projects-CIP fund, capital projects fund, fixed asset replacement fund, and 2019 construction fund are considered major funds for reporting purposes.

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

The City reports the following enterprise funds:

The *enterprise funds* are used to account for the operations that provide beverage services, water and wastewater services, sanitation services, high speed internet services, solid waste, as well as operations of the Eagle Pointe golf course and recreation center. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The golf course, recreation center, public utility, and high-speed internet enterprise funds are considered major funds for reporting purposes.

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Cash and Cash Equivalents

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

The City maintains pooled cash accounts. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash."

2. Investments

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

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

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

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

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflecting costs applicable to a future accounting period 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.

4. Capital Assets

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

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	2 to 15 years
Furniture and equipment	5 to 20 years
Infrastructure	25 to 30 years
Water and sewer system	3 to 40 years
Buildings and improvements	5 to 40 years

5. Deferred Outflows/Inflows of Resources

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

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

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.

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

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the general fund. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

7. Long-Term Obligations

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

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

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

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

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

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

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

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

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported

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

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. Pensions

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

13. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 20 percent is added in July for attorney costs. There are no discounts allowed on taxes.

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

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital project funds, which adopt project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. The City Administrator may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made during the year.

B. Deficit Net Position

As of September 30, 2019, the high speed internet fund ended the year with a deficit net position of \$1,064,666. The reason for the deficit was related to additional infrastructure costs, as well as start-up costs for the first full year of operation of the fund. The City expects the deficit to be cleared in the next fiscal year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 2,809,982	0.09
TexSTAR	7,512	0.25
Money market	65,888,941	0.00
Certificates of deposit	2,209,895	0.31
U.S. Government agency bonds	1,298,205	0.64
Total Fair Value	<u><u>\$ 72,214,535</u></u>	
Portfolio weighted average maturity		0.28

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

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value establishing a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

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.

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of September 30, 2019, the City had the following recurring fair value measurements:

	<u>September 30, 2019</u>	<u>Fair Value Measurements Significant Other Observable Inputs (Level 2)</u>
<u>Investments by Fair Value Level</u>		
U.S. Government Agency Bonds/Notes		
Federal Home Loan Bank	\$ 998,561	\$ 998,561
Federal Home Loan Mortgage Corporation	299,643	299,643
Certificates of deposit	2,209,895	2,209,895
Total	<u>\$ 3,508,099</u>	<u>\$ 3,508,099</u>

U. S. Government Agency bonds and notes and, and certificates of deposits classified in Level 2 of the fair value hierarchy are valued using the market approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities.

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

Credit risk. State law and the City’s investment policy limits investments to 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. Further, commercial paper must be rated not less than “A-1” or “P-1” or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2019, the City’s investments in TexPool and TexSTAR were rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Concentration of credit risk. The City’s investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio’s total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2019, market values of pledged securities and FDIC coverage exceeded bank balances.

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

TexPool

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

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

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

TexSTAR

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is 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 TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

B. Receivables

The following comprises receivable balances at year end for governmental activities:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects - CIP</u>	<u>Nonmajor Governmental</u>	<u>Total Funds</u>
Ad valorem taxes	\$ 18,962	\$ 24,405	\$ -	\$ -	\$ 43,367
Other taxes	2,327,306	-	-	42,432	2,369,738
Accounts	1,282,554	-	-	-	1,282,554
Other	21,205	-	274,076	-	295,281
Total	<u>\$ 3,650,027</u>	<u>\$ 24,405</u>	<u>\$ 274,076</u>	<u>\$ 42,432</u>	<u>\$ 3,990,940</u>

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

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 10,851,023	\$ 71,158	\$ (198,580)	\$ 10,723,601
Construction in progress	11,378,021	5,615,620	(8,546,046)	8,447,595
Total capital assets, not being depreciated	22,229,044	5,686,778	(8,744,626)	19,171,196
Capital assets, being depreciated:				
Buildings	9,151,815	4,666,958	-	13,818,773
Improvements other than buildings	76,586,601	7,758,164	-	84,344,765
Machinery and equipment	5,106,327	722,741	(135,713)	5,693,355
Total capital assets being depreciated	90,844,743	13,147,863	(135,713)	103,856,893
Less accumulated depreciation for:				
Buildings	(5,580,980)	(511,400)	-	(6,092,380)
Improvements other than buildings	(15,568,895)	(2,998,304)	-	(18,567,199)
Machinery and equipment	(3,405,044)	(432,137)	105,035	(3,732,146)
Total accumulated depreciation	(24,554,919)	(3,941,841)	105,035	(28,391,725)
Total capital assets being depreciated, net	66,289,824	9,206,022	(30,678)	75,465,168
Governmental Activities Capital Assets, Net	\$ 88,518,868	\$ 14,892,800	\$ (8,775,304)	94,636,364
			Less associated debt	(56,976,965)
			Plus unspent proceeds	8,916,154
			Net Investment in Capital Assets	\$ 46,575,553

Depreciation was charged to governmental functions as follows:

General government	\$ 906,965
Public safety	1,352,844
Community development	1,417,299
Community services	264,733
Total Governmental Activities Depreciation Expense	\$ 3,941,841

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

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2019:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 509,147	\$ -	\$ -	\$ 509,147
Golf course	2,018,248	-	-	2,018,248
Construction in progress	7,480,937	3,318,983	(443,822)	10,356,098
Total capital assets, not being depreciated	<u>10,008,332</u>	<u>3,318,983</u>	<u>(443,822)</u>	<u>12,883,493</u>
Capital assets, being depreciated:				
Buildings	19,064,363	197,270	-	19,261,633
Improvements other than buildings	57,368,699	1,511,710	(87,798)	58,792,611
Machinery and equipment	7,355,977	1,461,082	(374,319)	8,442,740
Total capital assets being depreciated	<u>83,789,039</u>	<u>3,170,062</u>	<u>(462,117)</u>	<u>86,496,984</u>
Less accumulated depreciation for:				
Buildings	(12,375,277)	(847,756)	-	(13,223,033)
Improvements other than buildings	(23,916,613)	(1,903,265)	87,798	(25,732,080)
Machinery and equipment	(4,710,156)	(617,432)	374,319	(4,953,269)
Total accumulated depreciation	<u>(41,002,046)</u>	<u>(3,368,453)</u>	<u>462,117</u>	<u>(43,908,382)</u>
Total capital assets being depreciated, net	42,786,993	(198,391)	-	42,588,602
Business-Type Activities Capital Assets, Net	<u>\$ 52,795,325</u>	<u>\$ 3,120,592</u>	<u>\$ (443,822)</u>	<u>\$ 55,472,095</u>

Depreciation was charged to business-type functions as follows:

Golf course	\$ 385,652
Recreation center	839,498
Public utilities	1,990,720
High speed internet	16,556
Solid waste	136,027
Total Business-Type Activities Depreciation Expense	<u>\$ 3,368,453</u>

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

D. Long-Term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds, notes, and other payables:					
General obligation bonds	\$ 2,835,000	\$ -	\$ (1,385,000)	\$ 1,450,000	\$ 1,450,000
Certificates of obligation	35,615,000	27,155,000	(6,150,000)	56,620,000	5,260,000
Bond premium	2,663,490	2,020,390	(269,534)	4,414,346	-
Tax refund agreements	296,187	-	(42,313)	253,874	42,313
Other liabilities:					
Net pension liability - TMRS	3,459,707	1,146,129	-	4,605,836	-
Net pension liability - TESRS	75,125	21,122	-	96,247	-
Net OPEB liability - TMRS	162,633	-	(6,983)	155,650	-
Compensated absences	172,872	269,286	(155,585)	286,573	257,916
Total Governmental Activities	<u>\$ 45,280,014</u>	<u>\$ 30,611,927</u>	<u>\$ (8,009,415)</u>	<u>\$ 67,882,526</u>	<u>\$ 7,010,229</u>

Long-term liabilities due in more than one year \$ 60,872,297

Debt associated with governmental capital assets \$ 56,976,965

Debt associated with business-type capital assets \$ 5,507,381

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds, notes, and other payables:					
Certificates of obligation	\$ 13,515,000	\$ -	\$ -	\$ 13,515,000	\$ 535,000
Bond premium	695,258	-	(36,673)	658,585	-
Other liabilities:					
Compensated absences	30,146	83,867	(27,131)	86,882	78,194
Net pension liability - TMRS	497,321	167,785	-	665,106	-
Total Business-Type Activities	<u>\$ 14,737,725</u>	<u>\$ 251,652</u>	<u>\$ (63,804)</u>	<u>\$ 14,925,573</u>	<u>\$ 613,194</u>

Long-term liabilities due in more than one year \$ 14,312,379

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

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

General obligation bonds and certificates of obligation at year end were comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Series 2010	2.00-3.00%	\$ 1,450,000
Total General Obligation Debt		1,450,000
 Certificates of Obligation		
Series 2014	1.50-3.00%	7,040,000
Series 2015	2.50-4.00%	7,670,000
Series 2016	2.00-4.00%	9,015,000
Series 2017A	3.00-5.00%	5,740,000
Series 2019	3.00-5.00%	27,155,000
Total Certificates of Obligation		56,620,000
Total Governmental Activities Debt		\$ 58,070,000
 Business-Type Activities		
Certificates of obligation		
2017 Series	4.00%	\$ 13,515,000
Total Certificates of Obligation		13,515,000
Total Business-Type Activities Debt		\$ 13,515,000

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

Year Ending Sept. 30	Governmental Activities				Tax Refund Agreements	Business-Type Activities	
	General Obligation Bonds		Certificates of Obligation			Certificates of Obligation	
	Principal	Interest	Principal	Interest		Principal	Interest
2020	\$ 1,450,000	\$ 43,500	\$ 5,260,000	\$ 1,958,404	\$ 42,313	\$ 535,000	\$ 477,569
2021	-	-	5,455,000	1,757,912	42,313	550,000	461,519
2022	-	-	5,640,000	1,574,975	42,313	570,000	445,019
2023	-	-	5,830,000	1,384,213	42,313	595,000	416,519
2024	-	-	6,010,000	1,176,338	42,313	625,000	386,769
2025-2029	-	-	12,395,000	3,728,813	42,309	3,590,000	1,476,244
2030-2034	-	-	7,405,000	2,017,850	-	4,200,000	858,513
2035-2039	-	-	8,625,000	791,249	-	2,850,000	187,200
Total	\$ 1,450,000	\$ 43,500	\$ 56,620,000	\$ 14,389,754	\$ 253,874	\$ 13,515,000	\$ 4,709,352

The City is not obligated in any manner for special assessment debt.

Obligations to State – Tax Refund Agreement

During 2004 and 2006, the Texas State Comptroller of Public Accounts notified the City that the State had remitted additional sales tax receipts to the City that were not collected within the City limits. During 2009, the City was notified that it had been overpaid by an additional \$186,965. The terms of the settlement require the City to repay the State in non-interest installments of \$3,527 being withheld from the sales tax remittance each month from the Texas State Comptroller of Public Accounts through November 2025.

The balance due as of year end was \$253,874.

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

Federal Arbitrage

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

E. Interfund Transactions

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General	Golf course	830,586
General	Capital projects - CIP	7,550,000
General	Recreation center	676,560
General	Public utility	823,000
General	Fixed asset replacement	8,000,000
Capital projects - CIP	Nonmajor	364,225
Nonmajor	Fixed asset replacement	72,678
	Total Transfers	<u><u>\$ 18,317,049</u></u>

Amounts transferred between funds are related to amounts transferred to fund the purchase of assets and capital improvement projects and various government expenditures.

The composition of interfund balances as of year end was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Golf course	Beverage corporation	4,316
High speed internet	Debt service	11,757
Beverage corporation	Golf course	5,522
	Total Interfund Balances	<u><u>\$ 21,595</u></u>

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following year.

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

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

C. Tax Abatements

1. Chapter 380 Economic Development Agreements

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

Property Tax

The City has entered into property tax abatement agreements (the "Agreements") with several developers (the "Developers") as authorized by Chapter 380 of the Texas Local Government Code.

Under each Agreement, the Developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their property taxes abated. The minimum limitation value varies by Agreement.

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

The following summarizes the current Agreements:

- Each Agreement with, the exception of Lone Star NGL, abates 100% of taxes while the Lone Star Agreement abates 75% of taxes. Each Agreement base term is for 10 years and requires a payment in lieu of taxes calculated on an Agreement by agreement basis.
- Each Agreement retains a contingency that terms and payments may change if assessed values vary +/- 5%, and Agreements will be reevaluated at that time.

A summary of the Agreements the City is entered into can be found below:

<u>Company</u>	<u>Payment in Lieu of Taxes</u>	<u>Approximate Tax Value Abated</u>	<u>Approximate Tax Abated</u>
Oneok Hydrocarbon	\$ 927,500	\$ 118,121,191	\$ 515,787
Enterprise Products Operating	484,375	178,010,638	777,299
Exxon Mobil	1,800,000	503,350,000	2,197,923
Cedar Bayou Fractionators	425,785	63,721,581	278,246
Lone Star NGL	441,268	66,038,731	288,364
Targa	2,058,500	-	-
Total	<u>\$ 6,137,428</u>	<u>\$ 929,242,141</u>	<u>\$ 4,057,619</u>

Sales Tax

The City has entered into sales tax abatement agreements (the “Agreements”) with several developers (the “Developers”) as authorized by Chapter 380 of the Texas Local Government Code.

Under each Agreement, the Developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their sales tax abated. The minimum limitation value varies by Agreement. Each Agreement provides for the recapture in the event of material breach. The following summarizes the current Agreements:

- Each Agreement, with the exception of MB Retail Associates, requires the City to abate 50% of sales taxes collected throughout the year, while the MB Retail Associates Agreement requires 100% of sales tax to be abated. The City returns each of these amounts in a lump sum payment at the end of the year, with the exception of the MB Retail Associates Agreement which requires quarterly returns of sales tax collections.
- All 50% tax abatements are calculated net of the stated benchmark for collections. This benchmark varies per agreement.

Below is a summary of the taxes abated and payments made by the City:

<u>Company</u>	<u>Total Sales Tax Collected in Fiscal</u>	<u>Sales Tax Rebate</u>
Exxon Mobil	\$ 864,233	\$ 364,112
Cedar Bayou	323,672	124,827
Targa Downstream	1,425,381	607,691
MB Retail Associates	271,199	271,199
Total	<u>\$ 2,884,485</u>	<u>\$ 1,367,829</u>

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

D. Pension Plans

1. Texas Municipal Retirement System

Plan Description

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

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

Benefits Provided

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

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

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

	<u>2019</u>	<u>2018</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	31	
Inactive employees entitled to, but not yet receiving, benefits	29	
Active employees	96	
Total	156	

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.04 percent and 15.84 percent in calendar years 2018 and 2019, respectively. The City’s contributions to TMRS for the fiscal year ended September 30, 2019 were \$915,831, which were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

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

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

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

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

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

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

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

Discount Rate

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

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

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 995,765	\$ -	\$ 995,765
Interest	1,467,028	-	1,467,028
Difference between expected and actual experience	(377,042)	-	(377,042)
Contributions - employer		915,831	(915,831)
Contributions - employee	-	399,676	(399,676)
Net investment income	-	(532,845)	532,845
Benefit payments, including refunds of employee contributions	(983,970)	(983,970)	-
Administrative expense	-	(10,288)	10,288
Other changes	-	(537)	537
Net Changes	1,101,781	(212,133)	1,313,914
Balance at December 31, 2017	21,727,851	17,770,823	3,957,028
Balance at December 31, 2018	\$ 22,829,632	\$ 17,558,690	\$ 5,270,942

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 8,689,320	\$ 5,270,942	\$ 2,491,779

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$1,229,534.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 18,128	\$ 472,956
Changes in actuarial assumptions	38,373	-
Difference between projected and actual investment earnings	919,638	-
Contributions subsequent to the measurement date	830,701	-
Total	\$ 1,806,840	\$ 472,956

\$830,701 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense
2020	\$ 246,130
2021	14,525
2022	28,330
2023	265,641
2024	(51,443)
Total	\$ 503,183

2. Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) and established and administered by the State of Texas (the "State") to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2018, there were 237 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2018, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,649
Terminated Members Entitled to Benefits but Not Yet Receiving Them	1,842
Active Participants (Vested and Nonvested)	3,702

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

Pension Plan Fiduciary Net Position

Detailed information about TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and Required Supplementary Information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations that may be of interest are also available at the same link.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the "Board") authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50 percent vested after the tenth year of service, with the vesting percentage increasing ten percent for each of the next five years of service so that a member becomes 100 percent vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit increases.

On - and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of TESRS, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the TESRS contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make TESRS "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percentage of the Part One portion (not to exceed 15 percent), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial

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

valuation as of August 31, 2018, the Part Two contributions were established by the Board to be two percent, if the Part One contributions beginning September 1, 2019.

Additional contributions may be made by governing bodies within two years of joining TESRS to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in TESRS.

A small subset of participating departments has a different contribution arrangement that is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into TESRS. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by TESRS.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2018, total contributions (dues, prior service, and interest on prior service financing) of \$19,196 were paid by the City. The State appropriated \$1,329,219 for the fiscal year ending August 31, 2018 to the plan as a whole.

Actuarial Assumptions

The TPL in the August 31, 2086 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2018
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases	N/A
*Includes Inflation At	3.00%
Cost-of-Living Adjustments	None

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

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75 percent assumption reflected a reduction of 0.22 percent for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32%	5.81%
Small cap domestic	15	5.96%
Developed international	15	6.21%
Emerging markets	5	7.18%
Master limited partnership	5	7.61%
Real Estate	5	4.46%
Fixed income	23	1.61%
Cash	0	0.0%
	Total	
	<u>100%</u>	
Weighted average		5.01%

Discount Rate

The discount rate used to measure the TPL was 7.75 percent. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, TESRS'S fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Discount Rate Sensitivity Analysis

The following presents the NPL of the City, calculated using the discount rate of 7.75 percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one 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%)
City's proportionate share of the NPL:	<u>\$ 197,750</u>	<u>\$ 96,247</u>	<u>\$ 65,228</u>

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

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

At September 30, 2019, the City reported a liability of \$96,247 for its proportionate share of the TESRS's NPL. This liability reflects a reduction for State pension support provided to the City.

The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

City's proportionate share of the collective NPL	\$ 96,247
State's proportionate share that is associated with the City*	<u>24,095</u>
Total	<u>\$ 120,342</u>

**Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.*

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2018. GASB Statement No. 68 requires the NPL to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this twelve-month period, the City elected to honor the conservatism principle and report a NPL measured as of August 31, 2018. The City used the assumption that any differences in the NPL measured as of August 31, 2018 versus September 30, 2018 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective NPL was 0.401 percent, which was an increase of 0.088% percent from its proportion measured as of August 31, 2017.

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

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended September 30, 2019, the City recognized pension expense of \$152,405. The City recognized on-behalf revenues of \$5,330 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

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

At September 30, 2019, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ (5,048)	\$ -
Changes in assumptions	324	-
Difference between expected and actual experience	5,628	-
Contributions paid to TESRS subsequent to the measurement date	19,196	-
Total	\$ 20,100	\$ -

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended September 30	Pension Expense
2020	\$ 5,594
2021	(3,113)
2022	(4,581)
2023	1,196
Total	\$ (904)

E. Other Postemployment Benefits

TMRS – Supplemental Death Benefit Fund

Plan Description

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

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

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

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

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2018 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to, but not yet receiving, benefits	11
Active employees	96
Total	132

Total OPEB Liability

The City's total OPEB liability of \$155,650 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.71%*
Retirees share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	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.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate is based on the Fidelity Index's 20-Year Municipal GO AA Index rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

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

Changes in the Total OPEB Liability

		<u>Total OPEB Liability</u>
Changes for the year:		
Service cost	\$	9,135
Interest		5,515
Difference between expected and actual experience		(8,112)
Changes of assumptions		(12,379)
Benefit payments*		(1,142)
Net Changes		<u>(6,983)</u>
Beginning balance		162,633
Ending Balance	\$	<u><u>155,650</u></u>

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

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

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

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

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

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
City's Total OPEB Liability	\$ 189,201	\$ 155,650	\$ 129,900

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ -	\$ 6,899
Changes in actuarial assumptions	-	755
Contributions subsequent to the measurement date	1,049	-
Total	<u>\$ 1,049</u>	<u>\$ 7,654</u>

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

\$1,049 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 of total OPEB liability for the fiscal year ending September 30, 2020.

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

Year Ended September 30	OPEB Expense Amount
2020	\$ (979)
2021	(979)
2022	(979)
2023	(979)
2024	(1,625)
Thereafter	(2,113)
Total	\$ (7,654)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND (Page 1 of 2)
For the Year Ended September 30, 2019

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Ad valorem taxes	\$ 7,438,151	\$ 7,438,151	\$ 7,437,551	\$ (600)
Sales tax	5,531,065	5,531,065	10,541,165	5,010,100
Franchise fees and local taxes	5,248,603	5,248,603	5,500,799	252,196
Other taxes	6,400	6,400	16,651	10,251
Licenses and permits	394,000	394,000	468,489	74,489
Fines and forfeitures	267,000	267,000	228,970	(38,030)
Charges for services	264,578	264,578	986,165	721,587
Investment income	220,000	220,000	401,662	181,662
Other revenue	5,600,953	5,600,953	6,291,436	690,483
Total Revenues	24,970,750	24,970,750	31,872,888	6,902,138
Expenditures				
Current:				
General Government				
Administrative	2,831,585	2,916,585	2,773,603	142,982
Municipal court	229,529	229,529	199,201	30,328
Combined services	173,950	173,950	171,654	2,296
Total General Government	3,235,064	3,320,064	3,144,458	175,606
Public Safety				
Police	2,810,982	2,810,982	2,626,822	184,160
Emergency medical service	1,902,355	1,902,355	1,883,656	18,699
Fire	494,394	494,394	443,424	50,970
Total Public Safety	5,207,731	5,207,731	4,953,902	253,829

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND (Page 2 of 2)
For the Year Ended September 30, 2019

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Community Development				
Building	\$ 1,201,511	\$ 1,701,511	\$ 1,683,452	\$ 18,059
Total Community Development	<u>1,201,511</u>	<u>1,701,511</u>	<u>1,683,452</u>	<u>18,059</u>
Community Services				
Parks	2,170,471	2,170,471	1,982,042	188,429
Total Community Services	<u>2,170,471</u>	<u>2,170,471</u>	<u>1,982,042</u>	<u>188,429</u>
Total Expenditures	<u>11,814,777</u>	<u>12,399,777</u>	<u>11,763,854</u>	<u>635,923</u>
Excess of Revenues Over Expenditures	<u>13,155,973</u>	<u>12,570,973</u>	<u>20,109,034</u>	<u>7,538,061</u>
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	<u>(13,009,146)</u>	<u>(18,009,146)</u>	<u>(17,880,146)</u>	<u>129,000</u>
Total Other Financing (Uses)	<u>(13,009,146)</u>	<u>(18,009,146)</u>	<u>(17,880,146)</u>	<u>129,000</u>
Net Change in Fund Balance	<u>\$ 146,827</u>	<u>\$ (5,438,173)</u>	2,228,888	<u>\$ 7,667,061</u>
Beginning fund balance			<u>16,257,918</u>	
Ending Fund Balance			<u>\$ 18,486,806</u>	

Notes to Required Supplementary Information

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

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2019

	Measurement Year*			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	\$ 505,859	\$ 713,289	\$ 770,507	\$ 851,070
Interest (on the total pension liability)	1,092,994	1,223,684	1,288,921	1,377,452
Changes in benefit terms	1,348,133	-	-	-
Difference between expected and actual experience	498,460	(8,152)	(128,455)	(161,229)
Change in assumptions	-	181,825	-	-
Benefit payments, including refunds of employee contributions	(295,597)	(372,474)	(678,184)	(641,194)
Net Change in Total Pension Liability	<u>3,149,849</u>	<u>1,738,172</u>	<u>1,252,789</u>	<u>1,426,099</u>
Beginning total pension liability	<u>14,160,942</u>	<u>17,310,791</u>	<u>19,048,963</u>	<u>20,301,752</u>
Ending Total Pension Liability	<u>\$ 17,310,791</u>	<u>\$ 19,048,963</u>	<u>\$ 20,301,752</u>	<u>\$ 21,727,851</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 475,672	\$ 677,863	\$ 720,804	\$ 816,918
Contributions - employee	250,384	302,607	317,081	351,474
Net investment income	694,215	19,556	937,680	2,101,571
Benefit payments, including refunds of employee contributions	(295,597)	(372,474)	(678,184)	(641,194)
Administrative expense	(7,248)	(11,911)	(10,584)	(10,884)
Other	(596)	(588)	(570)	(552)
Net Change in Plan Fiduciary Net Position	<u>1,116,830</u>	<u>615,053</u>	<u>1,286,227</u>	<u>2,617,333</u>
Beginning plan fiduciary net position	<u>12,135,380</u>	<u>13,252,210</u>	<u>13,867,263</u>	<u>15,153,490</u>
Ending Plan Fiduciary Net Position	<u>\$ 13,252,210</u>	<u>\$ 13,867,263</u>	<u>\$ 15,153,490</u>	<u>\$ 17,770,823</u>
Net Pension Liability	<u>\$ 4,058,581</u>	<u>\$ 5,181,700</u>	<u>\$ 5,148,262</u>	<u>\$ 3,957,028</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.55%	72.80%	74.64%	81.79%
Covered Payroll	\$ 4,173,064	\$ 4,322,964	\$ 4,529,727	5,021,063
Net Pension Liability as a Percentage of Covered Payroll	97.26%	119.86%	113.66%	78.81%

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

Measurement

Year*

2018

\$	995,765
	1,467,028
	-
	(377,042)
	-
	(983,970)
	<u>1,101,781</u>
	<u>21,727,851</u>
\$	<u><u>22,829,632</u></u>

\$	915,831
	399,676
	(532,845)
	(983,970)
	(10,288)
	(537)
	<u>(212,133)</u>
	<u>17,770,823</u>
\$	<u><u>17,558,690</u></u>
\$	<u><u>5,270,942</u></u>

76.91%

5,709,659

92.32%

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
For the Year Ended September 30, 2019

	Measurement Year*			
	2014	2015	2016	2017
City's proportion of the net pension liability	0.354%	0.376%	0.355%	0.313%
City's proportionate share of the net pension liability	\$ 64,407	\$ 100,364	\$ 103,405	\$ 75,125
State's proportionate share of the net pension liability	21,651	34,789	35,748	31,519
Total	<u>\$ 86,058</u>	<u>\$ 135,153</u>	<u>\$ 139,153</u>	<u>\$ 106,644</u>
Number of active members**	27	30	30	25
City's net pension liability per active member	\$ 2,385	\$ 3,345	\$ 3,447	\$ 3,005
Plan fiduciary net position as a percentage of the total pension liability	83.50%	76.90%	76.30%	76.30%

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

**There is no compensation for active members. Number of active members is used instead.

Notes to Required Supplementary Information:

Defined Benefit Pension Plan

1. *Changes in benefit terms*

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

2. *Changes in assumptions*

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

Measurement
Year*
2018

0.401%

\$ 96,247

86,818
\$ 183,065

30

3,850

80.20%

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CITY OF MONT BELVIEU, TEXAS

SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT PLAN

For the Year Ended September 30, 2019

	Measurement Year*	
	2017	2018
Total OPEB Liability		
Service cost	\$ 7,029	9,135
Interest (on the total OPEB liability)	5,306	5,515
Differences between expected and actual experience	-	(8,112)
Change of assumptions	13,942	(12,379)
Benefit payments	(1,004)	(1,142)
Net Change in Total OPEB Liability	25,273	(6,983)
Beginning total OPEB liability	137,360	162,633
Ending Total OPEB Liability	\$ 162,633	\$ 155,650
Covered Payroll	\$ 5,021,063	\$ 5,709,659
Total OPEB Liability as a Percentage of Covered Payroll	3.24%	2.73%

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

Notes to Required Supplementary Information:

Changes in Assumptions

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

Changes in Benefits

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

CITY OF MONT BELVIEU, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2019

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 417,624	\$ 623,532	\$ 709,020	\$ 794,900
Contributions in relation to the actuarially determined contribution	417,624	623,532	709,020	794,900
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,892,790	\$ 4,306,031	\$ 4,476,999	\$ 4,913,655
Contributions as a percentage of covered payroll	10.73%	14.48%	15.84%	16.18%

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

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2018 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

Fiscal Year*	
2018	2019
\$ 880,857	\$ 1,091,998
<u>880,857</u>	<u>1,091,998</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 5,475,070	\$ 6,873,357
16.09%	15.89%

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
For the Year Ended September 30, 2019

	Fiscal Year*			
	2019	2018	2017	2016
Contractually required contribution	\$ 19,196	\$ 15,150	\$ 16,250	\$ 16,136
Contributions in relation to the contractually required contribution	<u>19,196</u>	<u>15,150</u>	<u>16,250</u>	<u>16,136</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Number of active members**	32	25	27	27
Contributions per active member	\$ 600	\$ 606	\$ 602	\$ 598

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

**There is no compensation for active members. Number of active members is used instead.

Fiscal Year	
2015	2014
\$ 17,750	\$ 12,000
<u>17,750</u>	<u>12,000</u>
<u>\$ -</u>	<u>\$ -</u>
30	30
\$ 592	\$ 400

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***COMBINING STATEMENTS
AND SCHEDULES***

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NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition and construction of major capital facilities and other assets.

Park Development Fund

This fund is used to account for capital projects related to park development and maintenance.

2009 Capital Projects - CIP Fund

This fund is used to account for capital projects financed by the series 2009 certificates of obligation.

SPECIAL REVENUE FUNDS

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

Hotel and Motel Tax Fund

This fund accounts for revenues derived from the City's hotel/motel tax for which the expenditures are for enhancement and promotion of tourism for the convention and hotel industry within the City and vicinity.

Court Security Fund

This fund is used to account for court fines and fees that are legally restricted to be used for court security.

Court Technology Fund

This fund is used to account for court fines and fees that are legally restricted to be used for court technology.

Dedicated Parks Fund

This fund is used for the construction and maintenance of community parks or recreation areas.

Grant Fund

This fund is used to account for grant monies.

Public Safety Fund

This fund is used to account for monies received from Chambers County for emergency medical services and fire department purposes.

Veterans' Memorial Fund

This fund is used for the creation and maintenance of Veterans' memorials.

Hurricane Harvey Fund

This fund is used to track revenue and expenses related to Hurricane Harvey.

Tropical Storm Imelda Fund

This fund is used to track revenue and expenses related to Tropical Storm Imelda.

CITY OF MONT BELVIEU, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2)
September 30, 2019

	<u>Capital Projects</u>		<u>Special Revenue</u>	
	<u>Park Development</u>	<u>2009 Capital Projects - CIP</u>	<u>Hotel and Motel Tax</u>	<u>Court Security</u>
<u>Assets</u>				
Cash and equity in pooled cash	\$ 696,175	\$ 264,853	\$ 308,732	\$ 52,375
Investments	1,663,396	-	-	-
Accounts receivable	-	-	42,432	-
Total Assets	\$ 2,359,571	\$ 264,853	\$ 351,164	\$ 52,375
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 360	\$ -	\$ 2,392	\$ -
Unearned revenue	-	-	-	-
Total Liabilities	360	-	2,392	-
<u>Fund Balances:</u>				
Restricted for:				
Park development	-	-	-	-
Tourism promotion	-	-	348,772	-
Municipal court	-	-	-	52,375
Public safety	-	-	-	-
Veterans' memorial	-	-	-	-
Assigned:				
Capital projects	2,359,211	264,853	-	-
Total Fund Balances	2,359,211	264,853	348,772	52,375
Total Liabilities and Fund Balances	\$ 2,359,571	\$ 264,853	\$ 351,164	\$ 52,375

Special Revenue

Court Technology	Dedicated Parks	Grant	Public Safety	Veterans' Memorial	Hurricane Harvey
\$ 31,643	\$ 414,753	\$ 972	\$ 205,791	\$ 2,191	\$ 37,036
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 31,643</u>	<u>\$ 414,753</u>	<u>\$ 972</u>	<u>\$ 205,791</u>	<u>\$ 2,191</u>	<u>\$ 37,036</u>
\$ -	\$ -	\$ -	\$ 2,896	\$ -	\$ 37,036
-	-	-	20,000	-	-
-	-	-	22,896	-	37,036
-	414,753	-	-	-	-
-	-	-	-	-	-
31,643	-	-	-	-	-
-	-	972	182,895	-	-
-	-	-	-	2,191	-
-	-	-	-	-	-
<u>31,643</u>	<u>414,753</u>	<u>972</u>	<u>182,895</u>	<u>2,191</u>	<u>-</u>
<u>\$ 31,643</u>	<u>\$ 414,753</u>	<u>\$ 972</u>	<u>\$ 205,791</u>	<u>\$ 2,191</u>	<u>\$ 37,036</u>

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CITY OF MONT BELVIEU, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2)
September 30, 2019

	Special Revenue	Total
	Imelda	Funds
<u>Assets</u>		
Cash and equity in pooled cash	\$ 11,683	\$ 2,026,204
Investments	-	1,663,396
Accounts receivable	-	42,432
Total Assets	\$ 11,683	\$ 3,732,032
 <u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$ 11,683	\$ 54,367
Unearned revenue	-	20,000
Total Liabilities	11,683	74,367
 <u>Fund Balances</u>		
Restricted for:		
Park development	-	414,753
Tourism promotion	-	348,772
Municipal court	-	84,018
Public safety	-	183,867
Veterans' memorial	-	2,191
Assigned:		
Capital projects	-	2,624,064
Total Fund Balances	-	3,657,665
Total Liabilities and Fund Balances	\$ 11,683	\$ 3,732,032

CITY OF MONT BELVIEU, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2)
For the Year Ended September 30, 2019

	<u>Capital Projects</u>		<u>Special Revenue</u>	
	<u>Park Development</u>	<u>2009 Capital Projects - CIP</u>	<u>Hotel and Motel Tax</u>	<u>Court Security</u>
Revenues				
Occupancy tax	\$ -	\$ -	\$ 165,254	\$ -
Fines and forfeitures	-	-	-	3,923
Intergovernmental	-	-	-	-
Investment income	48,660	1,583	1,860	304
Other income	1,030,338	-	4,250	-
Total Revenues	<u>1,078,998</u>	<u>1,583</u>	<u>171,364</u>	<u>4,227</u>
Expenditures				
Current				
General government	-	-	-	-
Community services	-	-	168,680	-
Public safety	-	-	-	-
Capital outlay	<u>886,896</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>886,896</u>	<u>-</u>	<u>168,680</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>192,102</u>	<u>1,583</u>	<u>2,684</u>	<u>4,227</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	192,102	1,583	2,684	4,227
Beginning fund balances	<u>2,167,109</u>	<u>263,270</u>	<u>346,088</u>	<u>48,148</u>
Ending Fund Balances	<u>\$ 2,359,211</u>	<u>\$ 264,853</u>	<u>\$ 348,772</u>	<u>\$ 52,375</u>

Special Revenue

Court Technology	Dedicated Parks	Grant	Public Safety	Veterans' Memorial	Hurricane Harvey
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5,189	-	-	-	-	-
-	-	-	-	-	5,788
185	2,318	12	1,668	13	2
-	72,450	7,610	156,480	-	-
<u>5,374</u>	<u>74,768</u>	<u>7,622</u>	<u>158,148</u>	<u>13</u>	<u>5,790</u>
-	-	-	-	-	358,173
-	-	-	-	-	-
9,327	-	5,804	-	-	-
-	-	2,003	111,503	-	-
<u>9,327</u>	<u>-</u>	<u>7,807</u>	<u>111,503</u>	<u>-</u>	<u>358,173</u>
<u>(3,953)</u>	<u>74,768</u>	<u>(185)</u>	<u>46,645</u>	<u>13</u>	<u>(352,383)</u>
-	-	-	-	-	352,383
-	-	-	(72,678)	-	-
-	-	-	<u>(72,678)</u>	-	<u>352,383</u>
(3,953)	74,768	(185)	(26,033)	13	-
<u>35,596</u>	<u>339,985</u>	<u>1,157</u>	<u>208,928</u>	<u>2,178</u>	<u>-</u>
<u>\$ 31,643</u>	<u>\$ 414,753</u>	<u>\$ 972</u>	<u>\$ 182,895</u>	<u>\$ 2,191</u>	<u>\$ -</u>

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CITY OF MONT BELVIEU, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2)
For the Year Ended September 30, 2019

	<u>Special Revenue</u>	<u>Total</u>
	<u>Imelda</u>	<u>Funds</u>
<u>Revenues</u>		
Occupancy tax	\$ -	\$ 165,254
Fines and forfeitures	-	9,112
Intergovernmental	-	5,788
Investment income	-	56,605
Other income	-	1,271,128
Total Revenues	-	1,507,887
<u>Expenditures</u>		
Current		
General government	11,843	370,016
Community services	-	168,680
Public safety	-	15,131
Capital outlay	-	1,000,402
Total Expenditures	11,843	1,554,229
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,843)	(46,342)
<u>Other Financing Sources (Uses)</u>		
Transfers in	11,843	364,226
Transfers (out)	-	(72,678)
Total Other Financing Sources (Uses)	11,843	291,548
Net Change in Fund Balances	-	245,206
Beginning fund balances	-	3,412,459
Ending Fund Balances	\$ -	\$ 3,657,665

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

For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Ad valorem taxes	\$ 8,844,996	\$ 8,844,996	\$ 8,906,466	\$ 61,470
Investment income	20,000	20,000	103,060	83,060
Total Revenues	8,864,996	8,864,996	9,009,526	144,530
<u>Expenditures</u>				
Principal	7,535,000	7,535,000	7,535,000	-
Interest and fiscal charges	1,321,174	1,321,174	1,319,324	1,850
Total Expenditures	8,856,174	8,856,174	8,854,324	1,850
Net Change in Fund Balance	\$ 8,822	\$ 8,822	155,202	\$ 146,380
Beginning fund balance			422,837	
Ending Fund Balance			\$ 578,039	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - HOTEL and MOTEL TAX FUND
For the Year Ended September 30, 2019

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Occupancy tax	\$ 136,560	\$ 165,254	\$ 28,694
Investment income	1,600	1,860	260
Misc income	-	4,250	4,250
Total Revenues	138,160	171,364	33,204
 <u>Expenditures</u>			
Community services	228,020	168,680	59,340
Total Expenditures	228,020	168,680	59,340
 Net Change in Fund Balance			
	\$ (89,860)	2,684	\$ 92,544
 Beginning fund balance			
		346,088	
Ending Fund Balance		\$ 348,772	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - COURT TECHNOLOGY FUND
For the Year Ended September 30, 2019

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Fines and forfeitures	\$ 8,000	\$ 5,189	\$ (2,811)
Investment income	100	185	85
Total Revenues	8,100	5,374	(2,726)
 <u>Expenditures</u>			
Public safety	9,510	9,327	183 *
Total Expenditures	9,510	9,327	183
Net Change in Fund Balance	\$ (1,410)	(3,953)	\$ (2,543)
Beginning fund balance		35,596	
Ending Fund Balance		\$ 31,643	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - PUBLIC SAFETY FUND
For the Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Investment income	\$ 700	\$ 700	\$ 1,668	\$ 968
Other revenue	138,880	138,880	156,480	17,600
Total Revenues	<u>139,580</u>	<u>139,580</u>	<u>158,148</u>	<u>18,568</u>
<u>Expenditures</u>				
Capital outlay	172,450	172,450	111,503	60,947
Total Expenditures	<u>172,450</u>	<u>172,450</u>	<u>111,503</u>	<u>60,947</u>
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	-	(72,678)	(72,678)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(72,678)</u>	<u>(72,678)</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (32,870)</u>	<u>\$ (105,548)</u>	(26,033)	<u>\$ 79,515</u>
Beginning fund balance			<u>208,928</u>	
Ending Fund Balance			<u>\$ 182,895</u>	