

Comprehensive Annual Financial Report

Year Ended September 30, 2013

City of Conroe, Texas



**“Protect And Serve The Citizens Of Conroe
And Exceed Their Expectations”**



CITY OF CONROE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Prepared by:
CITY OF CONROE, TEXAS
FINANCE DEPARTMENT
Steve Williams
Assistant City Administrator/Chief Financial Officer

City of Conroe, Texas
Comprehensive Annual Financial Report
For the Year Ended September 30, 2013

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
INTRODUCTORY SECTION		
Letter of Transmittal	1	
GFOA Certificate of Achievement	7	
Organizational Chart	8	
List of Principal Officials	9	
FINANCIAL SECTION		
Independent Auditor's Report	11	
Management's Discussion and Analysis (Required Supplementary Information)	15	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position	25	Exhibit A-1
Statement of Activities	26	Exhibit A-2
Fund Financial Statements:		
Balance Sheet – Governmental Funds	28	Exhibit A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position	31	Exhibit A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances – Governmental Funds	32	Exhibit A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities	34	Exhibit A-6
Statement of Revenues, Expenditures, and Changes in		
Fund Balances – General Fund – Budget (GAAP Basis) and Actual	35	Exhibit A-7
Statement of Revenues, Expenditures, and Changes in		
Fund Balance – Conroe Industrial Development Corporation –		
Budget (GAAP Basis) and Actual	36	Exhibit A-8
Statement of Net Position – Proprietary Funds	37	Exhibit A-9
Statement of Revenues, Expenses, and Changes in		
Fund Net Position – Proprietary Funds	38	Exhibit A-10
Statement of Cash Flows – Proprietary Funds	39	Exhibit A-11
Statement of Fiduciary Net Position – Fiduciary Funds	40	Exhibit A-12
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	41	Exhibit A-13
Notes to the Financial Statements	42	
Required Supplementary Information (unaudited)		
Schedule of Funding Progress-OPEB	70	
Schedule of Funding Progress-TMRS	70	
Schedule of Funding Progress-Conroe Firefighters' Retirement Fund	70	
<u>Combining Statements and Budgetary Comparison Schedules as Supplementary Information:</u>		
Combining Balance Sheet – Nonmajor Governmental Funds	71	Exhibit B-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances – Nonmajor Governmental Funds	73	Exhibit B-2

City of Conroe, Texas
Comprehensive Annual Financial Report
For the Year Ended September 30, 2013

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
(Continued)		
Special Revenue Funds:		
Combining Balance Sheet – Nonmajor Special Revenue Funds	74	Exhibit B-3
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	76	Exhibit B-4
Budgetary Comparison Schedule:		
Hotel/Motel Occupancy Tax Fund	78	Exhibit B-5
Community Development Block Grant Entitlement	79	Exhibit B-6
The Conroe Tower	80	Exhibit B-7
Debt Service Fund:		
Budgetary Comparison Schedule	81	Exhibit B-8
Capital Projects Funds:		
Combining Balance Sheet – Nonmajor Capital Projects Funds	82	Exhibit B-9
Combining Statement of Revenues, Expenditures and Changes In Fund Balances – Nonmajor Capital Projects Funds	86	Exhibit B-10
Internal Service Funds:		
Combining Statement of Net Position	90	Exhibit B-11
Combining Statement of Revenues, Expenses and Changes In Fund Net Position	91	Exhibit B-12
Combining Statement of Cash Flows	92	Exhibit B-13
 STATISTICAL SECTION		
Net Position by Component	94	Table C-1
Changes in Net Position	96	Table C-2
Program Revenue by Function/Program	98	Table C-3
Fund Balances of Governmental Funds	100	Table C-4
Changes in Fund Balances of Governmental Funds	102	Table C-5
Tax Revenues by Source-Governmental Funds	104	Table C-6
Taxable Assessed Value and Estimated Actual Value of Taxable Property	105	Table C-7
Property Tax Rates – Direct and Overlapping	106	Table C-8
Principal Property Taxpayers	107	Table C-9
Property Tax Levies and Collections	108	Table C-10
Taxable Sales by Category	109	Table C-11
Direct and Overlapping Sales Tax Rates	110	Table C-12
Sales Tax Revenue Payers by Industry	111	Table C-13
Ratio of Outstanding Debt by Type	112	Table C-14
Ratios of Net General Bonded Debt Outstanding	113	Table C-15
Direct and Overlapping Governmental Activities Debt	115	Table C-16
Legal Debt Margin Information	116	Table C-17
Pledged Revenue Coverage	118	Table C-18
Demographic and Economic Statistics	121	Table C-19
Principal Employers	122	Table C-20
Full-Time Equivalent Employees by Function/Programs	124	Table C-21
Operating Indicators By Function/Programs	126	Table C-22
Capital Asset Statistics by Function/Programs	128	Table C-23



CITY OF CONROE

Est. 1904

February 13, 2014

To the Honorable Mayor and Members of the
City Council of the City of Conroe, Texas

The Comprehensive Annual Financial Report of the City of Conroe, Texas (the City) for the fiscal year ended September 30, 2013, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of their presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City, as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. This letter of transmittal is intended to compliment the Management Discussion and Analysis (MD&A), which begins on page 15.

PROFILE OF THE GOVERNMENT

The City of Conroe is thirty-five miles north of downtown Houston, and is only twenty-five miles from Bush Intercontinental Airport. In addition, Conroe is the County Seat of Montgomery County, whose two most populous areas are Conroe and, to the south, The Woodlands.

The City was incorporated in 1904 and is a home rule city operating under the Mayor-Council form of government. The City Council is comprised of the Mayor and five Council members, who enact local legislation, adopt budgets, determine policies, execute the laws, and administer the government of the City. The City votes in even numbered years. Conroe voters elect the Mayor and two Council members and two years later the remaining three Council positions are filled. All council members are elected at large. Terms of office for all Council positions are for four consecutive years. Each Council member may run for two consecutive four year terms.

The Council, by adopted ordinance, has created a City Administrator position to act as the chief administrative officer of the City. The City Administrator is not appointed for a fixed time and may be removed by vote of City Council. One of the responsibilities of the City Administrator is to conduct the general affairs of the City in accordance with the policies of the City Council.

The City provides to its citizens a full range of municipal services as required by statute or charter. These services include police and fire protection, public improvements, city planning, recreation and parks, and general administrative services. In addition to general government activities, the City provides water, sewer, and sanitation services.

Activities of City funds are included in the annually appropriated budget. The following governmental funds do not have an annual budget: Public Improvement District "PID" Assessments, Greater Conroe Economic Development Council, Owen Theatre, Parks Foundation, and Woodlands Township Regional Participation. Capital project funds are appropriated annually.

The Assistant City Administrator/CFO may, at any time with the consent of the City Administrator, transfer any unencumbered appropriation from one line item to another line item within the same department. Provided, however, that no unencumbered appropriation may be transferred from one department or fund to another, except upon the express approval of the City Council. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The legal level of budgetary control (that is, the level at which expenditures may not legally exceed appropriation) is the department level.

Purchase orders that exceed appropriated balances are not released until they have been further reviewed and approved by the City Administrator or his representative. Departmental appropriations that have not been expended by the departments lapse at the end of the fiscal year. The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances outstanding at year-end are voided. Remaining commitments must be re-appropriated in the new fiscal year.

The City amends the budget on a quarterly basis. Such amendments may increase or decrease expenditures or revenues in the City's appropriated funds. Budget amendments are utilized to address unforeseen circumstances that arise outside of the normal budgeting process.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits expected to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

We believe that the City's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The basic financial statements of the City include all government activities, organizations, and functions for which the City is financially accountable, as defined by the Governmental Accounting Standards Board (GASB).

LOCAL ECONOMY

Because of the strength of the regional and local economy, Conroe continues to experience growth in residential, commercial, and light industrial development. The United States Census Bureau released the 2010 Census data for Texas. The population of the City of Conroe was listed at 56,207. Conroe's estimated population for 2013 is 61,564 which include increases in population related to annexation.

The tax roll certified by the Montgomery Central Appraisal District for 2013 (FY2014) increased by \$320,137,852, or 8.0%. New improvements accounted for approximately \$63,065,714 of this amount. Newly annexed property added approximately \$49,391,800 to the roll. This will affect revenues recorded in next year's Comprehensive Annual Financial Report (CAFR). The taxable value increase for the current fiscal year is \$371,730,369, or 10.2%.

Sales tax revenue is the largest revenue source for the City. Sales tax revenue totaled \$36,640,659 for the fiscal year ending September 30, 2013. This amount represents an increase of \$4,325,885, or 13.3%, from the prior fiscal year.

The City issued 1,054 building permits for properties & improvements valued at \$260,260,599. This included 573 building permits for single family housing starts totaling \$94,829,213. The average single family home value was \$165,496. The City reported a total labor force of 29,475 with an unemployment rate of 5.0% as of August 2013. This data is compiled by Labor Market & Career Information (LMCI.com).

SUMMARY OF SIGNIFICANT CAPITAL IMPROVEMENT PROJECTS

Numerous capital improvement projects were begun, under construction, or completed within the last fiscal year, the largest of which was the construction of the 248-acre Deison Technology Park. Located adjacent to the Lone Star Executive Airport, the park is designed to attract high technology businesses to Conroe. The total project included the purchase of land, as well as the construction of streets, drainage, water, and sewer improvements. A partial list of other projects from FY 2013 includes the following (dollar amounts represent amounts expended in FY 2013):

Streets

- League Line Road from Longmire Road to Panorama Drive - \$236,597
- Plantation Drive North and South and Drennan Road West - \$4,561,738
- League Line Road - \$3,552,565
- Wilson Road widening (on both sides of IH-45) - \$340,686
- Anderson Road from FM 3083 to Teas Nursery Road - \$127,023
- Several streets were rehabilitated in the Dugan area - \$317,744

Drainage

- East Grand Lake Creek - \$13,706
- Driveways, walkways, and street culverts in the Dugan area - \$7,915 (completed)

Transit

- Pedestrian and Transit Access Improvement Program - \$263,345

Signals

- Traffic signal communications systems - \$29,645

Facilities

- Radio Communications Towers (two) - \$1,440,106 (completed)

Parks & Recreation

- Candy Cane Park renovations - \$75,993
- Aquatic Center renovations - \$298,497
- IH-45 Detention Pond enhancements - \$334,314
- Purchase of park land- \$172,742

Water & Sewer

- Sanitary Sewer Overflow Initiative (SSOI) - \$1,254,754
- Sewer line rehabilitation from IH-45 to the waste water treatment plant - \$2,677,915 (completed)
- Water wells No. 23 and No. 24 - \$2,158,659
- Water well rehabilitations - \$216,183 (completed)
- Plantation Drive South sewer line - \$21,562
- Plantation Drive North & South and Drennan Road West water lines - \$439,360
- New waste water treatment plant land purchase - \$428,704
- White Oak Manor, Airport Drive, and Municipal Utility District No. 95 water lines - \$637,677
- Various sewer projects including S.C.A.D.A. (Supervisory Control and Data Acquisition) for several lift stations, Municipal Utility District No. 95, White Oak, Airport Drive, FM 1314 at Loop 336, and FM 1488 - \$1,314,288

LONG-TERM FINANCIAL PLANNING

The \$24,887,074 unassigned fund balance in the General Fund is the equivalent of 187 days of expenditures. This exceeds the financial policy guidelines set by Council of maintaining at least 90 days of fund balance. The purpose of this unassigned balance is to protect the City against short-term operating deficits in the General Fund. It will be available to defer short term tax increases, cover revenue shortfalls, or cover unanticipated expenditures.

The City also studies a multi-year plan for evaluating tax rates and utility rates as they relate to debt financing for capital needs and the operating costs of providing services to citizens. Projected revenues and expenditures are forecast through September 30, 2019, in the current budget. As a result of the multi-year review, the City has been able to maintain its property tax rate of \$0.4200 per \$100 of value.

General bonded debt per capita decreased from \$3,875 in 2012 to \$3,689 in 2013. The current ratio of net bonded debt to assessed value of all taxable property is 2.25%. The City continues to maintain its current Moody's rating of Aa2 and Standard & Poor's rating of AA- on its Certificates of Obligation and its current Moody's rating of Aa3 and Standard & Poor's rating of AA on its Water and Sewer Revenue Bonds.

In addition, the City has recognized the long-term financial implications of its pension and retiree health benefits. Regarding pensions, it has significantly stepped up funding by paying the full contribution rate to the Texas Municipal Retirement System to ensure the long-term sustainability of the plan. For retiree health care, the City implemented several changes that were designed to provide a sustainable benefit to our employees. A major component included replacing eligibility based solely on years of service with the "Rule of 80", which is defined as the sum of age plus service at retirement being equal to at least 80. Also, one hundred (100) percent of the effective premiums are now paid by the City, while 50% is committed by policy to be paid into the trust fund. The remaining 50% is considered and reviewed annually by City Council.

MAJOR INITIATIVES

On October 29, 2012, the Conroe Industrial Development Corporation (CIDC) issued Sales Tax Revenue and Refunding Bonds totaling \$25,385,000. These bonds were used to finance the development, and construction of streets, drainage, and water & sewer infrastructure within the Deison Technology Park. Refunding bonds replaced the remaining balance of the Series 2008 issue amounting to \$12,970,000.

On September 26, 2013, the City issued Water & Sewer Revenue Bonds amounting to \$6,790,000. The proceeds were used to pay for \$290,000 of water projects and \$6,500,000 of sewer projects. Water projects include a water line for White Oak Manor and the B52 Brewery. Sewer projects include sewer lines at LaSalle at League Line, Municipal Utility District No. 95, FM 1314 at Loop 336, the B52 Brewery, and other projects including the existing sewer treatment plant rehabilitation and SCADA for lift stations.

The City has entered in a consulting agreement with The Goodman Corporation to provide assistance for transit planning. Llewelyn-Davis Sahni was contracted to provide for the design of the New Freedom and Bus Livability grants. Jeff Moon has completed the surveying of the sites between Conroe Regional Medical Center and Wal-Mart/Sam's Club. Montgomery Building Services, LLC has been contracted to provide transit infrastructure. Infrastructure includes sidewalks, shelters, and benches. Brazos Transit District is currently providing transportation services to eligible citizens.

The City commenced the annexation of 1,295 acres of land along Hwy 105, which generally includes April Sound (Utility Districts No. 3 and No. 4), April Villas, Lake View Village, Water Oak, and Waterpoint. The annexation will be completed in December of 2014. It is the intent of the City to provide for the delivery of full municipal services to the annexed area in accordance with state

law. The service plan shall be in effect for a ten year period commencing on the effective date of the annexation, but subject to renewal from time to time as provided by state law.

The City of Conroe is committed to providing well-maintained infrastructure and a variety of quality services to protect and enhance the living conditions of its citizens.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Conroe for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2012. This was the seventh consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and it will be submitted for consideration.

The preparation of this report was accomplished with diligence and efficiency by the entire staff of the Finance and Administration Department. I express my appreciation to all members of the Department who assisted and contributed to its preparation. I also thank the Mayor, members of the City Council, and City Administrator for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Independent Audit. The City Charter requires an annual audit of the books of account, financial records, and transactions of all administrative departments of the City by an independent certified public accountant. The accounting firm of Hereford, Lynch, Sellars, & Kirkham, P.C., was selected by the City Council. This requirement has been fulfilled, and the auditors' opinion is included in this report. Hereford, Lynch, Sellars, & Kirkham, P.C., has issued an unmodified ("clean") opinion of the City's financial statements for the year ended September 30, 2013. Their report is located at the front of the financial section of this report.

Respectfully Submitted,



Steve Williams

Assistant City Administrator/Chief Financial Officer





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

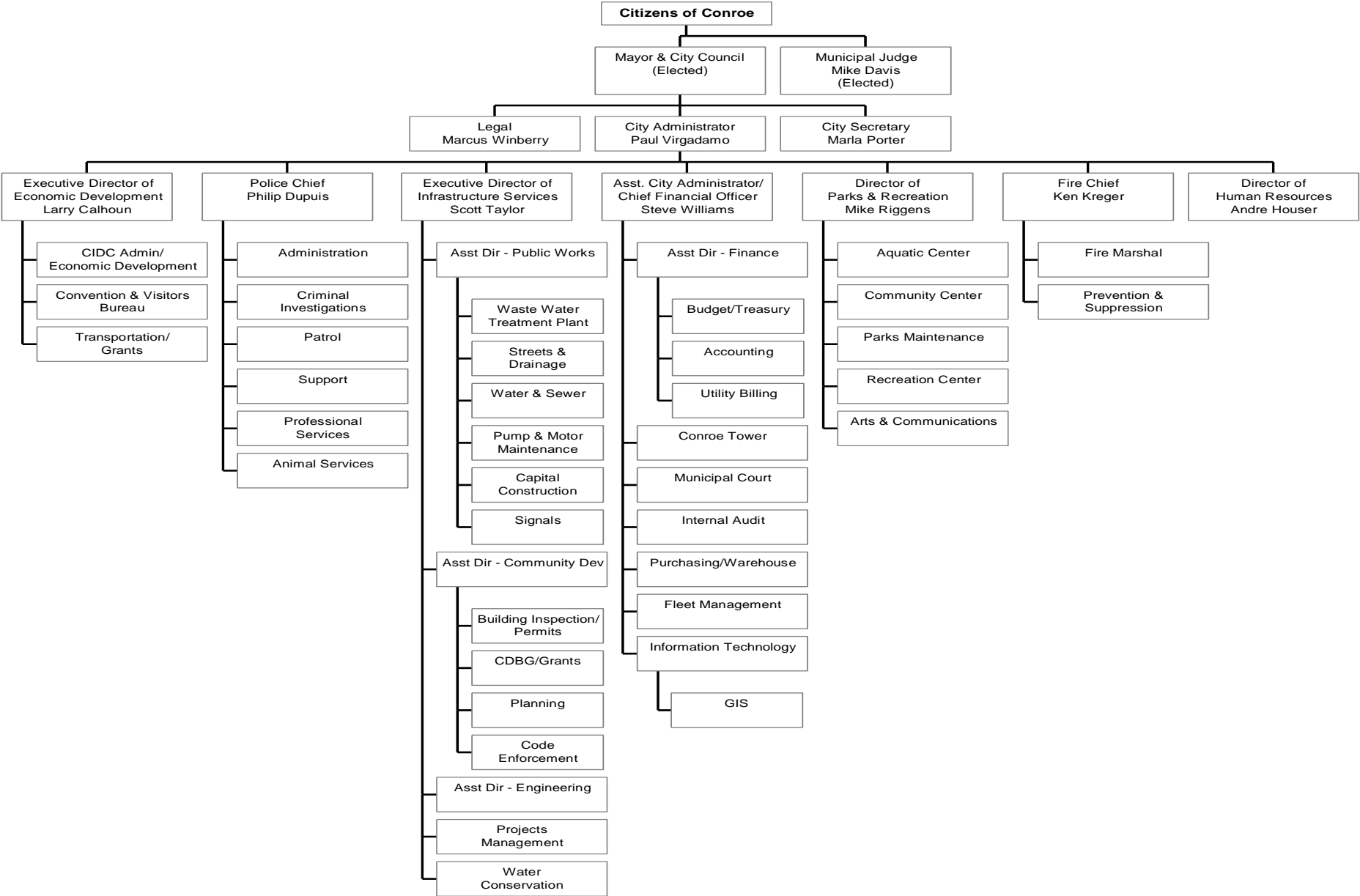
**City of Conroe
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

City of Conroe, Texas Organization Chart



City of Conroe

Listing of City Officials

September 30, 2013

Elected Officials

Mayor	Webb Melder
Councilwoman Place 1	Marsha Porter
Councilman Place 2	Seth Gibson
Councilman Place 3	Jim Gentry
Councilman Place 4 - Mayor Pro-Tem	Guy Martin
Councilman Place 5	Gil Snider
Municipal Court Judge	Mike Davis

Appointed Officials

City Administrator	Paul Virgadamo, Jr
City Secretary	Marla Porter
City Attorney	Marcus Winberry
Assistant City Administrator/CFO	Steve Williams
Police Chief	Philip Dupuis
Fire Chief	Ken Kreger
Director of Parks and Recreation	Mike Riggins
Executive Director of Infrastructure Services	Scott Taylor
Director of Human Resources	Andre Houser





Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants

• A Professional Corporation

Conroe
1406 Wilson Rd., Suite 100
Conroe, Texas 77304
Tel 936-756-8127
Metro 936-441-1338
Fax 936-756-8132

Members of the
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
Private Companies Practice Section
of the AICPA Division for Firms

Cleveland
111 East Boothe
Cleveland, Texas 77327
Tel 281-592-6443
Fax 281-592-7706

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor
and Members of the City Council and Management of the
City of Conroe, Texas
P.O. Box 3066
Conroe, Texas 77305

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conroe, Texas (City), (component unit of Oscar Johnson, Jr. Community Center Volunteers, Inc.), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessments of the risk 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conroe, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Conroe Industrial Development Corporation for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A.4.d. to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of Funding Progress-OPEB, TMRS and Conroe Firefighters' Retirement Fund, as listed in 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 Government 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 of Conroe, Texas' basic financial statements. The introductory section, combining statements and budgetary comparison schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and budgetary comparison 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 budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of the City of Conroe, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Conroe, Texas' internal control over financial reporting and compliance.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
January 31, 2014

(This page was intentionally left blank)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the City of Conroe, Texas (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Position presents information on all of the City of Conroe's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Conroe is improving or deteriorating.

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

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

- **Governmental activities** - Most of the City's basic services are reported here, including general government, police and fire protection, streets and drainage maintenance, planning, traffic control, sanitation, park and recreational activities, and cultural events. Sales and property taxes and franchise fees provide the majority of the financing for these activities.
- **Business-type activities** - Activities for which the City charges a fee to customers to pay most or all of the costs of a service it provides are reported here. The City's business-type activities include water and wastewater services, health insurance program, and fleet services.

Figure A-1, Required Components of the City's Annual Financial Report

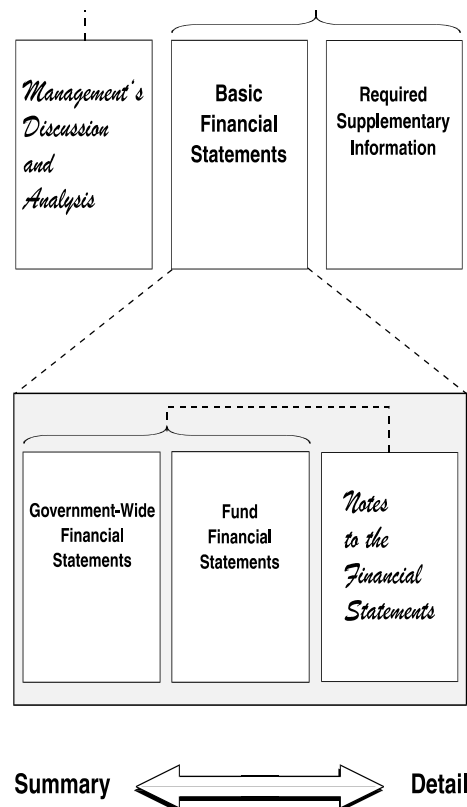


Figure A-2: Major Features of the City's Government-Wide and Fund Financial Statements

Type of Statements	FUND STATEMENTS			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire City government and its component units	The activities of the City that are not proprietary	Activities of the City that operate similar to a business	Resources held for the benefit of parties outside the city government
<i>Required Financial Statements</i>	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net Position
	Statement of Activities	Statement of Revenues, Expenditures & Changes in Fund Balance	Statement of Revenues, Expenditures & Changes in Fund Net Position	Statement of Changes in Fiduciary Net Position
			Statement of Cash Flows	
<i>Accounting Basis and Measurement Focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of Asset/Liability Information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term
<i>Type of Asset/Liability Information</i>	All revenues and expenditures during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenditures during year, regardless of when cash is received or paid	All revenues and expenditures during year, regardless of when cash is received or paid

Fund Financial Statements

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

The City has the following kinds of funds:

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

The focus of the governmental funds financial statements is narrower than that of the government-wide financial statements. Therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison. These reconciliations explain the differences between the government's activities as reported in the government-wide statements and the information presented in the governmental funds financial statements.

The City maintains 24 individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Conroe Industrial Development Corporation (CIDC) Fund, CIDC CIP Fund, Debt Service Fund, and Street Improvements Fund, all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements later in this report.

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

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations, which is considered to be a major fund. These services are primarily provided to outside, or non-governmental, customers.

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

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

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Conroe exceeded its liabilities at the close of the most recent fiscal year by \$155,159,100. Of this amount, \$56,765,176 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$17,646,795. The majority of the increase is attributable to sales tax, property tax, grants, and contributions.
- As of September 30, 2013, the City of Conroe's governmental funds reported combined ending fund balances of \$74,036,879 an increase of \$3,592,632 in comparison with the prior year. Approximately 34 percent of this total amount, \$24,887,074, is available for spending at the government's discretion (unassigned fund balance). Of the \$74,036,879 fund balance, \$157,541 is classified as nonspendable, \$36,093,686 is classified as restricted, \$6,803,473 is classified as committed, \$6,095,105 is classified as assigned, and \$24,887,074 is classified as unassigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$24,887,074, or 51 percent of total General Fund expenditures.
- The City of Conroe's gross bonded debt increased by \$4,260,000 during the current fiscal year. The key factors in this increase were debt payments amounting to \$14,945,000, bonds defeased amounting to \$12,970,000, and the issuance of \$32,175,000 in Certificates of Obligation, Revenue Bonds, and Refunding Bonds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Government-wide Financial Analysis)

Net Position – Total assets of the City at September 30, 2013, were \$406,431,414, deferred outflows of resources was \$464,116, while total liabilities were \$251,736,430, resulting in a net position balance of \$155,159,100 (Table A-1).

The largest portion of the City's net position, \$87,167,423 (57%), reflects its net investment in capital assets (land, improvements, buildings, infrastructure, vehicles, machinery and equipment), less any related outstanding debt used to acquire those assets.

Table A-1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 83,754,841	\$ 81,771,214	\$ 36,110,964	\$ 39,216,279	\$ 119,865,805	\$ 120,987,493
Capital Assets	181,457,473	170,864,354	105,108,136	94,919,436	286,565,609	265,783,790
Total Assets	265,212,314	252,635,568	141,219,100	134,135,715	406,431,414	386,771,283
Total Deferred Outflows of Resources	464,116	388,516	-	-	464,116	388,516
Long-term Liabilities Outstanding	159,513,690	159,983,308	82,344,918	78,046,394	241,858,608	238,029,702
Other Liabilities	6,503,798	6,200,382	3,374,024	3,375,346	9,877,822	9,575,728
Total Liabilities	166,017,488	166,183,690	85,718,942	81,421,740	251,736,430	247,605,430
Net Position:						
Net Investment in Capital Assets	49,087,033	46,590,472	38,080,390	38,394,869	87,167,423	84,985,341
Restricted	8,342,744	7,028,107	2,883,757	3,469,710	11,226,501	10,497,817
Unrestricted	42,229,165	33,221,815	14,536,011	10,849,396	56,765,176	44,071,211
Total Net Position	\$ 99,658,942	\$ 86,840,394	\$ 55,500,158	\$ 52,713,975	\$ 155,159,100	\$ 139,554,369

An additional portion of the City's net position, \$11,226,501 (7%), is restricted for debt service.

Change in Net Position – At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental activities. The City's combined changes in net position were \$17,646,795 at September 30, 2013, which is an increase over the prior year (See Table A-2).

Governmental Activities

The City's total revenues were \$71,820,436 from all governmental activities. A significant portion, \$36,640,659, or 51%, comes from sales taxes, while property tax revenue accounts for \$16,887,252, or 24%, and charges for services include \$7,407,831, or 10%. (See Figure A-3.)

The total cost of all governmental programs and services was \$58,883,351. The general government and public safety functions accounted for \$37,289,843, or 63%, of this total. (See Figure A-4.)

Program revenues of \$9,765,794 are comprised in large part (38%) by general government's revenues of \$3,740,961. The public safety function makes up 41% of program revenues at \$3,983,658; the public works function 9% at \$846,547; and the parks function 12% at \$1,194,628. As expected, general revenues provided the required support and coverage for additional expense.

The governmental activities showed an increase in net position over the prior year of \$14,045,157, which is attributable to revenues in excess of expenses. A summary of key elements attributable to the change in net position is as follows:

- Although the City's tax rate remained at \$0.4200 per \$100 assessed value, the taxable assessed value increased from \$3,630,957,910 for 2012 to \$4,002,688,279 for 2013, yielding additional property tax revenues.
- Sales tax revenues for the City have increased due to improved consumer spending and growth within the county.
- Licenses and permits increased due to building permits for single and multi-family housing starts.
- Lower interest rates contributed to lower average yields on the City's portfolio.
- The City received grant funding from the Federal Transportation Authority for the Conroe Transit program.

Table A-2
Change in Net Position

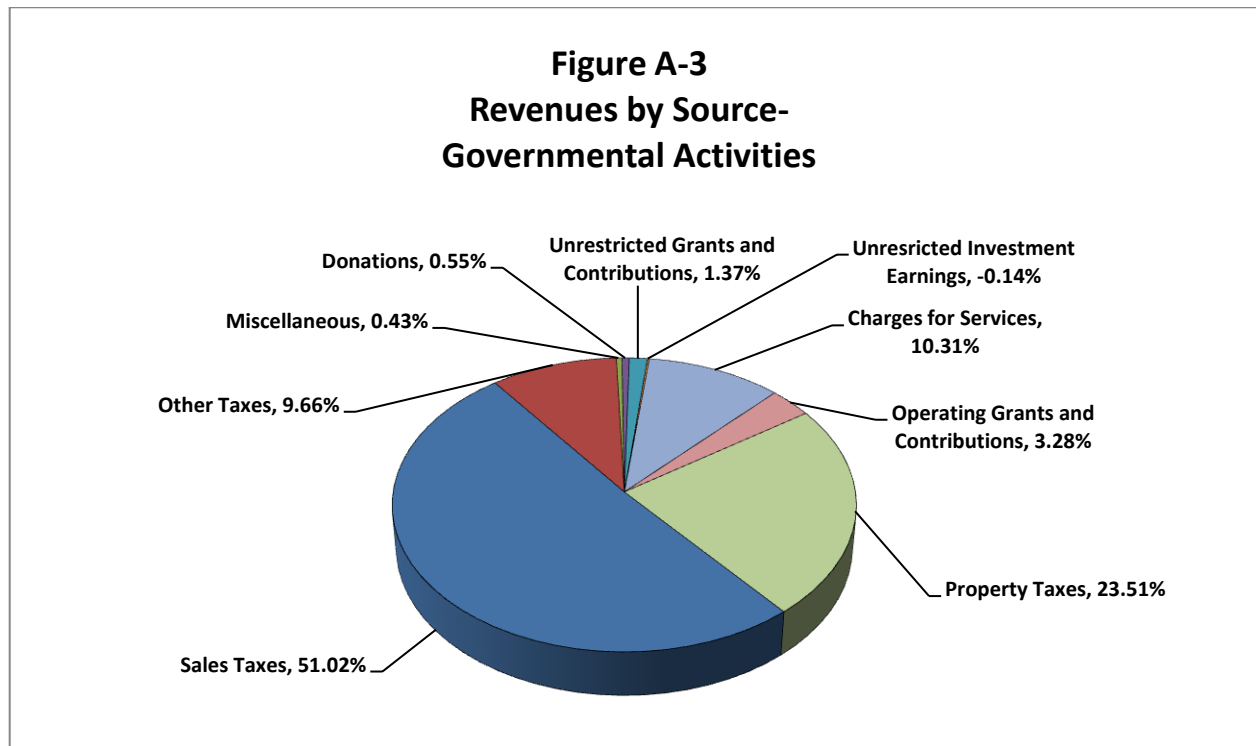
	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 7,407,831	\$ 13,800,930	\$ 25,536,992	\$ 22,174,452	\$ 32,944,823	\$ 35,975,382
Operating Grants and Contributions	2,357,963	2,051,305	-	-	2,357,963	2,051,305
General Revenues:						
Property Taxes	16,887,252	15,551,084	-	-	16,887,252	15,551,084
In Lieu of Taxes	587,634	570,277	-	-	587,634	570,277
Gross Receipts Taxes	5,275,521	4,837,834	-	-	5,275,521	4,837,834
Sales and Other Taxes	36,640,659	31,967,819	-	-	36,640,659	31,967,819
Hotel Occupancy Taxes	926,572	801,963	-	-	926,572	801,963
Mixed Beverage Taxes	149,146	141,111	-	-	149,146	141,111
Miscellaneous	305,564	1,044,394	356,157	126,429	661,721	1,170,823
Donations	397,521	173,978	500	1,000	398,021	174,978
Grants and Contributions Not						-
Restricted to Specific Programs	984,394	870,190	1,500,000	576,728	2,484,394	1,446,918
Unrestricted Investment Earnings	122,179	160,852	32,490	41,335	154,669	202,187
Gain (Loss) on Investments	(221,800)	14,930	(36,457)	(1,016)	(258,257)	13,914
Total Revenues	71,820,436	71,986,667	27,389,682	22,918,928	99,210,118	94,905,595
Expenses:						
Governmental Activities:						
General Government	10,710,512	20,069,578	-	-	10,710,512	20,069,578
Finance	1,384,161	2,025,523	-	-	1,384,161	2,025,523
Public Safety	26,579,331	25,729,415	-	-	26,579,331	25,729,415
Parks	5,872,870	5,531,230	-	-	5,872,870	5,531,230
Public Works	8,408,438	7,202,936	-	-	8,408,438	7,202,936
Interest and Fiscal Charges	5,928,039	5,649,013	-	-	5,928,039	5,649,013
Total Governmental Activities	58,883,351	66,207,695	-	-	58,883,351	66,207,695
Business-Type Activities:						
Enterprise	-	-	21,378,030	18,470,310	21,378,030	18,470,310
Fleet Services	-	-	1,301,942	1,252,899	1,301,942	1,252,899
Total Business-Type Activities	-	-	22,679,972	19,723,209	22,679,972	19,723,209
Total Expenses	58,883,351	66,207,695	22,679,972	19,723,209	81,563,323	85,930,904
Excess (Deficiency Before Transfers)	12,937,085	5,778,972	4,709,710	3,195,719	17,646,795	8,974,691
Transfers In (Out)	1,108,072	160,208	(1,108,072)	(160,208)	-	-
Change in Net Position	14,045,157	5,939,180	3,601,638	3,035,511	17,646,795	8,974,691
Net Position - Beginning	86,840,394	80,901,214	52,713,975	49,678,464	139,554,369	130,579,678
Prior Period Adjustment - Implement						
GASB 65 for Bond Issuance Costs	(1,226,609)	-	(815,455)	-	(2,042,064)	-
Net Position - Beginning, as restated	85,613,785	80,901,214	51,898,520	49,678,464	137,512,305	130,579,678
Net Position - Ending	\$ 99,658,942	\$ 86,840,394	\$ 55,500,158	\$ 52,713,975	\$ 155,159,100	\$ 139,554,369

Business-type Activities

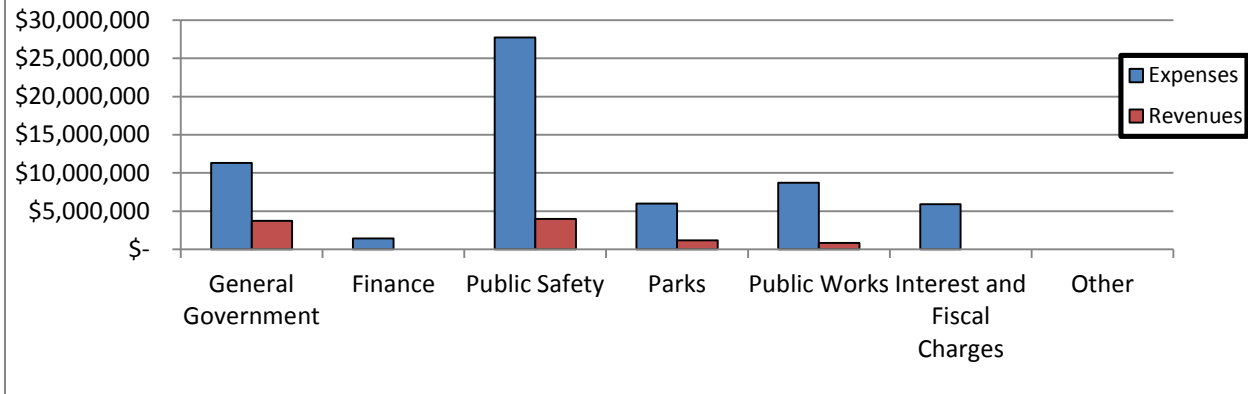
Business-type activities are financed in whole or part by fees charged to external users for goods or services. They are usually reported in an Enterprise Fund. Business-type activities increased the City's net position by \$3,601,638. Revenue can be reported as program revenue or general revenue—all revenues are general unless they are required to be reported as program revenues. There are two categories under which program revenues can be reported. The first is charges for services, which includes revenues attributable to a specific program because they result from exchange-like transactions or other events, such as charges to customers. Charges for services reduce the net cost of the program financed from general revenues. The second is program-specific grants and contributions, which are not generated by the program, and generally the grantor is not the beneficiary of the goods, services, or privileges provided. Charges for services were \$25,536,992 and program expenses were \$22,679,972.

A summary of key elements attributable to the change in net position are as follows:

- Water and sewer rates were increased on October 1, 2012, to ensure financial stability of the water and sewer systems. The demand for new services due to growth in both residential and business construction required necessary capital investments and the replacement and/or rehabilitation of aging water and sewer infrastructure. Sewer rates were increased 3.75% across the board, while water rates were increased on higher consumption tiers to encourage water conservation. With the exception of the highest consumption tier rate, commercial rates were increased to match residential sprinkler rates.
- The surface water conversion fee increased from \$1.05 cents to \$1.50 cents per 1,000 gallons consumed, for residential, sprinkler and non-residential customers. This fee was implemented to help transition to a future surface water conversion and is passed through from the San Jacinto River Authority.
- The Lone Star Groundwater Conservation District fee has remained constant at \$.06 cents per 1,000 gallons consumed, for residential, sprinkler and non-residential customers. This is a pass through fee to regulate ground water consumption.



**Figure A-4
Expenses and Program Revenues -
Governmental Activities**



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

The General Fund is the chief operating fund of the City. At the end of the current year, its unassigned fund balance was \$24,887,074, while the total fund balance reached \$31,716,832. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned and total fund balance to its expenditures. Unassigned fund balance was \$24,887,074, or 51% of total General Fund expenditures. The General Fund also had nonspendable amounts of \$43,791 for inventories and \$113,750 for prepaid items; restricted amounts of \$151,170 for Court Efficiency, \$105,605 for Court Security, \$15,829 for Severance Pay 2% Sinking Fund, \$31,497 for Court Technology, \$184,389 for Seized Assets, \$416,273 for Red Light Cameras and, \$93,998 for the State Cable Franchise 1% PEG fee; and assigned amounts of \$15,353 for Tree Mitigation Revenue, \$3,906,728 for vehicle and equipment replacement, and \$1,751,375 for General Fund-Balance FY2014 Appropriations at year end.

The fund balances of the following major funds increased during the current fiscal year:

- \$3,743,554 in the General Fund, due to an increase in sales tax revenue as a result of an improved local economy.
- \$3,821,841 in CIDC, due to an increase in sales tax revenue and the sale of land in the industrial park.
- \$1,131,011 in Debt Service, due to a \$2,055,189 transfer from the CIDC for park related debt of \$2,461,520, a transfer of \$2,012,823 from TIRZ#3 for street improvement debt, and property tax revenue.
- \$7,402,780 in the CIDC CIP Fund, which is largely the result of Sales Tax Revenue bonds that were issued in the FY2013 fiscal year.

The fund balances of the following major funds decreased during the current fiscal year:

- \$10,347,020 in the Street Improvements Fund, which is largely the result of spending Certificates of Obligation bonds that were issued in prior fiscal years.

Proprietary Funds

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

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$14,544,800. The total increase in net position of \$3,577,164 was largely due an increase in operating revenues as a result of increased rates and an intergovernmental contribution.

General Fund Budgetary Highlights

During the year, there was a \$2,106,255 increase in appropriations between the original and final amended budget.

Following are the main components of the increase:

- \$1,699,308 to the Non-Departmental Department for the funding for the New Freedom Project (\$75,000) and funding for future replacement vehicles and equipment (\$1,624,308).
- \$361,820 to the Municipal Court Department for the remodeling of customer service area, the purchase of ticket writers, additional software license fees, and the approved contract with McCreary, Veselka, Bragg & Allen for collection services.
- \$299,823 to the Information Technology Department for the upgrade of audio/video technology in the City Council Chambers and the purchase of two virtualization blade servers for Police and Public Works Departments.
- \$169,186 to Police Patrol for the purchase of a ballistic armored tactical transport vehicle.
- \$159,141 to the Fire Department for the purchase of software and equipment of Mobile Data Terminals (MDTs).
- \$121,958 to the Red Light Program Department for the additional amount due to the State of Texas for red light camera revenue.
- \$104,911 to the Streets Department for the carry-over from previous year for pavement data collections, funding from General Fund reserves.
- \$95,000 to the Non-Departmental Department for the transfer to the Oscar Johnson, Jr. Community Center for the purchase of a playground unit.
- \$92,066 to Police Professional Services for the construction of a multi-purpose defensive tactics training facility.
- \$91,500 to the Engineering Department for the traffic signal maintenance contract and an inter-local agreement to join the Montgomery County Stormwater Coalition.
- \$85,000 to the Transit Department for the agreement with the Brazos Transit District for interim demand response services and an agreement with the Goodman Corporation.
- \$59,555 to the Non-Departmental Department for the debt proration payment for the portion of Emergency Service District (ESD) #1 land annexed effective January 1, 2013.
- \$45,000 to the Transit Department for the six month renewal agreement with the Brazos Transit District for Demand Response service.
- \$41,755 to the Signal Maintenance Department for an additional amount for the contract with Republic ITS for traffic signal maintenance.
- \$35,870 to Police Patrol for the reclassification of a Patrol Officer position to a Lieutenant.
- \$34,675 to the Administration Department for the upgrade to the City website.
- \$32,275 to the Streets Department for the additional cost for the equipment purchase of Gradall XL 3100.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had cumulatively invested \$286,565,609 in a broad range of capital assets, including land, equipment, buildings, infrastructure, and construction in progress. (See Table A-3.)

**Table A-3
Capital Assets**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land and Easements	\$ 36,955,789	\$ 36,121,836	\$ 1,323,939	\$ 886,920	\$ 38,279,728	\$ 37,008,756
Construction in Progress	44,065,586	41,852,543	26,592,370	23,195,713	70,657,956	65,048,256
Buildings and Improvements	68,553,844	58,617,742	1,145,823	1,145,823	69,699,667	59,763,565
Machinery and Equipment	23,850,084	22,893,839	10,814,978	10,398,904	34,665,062	33,292,743
Infrastructure	83,406,019	80,922,168	140,906,830	131,710,213	224,312,849	212,632,381
Totals	\$ 256,831,322	\$ 240,408,128	\$ 180,783,940	\$ 167,337,573	\$ 437,615,262	\$ 407,745,701
Total Accumulated Depreciation	\$ (75,373,849)	\$ (69,543,774)	\$ (75,675,804)	\$ (72,418,137)	\$ (151,049,653)	\$ (141,961,911)
Net Capital Assets	\$ 181,457,473	\$ 170,864,354	\$ 105,108,136	\$ 94,919,436	\$ 286,565,609	\$ 265,783,790

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

Long-Term Debt

At year-end the City had \$241,858,608 in long-term debt outstanding (See Table A-4), of which \$217,330,000 is bonded. During the year, the City issued \$6,790,000 in Water & Sewer Revenue Bonds and \$25,385,000 in CIDC Sales Tax Revenue and Refunding Bonds. The City's Standard & Poor's credit rating for the Water and Wastewater Revenue Bonds increased from AA- to AA, the CIDC Sales Tax Revenue Bonds increased from A to AA-, and the General Obligation Bonds remained unchanged at AA-. General bonded debt per capita decreased from \$3,875 in 2012 to \$3,689 in 2013. The current ratio of net bonded debt to assessed value of all taxable property is 2.25%.

The City continued its strong financial performance and diversification of its tax base. Property tax and sales tax revenue growth have contributed to the City's strong reserve levels, too. More detailed information about the City's debt is presented in Note F of the basic financial statements.

**Table A-4
Long-Term Debt**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Capital Leases	\$ 513,293	\$ 566,341	\$ 3,824,233	\$ 4,224,846	\$ 4,337,526	\$ 4,791,187
Bonds Payable, Net	145,034,959	144,256,672	76,694,943	71,718,321	221,729,902	215,974,993
Notes Payable	1,070,000	1,165,000	-	-	1,070,000	1,165,000
Health Claims Liability	460,738	433,921	-	-	460,738	433,921
Compensated Absences	6,701,071	6,368,082	968,207	1,185,505	7,669,278	7,553,587
OPEB Liability	3,323,534	4,229,805	-	-	3,323,534	4,229,805
Net Pension Obligation/TMRS	1,187,426	1,679,871	355,537	469,725	1,542,963	2,149,596
Net Pension Obligation/Fire R/R	431,212	410,373	-	-	431,212	410,373
Severance Payable	791,457	873,243	-	-	791,457	873,243
Customer Deposits	-	-	501,998	447,997	501,998	447,997
Total Bonds and Notes Payable	\$ 159,513,690	\$ 159,983,308	\$ 82,344,918	\$ 78,046,394	\$ 241,858,608	\$ 238,029,702

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Appraised value used for the FY2014 budget preparation is up \$320,137,852, or 8.0%, from FY2013.
- Sales tax revenues and building permit revenues for the City are projected to increase as the local Conroe economy continues to recover from the lingering effects of the "Great Recession" of 2008.
- Spending in the General Fund increases in the FY2014 budget from \$49,594,004 to \$53,312,911. This is a 2.8% increase.

These indicators were taken into account when adopting the General Fund budget for FY2014. Amounts available for appropriation in the General Fund budget are \$53,312,911, an increase of 2.0% over the final FY2013 budget of \$51,151,651. Property taxes will increase, due to the increasing values, annexations, and new construction. The City will use these increases in revenues to finance new programs, as well as those we currently offer.

If these estimates are realized, the City's budgetary General Fund fund balance is expected to decrease by approximately \$1,751,375 at the close of 2014. The decrease in the General Fund's fund balance is due to planned capital expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF CONROE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Pooled Cash and Cash Equivalents	\$ 889,091	\$ 2,294,786	\$ 3,183,877	\$ -
Non-pooled Cash and Cash Equivalents	13,268	1,150	14,418	14,224
Investments	73,256,330	29,757,407	103,013,737	-
Receivables (net of allowances for uncollectibles):				
Taxes	695,767	-	695,767	-
Accounts	1,725	3,223,491	3,225,216	-
Interest	63,675	19,896	83,571	-
Other	1,876,948	8,713	1,885,661	574
Due from Other Governments	6,601,017	-	6,601,017	-
Due from Component Unit	199,479	-	199,479	-
Prepaid Items	113,750	-	113,750	-
Inventories	43,791	805,521	849,312	-
Capital Assets:				
Land and Easements	36,955,789	1,323,939	38,279,728	108,770
Buildings and Improvements	68,553,844	1,145,823	69,699,667	1,421,618
Machinery and Equipment	23,850,084	10,814,978	34,665,062	192,393
Infrastructure	83,406,019	140,906,830	224,312,849	-
Construction in Progress	44,065,586	26,592,370	70,657,956	-
Less Accumulated Depreciation	(75,373,849)	(75,675,804)	(151,049,653)	(568,001)
<i>Total Capital Assets (net of depreciation)</i>	<u>181,457,473</u>	<u>105,108,136</u>	<u>286,565,609</u>	<u>1,154,780</u>
TOTAL ASSETS	<u>265,212,314</u>	<u>141,219,100</u>	<u>406,431,414</u>	<u>1,169,578</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Refunding	464,116	-	464,116	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>464,116</u>	<u>-</u>	<u>464,116</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable and Other Current Liabilities	4,980,075	2,344,919	7,324,994	40,134
Unearned Revenue	1,280,142	-	1,280,142	-
Due to Primary Government	-	-	-	199,479
Accrued Interest Payable	243,581	1,029,105	1,272,686	-
Noncurrent Liabilities:				
Due within One Year	7,798,225	3,300,783	11,099,008	1,821
Due in More Than One Year	151,715,465	79,044,135	230,759,600	63,086
TOTAL LIABILITIES	<u>166,017,488</u>	<u>85,718,942</u>	<u>251,736,430</u>	<u>304,520</u>
NET POSITION				
<i>Net Investment in Capital Assets</i>	49,087,033	38,080,390	87,167,423	1,154,780
Restricted for:				
<i>Debt Services</i>	8,342,744	2,883,757	11,226,501	-
<i>Unrestricted</i>	<u>42,229,165</u>	<u>14,536,011</u>	<u>56,765,176</u>	<u>(289,722)</u>
TOTAL NET POSITION	<u>\$ 99,658,942</u>	<u>\$ 55,500,158</u>	<u>\$ 155,159,100</u>	<u>\$ 865,058</u>

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

CITY OF CONROE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General Government	\$ 10,710,512	\$ 1,982,113	\$ 1,758,848
Finance	1,384,161	-	-
Public Safety	26,579,331	3,489,063	494,595
Parks	5,872,870	1,194,628	-
Public Works	8,408,438	742,027	104,520
Debt Service:			
Interest and Fiscal Charges	5,928,039	-	-
Total Governmental Activities	<u>58,883,351</u>	<u>7,407,831</u>	<u>2,357,963</u>
Business-type Activities:			
Enterprise	21,378,030	24,239,291	-
Fleet Services	1,301,942	1,297,701	-
Total Business-type Activities	<u>22,679,972</u>	<u>25,536,992</u>	<u>-</u>
Total Primary Government	<u>\$ 81,563,323</u>	<u>\$ 32,944,823</u>	<u>\$ 2,357,963</u>
COMPONENT UNIT:			
Oscar Johnson, Jr. Community Center	<u>\$ 1,089,481</u>	<u>\$ 510,747</u>	<u>\$ -</u>

General Revenues:

Property Taxes
 In Lieu of Taxes
 Gross Receipts Tax
 Sales and Other Taxes
 Hotel Occupancy Taxes
 Mixed Beverage Taxes
 Miscellaneous
 Donations
 Grants and Contributions Not Restricted to Specific Programs
 Unrestricted Investment Earnings
 Gain (Loss) on Investments
 Transfers
 Total General Revenues
 Change in Net Position
 Net Position - Beginning
 Prior Period Adjustment - Implement GASB 65 for Bond Issuance Costs
 Net Position - Beginning, as restated
 Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (6,969,551)	\$ -	\$ (6,969,551)	\$ -
(1,384,161)	-	(1,384,161)	-
(22,595,673)	-	(22,595,673)	-
(4,678,242)	-	(4,678,242)	-
(7,561,891)	-	(7,561,891)	-
(5,928,039)	-	(5,928,039)	-
(49,117,557)	-	(49,117,557)	-
-	2,861,261	2,861,261	-
-	(4,241)	(4,241)	-
-	2,857,020	2,857,020	-
(49,117,557)	2,857,020	(46,260,537)	-
			(578,734)
16,887,252	-	16,887,252	-
587,634	-	587,634	-
5,275,521	-	5,275,521	-
36,640,659	-	36,640,659	-
926,572	-	926,572	-
149,146	-	149,146	-
305,564	356,157	661,721	88
397,521	500	398,021	10,630
984,394	1,500,000	2,484,394	601,593
122,179	32,490	154,669	-
(221,800)	(36,457)	(258,257)	-
1,108,072	(1,108,072)	-	-
63,162,714	744,618	63,907,332	612,311
14,045,157	3,601,638	17,646,795	33,577
86,840,394	52,713,975	139,554,369	831,481
(1,226,609)	(815,455)	(2,042,064)	-
85,613,785	51,898,520	137,512,305	831,481
\$ 99,658,942	\$ 55,500,158	\$ 155,159,100	\$ 865,058

CITY OF CONROE, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General Fund	Conroe Industrial Development Corp.	Debt Service Fund
ASSETS			
Pooled Cash and Cash Equivalents	\$ -	\$ 229,787	\$ 26,582
Non-pooled Cash and Cash Equivalents	5,105	-	-
Investments	28,409,493	13,169,568	8,266,848
Receivable (Net of Allowances for Uncollectibles):			
Taxes	414,115	-	281,652
Accounts	-	-	-
Interest	37,128	7,935	13,674
Other	1,777,010	3	-
Due from Other Funds	1,181,996	2,041,197	-
Due from Other Governments	6,601,017	-	-
Due from Component Unit	199,479	-	-
Prepaid Items	113,750	-	-
Inventories	43,791	-	-
TOTAL ASSETS	\$ 38,782,884	\$ 15,448,490	\$ 8,588,756
LIABILITIES			
Accounts Payable	\$ 1,029,529	\$ 6,201	\$ 2,431
Accrued Expenditures/Expenses	1,730,370	20,126	-
Retainage Payable	28,665	-	-
Due to Other Funds	2,606,702	-	-
Customer Deposits	-	-	-
Unearned Revenue	1,277,978	-	-
TOTAL LIABILITIES	6,673,244	26,327	2,431
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue-Property Taxes	392,808	-	273,708
TOTAL DEFERRED INFLOWS OF RESOURCES	392,808	-	273,708
FUND BALANCES			
Nonspendable:			
Prepaid Items	113,750	-	-
Inventories	43,791	-	-
Restricted for:			
Court Efficiency	151,170	-	-
Court Security	105,605	-	-
Severance Pay 2% Sinking Fund	15,829	-	-
Court Technology	31,497	-	-
Seized Assets	184,389	-	-
Red Light Cameras	416,273	-	-
4B Sales Tax	-	8,591,820	-
State Franchise 1% PEG Fee	93,998	-	-
Debt Service	-	3,947,426	8,312,617
Capital Project Funds	-	-	-
Special Revenue Funds	-	-	-
Committed for:			
CIDC-Land Sales	-	2,461,268	-
Police Project - Settlement Proceeds	-	-	-
TIRZ #2-Property Tax Receipts	-	-	-
TIRZ #3-Property Tax Receipts	-	-	-
Conroe Tower-Lease Income	-	-	-
Owen Theater-Ticket Sales	-	-	-
Woodlands Township Reg. Participation	-	-	-
Assigned to:			
Tree Mitigation Revenue	15,353	-	-
Equipment Replacement	3,906,728	-	-
General Fund-Balance FY2014 Appropriations	1,751,375	-	-
CIDC-Balance FY2014 Appropriations	-	421,649	-
Unassigned	24,887,074	-	-
TOTAL FUND BALANCES	31,716,832	15,422,163	8,312,617
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 38,782,884	\$ 15,448,490	\$ 8,588,756

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

Street Improvements Fund	CIDC CIP Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 91,309	\$ 4,928	\$ 536,485	\$ 889,091
-	-	8,163	13,268
8,533,881	2,528,369	9,183,243	70,091,402
-	-	-	695,767
-	-	1,725	1,725
59	-	3,360	62,156
-	-	92,749	1,869,762
-	-	565,505	3,788,698
-	-	-	6,601,017
-	-	-	199,479
-	-	-	113,750
-	-	-	43,791
<u>\$ 8,625,249</u>	<u>\$ 2,533,297</u>	<u>\$ 10,391,230</u>	<u>\$ 84,369,906</u>
\$ 1,261,118	\$ 3,189	\$ 239,148	\$ 2,541,616
-	-	373,760	2,124,256
250,454	-	21,263	300,382
-	-	800,032	3,406,734
-	-	13,381	13,381
-	-	2,164	1,280,142
<u>1,511,572</u>	<u>3,189</u>	<u>1,449,748</u>	<u>9,666,511</u>
-	-	-	666,516
-	-	-	666,516
-	-	-	113,750
-	-	-	43,791
-	-	-	151,170
-	-	-	105,605
-	-	-	15,829
-	-	-	31,497
-	-	-	184,389
-	-	-	416,273
-	-	-	8,591,820
-	-	-	93,998
-	-	-	12,260,043
7,113,677	2,530,108	3,152,760	12,796,545
-	-	1,446,517	1,446,517
-	-	-	2,461,268
-	-	340,554	340,554
-	-	8	8
-	-	3,463,184	3,463,184
-	-	385,950	385,950
-	-	98,386	98,386
-	-	54,123	54,123
-	-	-	15,353
-	-	-	3,906,728
-	-	-	1,751,375
-	-	-	421,649
-	-	-	24,887,074
<u>7,113,677</u>	<u>2,530,108</u>	<u>8,941,482</u>	<u>74,036,879</u>
<u>\$ 8,625,249</u>	<u>\$ 2,533,297</u>	<u>\$ 10,391,230</u>	<u>\$ 84,369,906</u>



CITY OF CONROE, TEXAS**EXHIBIT A-4**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013*

Total Fund Balances - Governmental Funds (Exhibit A-3) \$ 74,036,879

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

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

Governmental Capital Assets Costs	\$ 256,831,322	
Accumulated Depreciation of Governmental Capital Assets	<u>(75,373,849)</u>	181,457,473

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	666,516
---	---------

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

Bonds Payable, at Original Par	\$ (142,240,000)	
Premiums/Discounts on Bonds Payable	(2,794,959)	
Deferred Charge on Refunding	464,116	
Accrued Interest on Bonds	(243,581)	
Capital Lease Payable	(513,293)	
Notes Payable	(1,070,000)	
Net Pension Obligation - TMRS	(1,187,119)	
Net Pension Obligation - Firefighters' Retirement	(431,212)	
Severance Benefits	(791,457)	
Compensated Absences	<u>(6,685,168)</u>	(155,492,673)

The Self Funded Insurance internal service fund is used by the City to charge the costs of health insurance to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>(1,009,253)</u>
---	--------------------

Total Net Position - Governmental Activities (Exhibit A-1) \$ 99,658,942

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

CITY OF CONROE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Conroe Industrial Development Corp.	Debt Service Fund
REVENUES			
Taxes	\$ 43,469,955	\$ 9,160,165	\$ 6,802,191
Licenses and Permits	1,752,598	-	-
Charges for Sales and Services	1,979,380	-	-
Lease Income	73,862	-	-
Fines and Forfeitures	3,344,824	-	-
Intergovernmental	1,846,611	-	-
Investment Income	23,413	28,125	13,010
Gain (Loss) on Investment	(46,990)	(31,611)	(77,934)
Penalties and Interest	66,058	-	46,597
Land Sales	-	2,461,269	-
Other	404,067	52	-
TOTAL REVENUES	52,913,778	11,618,000	6,783,864
EXPENDITURES			
Current:			
General Government	-	1,484,507	11,126
Administration	1,279,764	-	-
Legal	529,917	-	-
Municipal Court	1,388,456	-	-
CDBG	234,835	-	-
Warehouse/Purchasing	417,934	-	-
Information Technology	1,595,348	-	-
Human Resources	597,004	-	-
Non-Departmental	2,412,963	-	-
Finance	1,333,034	-	-
Public Safety			
Police	15,202,095	-	-
Fire	8,846,157	-	-
Parks			
Parks and Recreation Administration	376,816	-	-
Recreation Center	1,262,495	-	-
Swim Center	1,237,140	-	-
Parks Operations	1,361,820	-	-
Public Works			
Community Development	1,128,368	-	-
Drainage Maintenance	570,467	-	-
Streets	2,723,279	-	-
Signal Maintenance	305,817	-	-
Engineering	1,975,423	-	-
Debt Service:			
Principal Retirement	53,048	2,165,000	10,870,000
Interest and Fiscal Charges	22,130	1,592,556	4,208,545
Bond Issuance Costs	-	247,399	-
Capital Outlay	3,698,307	26,811	-
TOTAL EXPENDITURES	48,552,617	5,516,273	15,089,671
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,361,161	6,101,727	(8,305,807)
OTHER FINANCING SOURCES (USES)			
Issuance of Refunding Bonds and Sales Tax Revenue Bonds	-	12,305,000	-
Payment to Escrow Agent	-	(13,069,437)	-
Premium on Issuance of Bonds	-	967,971	-
Transfers In	1,281,396	51,954	9,436,818
Transfers Out	(1,899,003)	(2,535,374)	-
TOTAL OTHER FINANCING SOURCES (USES)	(617,607)	(2,279,886)	9,436,818
Net Change in Fund Balances	3,743,554	3,821,841	1,131,011
Fund Balances at Beginning of Year	27,973,278	11,335,991	7,181,606
Residual Equity Transfer	-	264,331	-
FUND BALANCES AT END OF YEAR	\$ 31,716,832	\$ 15,422,163	\$ 8,312,617

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

Street Improvements Fund	CIDC CIP Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 926,572	\$ 60,358,883
-	-	-	1,752,598
-	-	-	1,979,380
-	-	257,167	331,029
-	-	-	3,344,824
-	-	1,495,746	3,342,357
17,815	5,629	28,666	116,658
(54,728)	-	20,078	(191,185)
-	-	-	112,655
-	-	184,014	2,645,283
-	-	447,987	852,106
<u>(36,913)</u>	<u>5,629</u>	<u>3,360,230</u>	<u>74,644,588</u>
-	20,980	1,471,212	2,987,825
-	-	-	1,279,764
-	-	-	529,917
-	-	-	1,388,456
-	-	-	234,835
-	-	-	417,934
-	-	-	1,595,348
-	-	-	597,004
-	-	-	2,412,963
-	-	-	1,333,034
-	-	-	15,202,095
-	-	-	8,846,157
-	-	-	376,816
-	-	-	1,262,495
-	-	-	1,237,140
-	-	-	1,361,820
-	-	-	1,128,368
-	-	-	570,467
-	-	-	2,723,279
-	-	-	305,817
-	-	-	1,975,423
-	-	95,000	13,183,048
-	-	63,893	5,887,124
-	185,615	-	433,014
<u>5,879,107</u>	<u>6,431,400</u>	<u>2,861,940</u>	<u>18,897,565</u>
<u>5,879,107</u>	<u>6,637,995</u>	<u>4,492,045</u>	<u>86,167,708</u>
<u>(5,916,020)</u>	<u>(6,632,366)</u>	<u>(1,131,815)</u>	<u>(11,523,120)</u>
-	13,080,000	-	25,385,000
-	-	-	(13,069,437)
-	724,146	-	1,692,117
831,000	231,000	1,928,910	13,761,078
<u>(5,262,000)</u>	<u>-</u>	<u>(2,956,629)</u>	<u>(12,653,006)</u>
<u>(4,431,000)</u>	<u>14,035,146</u>	<u>(1,027,719)</u>	<u>15,115,752</u>
(10,347,020)	7,402,780	(2,159,534)	3,592,632
17,460,697	(4,872,672)	11,365,347	70,444,247
-	-	(264,331)	-
<u>\$ 7,113,677</u>	<u>\$ 2,530,108</u>	<u>\$ 8,941,482</u>	<u>\$ 74,036,879</u>

CITY OF CONROE, TEXAS

EXHIBIT A-6

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, 2013

Total Net Change in Fund Balances - Governmental Funds (Exhibit A-5)	\$	3,592,632
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Assets <i>increased</i>	\$ 18,897,565	
Depreciation Expense	<u>(6,926,891)</u>	11,970,674
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position.		(1,377,555)
Because some property taxes will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		(4,754)
Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Par Value	\$ (25,385,000)	
(Premium) Discount	<u>(1,692,117)</u>	(27,077,117)
Payment to the escrow agent to refund bonds from refunding proceeds reduces long-term liabilities.		13,069,437
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		13,035,000
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		53,048
Repayment of notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		95,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The (increase) decrease in interest reported in the statement of activities consists of the following:		
Accrued Interest on Current Interest Bonds Payable <i>increased</i>	\$ 122,106	
Interest Accreted on the Capital Appreciation Bonds	175,702	
Amortization of Bond Premium/Discount	118,128	
Amortization of Deferred Amount on Refunding	<u>(23,837)</u>	392,099
An internal service fund (Self Funded Insurance Fund) is used by the City to charge the costs of health insurance benefits to the individual funds. The net activity of the internal service fund was reported in the government-wide statements.		75,336
The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		(332,342)
The (increase) decrease in net pension obligation for firefighters' retirement is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		(20,839)
The (increase) decrease in net pension obligation for TMRS is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		492,752
The (increase) decrease in severance benefits is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		<u>81,786</u>
Change in Net Position - Governmental Activities (Exhibit A-2)	\$	<u>14,045,157</u>

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

CITY OF CONROE, TEXAS

EXHIBIT A-7

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (GAAP BASIS) AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 39,368,232	\$ 41,647,026	\$ 43,469,955	\$ 1,822,929
Licenses and Permits	1,266,079	1,266,079	1,752,598	486,519
Charges for Sales and Services	1,841,350	1,841,350	1,979,380	138,030
Lease Income	-	-	73,862	73,862
Fines and Forfeitures	3,415,715	3,415,715	3,344,824	(70,891)
Intergovernmental	1,137,185	1,137,185	1,846,611	709,426
Investment Income	45,927	45,927	23,413	(22,514)
Gain (Loss) on Investment	-	-	(46,990)	(46,990)
Penalties and Interest	75,945	75,945	66,058	(9,887)
Other	135,570	135,570	404,067	268,497
TOTAL REVENUES	47,286,003	49,564,797	52,913,778	3,348,981
EXPENDITURES				
Current:				
General Government				
Administration	1,374,853	1,406,223	1,279,764	126,459
Legal	544,920	544,920	529,917	15,003
Municipal Court	892,724	1,320,358	1,388,456	(68,098)
CDBG	226,515	226,515	234,835	(8,320)
Warehouse/Purchasing	450,613	450,613	417,934	32,679
Information Technology	1,691,740	1,696,740	1,595,348	101,392
Human Resources	632,130	632,130	597,004	35,126
Non-Departmental	2,562,188	2,799,913	2,412,963	386,950
Finance	1,396,658	1,406,658	1,333,034	73,624
Public Safety				
Police	15,402,667	15,560,495	15,202,095	358,400
Fire	8,964,677	8,984,597	8,846,157	138,440
Parks				
Parks and Recreation Administration	339,370	354,070	376,816	(22,746)
Recreation Center	1,089,818	1,227,634	1,262,495	(34,861)
Swim Center	1,203,119	1,203,119	1,237,140	(34,021)
Parks Operations	1,375,265	1,373,869	1,361,820	12,049
Public Works				
Community Development	1,327,927	1,327,927	1,128,368	199,559
Drainage Maintenance	781,329	781,329	570,467	210,862
Streets	3,396,639	3,521,550	2,723,279	798,271
Signal Maintenance	511,018	552,773	305,817	246,956
Engineering	2,104,121	2,195,621	1,975,423	220,198
Debt Service:				
Principal Retirement	53,049	53,049	53,048	1
Interest and Fiscal Charges	22,130	22,130	22,130	-
Capital Outlay	2,701,926	3,509,418	3,698,307	(188,889)
TOTAL EXPENDITURES	49,045,396	51,151,651	48,552,617	2,599,034
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,759,393)	(1,586,854)	4,361,161	5,948,015
OTHER FINANCING SOURCES (USES)				
Transfers In	2,026,791	2,026,791	1,281,396	(745,395)
Transfers Out	(2,391,002)	(4,090,310)	(1,899,003)	2,191,307
TOTAL OTHER FINANCING SOURCES (USES)	(364,211)	(2,063,519)	(617,607)	1,445,912
Net Change in Fund Balances	(2,123,604)	(3,650,373)	3,743,554	7,393,927
Fund Balances at Beginning of Year	27,973,278	27,973,278	27,973,278	-
FUND BALANCES AT END OF YEAR	\$ 25,849,674	\$ 24,322,905	\$ 31,716,832	\$ 7,393,927

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

CITY OF CONROE, TEXAS**EXHIBIT A-8**

CONROE INDUSTRIAL DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,863,468	\$ 8,623,066	\$ 9,160,165	\$ 537,099
Investment Income	8,002	8,002	28,125	20,123
Gain (Loss) on Investment	-	-	(31,611)	(31,611)
Land Sales	-	-	2,461,269	2,461,269
Other	-	-	52	52
TOTAL REVENUES	<u>7,871,470</u>	<u>8,631,068</u>	<u>11,618,000</u>	<u>2,986,932</u>
EXPENDITURES				
Current:				
General Government	1,678,410	2,145,629	1,484,507	661,122
Debt Service:				
Principal Retirement	2,105,000	2,105,000	2,165,000	(60,000)
Interest and Fiscal Charges	2,488,805	2,488,805	1,592,556	896,249
Bond Issuance Costs	-	247,400	247,399	1
Capital Outlay	6,000	19,314	26,811	(7,497)
TOTAL EXPENDITURES	<u>6,278,215</u>	<u>7,006,148</u>	<u>5,516,273</u>	<u>1,489,875</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,593,255</u>	<u>1,624,920</u>	<u>6,101,727</u>	<u>4,476,807</u>
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Bonds and Sales Tax Revenue Bonds	-	12,305,000	12,305,000	-
Payment to Escrow Agent	-	(13,069,437)	(13,069,437)	-
Premium on Issuance of Bonds	-	967,971	967,971	-
Transfers In	51,954	51,954	51,954	-
Transfers Out	(2,304,374)	(2,535,374)	(2,535,374)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,252,420)</u>	<u>(2,279,886)</u>	<u>(2,279,886)</u>	<u>-</u>
Net Change in Fund Balances	<u>(659,165)</u>	<u>(654,966)</u>	<u>3,821,841</u>	<u>4,476,807</u>
Fund Balances at Beginning of Year	11,335,991	11,335,991	11,335,991	-
Residual Equity Transfer	264,331	264,331	264,331	-
FUND BALANCES AT END OF YEAR	<u>\$ 10,941,157</u>	<u>\$ 10,945,356</u>	<u>\$ 15,422,163</u>	<u>\$ 4,476,807</u>

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

CITY OF CONROE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

EXHIBIT A-9

	Enterprise Fund Water and Sewer Fund	Internal Service Funds
ASSETS		
Current Assets:		
Pooled Cash and Cash Equivalents	\$ 2,142,508	\$ 152,278
Non-pooled Cash and Cash Equivalents	1,150	-
Investments	29,757,407	3,164,928
Receivables (net of allowances for uncollectibles):		
Accounts	3,213,742	9,749
Interest	19,891	1,524
Other	8,713	7,186
Inventories	772,740	32,781
Total Current Assets	35,916,151	3,368,446
Noncurrent Assets:		
Capital Assets (Net of Accumulated Depreciation)	105,108,136	-
Total Noncurrent Assets	105,108,136	-
TOTAL ASSETS	141,024,287	3,368,446
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,560,464	41,024
Due to Other Funds	-	381,964
Retainage Payable	401,690	-
Accrued Expenditures/Expenses	309,950	32,231
Health Claims Liability	-	460,738
Compensated Absences	21,435	1,990
Customer Deposits	266,670	-
Capital Lease	416,438	-
Accrued Interest Payable	1,029,105	-
Revenue Bonds Payable	2,595,000	-
Total Current Liabilities	6,600,752	917,947
Noncurrent Liabilities, net of current portion		
Compensated Absences	837,372	123,313
OPEB Liability	-	3,323,534
Net Pension Obligation/TMRS	334,150	21,694
Customer Deposits	235,328	-
Capital Lease	3,407,795	-
Revenue Bonds, Net	74,099,943	-
Total Noncurrent Liabilities	78,914,588	3,468,541
TOTAL LIABILITIES	85,515,340	4,386,488
NET POSITION		
Net Investment in Capital Assets	38,080,390	-
Restricted for Debt Service	2,883,757	-
Unrestricted	14,544,800	(1,018,042)
TOTAL NET POSITION	\$ 55,508,947	\$ (1,018,042)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(8,789)	
Net Position of Business-type Activities (Exhibit A-1)	\$ 55,500,158	

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

CITY OF CONROE, TEXAS**EXHIBIT A-10**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund Water and Sewer Fund	Internal Service Funds
OPERATING REVENUES		
Charges for Sales and Services	\$ 24,277,240	\$ 8,184,511
TOTAL OPERATING REVENUES	<u>24,277,240</u>	<u>8,184,511</u>
OPERATING EXPENSES		
Public Works	7,144,700	1,301,942
Utility Billing and Collection	804,123	-
Water Conservation	124,863	-
Water Production	2,966,905	-
Sewage Treatment	2,922,996	-
Project Construction	10,885	-
Pump and Motor Maintenance	773,079	-
General Government	98,118	6,786,380
Depreciation	3,492,879	-
TOTAL OPERATING EXPENSES	<u>18,338,548</u>	<u>8,088,322</u>
Operating Income (Loss)	<u>5,938,692</u>	<u>96,189</u>
NONOPERATING REVENUES (EXPENSES)		
Investment Income	32,476	5,535
Gain (Loss) on Investment	(36,457)	(30,615)
Other Income	1,663,490	685
Interest Expense	(2,843,666)	-
Other	(41,283)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(1,225,440)</u>	<u>(24,395)</u>
Income (Loss) Before Transfers	<u>4,713,252</u>	<u>71,794</u>
Transfers In	4,825,673	35,313
Transfers Out	(5,961,761)	(7,297)
NET TRANSFERS	<u>(1,136,088)</u>	<u>28,016</u>
Change in Net Position	3,577,164	99,810
Net Position at Beginning of Year	52,747,238	(1,117,852)
Prior Period Adjustment - Implementation of GASB 65	(815,455)	-
NET POSITION AT END OF YEAR	<u>\$ 55,508,947</u>	<u>\$ (1,018,042)</u>
Change in Net Position	\$ 3,577,164	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	<u>24,474</u>	
Change in Net Position of Business-type Activities (Exhibit A-2)	<u>\$ 3,601,638</u>	

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

CITY OF CONROE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT A-11

	Enterprise Fund Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities:		
<i>Cash Received from Customers</i>	\$ 24,071,220	\$ 1,299,604
<i>Cash Received from Employees</i>	-	1,617,773
<i>Cash Received from Other Funds</i>	-	5,261,668
<i>Cash Payments to Employees for Services</i>	(5,275,940)	(1,897,255)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(10,240,188)	(656,967)
<i>Cash Payments for Loss Claims</i>	-	(6,406,207)
<i>Increase (Decrease) in Customer Deposits</i>	54,001	-
Net Cash Provided by (Used for) Operating Activities	<u>8,609,093</u>	<u>(781,384)</u>
Cash Flows from Non-Capital Financing Activities:		
<i>Transfer From (To) Other Funds</i>	596,101	409,980
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>596,101</u>	<u>409,980</u>
Cash Flows from Capital and Related Financing Activities:		
<i>Proceeds from Issuance of Long-term Debt</i>	6,790,000	-
<i>Proceeds from Sale of Capital Assets</i>	72,997	-
<i>Proceeds from Bond Premium</i>	170,897	-
<i>Proceeds from Other Sources</i>	1,745,030	-
<i>Principal and Interest Paid</i>	(4,970,200)	-
<i>Acquisition or Construction of Capital Assets</i>	(13,777,824)	-
<i>Bond Issue Expense</i>	(115,560)	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(10,084,660)</u>	<u>-</u>
Cash Flows from Investing Activities:		
<i>Purchase of Investment Securities</i>	(25,054,560)	(1,455,692)
<i>Proceeds from Sale and Maturities of Securities</i>	27,797,263	1,794,888
<i>Interest and Dividends on Investments</i>	7,272	(24,395)
Net Cash Provided by (Used for) Investing Activities	<u>2,749,975</u>	<u>314,801</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,870,509	(56,603)
Cash and Cash Equivalents at Beginning of Year	273,149	208,881
Cash and Cash Equivalents at End of Year	<u>\$ 2,143,658</u>	<u>\$ 152,278</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 5,938,692	\$ 96,189
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
<i>Depreciation</i>	3,492,879	-
<i>Prior Period Adjustment</i>	(815,455)	-
Changes in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	(194,767)	(5,464)
<i>Decrease (Increase) in Inventories</i>	(81,982)	(5,046)
<i>Decrease (Increase) in Deferred Charges</i>	815,455	-
<i>Increase (Decrease) in Accounts Payable</i>	(441,055)	4,317
<i>Increase (Decrease) in Compensated Absences</i>	(225,768)	9,119
<i>Increase (Decrease) in Accrued Expenses</i>	172,595	34,155
<i>Increase (Decrease) in OPEB Liability</i>	-	(906,272)
<i>Increase (Decrease) in Net Pension Obligation/TMRS</i>	(51,501)	(8,382)
Total Adjustments	<u>2,670,401</u>	<u>(877,573)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 8,609,093</u>	<u>\$ (781,384)</u>

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

CITY OF CONROE, TEXAS**EXHIBIT A-12****STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2013**

	City of Conroe OPEB Trust Fund
ASSETS	
Pooled Cash and Cash Equivalents	\$ 282,620
Investments, at fair value:	
Stable Value/PARS Fund	1,504,295
Receivables (net of allowances for uncollectibles):	
Other	2
TOTAL ASSETS	<u>1,786,917</u>
LIABILITIES	
Accounts Payable	-
TOTAL LIABILITIES	<u>-</u>
NET POSITION	
Assets Held in Trust for OPEB	1,786,917
TOTAL NET POSITION	<u>\$ 1,786,917</u>

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

CITY OF CONROE, TEXAS**EXHIBIT A-13****STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	City of Conroe OPEB Trust Fund
ADDITIONS	
Contributions:	
Employer Contributions	\$ 1,368,795
Investment Earnings:	
Investment Income	104,680
Gain (Loss) on Investment	64,957
TOTAL ADDITIONS	<u>1,538,432</u>
DEDUCTIONS	
Benefits and Refunds Paid to Members and Beneficiaries	<u>1,586,094</u>
TOTAL DEDUCTIONS	<u>1,586,094</u>
Change in Net Position	(47,662)
Net Position-Beginning of the Year	<u>1,834,579</u>
NET POSITION-END OF YEAR	<u>\$ 1,786,917</u>

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The City's combined financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 61 "The Financial Reporting Entity," include whether:

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

BLENDING COMPONENT UNITS

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

Conroe Industrial Development Corporation - (CIDC) Directors are appointed by the governing body of the City. Although it is legally separate from the City, CIDC is reported as if it were part of the primary government because its sole purpose is to expend the proceeds of any sales and use taxes levied for the City's benefit in order to promote economic development. Conroe Industrial Development Corporation (CIDC) does not issue separate financial statements.

Conroe Park Foundation, Inc. - (CPFI) Directors are appointed by the governing body of the City. Although it is legally separate from the City, CPFI is reported as if it were part of the primary government because its sole purpose is to take title of real property and transfer it to the City to promote and develop the City's parks. Conroe Park Foundation, Inc. (CPFI) does not issue separate financial statements.

DISCRETELY COMPONENT UNITS

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

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

RELATED ORGANIZATIONS

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

The following organizations are related organizations, which have not been included in the reporting entity:

Conroe Firemen's Relief and Retirement Fund - (CFRRF) A local retirement plan covering active paid and volunteer firefighters of the City of Conroe. The City makes contributions to the fund as the firemen's employer, but has no control over investments or pension benefits. Two of the fund's trustees are the City's Mayor and the Assistant City Administrator/CFO, or their appointees.

Montgomery County 911 - (911) An entity created to manage the emergency telephone response system. The City appoints one member to the 911 Board.

Joint Fire/EMS Communications Center - (JFECC) An entity created to manage fire and emergency medical response in Montgomery County. The City provides partial funding and appoints one member to the governing board.

Houston/Galveston Area Council - (HGAC) A council of local governments in the Houston/Galveston area. The City appoints a representative.

Conroe Independent School District. The City of Conroe provides no funding and has no appointive or budgetary authority.

Montgomery County. The City of Conroe provides no funding and has no appointive or budgetary authority.

Montgomery County Hospital District. The City of Conroe provides no funding and has no appointive or budgetary authority.

Montgomery Central Appraisal District. The City of Conroe provides some funding and casts votes for board members.

2. Implementation of New Standards

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

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34*, modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and the display of component units (blending vs. discrete presentation), and certain disclosure requirements. The effects of the statement have been included within this financial report.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, codifies into GASB accounting and financial reporting standards the "legacy" standards from the private-sector. The effects of the statement have been included within this financial report.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. The effects of the statement have been included within this financial report.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The effects of the statement have been included within this financial report.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following *major governmental funds*:

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

Conroe Industrial Development Corporation (CIDC) Fund. This is a special revenue fund used to account for sales tax and land sales that are legally restricted to expenditure for particular purposes by the City of Conroe.

Debt Service Fund. This fund is used to account for the accumulation of resources and payment of general obligation bonds, contractual obligations, and certificates of obligation. The primary source of revenue is property taxes.

Street Improvements Fund. This is a capital projects fund used to account for the acquisition and construction of major capital facilities other than those financed by Proprietary Funds and Special Revenue Funds. The principal resources of the fund are grants and proceeds from the sale of bonds.

Conroe Industrial Development Corporation (CIDC) CIP Fund. This is a capital projects fund used to account for the acquisition and construction of the Conroe Park North Industrial Park and the Deison Technology Park. The principal resources of the capital projects fund are transfer of sales tax from the CIDC Fund and proceeds from sales tax revenue bonds.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

The City reports the following *major proprietary fund*:

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

The City reports the following *internal service funds*:

Fleet Services Fund: This fund is used to account for revenues and expenses related to services primarily provided to parties inside the City. This fund facilitates distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the Fleet Services internal service fund are the City's business-type activities, this fund type is included in the "Business-type Activities" column of the government-wide financial statements.

Self Funded Insurance Fund: This fund is used to account for revenues and expenses related to services provided to parties inside the City. This fund facilitates distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the Self Funded Insurance internal service are the City's governmental and business-type activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

The City reports the following *fiduciary fund*:

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

These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances

a. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to the liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has 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 one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

b. 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.

c. 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.

d. Accounting Changes

Change in Accounting Principles – As the result of implementing GASB Statement Nos. 63 and 65, the City has restated the beginning net position in the governmental activities government-wide Statement of Net Position, effectively decreasing net position as of October 1, 2012, by \$2,042,064. The decrease results from no longer deferring and amortizing bond issuance costs. Further, the City has restated its long-term liabilities to reflect that a component of those liabilities as of September 30, 2013 – deferred charge of refunding – is now reported as a deferred outflow of resources on the government-wide Statement of Net Position. The effect of this change as of September 30, 2012, is an increase of \$388,516 in long-term liabilities and a corresponding increase in deferred outflows of resources.

Additionally as a result of implementing the above statements, the City has restated the beginning net position in the business-type and proprietary fund Statement of Net Position, effectively decreasing net position as of October 1, 2012, by \$815,455. The decrease results from no longer deferring and amortizing bond issuance costs.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

5. Financial Statement Amounts

a. Cash and Investments

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

The City, as a reporting entity, considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

The City is authorized by the Public Funds Investment Act of 1987 to invest in: a) Obligations of the United States and its agencies or instrumentalities, b) Obligations of the State of Texas, c) Obligations of states, agencies, political subdivisions, and municipalities having a rating of not less than A, d) fully collateralized direct repurchase agreements, e) local government investment pools and money market mutual funds rated not less than AAA, f) certificates of deposit, and g) commercial paper rated A-1 or P-1.

The City reports its investments as required by Statement 31 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Investments in open-end mutual funds are reported at fair value, as determined by the funds' current share prices. The City's investments in the local government investment pools are at fair value based on the value per share of the pools' underlying portfolio.

b. Property Taxes

Property taxes attach as an enforceable lien on property on February 1. Taxes are levied and become payable on October 1. The Montgomery County Tax Assessor-Collector is responsible for billing and collecting City property taxes. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2013, was \$0.4200 per \$100, allocated \$0.2500 for the General Fund and \$0.1700 for the Debt Service Fund. The tax rate for the year ended September 30, 2012, was \$0.4200 per \$100, which was allocated \$0.2500 to the General Fund and \$0.1700 to the Debt Service Fund. However, not all outstanding property taxes are expected to be collected within one year of the financial statements.

c. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded when purchased rather than when consumed.

d. Capital Assets

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	20-50
Machinery and Equipment	2-15
Infrastructure	30

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Ninety-six percent of the property tax receivable is estimated to not be collected in the subsequent year.

f. Compensated Absences

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

Sick and vacation leave balances are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

g. Interfund Activity

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

h. Use of Estimates

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

i. Fund Balances

As of these financial statements, the City has adopted GASB Statement No. 54, which redefined how fund

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

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

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

Committed - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

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

Unassigned - All amounts not included in other spendable classifications.

6. Budgetary Control

a. Budgetary Information

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

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

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

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is the department level.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

b. Excess of Expenditures Over Appropriations

For the year ended September 30, 2013, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

- (1) Municipal Court department of the General Fund by \$68,098. These over expenditures were funded by General Fund's fund balance.
- (2) CDBG department of the General Fund by \$8,320. These over expenditures were funded by General Fund's fund balance.
- (3) Parks and Recreation Administration department of the General Fund by \$22,746. These over expenditures were funded by General Fund's fund balance.
- (4) Recreation Center department of the General Fund by \$34,861. These over expenditures were funded by General Fund's fund balance.
- (5) Swim Center department of the General Fund by \$34,021. These over expenditures were funded by General Fund's fund balance.
- (6) Conroe Industrial Development Corporation (CIDC) department of the Conroe Industrial Development Corporation Fund by \$67,497. These over expenditures were funded by CIDC Fund's current period revenue. Budget funds were available due to departmental savings.
- (7) Debt Service department of the Debt Service Fund by \$120,341. These over expenditures were funded by current period revenue. Budget funds were available due to departmental savings.
- (8) Capital outlay expenditures for the Streets department of the General Fund by \$188,889. These over expenditures were funded by General Fund's fund balance.

B. Compliance and Accountability

1. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Fleet Services Fund	(\$8,789)	Deficit funded by next year's charges for sales and services.
Self Funded Insurance Fund	(\$1,009,253)	Growth of the deficit will be minimized by plan change

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

2. Reconciliation of Government-wide and Fund Statements for Business-type Activities:

Description	Government- Wide	Fund	Difference	Remarks
Total Assets	\$ 141,219,100	\$ 141,024,287	\$ 194,813	Due to Other funds shown in Government-wide as reduction in Assets instead of a Liability and inclusion of Fleet Services Assets in the Government-wide level and not at Fund level.
Total Liabilities	\$ 85,718,942	\$ 85,515,340	\$ 203,602	Due to Other funds shown in Government-wide as reduction in Assets instead of a Liability and inclusion of Fleet Services Liabilities in the Government-wide level and not at Fund level.

C. Deposits and Investments

As of September 30, 2013 the City had the following investments:

Investment Type	Fair Value	Percentage	Credit Rating	Weighted Average Maturity (Years)
TexPool	\$ 19,321,703	18.76%	AAAm	-
TexSTAR	19,305,246	18.74%	AAAm	-
Texas CLASS	21,082,334	20.47%	AAAm	-
U.S. Government Securities, Long-term	13,681,322	13.28%	Aaa	1.88
Municipal Securities, Long-term	3,474,135	3.37%	Aa2	1.73
U.S. Government Securities, Short-term	24,460,609	23.74%	Aaa	0.39
Municipal Securities, Short-term	1,663,372	1.61%	AA-	0.48
Money Market	25,016	0.02%	AAAm	-
Total Fair Value	\$ 103,013,737	100.00%		
Portfolio Weighted Average Maturity				0.40

Interest rate risk. In compliance with the City's Investment Policy, as of September 30, 2013, the City minimized the interest rate risk, related to current events market turmoil in the portfolio by: limiting the effective duration of security types not to exceed three years; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in short-term securities, money market funds, or similar government investment pools. TexPool, TexSTAR and TexasCLASS operate in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940. The City's investment policy is to concentrate its portfolio in short-term securities in order to limit principal risk caused by changes in interest rates. The maximum dollar-weighted average maturities for the entire portfolio shall be limited to 365 days unless the securities are being held for long-term goals.

Credit Risk. In compliance with the City's Investment Policy, as of September 30, 2013, the City minimized credit risk losses due to default of a security issuer or backer by:

- limiting investments to the safest types of securities;
- investing in a money market mutual fund (Wells Fargo Advantage Government Money Market Fund) and local government investment pools (TexPool, TexSTAR and TexasCLASS) that were rated AAAM by Standard and Poor's;

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

- purchasing investments in obligations of the United States of America, its agencies or instrumentalities;
- purchasing commercial paper investments that were rated A-1, P-1 or equivalent by at least two nationally recognized credit rating agencies;
- pre-qualifying the financial institutions and broker/dealers with which the City will do business; and
- diversifying the investment portfolio so that potential losses on individual securities were minimized.

Concentration of Credit Risk. With the exception of direct obligations of the United States, the City's investment policy does not allow for an investment in any one issuer that is in excess of twenty-five percent of the City'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. The City's investment policy provides that, consistent with the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all uninsured City funds on deposit with a depository bank, other than investments. The City's deposits were fully insured or collateralized as required by the state statutes and the City's investment policy. At year-end, the carrying amount of the City's deposits were \$3,480,915. Of the total bank balance of \$6,168,509, the Federal Depository Insurance Corporation (FDIC) covered the entire balance through the temporary liquidity guarantee program.

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 possession of an outside party. According to the City's investment policy, the City shall contract with a financial institution for the safekeeping of securities owned by the City as part of its investment portfolio. Securities owned by the City shall be held in the City's name as evidenced by safekeeping receipts of the institution holding the securities.

The City voluntarily invests in three local government investment pools: the Texas Local Government Investment Pool ("TexPool"), the Texas Short Term Asset Reserve ("TexSTAR") Cash Reserve Fund, and the Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"). Each public funds investment pool operates in full compliance with the Texas Public Funds Investment Act.

TexPool is overseen by the Texas State Comptroller of Public Accounts. TexSTAR is overseen by a Governing Board consisting of individuals from participating Government Entities in the pool. Texas CLASS is supervised by a Board of Trustees, each of whom is elected by participants. The number of Trustees to be selected is determined by the participants at an annual meeting and shall be an odd number of three (3) or more. Each pool is rated AAA by Standard & Poor's (S&P).

Each pool seeks to maintain a \$1.00 net asset value. The fair value of the City's position in each pool is the same as the value of the pool shares.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

D. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land and Easements	\$ 36,121,836	\$ 2,101,985	\$ (1,268,032)	\$ 36,955,789
Construction in progress	41,852,543	14,672,516	(12,459,473)	44,065,586
Total capital assets, not being depreciated	<u>77,974,379</u>	<u>16,774,501</u>	<u>(13,727,505)</u>	<u>81,021,375</u>
<u>Capital assets, being depreciated:</u>				
Buildings and improvements	58,617,742	-	9,936,102	68,553,844
Machinery and Equipment	22,893,839	2,123,064	(1,166,819)	23,850,084
Infrastructure	80,922,168	-	2,483,851	83,406,019
Total capital assets, being depreciated	<u>162,433,749</u>	<u>2,123,064</u>	<u>11,253,134</u>	<u>175,809,947</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,445,701)	(2,012,385)	-	(19,458,086)
Machinery and Equipment	(11,206,013)	(2,095,590)	1,096,816	(12,204,787)
Infrastructure	(40,892,060)	(2,818,916)	-	(43,710,976)
Total accumulated depreciation	<u>(69,543,774)</u>	<u>(6,926,891)</u>	<u>1,096,816</u>	<u>(75,373,849)</u>
Total capital assets being depreciated, net	<u>92,889,975</u>	<u>(4,803,827)</u>	<u>12,349,950</u>	<u>100,436,098</u>
Governmental activities capital assets, net	<u>\$ 170,864,354</u>	<u>\$ 11,970,674</u>	<u>\$ (1,377,555)</u>	<u>\$ 181,457,473</u>

- (1) Included in Decreases/Reclasses column were the decreases to construction in progress that were completed in the current year and moved to its depreciable asset category. The decrease in construction in progress is an increase to capital assets within the same column. The Increase column to capital assets are current year increases only and do not reflect the increases to capital assets from reclasses. The decrease in construction in progress was \$12,459,473, which is the combination of reclasses and dispositions (reclasses \$12,419,953 + disposals \$39,520). The amount of \$9,936,102 was transferred to Buildings and Improvements. The amount of \$2,483,851 was transferred to Infrastructure.

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land and Easements	\$ 886,920	\$ 437,019	\$ -	\$ 1,323,939
Construction in progress	23,195,713	12,593,274	(9,196,617)	26,592,370
Total capital assets not being depreciated	<u>24,082,633</u>	<u>13,030,293</u>	<u>(9,196,617)</u>	<u>27,916,309</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,145,823	-	-	1,145,823
Machinery and Equipment	10,398,904	805,820	(389,746)	10,814,978
Infrastructure	131,710,213	-	9,196,617	140,906,830
Total capital assets being depreciated	<u>143,254,940</u>	<u>805,820</u>	<u>8,806,871</u>	<u>152,867,631</u>
Less accumulated depreciation for:				
Buildings and improvements	(293,774)	(27,334)	-	(321,108)
Machinery and Equipment	(4,254,203)	(641,108)	235,212	(4,660,099)
Infrastructure	(67,870,160)	(2,824,437)	-	(70,694,597)
Total accumulated depreciation	<u>(72,418,137)</u>	<u>(3,492,879)</u>	<u>235,212</u>	<u>(75,675,804)</u>
Total capital assets being depreciated, net	<u>70,836,803</u>	<u>(2,687,059)</u>	<u>9,042,083</u>	<u>77,191,827</u>
Business-type activities capital assets, net	<u>\$ 94,919,436</u>	<u>\$ 10,343,234</u>	<u>\$ (154,534)</u>	<u>\$ 105,108,136</u>

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

- (1) Included in Decreases/Reclasses column were the decreases to construction in progress that were completed in the current year and moved to its depreciable asset category. The decrease in construction in progress is an increase to capital assets within the same column. The Increase column to capital assets are current year increases only and do not reflect the increases to capital assets from reclasses.

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 643,316
Finance	51,031
Parks	1,686,288
Police Department	1,326,742
Public Safety	1,482,588
Public Works	1,736,926
	<u>\$ 6,926,891</u>

Business-Type Activities:

Enterprise	\$ 3,492,879
	<u>\$ 3,492,879</u>

Discrete Component Unit

	Beginning Balance	Increases	Decreases/ Reclasses	Ending Balances
<i>Capital assets not being depreciated:</i>				
Land and Easements	\$ 108,770	\$ -	\$ -	\$ 108,770
Total capital assets not being depreciated	<u>108,770</u>	<u>-</u>	<u>-</u>	<u>108,770</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,421,618	-	-	1,421,618
Machinery and Equipment	108,674	83,719	-	192,393
Total capital assets being depreciated	<u>1,530,292</u>	<u>83,719</u>	<u>-</u>	<u>1,614,011</u>
Less accumulated depreciation for:				
Buildings and Improvements	(435,666)	(42,272)	-	(477,938)
Machinery and Equipment	(81,634)	(8,429)	-	(90,063)
Total accumulated depreciation	<u>(517,300)</u>	<u>(50,701)</u>	<u>-</u>	<u>(568,001)</u>
Total capital assets being depreciated, net	<u>1,012,992</u>	<u>33,018</u>	<u>-</u>	<u>1,046,010</u>
Business-type activities capital assets, net	<u>\$ 1,121,762</u>	<u>\$ 33,018</u>	<u>\$ -</u>	<u>\$ 1,154,780</u>

Depreciation expense was charged to functions as follows:

Discrete Component Unit:	\$ 50,701
Oscar Johnson Jr. Community Center	<u>\$ 50,701</u>

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

The City has active construction projects as of September 30, 2013. Total accumulated commitments for ongoing capital projects are composed of the following:

	<u>Spent-to Date</u>	<u>Remaining Commitment</u>
Water and Sewer	\$ 14,773,532	\$ 7,361,747
Transit Grants CIP Fund	126,506	37,463
Street Improvements	4,467,747	6,715,734
Facilities	<u>91,500</u>	<u>1,128,500</u>
	<u>\$ 19,459,285</u>	<u>\$ 15,243,444</u>

These commitments will be funded by unspent bond proceeds.

E. Interfund Balances and Activity

1. Due To and From Other Funds

A summary of interfund receivables and payables at September 30, 2013 is as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Internal Service Fund	381,964	Short-term Funding
CIDC	General Fund	1,650,222	Sales Tax
CIDC	Conroe Ind Dev Corp CIP Fund	390,975	Short-term Funding
Nonmajor Governmental Fund	General Fund	<u>1,365,537</u>	Short-term Funding
		<u>\$ 3,788,698</u>	

2. Transfers To and From Other Funds

Transfers are used to a) move revenues from the fund that the ordinance or budget requires to collect them to the fund that the ordinance or budget requires them to expend them, b) move receipts from bond refunding's and residual balances from capital project funds to the Debt Service Fund to pay debt obligations, and c) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Inter-fund transfers for the year ended September 30, 2013, were:

Transfers between funds during the year were as follows:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Nonmajor Governmental	\$ 1,507,186	Increase in value
General Fund	Nonmajor Governmental	81,862	In lieu of rent
General Fund	CIDC	51,954	Transit related costs
General Fund	Nonmajor Governmental	183,000	Enhancements to IH 45 detention pond
General Fund	Nonmajor Governmental	75,000	New Freedom Project (Transit)
Water and Sewer	Water and Sewer	4,405,872	Principal & interest requirements
Water and Sewer	General Fund	1,268,098	Administrative transfer
Water and Sewer	Nonmajor Governmental	81,862	In lieu of rent
Water and Sewer	Water and Sewer	170,616	Revenue Bond Reserve
Water and Sewer	Internal Service	35,313	Electricity transfer

CITY OF CONROE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS****SEPTEMBER 30, 2013**

CIDC	Debt Service	2,055,189	Principal & interest requirements
CIDC	Water and Sewer	249,185	Principal & interest requirements
CIDC	CIDC CIP Fund	231,000	Construction transfer
Street Improvements CIP Debt Service		5,262,000	Principal & interest requirements
Nonmajor Governmental	General Fund	1,396	To fund vehicle & equipment purchases
Nonmajor Governmental	General Fund	4,605	To fund equipment purchase
Internal Service	General Fund	7,297	To fund vehicle & equipment purchases
Nonmajor Governmental	Debt Service	204,000	Principal & interest requirements
Nonmajor Governmental	Debt Service	1,915,629	Principal & interest requirements
Nonmajor Governmental	Nonmajor Governmental	<u>831,000</u>	Construction transfer
Total		<u>\$ 18,622,064</u>	

F. Long-Term Obligations

The City issues certificates of obligation bonds, refunding bonds, and revenue bonds to provide funds for the construction and renovation of facilities, parks, streets, drainage, and water and sewer improvements. Bonds have been issued for both governmental and business-type activities. During the year, certificates of obligation bonds were issued for \$13,080,000, revenue bonds were issued for \$6,790,000 and refunding bonds were issued for \$12,305,000.

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

On October 29, 2012, the City issued \$25,385,000 in Sales Tax Revenue and Refunding Bonds (Series 2012) to advance fund \$13,080,000 in new construction and refund \$12,970,000 of the Series 2008 Sales Tax Revenue bonds. The net proceeds of \$13,080,437 were used to purchase a portfolio of securities authorized by the Texas Government Code which include direct noncallable obligations of the United States with an investment rating not less than "AAA". Those securities were deposited in an irrevocable trust with an escrow agent to provide for all debt service payments due on or after September 1, 2013, on the Series 2008 bonds. As a result, the related debts are considered to be defeased, and the liabilities for those bonds maturing after September 1, 2013, have been removed from the government-wide Statement of Net Position. At September 30, 2013, the principal amount outstanding on these bonds was \$12,405,000 and were called on October 31, 2012.

The proceeds of the Series 2012 refunding bonds were used to legally defease \$12,970,000 of previously issued city (CIDC) sales tax bonds in order to lower its overall debt service requirement. The reacquisition price exceeded the net carrying value of the old debt by \$99,437. The City completed the partial refunding to reduce its total debt service payments over the next 15 years by \$2,117,773 and to obtain an economic gain (difference between the present values of the old and new debt service payments by \$1,691,758).

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

1. Long-Term Obligation Activity

A summary of the long-term bonded debt of the City at September 30, 2013 is presented below:

	Rate		Issue Date	Amount of Original Issue	Maturity Date	Bonds Outstanding
Refunding Bonds						
Refunding Bonds, Series 2007	4.00	%	2007	13,155,000	2017	\$ 5,390,000
Refunding Bonds, Series 2010	2.00-3.00	%	2010	4,035,000	2017	2,590,000
Refunding Bonds, Series 2012	2.00-3.00	%	2012	7,560,000	2023	7,495,000
Total Refunding Bond Payable						\$ 15,475,000
Contractual and Certificates of Obligation						
Series 2005	4.325	%	2005	3,865,000	2030	3,690,000
Series 2006	4.00-5.00	%	2007	9,700,000	2030	9,425,000
Series 2007	4.25-5.00	%	2007	10,820,000	2030	10,670,000
Series 2008	3.50-5.00	%	2008	17,100,000	2030	17,020,000
Series 2009	2.00-4.25	%	2009	12,750,000	2030	11,765,000
Series 2010	2.00-4.00	%	2010	9,270,000	2031	8,825,000
Series 2011	1.875-5.00	%	2011	18,235,000	2031	18,035,000
Series 2012	2.00-3.175	%	2012	8,970,000	2032	3,570,000
Certificates of Obligation Payable						\$ 83,000,000
Sales Tax Revenue Bonds						
Series 1997 CIDC	4.40	%	1997	\$ 17,500,000	2017	\$ 4,955,000
Series 1999 CIDC	3.85	%	1999	2,500,000	2017	725,000
Series 2011 CIDC	2.00-4.50	%	2011	13,845,000	2030	13,325,000
Series 2012 CIDC	2.00-5.00	%	2012	25,385,000	2032	24,760,000
Total Sales Tax Revenue Bonds Payable						\$ 43,765,000
Revenue Bonds						
Waterworks and Sewer System						
Bonds, Series 2006	4.375-5.00	%	2006	\$ 10,850,000	2030	\$ 9,340,000
Bonds, Series 2007	4.25-6.00	%	2007	5,700,000	2030	4,940,000
Bonds, Series 2008	3.50-5.00	%	2008	11,225,000	2030	9,815,000
Bonds, Series 2009	3.00-4.375	%	2009	7,350,000	2030	6,595,000
Bonds, Series 2010	2.00-4.00	%	2010	15,715,000	2031	14,515,000
Bonds, Series 2011	1.75-4.25	%	2011	5,160,000	2032	4,965,000
Bonds, Series 2012	1.75-5.00	%	2012	18,130,000	2032	18,130,000
Bonds, Series 2013	2.00-4.25	%	2013	6,790,000	2033	6,790,000
Total Revenue Bonds						\$ 75,090,000

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 19,570,000	\$ -	\$ (4,095,000)	\$ 15,475,000	\$ 3,035,000
Certificates of obligation	89,775,000	-	(6,775,000)	83,000,000	1,610,000
Sales Tax Revenue Bonds	33,515,000	25,385,000	(15,135,000)	43,765,000	2,395,000
Accreted Interest on					
Capital Appreciation Bonds	175,702	4,298	(180,000)	-	-
Less deferred amounts:					
Discounts	(97,632)	-	5,424	(92,208)	-
Premiums	1,318,602	1,692,117	(123,552)	2,887,167	-
Total bonds payable	144,256,672	27,081,415	(26,303,128)	145,034,959	7,040,000
Capital Leases	566,341	-	(53,048)	513,293	55,144
Notes Payable	1,165,000	-	(95,000)	1,070,000	99,000
Health Claims Liability*	433,921	26,817	-	460,738	460,738
OPEB Liability*	4,229,805	-	(906,271)	3,323,534	-
Net Pension Oblig./TMRS*	1,679,871	-	(492,445)	1,187,426	-
Net Pension Oblig./Fire R/R*	410,373	20,839	-	431,212	-
Severance Payable	873,243	47,864	(129,650)	791,457	-
Compensated absences*	6,368,082	524,916	(191,927)	6,701,071	143,343
Total governmental activities	\$ 159,983,308	\$ 27,701,851	\$ (28,171,469)	\$ 159,513,690	\$ 7,798,225

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type Activities:					
Revenue bonds	\$ 70,210,000	\$ 6,790,000	\$ (1,910,000)	\$ 75,090,000	\$ 2,595,000
Less deferred amounts					
Issuance Discount	(166,225)	-	11,493	(154,732)	-
Premiums	1,674,546	170,898	(85,769)	1,759,675	-
Revenue bonds, net	71,718,321	6,960,898	(1,984,276)	76,694,943	2,595,000
Customer Deposits	447,997	54,001	-	501,998	266,670
Capital leases	4,224,846	-	(400,613)	3,824,233	416,438
Net Pension Oblig./TMRS*	469,725	-	(114,188)	355,537	-
Compensated absences*	1,185,505	60,508	(277,806)	968,207	22,675
Total business-type activities	\$ 78,046,394	\$ 7,075,407	\$ (2,776,883)	\$ 82,344,918	\$ 3,300,783

* Other long-term liabilities

Long-term liabilities from the Self-Funded Insurance internal service fund in the amount \$3,338,994 (consisting of \$15,153 of compensated absences, \$3,323,534 of OPEB liability and \$307 of Net Pension Obligation-TMRS) are included in the governmental activities column of Exhibit A-1, but included in Exhibit A-10, Statement of Net Assets-Proprietary Funds.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General
Compensated absences	Business-type	Water and Sewer
Health Claims Liability	Governmental	Self-Funded Insurance
OPEB Liability	Governmental	Self-Funded Insurance
Net Pension Oblig./TMRS	Governmental	General
Net Pension Oblig./Fire R/R	Governmental	General
Net Pension Oblig./TMRS	Business-type	Water and Sewer

Discrete Component Unit

Long-term liabilities of the Oscar Johnson Jr. Community Center are \$63,086 consisting of compensated absences (\$49,907) and net pension obligation (\$13,179). The amount due within one year for compensated absences is \$1,821.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2013, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities - Bonded Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 7,040,000	\$ 5,444,638	\$ 12,484,638
2015	7,260,000	5,229,219	12,489,219
2016	7,480,000	5,007,472	12,487,472
2017	7,720,000	4,766,975	12,486,975
2018	6,680,000	4,511,215	11,191,215
2019-2023	36,985,000	18,601,526	55,586,526
2024-2028	45,810,000	10,132,209	55,942,209
2029-2033	23,265,000	1,353,330	24,618,330
Totals	<u>\$ 142,240,000</u>	<u>\$ 55,046,584</u>	<u>\$ 197,286,584</u>

<u>Year Ending September 30,</u>	<u>Governmental Activities - Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	99,000	59,140	158,140
2015	103,000	54,096	157,096
2016	107,000	48,708	155,708
2017	113,000	42,999	155,999
2018	118,000	36,833	154,833
2019-2023	530,000	77,981	607,981
Totals	<u>\$ 1,070,000</u>	<u>\$ 319,757</u>	<u>\$ 1,389,757</u>

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

<u>Year Ending September 30,</u>	<u>Business-type Activities - Bonded Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,595,000	\$ 2,792,386	\$ 5,387,386
2015	2,945,000	2,781,310	5,726,310
2016	3,030,000	2,696,567	5,726,567
2017	3,125,000	2,600,670	5,725,670
2018	3,230,000	2,492,813	5,722,813
2019-2023	18,065,000	10,558,365	28,623,365
2024-2028	22,205,000	6,415,003	28,620,003
2029-2033	19,420,000	1,606,663	21,026,663
2034	475,000	10,094	485,094
Totals	<u>\$ 75,090,000</u>	<u>\$ 31,953,871</u>	<u>\$ 107,043,871</u>

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2013, are as follows:

	<u>Governmental Activities</u>
<u>Year Ending September 30:</u>	
2014	\$ 75,178
2015	75,178
2016	75,178
2017	75,178
2018	75,178
2019-2021	<u>231,627</u>
Total Minimum Lease Payments	\$ 607,517
Less: amount representing interest	<u>(94,224)</u>
Present Value of Minimum Lease Payments	<u>\$ 513,293</u>

The gross amount of capital assets (machinery, equipment and improvements) acquired through governmental activities capital leases is \$607,517 as of September 30, 2013.

	<u>Business-type Activities</u>
<u>Year Ending September 30:</u>	
2014	\$ 567,735
2015	567,735
2016	567,735
2017	567,736
2018	567,736
2019-2021	<u>1,697,117</u>
Total Minimum Lease Payments	\$ 4,535,794
Less: amount representing interest	<u>(711,561)</u>
Present Value of Minimum Lease Payments	<u>\$ 3,824,233</u>

The gross amount of capital assets (machinery, equipment and improvements) acquired through business-type activities capital leases is \$4,535,794 as of September 30, 2013.

G. Risk Management

Health Care Coverage

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

The City pays all claims. The third-party administrator submits weekly preliminary check registers for all processed claims. The City issues payment to the plan administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The premiums for these policies are billed monthly by the third-party administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2013, was estimated by third party administrators. It is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in the Self-Funded Insurance Fund, which is an internal service fund.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

Changes in the health claims for the two fiscal years ended September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Health Claim Liability, beginning of the year	\$ 433,921	\$ 874,368
Current-year Claims and Changes in Estimates	5,864,180	4,755,332
Claim payments	<u>(5,837,363)</u>	<u>(5,195,779)</u>
Health Claim Liability, End of Year	<u>\$ 460,738</u>	<u>\$ 433,921</u>

H. Other Post Employment Benefits

1. Retiree Health Benefit

a. Plan Description

The City of Conroe Other Post Employment Benefit Trust is a single employer trust established in 2009 to provide medical, vision, and dental insurance coverage for qualified retirees in accordance with its personnel policy. The first irrevocable trust was established in 2009 and is held by ICMA RC who is also the administrator of the plan. The City has discontinued funding its annual contribution to this plan. However, the City will continue to withdraw funds to reimburse the Self Funded Insurance Fund (SFIF) for Retiree claims. As of September 30, 2013, the balance of funds has been fully liquidated. The City established a new irrevocable trust in 2012, and it is held by PARS, who is also the administrator of the plan. Assets held by the trust are valued at fair value.

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

b. Eligibility

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

c. Termination of Coverage

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

d. Premiums

- (1) Fifty (50) percent of the effective premium cost will be paid by the City.
- (2) Payment of the remaining 50% will be determined on an annual basis by City Council.
- (3) The retiree is responsible for payment of premiums for any dependent covered under the plan(s).

e. Miscellaneous

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

f. Exception

- (1) Retirement under the eligibility provisions effective through December 31, 2011
 - (a) Any employee meeting retirement eligibility under the prior retiree insurance eligibility requirements may retire under those provisions through December 31, 2011.
 - (b) Employees completing twenty-five (25) years of service by December 31, 2011, will be grandfathered at 100% premium paid by the City.
- (2) Receipt of pension requirement for firefighters
 - (a) The requirement that an employee must be receiving a pension is waived for firefighters through December 31, 2011.
- (3) Exchange of sick leave
 - (a) Through the two year window, employees may use up to 720 hours of their sick balance in exchange for eligibility to reach 25 years. This exception expires December 31, 2011.

g. Death-in-Service Retirement Benefits

- (1) Surviving spouses of active employees are allowed COBRA coverage only.

h. Benefits for Spouses of Retired Employees

- (1) Retiree may purchase retiree health care coverage for eligible spouses and dependents. The City's subsidy does not apply to the dependent premiums. Surviving spouses and dependents of deceased retired members may continue retiree health coverage through COBRA.

i. Non-Medicare and Medicare-Eligible Provisions

- (1) Employees retiring after December 31, 2011, cannot remain on the plan once they become eligible for Medicare. Participants who were retired as of December 31, 2011, may remain on the plan after becoming eligible for Medicare, but would be required to pay the full premiums. However, the City will pay the entire retiree premium for two post 65 retirees who are covered under special agreements.
- (2) As of the valuation date, there were 15 grandfathered retirees who have their Medicare Part 5 premiums paid for by the City. No other current or future retirees will have their Part B premiums reimbursed by the City. The Part B premiums were \$96 per month as of the valuation date.

j. Dental and Vision Coverage

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

k. Life Insurance Coverage

- (1) The City provides a \$7,500 life insurance benefit for retirees. The life insurance benefit extends past age 65. As of December 31, 2011, there were six retirees who accrued a life insurance benefit of \$12,500.

l. Monthly Retiree Premiums Effective October 1, 2012

<u>Benefit</u>	<u>Retiree Only</u>	<u>Spouse</u>
Medical	\$ 662	\$ 106
Dental	34	24
Vision	4	8

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

As with all benefits, the benefits provided above are subject to change, amendment, addition or cancellation at any time and this document does not provide a guarantee or promise of benefits in the future.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

For the year ended September 30, 2013, the City funded 50% of the normal cost and the pay-go amount totaling \$1,471,511 in an irrevocable trust, and it reported in a fiduciary fund in the financial statements. Withdrawals in the amount of \$1,577,055 were made from the irrevocable trust to reimburse the City for pre-65 and post-65 retirees' claims paid by the Self Funded Insurance Fund.

m. Schedule of Actuarial Liabilities

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

Actuarial Cost Method	Project Unit Credit		
Amortization Method	Level Percent of Payroll		
Remaining Amortization Period	28 Years - Closed Payroll		
Asset Valuation Method	Amortized Cost		
Investment Rate of Return	Blended		
Payroll Growth	3%		
Health Care Trends	10% Initial, 4.5% Ultimate		
Inflation Rate	3%		

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Annual OPEB Cost:</u>			
Annual required contribution (ARC)	\$ 1,471,511	\$ 1,232,356	\$ 1,232,356
Interest on prior year net OPEB obligation	253,788	210,673	193,070
Adjustment to the ARC			
2013 CY Amort Factor	(1,262,775)	-	-
2012 CY Amort Factor	-	254,354	-
2011 PY Amort Factor	-	-	134,158
2010 PY Amort Factor	-	-	98,590
Annual OPEB Cost	462,524	1,697,383	1,658,174
Employer Contributions	(1,368,795)	(1,232,356)	(1,232,356)
Retiree Contributions	-	-	(132,429)
NOO restated for 2010 Retiree Contributions	-	121,129	-
NOO restated for 2011 Retiree Contributions	-	132,429	-
Increase in OPEB obligation	(906,271)	718,585	293,389
Net OPEB obligation, October 1	4,229,805	3,511,220	3,217,831
Net OPEB obligation, September 30	\$ 3,323,534	\$ 4,229,805	\$ 3,511,220
Percentage of annual OPEB cost contributed	295.94%	57.67%	82.31%

Note: 2010 NOO was restated to include an "Adjustment to the ARC" of \$98,590.

Note: Retiree contributions are already accounted for in the actuarial calculation and were inadvertently accounted for as contributions.

Note: 2013 NOO was restated to correct the Adjustment to the ARC which was previously reported as an addition to the Annual OPEB cost

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

n. Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 10.30 percent funded. The actuarial liability for benefits was \$14,851,911, and the actuarial value of assets was \$1,535,927, resulting in an unfunded actuarial liability (UAAL) of \$13,315,984. The covered payroll (annual payroll of active employees covered by the plan) was \$21,528,653, and the ratio of UAAL to the covered payroll was 61.85 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

I. Pension Plan

1. Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined-benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	Plan Year 2012	Plan Year 2013
Employee Deposit Rate	7%	7%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

2. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

CITY OF CONROE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

The annual pension cost and net pension obligation/(asset) are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Pension Obligation:			
Annual pension cost:			
Annual required contribution (ARC)	\$ 3,571,775	\$ 3,468,496	\$ 3,608,987
Interest on prior year net pension obligation (NPO)	151,742	136,050	101,798
Adjustment to the ARC	(629,654)	116,950	129,280
Annual pension cost	3,093,863	3,721,496	3,840,065
Contributions made	<u>3,705,461</u>	<u>3,497,349</u>	<u>3,253,775</u>
Increase in NPO	(611,907)	224,147	586,290
Net Pension Obligation, October 1	<u>2,167,740</u>	<u>1,943,593</u>	<u>1,357,303</u>
Net Pension Obligation, September 30	\$ <u>1,556,142</u>	\$ <u>2,167,740</u>	\$ <u>1,943,593</u>
Percentage of APC Contribution	120%	94%	85%

Note: 2013 NPO was restated to correct the Adjustment to the ARC which was previously reported as an addition to the Net Pension Obligation.

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	25.1 years, closed period	26.1 years, closed period	27.1 years, closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.00%	7.00%	7.00%
Projected Salary Increase*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.10%	2.10%	2.10%

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

3. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 79.1 percent funded. The actuarial liability for benefits was \$91,839,830, and the actuarial value of assets was \$72,682,221, resulting in an unfunded actuarial liability (UAAL) of \$19,157,609. The covered payroll (annual payroll of active employees covered by the plan) was \$20,887,572, and the ratio of UAAL to the covered payroll was 91.7 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

J. City of Conroe Fire Fighters' Retirement Fund

The City participates in funding a contributory, defined benefit retirement plan: City of Conroe Fire Fighters' Retirement Fund. The Fund was established in accordance with the provisions of H.B. 258 passed by the Texas State Legislature in 1937, with the purpose of providing pension benefits to volunteer, part-time and full-time firefighters. The Fund is administered in accordance with State laws by the members of the Fund's Pension Board of Directors. The plan is a City wide single employer funded plan that covers substantially all active paid and volunteer fire fighters. The fiscal year of the pension fund ends December 31. The most recently available financial statements of the pension fund is for the year ended December 31, 2011.

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

	2013	2012	2011
Net Pension Obligation:			
Annual pension cost:			
Annual required contribution (ARC)	\$ 1,493,746	\$ 1,493,746	\$ 1,508,361
Interest on prior year net pension obligation (NPO)	31,804	23,776	9,716
Adjustment to the ARC	(22,609)	(16,902)	(6,667)
Less Firefighter Contributions	(694,632)	(647,862)	(636,891)
Annual pension cost, net*	808,309	852,758	874,519
Contributions made by City	787,470	749,171	693,103
Increase in NPO	20,839	103,587	181,416
Net Pension Obligation, October 1	410,373	306,786	125,370
Net Pension Obligation, September 30	\$ 431,212	\$ 410,373	\$ 306,786
Percentage of APC Contribution	97%	88%	79%

Note: Annual pension cost was restated in FY2011 due to the latest actuarial valuation dated December 30, 2011.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

Actuarial valuation of the plan is performed every two years. The latest actuarial valuations were completed as of December 30, 2011.

The following are actuarial assumptions:

Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level Percentage, Open
Amortization Period	38.2 Years
Asset Valuation Method	5-Year Smoothed Market
Investment Rate of Return	7.75%
Projected Salary Increase	5.70%
Inflation Rate	4.00%
Cost of Living Adjustment	0.00%

The plan's amortization period has increased to 38.2 years. Under current Texas Pension Review Board guidelines for actuarial soundness, expected contributions should be sufficient to amortize the unfunded actuarial liability (UAL) over a preferred period of 15 to 25 years (maximum of 40 years). The expected amortization period was 38.2 years based on the 2011 actuarial valuation, assuming future Plan experience is consistent with the underlying basis. The net increase in the expected amortization period is primarily attributable to lower than expected investment performance.

As of December 31, 2011, the most recent actuarial valuation date, the plan was 60.6 percent funded. The actuarial liability for benefits was \$25,409,581, and the actuarial value of assets was \$15,392,762, resulting in an unfunded actuarial liability (UAAL) of \$10,016,819. The covered payroll (annual payroll of active employees covered by the plan) was \$4,993,826, and the ratio of UAAL to the covered payroll was 200.6 percent.

The schedule of funding progress, presented as RSI following the notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The plan's accounting records are maintained on the accrual method. Their investments are valued at current market value determined by the following methods: investments traded on a national securities exchange are valued at the reported closing price as of the last business day of the year; and the investments traded over-the-counter are valued at the last reported bid price. Mutual funds are reported at net position value.

Financial reports that include financial statements for the plan is publicly available by contacting: Conroe Fire Fighters' Retirement Fund, 904 W. Dallas, Suite 11, Conroe, Texas 77301, or (936) 760-1600.

K. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

The City participates in a number of federal and state financial assistance programs. Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act through September 30, 2013, these programs are subject to financial and compliance audits by the granting agencies. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

2. Litigation

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

3. Deferred Compensation Plan

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

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

L. Closure and Postclosure Care Cost

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

M. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new statements. A listing follows of those that apply to the City. These statements will be implemented as required by the GASB.

GASB Statement No. 66, *Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62*, improves accounting and financial reporting for a government financial Reporting entity by resolving conflicting guidance that resulted the issuance of these two pronouncements. The amendment to GASB Stmt. No. 10 removes the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. The amendment to GASB Stmt. No. 62 modifies guidance on accounting for operating lease payments that vary from a straight-line basis. This statement will be effective for the City in the fiscal year ending September 30, 2014.

GASB Statement No. 67, *Financial Reporting For Pension Plans – An Amendment of GASB Statement No. 25*, improves financial reporting by state and local governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement will be effective for the City in the fiscal year ending September 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*, replaces the requirements of Statement No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. This statement will be effective for the City in the fiscal year ending September 30, 2015.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations including mergers, acquisitions, and transfers of operations. This statement will be effective for the City in the fiscal year ending September 30, 2015.

GASB Statement No. 70, *Accounting and Financial Reporting For Nonexchange Financial Guarantees*, requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This statement will be effective for the City in the fiscal year ending September 30, 2014.

N. Subsequent Events

In 2014, the City entered into an agreement with San Jacinto River Authority for water plant and waterline improvements to reduce groundwater production from certain aquifers located within Montgomery County.

CITY OF CONROE, TEXAS

CITY OF CONROE, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

OTHER POST EMPLOYMENT BENEFITS (OPEB)

YEAR ENDED SEPTEMBER 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2006	\$ -	\$ 28,081,159	\$ 28,081,159	-	\$ 25,556,387	109.88%
12/31/2008	-	19,393,024	19,393,024	-	26,241,409	73.90%
12/31/2011	1,535,927	14,851,911	13,315,984	10.34%	21,528,653	61.85%

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)

YEAR ENDED SEPTEMBER 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2010	59,227,953	80,551,978	21,324,025	73.5%	20,139,435	105.9%
12/31/2011	65,735,466	85,928,817	20,193,351	76.5%	20,511,507	98.4%
12/31/2012	72,682,221	91,839,830	19,157,609	79.1%	20,887,572	91.7%

SCHEDULE OF FUNDING PROGRESS

CONROE FIREFIGHTERS' RETIREMENT FUND

YEAR ENDED SEPTEMBER 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2007	\$ 12,622,918	\$ 17,678,014	\$ 5,055,096	71.4%	\$ 4,115,696	122.8%
12/31/2009	12,943,409	22,477,234	9,533,825	57.6%	4,834,146	197.2%
12/31/2011	15,392,762	25,409,581	10,016,819	60.6%	4,993,826	200.6%

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

EXHIBIT B-1

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS			
Pooled Cash and Cash Equivalents	\$ 351,502	\$ 184,983	\$ 536,485
Non-pooled Cash and Cash Equivalents	8,163	-	8,163
Investments	1,752,343	7,430,900	9,183,243
Receivables (net of allowances for uncollectibles):			
Accounts	1,725	-	1,725
Interest	1	3,359	3,360
Other	1,949	90,800	92,749
Due from Other Funds	266,002	299,503	565,505
TOTAL ASSETS	<u>\$ 2,381,685</u>	<u>\$ 8,009,545</u>	<u>\$ 10,391,230</u>
LIABILITIES			
Accounts Payable	\$ 36,345	\$ 202,803	\$ 239,148
Accrued Expenditures/Expenses	344,819	28,941	373,760
Retainage Payable	-	21,263	21,263
Due to Other Funds	-	800,032	800,032
Customer Deposits	13,381	-	13,381
Unearned Revenue	2,164	-	2,164
TOTAL LIABILITIES	<u>396,709</u>	<u>1,053,039</u>	<u>1,449,748</u>
FUND BALANCES			
Restricted for:			
Capital Project Funds	-	3,152,760	3,152,760
Special Revenue Funds	1,446,517	-	1,446,517
Committed for:			
Police Projects-Settlement Proceeds	-	340,554	340,554
TIRZ #2-Property Tax Receipts	-	8	8
TIRZ #3-Property Tax Receipts	-	3,463,184	3,463,184
Conroe Tower-Lease Income	385,950	-	385,950
Owen Theater-Ticket Sales	98,386	-	98,386
Woodlands Township Reg. Participation	54,123	-	54,123
TOTAL FUND BALANCES	<u>1,984,976</u>	<u>6,956,506</u>	<u>8,941,482</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,381,685</u>	<u>\$ 8,009,545</u>	<u>\$ 10,391,230</u>



CITY OF CONROE, TEXAS**EXHIBIT B-2**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013*

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
REVENUES			
Taxes	\$ 926,572	\$ -	\$ 926,572
Lease Income	257,167	-	257,167
Intergovernmental	430,626	1,065,120	1,495,746
Investment Income	26,359	2,307	28,666
Gain (Loss) on Investment	-	20,078	20,078
Land Sales	-	184,014	184,014
Other	121,727	326,260	447,987
TOTAL REVENUES	<u>1,762,451</u>	<u>1,597,779</u>	<u>3,360,230</u>
EXPENDITURES			
Current:			
General Government	1,274,470	196,742	1,471,212
Debt Service:			
Principal Retirement	95,000	-	95,000
Interest and Fiscal Charges	63,893	-	63,893
Capital Outlay	-	2,861,940	2,861,940
TOTAL EXPENDITURES	<u>1,433,363</u>	<u>3,058,682</u>	<u>4,492,045</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>329,088</u>	<u>(1,460,903)</u>	<u>(1,131,815)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	163,724	1,765,186	1,928,910
Transfers Out	(6,000)	(2,950,629)	(2,956,629)
TOTAL OTHER FINANCING SOURCES (USES)	<u>157,724</u>	<u>(1,185,443)</u>	<u>(1,027,719)</u>
Net Change in Fund Balances	486,812	(2,646,346)	(2,159,534)
Fund Balances at Beginning of Year	1,762,495	9,602,852	11,365,347
Residual Equity Transfer	(264,331)	-	(264,331)
FUND BALANCES AT END OF YEAR	<u>\$ 1,984,976</u>	<u>\$ 6,956,506</u>	<u>\$ 8,941,482</u>

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2013

	Hotel/Motel Occupancy Tax Fund	Public Improvement District "PID" Assessments	Community Development Block Grant Entitlement	The Conroe Tower
ASSETS				
Pooled Cash and Cash Equivalents	\$ -	\$ -	\$ 340,042	\$ 11,460
Non-pooled Cash and Cash Equivalents	-	8,163	-	-
Investments	1,301,565	-	-	400,700
Receivables (net of allowances for uncollectibles):				
Accounts	-	-	-	1,725
Interest	1	-	-	-
Due from Other Funds	163,571	-	-	-
Other	1	1,948	-	-
TOTAL ASSETS	<u>\$ 1,465,138</u>	<u>\$ 10,111</u>	<u>\$ 340,042</u>	<u>\$ 413,885</u>
LIABILITIES				
Accounts Payable	\$ 24,690	\$ -	\$ -	\$ 11,655
Accrued Expenditures/Expenses	341,920	-	-	2,899
Customer Deposits	-	-	-	13,381
Unearned Revenue	-	2,164	-	-
TOTAL LIABILITIES	<u>366,610</u>	<u>2,164</u>	<u>-</u>	<u>27,935</u>
FUND BALANCES				
Restricted for:				
Special Revenue Funds	1,098,528	7,947	340,042	-
Committed for:				
Conroe Tower-Lease Income	-	-	-	385,950
Owen Theate-Ticket Sales	-	-	-	-
Woodlands Township Reg. Participation	-	-	-	-
TOTAL FUND BALANCES	<u>1,098,528</u>	<u>7,947</u>	<u>340,042</u>	<u>385,950</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,465,138</u>	<u>\$ 10,111</u>	<u>\$ 340,042</u>	<u>\$ 413,885</u>

Greater Conroe Economic Development Council	Owen Theatre	Parks Foundation	Woodlands Township Regional Participation	Total Nonmajor Special Revenue Funds (See Exhibit B-1)
\$ -	\$ -	\$ -	\$ -	\$ 351,502
-	-	-	-	8,163
-	50,078	-	-	1,752,343
-	-	-	-	1,725
-	-	-	-	1
-	48,308	-	54,123	266,002
-	-	-	-	1,949
<u>\$ -</u>	<u>\$ 98,386</u>	<u>\$ -</u>	<u>\$ 54,123</u>	<u>\$ 2,381,685</u>
\$ -	\$ -	\$ -	\$ -	\$ 36,345
-	-	-	-	344,819
-	-	-	-	13,381
-	-	-	-	2,164
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>396,709</u>
-	-	-	-	1,446,517
-	-	-	-	385,950
-	98,386	-	-	98,386
-	-	-	54,123	54,123
<u>-</u>	<u>98,386</u>	<u>-</u>	<u>54,123</u>	<u>1,984,976</u>
<u>\$ -</u>	<u>\$ 98,386</u>	<u>\$ -</u>	<u>\$ 54,123</u>	<u>\$ 2,381,685</u>

CITY OF CONROE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hotel/Motel Occupancy Tax Fund	Public Improvement District "PID" Assessments	Community Development Block Grant Entitlement	The Conroe Tower
REVENUES				
Taxes	\$ 926,572	\$ -	\$ -	\$ -
Lease Income	-	-	-	257,167
Intergovernmental	-	-	420,552	-
Investment Income	942	25,041	-	312
Other	-	114,727	-	-
TOTAL REVENUES	<u>927,514</u>	<u>139,768</u>	<u>420,552</u>	<u>257,479</u>
EXPENDITURES				
Current:				
General Government	592,731	131,740	38,549	500,568
Debt Service:				
Principal Retirement	-	-	95,000	-
Interest and Fiscal Charges	-	-	63,893	-
TOTAL EXPENDITURES	<u>592,731</u>	<u>131,740</u>	<u>197,442</u>	<u>500,568</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>334,783</u>	<u>8,028</u>	<u>223,110</u>	<u>(243,089)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	163,724
Transfers Out	-	-	-	(1,396)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,328</u>
Net Change in Fund Balances	334,783	8,028	223,110	(80,761)
Fund Balances at Beginning of Year	763,745	(81)	116,932	466,711
Residual Equity Transfer	-	-	-	-
FUND BALANCES AT END OF YEAR	<u>\$ 1,098,528</u>	<u>\$ 7,947</u>	<u>\$ 340,042</u>	<u>\$ 385,950</u>

Greater Conroe Economic Development Council	Owen Theatre	Parks Foundation	Woodlands Township Regional Participation	Total Nonmajor Special Revenue Funds (See Exhibit B-2)
\$ -	\$ -	\$ -	\$ -	\$ 926,572
-	-	-	-	257,167
-	-	-	10,074	430,626
-	57	-	7	26,359
-	7,000	-	-	121,727
-	7,057	-	10,081	1,762,451
1,472	9,410	-	-	1,274,470
-	-	-	-	95,000
-	-	-	-	63,893
1,472	9,410	-	-	1,433,363
(1,472)	(2,353)	-	10,081	329,088
-	-	-	-	163,724
-	-	(4,604)	-	(6,000)
-	-	(4,604)	-	157,724
(1,472)	(2,353)	(4,604)	10,081	486,812
265,803	100,739	4,604	44,042	1,762,495
(264,331)	-	-	-	(264,331)
\$ -	\$ 98,386	\$ -	\$ 54,123	\$ 1,984,976

CITY OF CONROE, TEXAS**EXHIBIT B-5**

*HOTEL/MOTEL OCCUPANCY TAX FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 713,870	\$ 713,870	\$ 926,572	\$ 212,702
Investment Income	-	-	942	942
TOTAL REVENUES	<u>713,870</u>	<u>713,870</u>	<u>927,514</u>	<u>213,644</u>
EXPENDITURES				
Current:				
General Government	523,986	604,171	592,731	11,440
TOTAL EXPENDITURES	<u>523,986</u>	<u>604,171</u>	<u>592,731</u>	<u>11,440</u>
Net Change in Fund Balances	189,884	109,699	334,783	225,084
Fund Balances at Beginning of Year	763,745	763,745	763,745	-
FUND BALANCES AT END OF YEAR	<u>\$ 953,629</u>	<u>\$ 873,444</u>	<u>\$ 1,098,528</u>	<u>\$ 225,084</u>

CITY OF CONROE, TEXAS**EXHIBIT B-6**

COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT

SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 528,798	\$ 528,798	\$ 420,552	\$ (108,246)
TOTAL REVENUES	<u>528,798</u>	<u>528,798</u>	<u>420,552</u>	<u>(108,246)</u>
EXPENDITURES				
Current:				
General Government	393,724	393,724	38,549	355,175
Debt Service:				
Principal Retirement	95,000	95,000	95,000	-
Interest and Fiscal Charges	63,892	63,892	63,893	(1)
TOTAL EXPENDITURES	<u>552,616</u>	<u>552,616</u>	<u>197,442</u>	<u>355,174</u>
Net Change in Fund Balances	(23,818)	(23,818)	223,110	246,928
Fund Balances at Beginning of Year	116,932	116,932	116,932	-
FUND BALANCES AT END OF YEAR	<u>\$ 93,114</u>	<u>\$ 93,114</u>	<u>\$ 340,042</u>	<u>\$ 246,928</u>

CITY OF CONROE, TEXAS
THE CONROE TOWER
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-7

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Lease Income	\$ 262,848	\$ 262,848	\$ 257,167	\$ (5,681)
Investment Income	-	-	312	312
TOTAL REVENUES	<u>262,848</u>	<u>262,848</u>	<u>257,479</u>	<u>(5,369)</u>
EXPENDITURES				
Current:				
General Government	425,176	541,148	500,568	40,580
Capital Outlay	<u>47,900</u>	<u>58,650</u>	-	<u>58,650</u>
TOTAL EXPENDITURES	<u>473,076</u>	<u>599,798</u>	<u>500,568</u>	<u>99,230</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(210,228)</u>	<u>(336,950)</u>	<u>(243,089)</u>	<u>93,861</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	163,724	163,724	163,724	-
Transfers Out	<u>(1,396)</u>	<u>(1,396)</u>	<u>(1,396)</u>	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>162,328</u>	<u>162,328</u>	<u>162,328</u>	-
Net Change in Fund Balances	<u>(47,900)</u>	<u>(174,622)</u>	<u>(80,761)</u>	<u>93,861</u>
Fund Balances at Beginning of Year	<u>466,711</u>	<u>466,711</u>	<u>466,711</u>	-
FUND BALANCES AT END OF YEAR	<u>\$ 418,811</u>	<u>\$ 292,089</u>	<u>\$ 385,950</u>	<u>\$ 93,861</u>

CITY OF CONROE, TEXAS
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 6,739,398	\$ 6,739,398	\$ 6,802,191	\$ 62,793
Investment Income	13,657	13,657	13,010	(647)
Gain (Loss) on Investment	-	-	(77,934)	(77,934)
Penalties and Interest	54,925	54,925	46,597	(8,328)
TOTAL REVENUES	<u>6,807,980</u>	<u>6,807,980</u>	<u>6,783,864</u>	<u>(24,116)</u>
EXPENDITURES				
Current:				
General Government	22,650	22,650	11,126	11,524
Debt Service:				
Principal Retirement	5,650,000	11,050,000	10,870,000	180,000
Interest and Fiscal Charges	4,338,680	4,088,204	4,208,545	(120,341)
TOTAL EXPENDITURES	<u>10,011,330</u>	<u>15,160,854</u>	<u>15,089,671</u>	<u>71,183</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,203,350)</u>	<u>(8,352,874)</u>	<u>(8,305,807)</u>	<u>47,067</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	4,068,012	9,534,012	9,436,818	(97,194)
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,068,012</u>	<u>9,534,012</u>	<u>9,436,818</u>	<u>(97,194)</u>
Net Change in Fund Balances	864,662	1,181,138	1,131,011	(50,127)
Fund Balances at Beginning of Year	7,181,606	7,181,606	7,181,606	-
FUND BALANCES AT END OF YEAR	<u>\$ 8,046,268</u>	<u>\$ 8,362,744</u>	<u>\$ 8,312,617</u>	<u>\$ (50,127)</u>

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2013

	Police & Courts Building Fund	Signals CIP Fund	Facilities CIP Fund
ASSETS			
Pooled Cash and Cash Equivalents	\$ 10,011	\$ 68,704	\$ -
Investments	330,543	236,828	1,259,830
Receivables (net of allowances for uncollectibles):			
Interest	-	1	-
Other	-	-	-
Due from Other Funds	-	12,364	-
TOTAL ASSETS	<u>\$ 340,554</u>	<u>\$ 317,897</u>	<u>\$ 1,259,830</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 91,500
Accrued Expenditures/Expenses	-	28,941	-
Retainage Payable	-	-	-
Due to Other Funds	-	-	798,520
TOTAL LIABILITIES	<u>-</u>	<u>28,941</u>	<u>890,020</u>
FUND BALANCES			
Restricted for:			
Capital Project Funds	-	288,956	369,810
Committed for:			
Police Projects-Settlement Proceeds	340,554	-	-
TIRZ #2-Property Tax Receipts	-	-	-
TIRZ #3-Property Tax Receipts	-	-	-
TOTAL FUND BALANCES	<u>340,554</u>	<u>288,956</u>	<u>369,810</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 340,554</u>	<u>\$ 317,897</u>	<u>\$ 1,259,830</u>

<u>Transportation Grants CIP Fund</u>	<u>CDBG Sec 108 Facade Improvement</u>	<u>Firearms Training Facility</u>	<u>Woodlands Annexations</u>	<u>Drainage CIP Fund</u>	<u>Park CIP Fund</u>
\$ 59,895	\$ 15,578	\$ 17,503	\$ 10,474	\$ 2,810	\$ -
-	-	-	-	851,782	1,290,577
-	-	-	-	-	2
90,800	-	-	-	-	-
-	-	-	-	-	287,139
<u>\$ 150,695</u>	<u>\$ 15,578</u>	<u>\$ 17,503</u>	<u>\$ 10,474</u>	<u>\$ 854,592</u>	<u>\$ 1,577,718</u>
\$ 105,076	\$ -	\$ -	\$ -	\$ 1,833	\$ 4,394
-	-	-	-	-	-
6,325	-	-	-	-	14,938
-	-	-	-	-	-
<u>111,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,833</u>	<u>19,332</u>
39,294	15,578	17,503	10,474	852,759	1,558,386
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>39,294</u>	<u>15,578</u>	<u>17,503</u>	<u>10,474</u>	<u>852,759</u>	<u>1,558,386</u>
<u>\$ 150,695</u>	<u>\$ 15,578</u>	<u>\$ 17,503</u>	<u>\$ 10,474</u>	<u>\$ 854,592</u>	<u>\$ 1,577,718</u>



CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2013

EXHIBIT B-9
Page 2 of 2

	Tax Incr Reinv. Zone 2	Tax Incr Reinv. Zone 3	Total Nonmajor Capital Projects Funds (See Exhibit B-1)
ASSETS			
Pooled Cash and Cash Equivalents	\$ 8	\$ -	\$ 184,983
Investments	-	3,461,340	7,430,900
Receivables (net of allowances for uncollectibles):			
Interest	-	3,356	3,359
Other	-	-	90,800
Due from Other Funds	-	-	299,503
TOTAL ASSETS	<u>\$ 8</u>	<u>\$ 3,464,696</u>	<u>\$ 8,009,545</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 202,803
Accrued Expenditures/Expenses	-	-	28,941
Retainage Payable	-	-	21,263
Due to Other Funds	-	1,512	800,032
TOTAL LIABILITIES	<u>-</u>	<u>1,512</u>	<u>1,053,039</u>
FUND BALANCES			
Restricted for:			
Capital Project Funds	-	-	3,152,760
Committed for:			
Police Projects-Settlement Proceeds	-	-	340,554
TIRZ #2-Property Tax Receipts	8	-	8
TIRZ #3-Property Tax Receipts	-	3,463,184	3,463,184
TOTAL FUND BALANCES	<u>8</u>	<u>3,463,184</u>	<u>6,956,506</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8</u>	<u>\$ 3,464,696</u>	<u>\$ 8,009,545</u>

CITY OF CONROE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR CAPITAL PROJECTS FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Police & Courts Building Fund	Signals CIP Fund	Facilities CIP Fund
REVENUES			
Intergovernmental	\$ -	\$ -	\$ -
Investment Income	300	239	2,030
Gain (Loss) on Investment	-	-	-
Land Sales	-	-	-
Other	-	-	324,760
TOTAL REVENUES	<u>300</u>	<u>239</u>	<u>326,790</u>
EXPENDITURES			
Current:			
General Government	22,197	-	6,655
Capital Outlay	-	29,645	1,821,496
TOTAL EXPENDITURES	<u>22,197</u>	<u>29,645</u>	<u>1,828,151</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(21,897)</u>	<u>(29,406)</u>	<u>(1,501,361)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	(952,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(952,000)</u>
Net Change in Fund Balances	(21,897)	(29,406)	(2,453,361)
Fund Balances at Beginning of Year	362,451	318,362	2,823,171
FUND BALANCES AT END OF YEAR	<u>\$ 340,554</u>	<u>\$ 288,956</u>	<u>\$ 369,810</u>

Transportation Grants CIP Fund	CDBG Sec 108 Facade Improvement	Firearms Training Facility	Woodlands Annexations	Drainage CIP Fund	Park CIP Fund
\$ 90,800	\$ -	\$ -	\$ -	\$ -	\$ -
-	1	3	1	1,147	1,655
-	-	-	-	-	-
-	-	-	-	-	184,014
-	-	-	-	-	1,500
<u>90,800</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>1,147</u>	<u>187,169</u>
-	-	3,127	-	-	21,625
<u>126,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,621</u>	<u>862,672</u>
<u>126,506</u>	<u>-</u>	<u>3,127</u>	<u>-</u>	<u>21,621</u>	<u>884,297</u>
<u>(35,706)</u>	<u>1</u>	<u>(3,124)</u>	<u>1</u>	<u>(20,474)</u>	<u>(697,128)</u>
75,000	-	-	-	-	183,000
-	-	-	-	(12,000)	(71,000)
<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,000)</u>	<u>112,000</u>
39,294	1	(3,124)	1	(32,474)	(585,128)
-	15,577	20,627	10,473	885,233	2,143,514
<u>\$ 39,294</u>	<u>\$ 15,578</u>	<u>\$ 17,503</u>	<u>\$ 10,474</u>	<u>\$ 852,759</u>	<u>\$ 1,558,386</u>



CITY OF CONROE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-10

Page 2 of 2

	Tax Incr Reinv. Zone 2	Tax Incr Reinv. Zone 3	Total Nonmajor Capital Projects Funds (See Exhibit B-2)
REVENUES			
Intergovernmental	\$ -	\$ 974,320	\$ 1,065,120
Investment Income	3	(3,072)	2,307
Gain (Loss) on Investment	-	20,078	20,078
Land Sales	-	-	184,014
Other	-	-	326,260
TOTAL REVENUES	<u>3</u>	<u>991,326</u>	<u>1,597,779</u>
EXPENDITURES			
Current:			
General Government	143,138	-	196,742
Capital Outlay	-	-	2,861,940
TOTAL EXPENDITURES	<u>143,138</u>	<u>-</u>	<u>3,058,682</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(143,135)</u>	<u>991,326</u>	<u>(1,460,903)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	143,138	1,364,048	1,765,186
Transfers Out	-	(1,915,629)	(2,950,629)
TOTAL OTHER FINANCING SOURCES (USES)	<u>143,138</u>	<u>(551,581)</u>	<u>(1,185,443)</u>
Net Change in Fund Balances	<u>3</u>	<u>439,745</u>	<u>(2,646,346)</u>
Fund Balances at Beginning of Year	5	3,023,439	9,602,852
FUND BALANCES AT END OF YEAR	<u>\$ 8</u>	<u>\$ 3,463,184</u>	<u>\$ 6,956,506</u>

CITY OF CONROE, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2013

EXHIBIT B-11

	Fleet Services Fund	Self Funded Insurance	Total Internal Service Funds (See Exhibit A-9)
ASSETS			
Current Assets:			
Pooled Cash and Cash Equivalents	\$ 152,278	\$ -	\$ 152,278
Investments	-	3,164,928	3,164,928
Receivable (Net of Allowances for Uncollectibles):			
Accounts	9,749	-	9,749
Interest	5	1,519	1,524
Other	-	7,186	7,186
Inventories	32,781	-	32,781
Total Current Assets	194,813	3,173,633	3,368,446
TOTAL ASSETS	194,813	3,173,633	3,368,446
LIABILITIES			
Current Liabilities:			
Accounts Payable	41,024	-	41,024
Due to Other Funds	-	381,964	381,964
Accrued Expenditures/Expenses	31,791	440	32,231
Health Claims Liability	-	460,738	460,738
Compensated Absences	1,240	750	1,990
Total Current Liabilities	74,055	843,892	917,947
Noncurrent Liabilities, net of current portion			
Compensated Absences	108,160	15,153	123,313
OPEB Liability	-	3,323,534	3,323,534
Net Pension Obligation/TMRS	21,387	307	21,694
Total Noncurrent Liabilities	129,547	3,338,994	3,468,541
TOTAL LIABILITIES	203,602	4,182,886	4,386,488
NET POSITION			
Unrestricted	(8,789)	(1,009,253)	(1,018,042)
TOTAL NET POSITION	\$ (8,789)	\$ (1,009,253)	\$ (1,018,042)

CITY OF CONROE, TEXAS**EXHIBIT B-12**

*COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013*

	Fleet Services Fund	Self Funded Insurance	Total Internal Service Funds (See Exhibit A-10)
OPERATING REVENUES			
Charges for Sales and Services	\$ 1,297,701	\$ 6,886,810	\$ 8,184,511
TOTAL OPERATING REVENUES	<u>1,297,701</u>	<u>6,886,810</u>	<u>8,184,511</u>
OPERATING EXPENSES			
Public Works	1,301,942	-	1,301,942
General Government	-	6,786,380	6,786,380
TOTAL OPERATING EXPENSES	<u>1,301,942</u>	<u>6,786,380</u>	<u>8,088,322</u>
Operating Income (Loss)	<u>(4,241)</u>	<u>100,430</u>	<u>96,189</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Income	14	5,521	5,535
Gain (Loss) on Investment	-	(30,615)	(30,615)
Other	685	-	685
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>699</u>	<u>(25,094)</u>	<u>(24,395)</u>
Income (Loss) Before Transfers	<u>(3,542)</u>	<u>75,336</u>	<u>71,794</u>
Transfers In	35,313	-	35,313
Transfer Out	(7,297)	-	(7,297)
NET TRANSFERS	<u>28,016</u>	<u>-</u>	<u>28,016</u>
Change in Net Position	<u>24,474</u>	<u>75,336</u>	<u>99,810</u>
Net Position at Beginning of Year	(33,263)	(1,084,589)	(1,117,852)
NET POSITION AT END OF YEAR	<u>\$ (8,789)</u>	<u>\$ (1,009,253)</u>	<u>\$ (1,018,042)</u>

CITY OF CONROE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-13

	Fleet Services Fund	Self Funded Insurance	Total Internal Service Funds (See Exhibit A-11)
Cash Flows from Operating Activities			
<i>Cash Received from Customers</i>	\$ 1,299,604	\$ -	\$ 1,299,604
<i>Cash Received from Employees</i>	-	1,617,773	1,617,773
<i>Cash Received from Other Funds</i>	-	5,261,668	5,261,668
<i>Cash Payments to Employees for Services</i>	(687,965)	(1,209,290)	(1,897,255)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(605,723)	(51,244)	(656,967)
<i>Cash Payments for Loss Claims</i>	-	(6,406,207)	(6,406,207)
Net Cash Provided by (Used for) Operating Activities	<u>5,916</u>	<u>(787,300)</u>	<u>(781,384)</u>
Cash Flows from Non-Capital Financing Activities:			
<i>Transfer From (To) Other Funds</i>	<u>28,016</u>	<u>381,964</u>	<u>409,980</u>
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>28,016</u>	<u>381,964</u>	<u>409,980</u>
Cash Flows from Investing Activities:			
<i>Purchase of Investment Securities</i>	-	(1,455,692)	(1,455,692)
<i>Proceeds from Sale and Maturities of Securities</i>	-	1,794,888	1,794,888
<i>Interest and Dividends on Investments</i>	<u>698</u>	<u>(25,093)</u>	<u>(24,395)</u>
Net Cash Provided by (Used for) Investing Activities	<u>698</u>	<u>314,103</u>	<u>314,801</u>
Net Increase (Decrease) in Cash and Cash Equivalents	34,630	(91,233)	(56,603)
Cash and Cash Equivalents at Beginning of Year	<u>117,648</u>	<u>91,233</u>	<u>208,881</u>
Cash and Cash Equivalents at End of Year	<u>\$ 152,278</u>	<u>\$ -</u>	<u>\$ 152,278</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
<i>Operating Income (Loss)</i>	(4,241)	100,430	96,189
<i>Changes in Assets and Liabilities:</i>			
<i>Decrease (Increase) in Receivables</i>	1,903	(7,367)	(5,464)
<i>Decrease (Increase) in Inventories</i>	(5,046)	-	(5,046)
<i>Increase (Decrease) in Accounts Payable</i>	4,317	-	4,317
<i>Increase (Decrease) in Compensated Absences</i>	8,472	647	9,119
<i>Increase (Decrease) in Accrued Expenses</i>	9,200	24,955	34,155
<i>Increase (Decrease) in OPEB Liability</i>	-	(906,272)	(906,272)
<i>Increase (Decrease) in Net Pension Obligation/TMRS</i>	<u>(8,689)</u>	<u>307</u>	<u>(8,382)</u>
<i>Total Adjustments</i>	<u>10,157</u>	<u>(887,730)</u>	<u>(877,573)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 5,916</u>	<u>\$ (787,300)</u>	<u>\$ (781,384)</u>

STATISTICAL SECTION

This part of the City of Conroe, Texas's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Tables

Financial Trends	1-2
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	3-13
<i>These schedules present information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.</i>	
Debt Capacity	14-18
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future</i>	
Demographic and Economic Information	19-20
<i>These schedules offer demographic and economic indicators to help the reader understand how the City's financial activities take place and to help make comparisons over time and with other governments.</i>	
Operating Information	21-23
<i>These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF CONROE, TEXAS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental Activities:					
Net Investment in Capital Assets	\$ (9,913,662)	\$ (11,377,274)	\$ 6,521,797	\$ 15,076,286	\$ 30,494,416
Restricted for:					
Capital Projects	8,521,393	4,679,343	7,719,594	3,879,363	-
Debt Service	3,936,770	4,101,959	596,287	4,885,305	356,030
Federal & State Programs	39,293	1,501,003	90,683	226,818	101,185
CIDC	4,077,126	5,676,286	6,659,112	11,041,766	14,291,377
Other Purposes	1,171,489	34,095	979,744	837,285	590,338
Unrestricted	(7,508,933)	(3,856,350)	(3,347,366)	13,947,148	18,623,082
Total Governmental					
Activities Net Position	\$ <u>323,476</u>	\$ <u>759,062</u>	\$ <u>19,219,851</u>	\$ <u>49,893,971</u>	\$ <u>64,456,428</u>
Business-type Activities:					
Net Investment in Capital Assets	\$ 48,178,908	\$ 50,815,915	\$ 36,583,725	\$ 40,138,677	\$ 34,302,455
Restricted for:					
Debt Service	428,599	-	-	-	-
Unrestricted	6,052,389	3,397,835	13,315,205	9,005,666	12,443,817
Total Business-type					
Activities Net Position	\$ <u>54,659,896</u>	\$ <u>54,213,750</u>	\$ <u>49,898,930</u>	\$ <u>49,144,343</u>	\$ <u>46,746,272</u>
Primary Government:					
Net Investment in Capital Assets	\$ 38,265,246	\$ 39,438,641	\$ 37,786,573	\$ 55,214,963	\$ 64,796,871
Restricted for:					
Capital Projects	8,521,393	4,679,343	7,719,594	3,879,363	-
Debt Service	4,365,369	4,101,959	596,287	4,885,305	356,030
Federal & State Programs	39,293	1,501,003	90,683	226,818	101,185
CIDC	4,077,126	5,676,286	6,659,112	11,041,766	14,291,377
Other Purposes	1,171,489	34,095	979,744	837,285	590,338
Unrestricted	(1,456,544)	(458,515)	15,286,788	22,952,814	31,066,899
Total Primary					
Government Net Position	\$ <u>54,983,372</u>	\$ <u>54,972,812</u>	\$ <u>69,118,781</u>	\$ <u>99,038,314</u>	\$ <u>111,202,700</u>

TABLE C-1

Fiscal Year					
2009	2010	2011	2012	2013	
\$ 9,491,461	\$ 45,594,829	\$ 44,291,192	\$ 46,590,472	\$ 49,087,033	
34,504,480	-	-	-	-	
8,598,275	5,114,405	6,293,542	7,028,107	8,342,744	
74,890	-	-	-	-	
5,794,691	-	-	-	-	
711,703	-	-	-	-	
10,289,905	22,393,150	30,316,480	33,221,815	42,229,165	
<u>\$ 69,465,405</u>	<u>\$ 73,102,384</u>	<u>\$ 80,901,214</u>	<u>\$ 86,840,394</u>	<u>\$ 99,658,942</u>	
\$ 30,550,082	\$ 42,313,096	\$ 41,092,795	\$ 38,394,869	\$ 38,080,390	
-	768,607	2,011,388	3,469,710	2,883,757	
16,429,178	3,482,423	6,574,281	10,849,396	14,536,011	
<u>\$ 46,979,260</u>	<u>\$ 46,564,126</u>	<u>\$ 49,678,464</u>	<u>\$ 52,713,975</u>	<u>\$ 55,500,158</u>	
\$ 40,041,543	\$ 87,907,925	\$ 85,383,987	\$ 84,985,341	\$ 87,167,423	
34,504,480	-	-	-	-	
8,598,275	5,883,012	8,304,930	10,497,817	11,226,501	
74,890	-	-	-	-	
5,794,691	-	-	-	-	
711,703	-	-	-	-	
26,719,083	25,875,573	36,890,761	44,071,211	56,765,176	
<u>\$ 116,444,665</u>	<u>\$ 119,666,510</u>	<u>\$ 130,579,678</u>	<u>\$ 139,554,369</u>	<u>\$ 155,159,100</u>	

CITY OF CONROE, TEXAS
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

TABLE C-2

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses:										
Governmental Activities:										
General Government	\$ 5,449,168	\$ 5,765,495	\$ 13,354,977	\$ 10,673,508	\$ 15,745,057	\$ 15,339,833	\$ 15,821,856	\$ 16,197,260	\$ 20,069,578	\$ 10,710,512
Finance	767,752	984,020	953,556	1,005,747	1,322,176	1,356,686	1,829,867	1,366,931	2,025,523	1,384,161
Public Safety	14,870,137	15,354,723	17,482,857	18,776,769	20,566,227	23,126,347	24,091,284	24,932,831	25,729,415	26,579,331
Parks	3,806,692	4,322,139	4,619,033	4,099,203	4,199,935	5,606,763	5,712,279	6,309,608	5,531,230	5,872,870
Public Works	4,635,846	4,409,759	5,565,872	6,004,553	8,479,694	6,892,655	6,858,838	7,462,982	7,202,936	8,408,438
Debt Service:										
Interest and Fiscal Charges	4,554,304	3,151,513	3,631,719	3,317,992	3,773,890	4,710,814	4,935,903	4,908,920	5,649,013	5,928,039
Capital Outlay	2,216,220	77,564	-	-	-	-	-	-	-	-
Other	1,179,055	1,131,154	183,126	-	-	-	-	-	-	-
Total Governmental Activities Expenses	\$ 37,479,174	\$ 35,196,367	\$ 45,791,140	\$ 43,877,772	\$ 54,086,979	\$ 57,033,098	\$ 59,250,027	\$ 61,178,532	\$ 66,207,695	\$ 58,883,351
Business-Type Activities:										
Enterprise	11,008,068	10,752,233	13,484,224	13,582,979	13,494,738	14,256,678	15,432,772	17,552,228	18,470,310	21,378,030
Fleet Services	629,363	720,242	690,502	550,206	797,463	1,008,177	1,029,431	1,108,717	1,252,899	1,301,942
Total Business-type Activities Expenses	11,637,431	11,472,475	14,174,726	14,133,185	14,292,201	15,264,855	16,462,203	18,660,945	19,723,209	22,679,972
Total Primary Government Expenses	\$ 49,116,605	\$ 46,668,842	\$ 59,965,866	\$ 58,010,957	\$ 68,379,180	\$ 72,297,953	\$ 75,712,230	\$ 79,839,477	\$ 85,930,904	\$ 81,563,323
Program Revenues:										
Governmental Activities:										
Charges for Services:										
General Government	\$ 1,758,607	\$ 2,086,274	\$ 6,688,317	\$ 6,774,117	\$ 6,760,940	\$ 7,059,292	\$ 6,725,603	\$ 7,577,554	\$ 8,199,459	\$ 1,982,113
Public Safety	1,326,829	1,823,010	2,601,118	1,430,892	1,178,518	1,375,485	2,430,917	4,350,954	3,725,515	3,489,063
Parks	525,674	525,109	594,503	723,509	732,336	828,233	877,457	1,084,825	1,157,025	1,194,628
Public Works	1,228,932	1,401,430	287,265	579,590	705,732	573,402	618,137	722,668	718,931	742,027
Operating Grants & Contributions:										
General Government	540,108	748,332	655,598	768,143	215,183	2,005,746	1,633,776	1,309,475	2,051,305	1,758,848
Public Safety	-	-	-	-	-	-	-	-	-	494,595
Public Works	-	-	-	-	-	-	-	-	-	104,520
Total Governmental Activities Program Revenues	\$ 5,380,150	\$ 6,584,155	\$ 10,826,801	\$ 10,276,251	\$ 9,592,709	\$ 11,842,158	\$ 12,285,890	\$ 15,045,476	\$ 15,852,235	\$ 9,765,794
Business-type Activities:										
Charges for Services:										
Enterprise	8,689,813	9,718,894	11,043,310	11,298,324	13,767,268	15,451,810	21,660,846	21,660,846	20,963,406	24,239,291
Service Center	500,802	647,562	543,743	803,220	745,546	1,088,578	1,156,833	1,156,833	1,211,046	1,297,701
Total Business-type Activities Program Revenues	9,190,615	10,366,456	11,587,053	12,101,544	14,512,814	16,540,388	22,817,679	22,817,679	22,174,452	25,536,992
Total Primary Government Program Revenues	\$ 14,570,765	\$ 16,950,611	\$ 22,413,854	\$ 22,377,795	\$ 24,105,523	\$ 28,382,546	\$ 35,103,569	\$ 37,863,155	\$ 38,026,687	\$ 35,302,786
Net (Expense) Revenues										
Governmental Activities	\$ (32,099,024)	\$ (28,612,212)	\$ (34,964,339)	\$ (33,601,521)	\$ (44,494,270)	\$ (45,190,940)	\$ (46,964,137)	\$ (46,133,056)	\$ (50,355,460)	\$ (49,117,557)
Business-type Activities	(2,446,816)	(1,106,019)	(2,587,673)	(2,031,641)	220,613	573,360	78,185	4,156,734	2,451,243	2,857,020
Total Primary Government Net Expense	\$ (34,545,840)	\$ (29,718,231)	\$ (37,552,012)	\$ (35,633,162)	\$ (44,273,657)	\$ (44,617,580)	\$ (46,885,952)	\$ (41,976,322)	\$ (47,904,217)	\$ (46,260,537)

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and Other Changes in Net Assets										
Governmental Activities:										
Property Taxes	\$ 7,942,985	\$ 8,710,890	\$ 9,670,927	\$ 10,542,923	\$ 12,086,406	\$ 13,766,694	\$ 14,490,433	\$ 14,512,982	\$ 15,551,084	\$ 16,887,252
In Lieu of Taxes	128,044	112,822	379,862	378,998	435,170	457,851	480,206	489,904	570,277	587,634
Gross Receipts Tax	2,249,827	2,343,976	3,031,455	3,160,436	3,747,522	3,940,939	4,189,983	4,715,542	4,837,834	5,275,521
Sales and Other Taxes	21,831,455	22,729,197	27,297,564	28,266,100	29,786,065	28,863,680	27,168,790	30,033,856	31,967,819	36,640,659
Hotel Occupancy Taxes	743,499	324,188	175,416	279,111	228,666	406,603	690,112	591,940	801,963	926,572
Mixed Beverage Taxes	102,514	103,211	119,216	134,088	140,886	147,909	173,790	168,103	141,111	149,146
Seized Assets	4,389	26,437	-	-	-	-	-	-	-	-
Miscellaneous	717,166	1,547,410	1,676,290	2,544,540	2,094,181	2,852,751	811,074	839,882	1,044,394	305,564
Donations	-	-	-	-	-	76,412	161,124	193,335	173,978	397,521
Grants and Contributions Not										
Restricted to Specfic Programs	-	-	-	-	-	-	1,636,394	872,055	870,190	984,394
Unrestricted Investment Earnings	622,387	1,213,038	989,750	1,948,043	1,211,705	718,596	240,119	176,010	160,852	122,179
Gain (Loss) on Investments	-	-	(733,375)	285,948	467,934	(240,904)	(83,186)	38,218	14,930	(221,800)
Gain (Loss) on Capital Assets	-	-	233,293	(504,685)	4,780,042	-	-	-	-	-
Transfers	(936,400)	(285,993)	1,156,645	141,445	3,441,351	453,959	642,277	1,300,059	160,208	1,108,072
Total Governmental Activities	\$ 33,405,866	\$ 36,825,176	\$ 43,997,043	\$ 47,176,947	\$ 58,419,928	\$ 51,444,490	\$ 50,601,116	\$ 53,931,886	\$ 56,294,640	\$ 63,162,714
Business-type Activities:										
Miscellaneous	-	-	-	2,898	-	-	31,492	120,155	126,429	356,157
Donations	-	-	-	-	-	-	880	105	1,000	500
Grants and Contributions Not										
Restricted to Specfic Programs	-	-	-	-	-	-	119,062	48,160	576,728	1,500,000
Unrestricted Investment Earnings	-	459,079	303,334	389,611	873,629	216,786	24,326	36,412	41,335	32,490
Gain (Loss) on Investments	-	-	(187,907)	125,198	(26,230)	(103,199)	(26,802)	52,831	(1,016)	(36,457)
Gain (Loss) on Capital Assets	-	-	161,592	52,528	-	-	-	-	-	-
Transfers	936,400	285,993	(1,156,645)	(141,445)	(3,441,351)	(453,959)	(642,277)	(1,300,059)	(160,208)	(1,108,072)
Total Business-type Activities	936,400	745,072	(879,626)	428,790	(2,593,952)	(340,372)	(493,319)	(1,042,396)	584,268	744,618
Total Primary Government	\$ 34,342,266	\$ 37,570,248	\$ 43,117,417	\$ 47,605,737	\$ 55,825,976	\$ 51,104,118	\$ 50,107,797	\$ 52,889,490	\$ 56,878,908	\$ 63,907,332
Change in Net Assets										
Governmental Activities	\$ 1,306,842	\$ 8,212,964	\$ 9,032,704	\$ 13,575,426	\$ 13,925,658	\$ 6,253,550	\$ 3,636,979	\$ 7,798,830	\$ 5,939,180	\$ 14,045,157
Business-type Activities	(1,510,416)	(360,947)	(3,467,299)	(1,602,851)	(2,373,339)	232,988	(415,134)	3,114,338	3,035,511	3,601,638
Total Primary Government	\$ (203,574)	\$ 7,852,017	\$ 5,565,405	\$ 11,972,575	\$ 11,552,319	\$ 6,486,538	\$ 3,221,845	\$ 10,913,168	\$ 8,974,691	\$ 17,646,795

CITY OF CONROE, TEXAS

PROGRAM REVENUE BY FUNCTION/PROGRAMS

LAST TEN FISCAL YEARS

	Fiscal Year				
	2004	2005	2006	2007	2008
Functions/Programs					
Governmental Activities:					
Charges for Services					
General Government	\$ 1,758,607	\$ 2,086,274	\$ 6,688,317	\$ 6,774,117	\$ 6,760,940
Public Safety	1,326,829	1,823,010	2,601,118	1,430,892	1,178,518
Parks	525,674	525,109	594,503	723,509	732,336
Public Works	1,228,932	1,401,430	287,265	579,590	705,732
Operating Grants & Contributions					
General Government	540,108	748,332	655,598	768,143	215,183
Finance	-	-	-	-	-
Public Safety	-	-	-	-	-
Parks	-	-	-	-	-
Public Works	-	-	-	-	-
Total Governmental Activities	<u>\$ 5,380,150</u>	<u>\$ 6,584,155</u>	<u>\$ 10,826,801</u>	<u>\$ 10,276,251</u>	<u>\$ 9,592,709</u>
Business-type Activities:					
Charges for Services					
Enterprise	8,689,813	9,718,894	11,043,310	11,298,324	13,767,268
Fleet Services	500,802	647,562	543,743	803,220	745,546
Operating Grants & Contributions					
Enterprise	-	-	-	-	-
Total Business-type Activities	<u>9,190,615</u>	<u>10,366,456</u>	<u>11,587,053</u>	<u>12,101,544</u>	<u>14,512,814</u>
Total Primary Government	<u>\$ 14,570,765</u>	<u>\$ 16,950,611</u>	<u>\$ 22,413,854</u>	<u>\$ 22,377,795</u>	<u>\$ 24,105,523</u>

TABLE C-3

Fiscal Year				
2009	2010	2011	2012	2013
\$ 7,059,292	\$ 6,725,603	\$ 7,577,554	\$ 8,199,459	\$ 1,982,113
1,375,485	2,430,917	4,350,954	3,725,515	3,489,063
828,233	877,457	1,084,825	1,157,025	1,194,628
573,402	618,137	722,668	718,931	742,027
584,351	649,953	1,247,405	1,698,203	1,758,848
57,995	-	-	-	-
925,361	87,564	62,070	353,102	494,595
191,572	-	-	-	-
246,467	896,259	-	-	104,520
<u>\$ 11,842,158</u>	<u>\$ 12,285,890</u>	<u>\$ 15,045,476</u>	<u>\$ 15,852,235</u>	<u>\$ 9,765,794</u>
14,200,624	15,451,810	21,660,846	20,963,406	24,239,291
951,870	1,088,578	1,156,833	1,211,046	1,297,701
685,721	-	-	-	-
<u>15,838,215</u>	<u>16,540,388</u>	<u>22,817,679</u>	<u>22,174,452</u>	<u>25,536,992</u>
<u>\$ 27,680,373</u>	<u>\$ 28,826,278</u>	<u>\$ 37,863,155</u>	<u>\$ 38,026,687</u>	<u>\$ 35,302,786</u>

CITY OF CONROE, TEXAS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2004	2005	2006	2007
General Fund				
Reserved	\$ 65,172	\$ 67,947	\$ 58,395	\$ 4,443,217
Unreserved	3,509,472	8,252,471	14,404,541	12,946,865
Nonspendable:				
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Restricted for:				
Court Technology Fund	-	-	-	-
Court Security Fund	-	-	-	-
Court Efficiency Fund	-	-	-	-
Severance Pay 2% Sinking Fund	-	-	-	-
Seized Assets	-	-	-	-
Red Light Cameras	-	-	-	-
State Franchise 1% PEG Fee	-	-	-	-
Assigned to:				
Tree Mitigation Revenue	-	-	-	-
Equipment Replacement	-	-	-	4,375,889
General Fund-Balance FY2014 Appropriation	-	-	-	-
Unassigned	-	-	-	-
Total General Fund	<u>\$ 3,574,644</u>	<u>\$ 8,320,418</u>	<u>\$ 14,462,936</u>	<u>\$ 21,765,971</u>
All Other Governmental Funds				
Reserved for:				
Debt Service	\$ 257,941	\$ 755,165	\$ 870,322	\$ 1,201,318
Unreserved, designated for, reported in:				
Special Revenue Funds:				
CIDC Fund	3,814,041	5,403,154	6,765,338	11,010,511
Retained Risk	-	-	3,193	-
Unreserved, Undesignated for, reported in:				
Capital Project Funds	5,080,825	2,455,570	2,825,996	11,448,676
Special Projects	1,441,808	1,494,066	1,307,837	1,256,628
Restricted for:				
4B Sales Tax	-	-	-	-
Debt Service	-	-	-	-
Capital Project Funds	-	-	-	-
Special Revenue Funds	-	-	-	-
Committed for:				
CIDC-Land Sales	-	-	-	-
Police Projects-Settlement Proceeds	-	-	-	-
TIRZ #2-Property Tax Receipts	-	-	-	-
TIRZ #3-Property Tax Receipts	-	-	-	-
Conroe Park N. Inc. Park-Infrastructure	-	-	-	-
Conroe Tower-Lease Income	-	-	-	-
Owen Theater-Ticket Sales	-	-	-	-
Woodlands Township Reg. Participation	-	-	-	-
Assigned to:				
Parks Foundation-Donations	-	-	-	-
CIDC-Balance FY2014 Appropriations	-	-	-	-
Unassigned:	-	-	-	-
Total All Other Governmental Funds	<u>\$ 10,594,615</u>	<u>\$ 10,107,955</u>	<u>\$ 11,772,686</u>	<u>\$ 24,917,133</u>

TABLE C-4

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 67,477 18,246,066	\$ 36,942 19,864,037	\$ 165,106 17,838,511	\$ -	\$ -	\$ -
-	-	-	25,373	42,871	43,791
-	-	-	120,070	116,910	113,750
-	-	-	100,395	-	31,497
-	-	-	-	188,541	105,605
-	-	-	-	204,460	151,170
-	-	-	-	-	15,829
-	-	-	236,503	394,828	184,389
-	-	-	312,564	405,739	416,273
-	-	-	11,905	54,311	93,998
-	-	-	-	-	15,353
5,204,390	2,460,433	2,686,253	2,659,177	3,082,043	3,906,728
-	-	-	-	-	1,751,375
-	-	-	19,911,074	23,483,574	24,887,074
<u>\$ 23,517,933</u>	<u>\$ 22,361,412</u>	<u>\$ 20,689,870</u>	<u>\$ 23,377,061</u>	<u>\$ 27,973,277</u>	<u>\$ 31,716,832</u>
\$ 952,326	\$ 4,304,747	\$ 5,028,864	\$ -	\$ -	\$ -
14,921,377	5,075,144	4,910,240	-	-	-
-	-	-	-	-	-
21,910,731	29,377,504	29,668,367	-	-	-
765,092	865,526	740,551	-	-	-
-	-	-	5,718,604	6,444,898	8,591,820
-	-	-	6,441,765	10,451,194	12,260,043
-	-	-	28,774,112	23,677,654	12,796,545
-	-	-	822,755	1,146,480	1,446,517
-	-	-	3,439,652	1,621,505	2,461,268
-	-	-	362,504	362,451	340,554
-	-	-	3	5	8
-	-	-	2,922,942	3,023,439	3,463,184
-	-	-	2,516,382	-	-
-	-	-	385,084	466,711	385,950
-	-	-	97,514	100,739	98,386
-	-	-	35,360	44,042	54,123
-	-	-	4,604	4,604	-
-	-	-	-	-	421,649
-	-	-	-	(4,872,753)	-
<u>\$ 38,549,526</u>	<u>\$ 39,622,921</u>	<u>\$ 40,348,022</u>	<u>\$ 51,521,281</u>	<u>\$ 42,470,969</u>	<u>\$ 42,320,047</u>

CITY OF CONROE, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2004	2005	2006	2007	2008
Revenues					
Taxes	\$ 32,903,536	\$ 34,582,604	\$ 40,498,583	\$ 42,780,198	\$ 46,107,838
Licenses and Permits	1,531,744	1,857,903	2,394,336	2,055,529	1,628,111
Charges for Services	1,792,080	1,984,967	916,490	1,376,537	1,484,854
Lease Income	325,119	301,666	309,551	295,408	281,458
Land Sales	-	626,868	1,093,043	953,745	5,142,836
Fines and Forfeitures	838,331	1,125,117	1,315,769	1,317,815	1,029,715
Intergovernmental	1,291,031	2,368,709	3,003,857	2,542,020	2,217,918
Investment Income	622,387	418,397	1,000,074	1,915,809	1,138,113
Gain (Loss) on Investments	-	-	(733,375)	275,649	471,925
Penalties and Interest	100,738	133,207	141,259	132,178	121,257
Sale of Assets	-	-	-	1,299,847	-
Other	150,390	1,581,826	694,174	991,527	217,811
Total Revenues	39,555,356	44,981,264	50,633,761	55,936,262	59,841,836
Expenditures					
General Government	5,151,865	5,327,329	9,671,105	7,061,998	11,289,098
Finance	752,999	951,489	961,631	967,077	1,269,489
Public Safety	14,366,727	14,831,292	15,964,914	16,987,159	19,506,439
Parks	3,411,568	3,547,279	3,877,382	3,033,828	3,678,713
Pubic Works	4,567,063	4,045,718	4,692,501	4,960,344	5,397,344
Debt Service:					
Principal	3,460,378	4,287,000	5,029,157	5,351,293	5,812,976
Interest	4,597,490	3,124,910	3,100,448	3,286,714	3,056,638
Bond Issuance Costs	-	-	-	-	-
Capital Outlay	7,245,930	4,919,743	7,754,555	14,329,659	28,827,746
Other	1,179,055	1,131,154	-	-	-
Total Expenditures	44,733,075	42,165,914	51,051,693	55,978,072	78,838,443
Excess of Revenues					
Over (Under) Expenditures	(5,177,719)	2,815,350	(417,932)	(41,810)	(18,996,607)
Other Financing Sources/(Uses)					
Proceeds from Bonds and COs	1,137,453	4,168,378	4,155,666	33,701,208	32,100,000
Refunding Bonds Issued	-	-	-	-	-
Proceeds from Capital Lease	-	1,314,221	2,452,456	-	-
Premiums and Discounts	-	-	-	-	-
Premium, Disc. and/or Issuance Costs	-	-	-	(152,284)	122,115
Payment to Refunded Bond Escrow Agent	(300)	(4,110,408)	-	(13,086,693)	(1,282,504)
Transfers In	3,274,663	3,998,571	4,181,543	4,072,130	18,298,629
Transfers Out	(4,211,063)	(4,284,564)	(3,024,898)	(3,930,685)	(14,857,278)
Total Other Financing					
Sources/(Uses)	200,753	1,086,198	7,764,767	20,603,676	34,380,962
Net Change in Fund Balances	\$ (4,976,966)	\$ 3,901,548	\$ 7,346,835	\$ 20,561,866	\$ 15,384,355
Debt Service as a Percentage of					
Noncapital Expenditures	21.5%	19.9%	18.8%	20.7%	17.7%

TABLE C-5

2009	2010	2011	2012	2013
\$ 47,521,728	\$ 46,779,434	\$ 50,327,235	\$ 53,584,786	\$ 60,358,883
1,174,481	1,293,727	1,240,026	1,414,723	1,752,598
1,518,562	1,545,589	1,833,902	1,909,626	1,979,380
301,447	312,867	332,526	339,640	331,029
1,192,527	751,187	-	-	-
3,820,757	2,247,748	4,204,363	3,480,694	3,344,824
718,692	3,789,076	2,705,939	3,610,177	3,342,357
(247,791)	290,805	183,455	277,440	116,658
124,740	(78,519)	33,809	(9,121)	(191,185)
830,453	150,095	107,349	140,798	112,655
-	-	3,439,652	1,621,505	2,645,283
1,325,953	614,992	677,273	830,787	852,106
58,281,549	57,697,001	65,085,529	67,201,055	74,644,588
8,043,022	10,469,930	9,858,475	12,912,210	11,444,046
1,277,562	1,259,066	1,302,032	1,354,043	1,333,034
20,322,601	21,289,975	22,150,568	22,534,671	24,048,252
4,294,923	4,403,634	4,724,826	4,124,585	4,238,271
5,433,457	5,269,914	5,772,043	5,519,381	6,703,354
6,496,604	6,687,970	6,916,093	7,437,033	13,183,048
4,730,550	4,859,814	4,889,929	5,751,981	5,887,124
-	-	453,738	239,023	433,014
21,013,380	13,646,743	29,127,940	21,033,141	18,897,565
-	-	-	-	-
71,612,099	67,887,046	85,195,644	80,906,068	86,167,708
(13,330,550)	(10,190,045)	(20,110,115)	(13,705,013)	(11,523,120)
12,750,000	9,270,000	32,080,000	8,970,000	13,080,000
-	4,035,000	-	7,560,000	12,305,000
-	-	-	-	-
-	-	590,506	258,044	1,692,117
43,466	425,757	-	-	(13,069,437)
-	(4,064,917)	-	(7,697,335)	13,761,078
19,193,905	9,374,078	7,848,088	7,289,803	(12,653,006)
(18,739,946)	(9,796,314)	(6,548,029)	(7,129,595)	-
13,247,425	9,243,604	33,970,565	9,250,917	15,115,752
\$ (83,125)	\$ (946,441)	\$ 13,860,450	\$ (4,454,096)	\$ 3,592,632
22.2%	21.3%	21.1%	22.0%	28.3%

CITY OF CONROE, TEXAS**TABLE C-6****TAX REVENUES BY SOURCE-GOVERNMENTAL FUNDS****LAST TEN FISCAL YEARS****(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

Fiscal Year	Property	Sales & Use	Occupancy	Franchise	Other	Total
2004	\$ 7,942,985	\$ 21,831,455	\$ 246,498	\$ 2,249,827	\$ 632,771	\$ 32,903,536
2005	8,710,890	22,729,197	270,699	2,343,976	527,842	34,582,604
2006	9,670,927	27,297,564	357,855	3,031,455	294,632	40,652,433
2007	10,401,963	28,709,204	418,612	2,854,796	513,085	42,897,660
2008	11,769,528	29,786,065	424,744	3,747,522	576,056	46,303,915
2009	13,453,000	30,016,051	518,732	4,275,277	605,760	48,868,820
2010	14,219,193	27,177,046	441,937	4,195,285	988,807	47,022,268
2011	14,327,890	30,033,856	591,940	4,715,542	658,007	50,327,235
2012	15,249,271	32,314,774	801,963	4,446,159	711,387	53,523,554
2013	16,779,352	36,640,658	926,573	5,275,521	736,778	60,358,883
Change 2004-2013	111%	68%	276%	134%	16%	83%

CITY OF CONROE, TEXAS**TABLE C-7****TAXABLE ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year	Residential Property	Commercial Property	Personal Property	Less: Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2004	\$ 1,010,717,586	\$ 623,591,262	\$ 559,512,260	\$ 370,615,031	\$ 1,823,206,077	0.4335
2005	1,107,034,770	658,081,879	575,711,594	361,332,939	1,979,495,304	0.4335
2006	1,365,324,116	694,723,935	588,997,649	483,915,135	2,165,130,565	0.4335
2007	1,412,912,626	767,896,649	835,045,102	554,553,365	2,461,301,012	0.4300
2008	1,661,807,741	851,895,855	886,627,778	617,560,392	2,782,770,982	0.4250
2009	1,948,093,457	1,001,283,950	977,551,693	743,239,121	3,183,689,979	0.4200
2010	2,030,626,191	1,124,367,371	1,101,005,332	828,644,880	3,427,354,014	0.4200
2011	2,167,059,632	1,136,236,430	985,264,053	838,389,460	3,450,170,655	0.4200
2012	2,313,008,691	1,155,513,957	1,076,071,214	913,635,952	3,630,957,910	0.4200
2013	2,433,878,457	1,361,859,836	1,224,422,172	1,017,472,186	4,002,688,279	0.4200

Source: Montgomery Central Appraisal District

Note: Property in the City is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

CITY OF CONROE, TEXAS

PROPERTY TAX RATES-DIRECT AND OVERLAPPING LAST TEN FISCAL YEARS

TABLE C-8

106

Fiscal Year	City Direct Rates			Overlapping Rates						
	Basic Rates	General Obligation Debt Service	Total Direct Rate	Montgomery County	Mont. Co. Hospital District	North Harris/ Mont. Comm. College	Conroe ISD	Mont. Co. MUD #90	Mont. Co. MUD #92	Mont. Co. MUD #107
2004	0.2035	0.2300	0.4335	0.4828	0.1082	0.1145	1.7325	N/A	N/A	N/A
2005	0.2235	0.2100	0.4335	0.4963	0.0999	0.1145	1.7325	N/A	N/A	N/A
2006	0.2435	0.1900	0.4335	0.4963	0.0850	0.1207	1.7600	0.6000	0.6000	N/A
2007	0.2400	0.1900	0.4300	0.4913	0.0781	0.1167	1.5900	0.6000	0.6000	0.6000
2008	0.2350	0.1900	0.4250	0.4888	0.0777	0.1144	1.2400	0.6000	0.6000	0.6000
2009	0.2300	0.1900	0.4200	0.4838	0.0760	0.1101	1.2700	0.6000	0.6000	0.6000
2010	0.2450	0.1750	0.4200	0.4838	0.0755	0.1101	1.2850	0.6000	0.6000	0.7000
2011	0.2500	0.1700	0.4200	0.4838	0.0754	0.1176	1.2950	0.6000	0.6000	0.7000
2012	0.2500	0.1700	0.4200	0.4838	0.0729	0.1198	1.2900	0.6000	0.6000	0.7000
2013	0.2500	0.1700	0.4200	0.4838	0.0727	0.1160	1.2850	0.6000	0.6000	0.7000

Source: Montgomery Central Appraisal District.

CITY OF CONROE, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND TEN YEARS AGO

TABLE C-9

2013 Taxpayer	Type of Business	2012 Assessed Valuation	Percentage of Total Assessed Valuation
Conroe Hospital Corporation	Hospital	\$ 74,795,580	1.87%
McKesson Corporation	Pharmaceuticals	55,631,940	1.39%
Wal-Mart Real Estate Bus. Trust	Retail	48,918,113	1.22%
Maverick Tube Texas Works	Manufacturing	46,524,500	1.16%
National Oilwell Varco DHT LP	Manufacturing	41,437,380	1.04%
Entergy Texas Inc.	Electric Utility	31,643,850	0.79%
Crown Cork & Seal Company	Manufacturing	29,798,380	0.74%
Conroe Marketplace S C LP	Retail	29,558,780	0.74%
Consolidated Communications (LCTX)	Telephone Company	27,589,270	0.69%
MS Energy Services	Energy Services	27,176,050	0.68%
Total		<u>\$ 413,073,843</u>	<u>10.32%</u>

2003 Taxpayer	Type of Business	2002 Assessed Valuation	Percentage of Total Assessed Valuation
Conroe Hospital Corporation	Hospital	\$ 73,584,080	4.20%
TXU Communications Telephone	Telephone Utility	33,969,700	2.00%
Conroe Regional Medical Center	Hospital	30,369,118	1.70%
Gulf States Utilities	Electric Utility	19,644,153	1.10%
Crown Cork & Seal Company	Manufacturing	19,534,140	1.10%
The Prime Outlets at Conroe	Retail - Shopping Center	17,787,697	1.00%
Town Center Venture LLP	Retail	15,760,720	0.90%
Hempel Coatings (USA)	Manufacturing	15,565,490	0.90%
Ball Metal Container Group	Manufacturing	12,065,162	0.70%
US Filter	Manufacturing	11,472,870	0.70%
Total		<u>\$ 249,753,130</u>	<u>14.30%</u>

Source: Montgomery Central Appraisal District

CITY OF CONROE, TEXAS**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS****TABLE C-10**

Fiscal Year Ended Sept 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	7,887,625	7,685,114	97.40%	186,833	7,871,947	99.80%
2005	8,575,518	8,405,954	98.00%	148,184	8,554,138	99.75%
2006	9,381,199	9,274,223	98.28%	78,441	9,352,664	99.70%
2007	10,549,673	10,376,943	98.38%	140,862	10,517,805	99.70%
2008	11,813,302	11,716,511	99.18%	70,104	11,786,615	99.77%
2009	13,395,885	13,171,609	98.33%	179,811	13,351,420	99.67%
2010	14,378,880	14,164,088	98.51%	67,719	14,231,807	98.98%
2011	14,452,462	14,222,611	98.41%	113,791	14,336,402	99.20%
2012	15,205,842	14,951,252	98.33%	116,487	15,009,482	98.71%
2013	16,858,196	16,610,584	98.53%	-	16,779,352	99.53%

Source: Montgomery County Tax Assessor-Collector

Note: Total Tax Collections to date does not include penalty charges and interest.

CITY OF CONROE, TEXAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(IN THOUSANDS OF DOLLARS)

TABLE C-11

	Calendar Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture										
Forestry & Fishing	\$ -	\$ -	\$ 124	\$ 218	\$ 287	\$ 2	\$ -	\$ 4	\$ 6	\$ 54
Mining	556	1,195	2,763	3,928	8,895	11,527	11,892	11,915	6,053	25,385
Construction	19,093	19,625	23,581	36,790	40,017	45,295	28,214	27,992	23,958	33,488
Manufacturing	47,707	49,118	59,229	58,104	70,697	80,117	57,968	55,559	75,498	115,291
Transportation,										
Communication & Utilities	662	766	1,748	1,750	3,819	5,877	3,813	4,117	1,524	843
Wholesale Trade	97,463	82,773	92,273	99,775	110,891	88,029	58,721	56,385	72,428	93,319
Retail Trade	557,919	594,725	558,577	627,361	760,016	798,061	745,719	775,226	786,202	850,416
Information	11,843	12,114	15,260	19,228	39,333	53,842	23,303	23,282	29,425	31,573
Finance,										
Insurance & Real Estate	21,879	21,003	25,599	27,275	36,160	39,862	22,009	20,163	28,683	28,226
Services	146,358	155,549	170,183	179,955	187,367	193,176	198,447	193,343	201,872	218,972
Other	2,442	852	540	5	-	11	-	-	-	-
Total	<u>\$ 905,922</u>	<u>\$ 937,721</u>	<u>\$ 949,877</u>	<u>\$ 1,054,390</u>	<u>\$ 1,257,482</u>	<u>\$ 1,315,799</u>	<u>\$ 1,150,086</u>	<u>\$ 1,167,986</u>	<u>\$ 1,225,649</u>	<u>\$ 1,397,567</u>
City Direct Sales Tax Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Source: Texas Comptroller of Public Accounts

Notes: Calendar years 2003-2006 reflect the State Comptroller's change of industry codes. Original submission of data based on NAICS codes. Data shown based on SIC codes.

CITY OF CONROE, TEXAS***DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS*****TABLE C-12**

<u>Fiscal Year</u>	<u>City Direct Rate</u>
2004	2.00%
2005	2.00%
2006	2.00%
2007	2.00%
2008	2.00%
2009	2.00%
2010	2.00%
2011	2.00%
2012	2.00%
2013	2.00%

Source: City Finance and Administration Department

CITY OF CONROE, TEXAS

SALES TAX REVENUE PAYERS BY INDUSTRY
FISCAL YEARS 2002 AND 2012
(DOLLARS ARE IN MILLIONS)

TABLE C-13

Tax Remitter	Fiscal Year 2002				Fiscal Year 2012			
	Number of Filers	% of Total	Tax Liability	% of Total	Number of Filers	% of Total	Tax Liability	% of Total
Agriculture, Forestry & Fishing	259	3.84%	\$ 0.05	0.32%	54	0.52%	\$ -	0.00%
Mining	30	0.45%	0.05	0.28%	93	0.89%	0.53	1.98%
Construction	456	6.76%	0.22	1.28%	935	8.98%	0.64	2.38%
Manufacturing	342	5.07%	0.76	4.44%	900	8.64%	2.13	7.91%
Transportation, Communication & Utilities	105	1.56%	0.46	2.70%	81	0.78%	0.02	0.06%
Wholesale Trade	420	6.23%	1.76	10.29%	592	5.69%	1.74	6.45%
Retail Trade	3,471	51.49%	12.71	74.20%	3,599	34.57%	16.45	61.01%
Information	-	0.00%	-	0.00%	121	1.16%	0.61	2.27%
Finance, Insurance & Real Estate	80	1.19%	0.03	0.17%	398	3.82%	0.57	2.12%
Services	1,578	23.41%	1.08	6.32%	3,613	34.70%	4.27	15.82%
Other	-	0.00%	-	0.00%	26	0.25%	-	0.00%
Total	6,741	100.00%	\$ 17.12	100.00%	10,412	100.00%	\$ 26.96	100.00%

Source: Texas Comptroller of Public Accounts

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the state's revenue. Fiscal year 2012 is the most recent year for which data is available.

CITY OF CONROE, TEXAS
**RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**
TABLE C-14

Governmental Activities						
Fiscal Year	GO Bonds, CO Bonds & Sales Tax Revenue Bonds ⁽¹⁾	Capital Leases Obligation	Notes	Total Long-Term Debt		
2004	\$ 52,267,020	\$ 489,536	\$ 1,485,000	\$ 54,241,556		
2005	63,490,815	1,835,186	1,428,000	66,754,001		
2006	62,977,842	3,788,485	1,658,666	68,424,993		
2007	78,918,355	2,518,351	1,788,890	83,225,596		
2008	105,567,233	1,698,375	1,505,666	108,771,274		
2009	112,679,681	1,018,771	1,423,666	115,122,118		
2010	116,322,401	666,467	1,343,000	118,331,868		
2011	142,211,540	617,374	1,256,000	144,084,914		
2012	143,868,156	566,341	1,165,000	145,599,497		
2013	145,034,959	513,293	1,070,000	146,618,252		
Business-type Activities						
Fiscal Year	Revenue Bonds	Capital Leases Obligation	Total Long-Term Debt	Total Primary Government	Percentage of Personal Income	Per Capita
2004	\$ 2,215,605	\$ 156,000	\$ 2,371,605	\$ 56,613,161	7.27%	\$ 1,245
2005	1,612,071	105,238	1,717,309	68,471,310	8.38%	1,454
2006	11,828,536	6,387,667	18,216,203	86,641,196	9.98%	1,754
2007	16,865,000	6,634,623	23,499,623	106,725,219	11.19%	2,077
2008	27,479,444	6,082,839	33,562,283	142,333,557	15.14%	2,670
2009	34,434,295	5,517,554	39,951,849	155,073,967	12.86%	2,816
2010	49,811,369	4,980,983	54,792,352	173,124,220	14.46%	3,069
2011	53,963,439	4,610,237	58,573,676	202,658,590	15.27%	3,575
2012	71,718,321	4,224,846	75,943,167	221,542,664	16.67%	3,875
2013	76,694,943	3,824,233	80,519,176	227,137,428	17.14%	3,689

(1) Presented net of original issuance discounts and premiums.

*Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
See Table C-19 for personal income and population data.*

CITY OF CONROE, TEXAS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING LAST TEN FISCAL YEARS

TABLE C-15

Fiscal Year	General Bonded Debt Outstanding			Less: Amounts Available for Debt Service	Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificates of Obligation	Total				
2004	\$ 9,045,000	\$ 43,295,000	\$ 52,340,000	\$ 257,941	\$ 52,082,059	3.18%	\$ 1,141
2005	12,130,000	36,990,000	49,120,000	755,165	48,364,835	3.18%	1,023
2006	10,650,000	38,865,000	49,515,000	870,322	48,644,678	2.25%	984
2007	22,420,000	44,220,000	66,640,000	1,201,318	65,438,682	3.17%	1,270
2008	20,820,000	58,470,000	79,290,000	952,326	78,337,674	2.82%	1,465
2009	18,490,000	69,365,000	87,855,000	4,304,747	83,550,253	2.62%	1,514
2010	19,040,000	73,480,000	92,520,000	5,028,864	87,491,136	2.55%	1,557
2011	15,950,000	89,410,000	105,360,000	6,441,765	98,918,235	2.87%	1,758
2012	19,570,000	89,775,000	109,345,000	7,181,606	102,163,394	2.81%	1,807
2013	15,475,000	83,000,000	98,475,000	8,312,617	90,162,383	2.25%	1,465

*Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
See Table C-7 for property value data.
Population data can be found on Table C-19.*



CITY OF CONROE, TEXAS
DIRECT AND OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT
AS OF SEPTEMBER 30, 2013
(DOLLARS IN THOUSANDS)

TABLE C-16

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt Repaid With Property Taxes			
Montgomery County	\$ 446,595	11.14%	\$ 49,751
Conroe Independent School District	972,885	16.13%	156,926
Willis Independent School District	71,424	18.50%	13,213
Lone Star College	488,630	3.32%	16,223
MUD #90	5,025	100.00%	5,025
MUD #92	1,785	100.00%	1,785
MUD #107	10,605	100.00%	10,605
Subtotal, Overlapping Debt			\$253,528
City Direct Debt	101,161		<u>101,161</u>
Total Direct and Overlapping Debt			<u>\$ 354,689</u>

Sources: Assessed value data used to estimate applicable percentages provided by Tax Assessor - Collector and Appraisal District. Debt outstanding data provided by each governmental unit.

Note: For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

CITY OF CONROE, TEXAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

	2004	2005	2006	2007
Assessed Value	\$ 1,823,206,077	\$ 1,979,495,304	\$ 2,165,130,565	\$ 2,461,301,012
Debt Limit <15% of assessed value>	273,480,912	296,924,296	324,769,585	369,195,152
Debt Applicable to Limit:				
Total Bonded Debt	52,340,000	49,120,000	49,455,000	66,640,000
Less: Assets in Debt				
Service Funds available for payment of principal	(257,941)	(755,165)	(870,322)	(1,201,318)
Total Debt Applicable to Limit	52,082,059	48,364,835	48,584,678	65,438,682
Legal Debt Margin	221,398,853	248,559,461	276,184,907	303,756,470
Total Net Debt Applicable to the Limit As a Percentage of Debt Limit	19.04%	16.29%	14.96%	17.72%

TABLE C-17

2008	2009	2010	2011	2012	2013
\$ 2,782,770,982	\$ 3,183,689,979	\$ 3,427,354,014	\$ 3,450,170,655	\$ 3,630,957,910	\$ 4,002,688,279
417,415,647	477,553,497	514,103,102	517,525,598	544,643,687	600,403,242
79,290,000	87,855,000	92,520,000	105,360,000	109,345,000	98,475,000
(952,326)	(4,304,747)	(5,028,864)	(6,441,765)	(7,181,606)	(8,312,617)
78,337,674	83,550,253	87,491,136	98,918,235	102,163,394	90,162,383
339,077,973	394,003,244	426,611,966	418,607,363	442,480,293	510,240,859
18.77%	17.50%	17.02%	19.11%	18.76%	15.02%

CITY OF CONROE, TEXAS
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

	Water and Sewer Revenue Bonds						
		Less:					
Fiscal	Utility	Adjusted	Net		Debt Service		
Year	Service	Operating	Available		Principal	Interest	Coverage
	Charge	Expenses	Revenue				
2004	\$ 8,689,813	\$ 6,981,540	\$ 1,708,273	\$	625,000	\$ 124,130	2.28
2005	9,718,894	8,186,457	1,532,437		655,000	95,479	2.04
2006	11,043,310	10,626,384	416,926		685,000	64,651	0.56
2007	11,298,324	8,354,613	2,943,711		715,000	525,885	2.37
2008	13,767,268	7,139,031	6,628,237		415,000	721,633	5.83
2009	14,200,623	7,598,300	6,602,323		390,000	1,124,066	4.36
2010	15,476,990	7,753,255	7,723,735		745,000	1,431,911	3.55
2011	21,775,264	8,900,768	12,874,496		1,025,000	1,839,729	4.49
2012	20,982,974	8,941,053	12,041,921		1,660,000	2,062,585	3.23
2013	24,277,240	10,516,921	13,760,319		1,910,000	2,676,544	3.00

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Sales tax revenue bonds are backed by the 1/2 cent sales tax for economic development.

Operating Expenses for Water and Sewer Revenue Bonds are adjusted and shown net of Payment-in-lieu-of-taxes (PILOT), debt service payments, and the following interfund activity: transfers to the General Fund & Conroe Tower Fund for administrative overhead and transfers to the Revenue Debt Service Reserve Fund. Lease principal and lease interest payments for the Siemens Energy Efficiency upgrade project as well as amounts for Accounts Charged Off are also excluded.

TABLE C-18

Sales Tax Revenue Bonds				
	1/2 Cent Sales Tax	Debt Service		Coverage
		Principal	Interest	
\$	4,948,406	\$ 870,000	\$ 549,940	3.48
	5,295,776	900,000	525,720	3.71
	6,962,819	940,000	524,417	4.75
	6,551,423	985,000	516,757	4.36
	7,019,937	1,035,000	753,952	3.92
	6,813,124	1,550,000	1,195,671	2.48
	6,403,018	1,615,000	1,126,736	2.34
	7,116,988	1,690,000	1,054,910	2.59
	7,475,443	2,020,000	1,448,912	2.15
	9,160,165	2,165,000	1,564,370	2.46



CITY OF CONROE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS

TABLE C-19

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population	45,663	47,258	49,456	51,538	53,472	55,195	56,207	56,257	56,530	61,564
Personal Income (thousands of dollars)	\$ 781,385	\$ 819,595	\$ 869,140	\$ 956,700	\$ 943,193	\$ 1,208,439	\$ 1,192,937	\$ 1,317,033	\$ 1,313,870	\$ 1,325,350
Per Capita Personal Income	\$ 17,112	\$ 17,343	\$ 17,574	\$ 18,563	\$ 17,639	\$ 21,894	\$ 21,224	\$ 23,411	\$ 23,242	\$ 21,528
Median Age	29.0	28.9	28.9	29.1	29.8	33.0	28.8	33.0	33.0	33.0
Education Level in Years of Schooling	12.12	12.18	12.18	13.55	14.29	14.29	14.29	14.29	14.29	14.29
School Enrollment	9,620	9,832	10,215	10,594	10,806	11,495	12,229	11,091	11,861	12,518
Unemployment Rate	4.8%	4.2%	3.7%	3.7%	4.0%	6.4%	6.7%	6.9%	5.3%	5.1%

Sources: Varous school websites, the Conroe Greater Economic Development Council, the Texas State Population Center, and Texas Workforce Commission.

Note: The unemployment rate is determined by the Texas Workforce Commission, and prior periods were adjusted to match the data from the TWC.

CITY OF CONROE, TEXAS

PRINCIPAL EMPLOYERS

LAST SEVEN FISCAL YEARS

Employer	Employees						
	2007	2008	2009	2010	2011	2012	2013
Conroe Independent School District	5,500	5,700	5,700	6,000	6,000	5,915	7,710
Montgomery County	1,774	1,868	1,946	1,975	1,952	1,952	2,000
Conroe Regional Medical Center	1,070	1,200	1,200	1,200	1,200	1,200	1,250
Sadler Clinic	388	600	600	600	345	-	-
National Oilwell Varco - Reed Hycalog	926	926	1,145	550	630	630	630
City of Conroe	453	463	470	479	482	482	493
Tenaris	300	300	-	396	410	410	425
Wal-Mart	-	-	-	300	300	300	370
National Oilwell Varco - Brandt	-	-	-	279	425	425	300
Professional Directional	-	-	-	-	277	277	319
Byrne Medical	-	-	-	243	-	-	-
Borden Milk Products	228	228	248	-	-	-	-
Capro, Inc.	-	225	225	-	-	-	-
Consolidated Communications of Texas	225	-	220	-	-	-	-
McKesson Corporation	160	-	163	-	-	-	-
Crown Beverage Packaging	-	-	150	-	-	-	-
Ball Corporation	-	-	130	-	-	-	-
Dal-Tile	175	175	-	-	-	-	-
R&M Energy	-	175	-	-	-	-	-
Maverick Tube	-	-	-	-	-	-	-
Medivators	-	-	-	-	-	201	171
Total	11,199	11,860	11,061	12,022	12,021	11,792	13,668

TABLE C-20

Employer	Percentage of Total City Employment						
	2007	2008	2009	2010	2011	2012	2013
Conroe Independent School District	23.71%	23.93%	22.08%	21.92%	20.68%	21.99%	27.41%
Montgomery County	7.65%	7.84%	7.54%	7.21%	6.73%	7.26%	7.11%
Conroe Regional Medical Center	4.61%	5.04%	4.65%	4.38%	4.14%	4.46%	4.44%
Sadler Clinic	1.67%	2.52%	2.32%	2.19%	1.19%	-	-
National Oilwell Varco - Reed Hycalog	3.99%	3.89%	4.43%	2.01%	2.17%	2.34%	2.24%
City of Conroe	1.95%	1.94%	1.82%	1.75%	1.66%	1.79%	1.75%
Tenaris	1.29%	1.26%	-	1.45%	1.41%	1.52%	1.51%
Wal-Mart	-	-	-	1.10%	1.03%	1.12%	1.32%
National Oilwell Varco - Brandt	-	-	-	1.02%	1.46%	1.58%	1.07%
Professional Directional	-	-	-	-	0.95%	1.03%	1.13%
Byrne Medical	-	-	-	0.89%	-	-	-
Borden Milk Products	0.98%	0.96%	0.96%	-	-	-	-
Capro, Inc.	-	-	0.87%	-	-	-	-
Consolidated Communications of Texas	0.97%	0.94%	0.85%	-	-	-	-
McKesson Corporation	0.69%	-	0.63%	-	-	-	-
Crown Beverage Packaging	-	-	0.58%	-	-	-	-
Ball Corporation	-	-	0.50%	-	-	-	-
Dal-Tile	0.75%	0.73%	-	-	-	-	-
R&M Energy	-	0.73%	-	-	-	-	-
Maverick Tube	-	-	-	-	-	-	-
Medivators	-	-	-	-	-	0.75%	0.61%
Total	<u>48.26%</u>	<u>49.78%</u>	<u>47.23%</u>	<u>43.92%</u>	<u>41.42%</u>	<u>43.84%</u>	<u>48.59%</u>

CITY OF CONROE, TEXAS

FULL – TIME EQUIVALENT EMPLOYEES BY FUNCTIONS/PROGRAMS

LAST TEN FISCAL YEARS

	<u>2004</u> ⁽¹⁾	<u>2005</u>	<u>2006</u> ⁽²⁾	<u>2007</u> ⁽³⁾	<u>2008</u> ⁽⁴⁾	<u>2009</u> ⁽⁵⁾	<u>2010</u> ⁽⁶⁾	<u>2011</u> ⁽⁷⁾	<u>2012</u> ⁽⁸⁾	<u>2013</u> ⁽⁹⁾
<u>Functions/Programs</u>										
General Government										
Administration	3	4	3	3	3	3	3	3	2	3
Mayor & Council	-	-	2	2	2	2	2	2	2	2
Arts & Communications	1	1	1	1	1	1	1	1	1	1
Downtown Development	1	1	1	1	1	1	1	1	1	-
Legal	3	3	3	3	3	3	3	3	3	3
Municipal Court	7	7	8	9	9	9	10	10	10	10
CDBG Administration	1	2	2	2	2	2	2	2	2	2
Human Resources	4	5	5	5	5	5	5	5	5	5
Finance	7	8	8	9	10	10	10	10	10	10
Information Technology	4	4	4	5	5	7	7	7	11	11
Public Safety										
Police Administration	35	45	7	5	4	5	5	6	5	7
Police Support	-	-	28	28	30	30	29	28	28	28
Police Patrol	55	55	56	60	65	66	64	63	63	63
Police Investigative Services	21	25	26	26	29	28	28	28	29	29
Police Professional Services	-	-	12	12	11	11	14	14	14	15
Police Animal Services	-	-	-	-	-	-	5	5	5	5
Red Light Program	-	-	-	-	-	-	-	1	1	1
Traffic Services	-	-	-	-	-	-	-	2	2	2
Fire	73	74	86	86	87	87	88	88	88	86
Parks										
Parks & Rec Admin	10	10	11	11	11	13	13	13	2	2
Recreation Center	5	5	5	5	5	5	5	5	5	5
Oscar Johnson, Jr. CC	4	4	4	4	4	-	-	-	-	-
Swim Center	6	6	7	7	7	-	-	-	-	-
Aquatic Center	-	-	-	-	-	7	7	7	7	7
Parks Operations	-	-	-	-	-	-	-	-	11	11
Public Works										
Community Development	18	21	21	23	27	27	26	25	13	15
Drainage Engineering	-	-	-	-	-	-	-	-	-	-
Drainage Construction	7	7	7	7	7	7	7	7	7	7
Streets	26	26	28	28	28	28	28	28	28	28
Signal Maintenance	-	-	-	-	-	-	-	2	2	3
Engineering	-	-	-	-	-	-	-	-	8	21
Service Center	-	-	-	-	-	-	-	-	-	-
Building Maintenance	6	6	6	-	-	-	-	-	-	-
Warehouse Purchasing	3	3	4	5	5	5	5	5	5	5
Conroe Industrial Development	-	-	-	-	-	-	-	-	-	5
Conroe Tower	1	1	1	1	1	1	1	1	1	1
Hotel/Motel Occupancy Tax	-	-	-	-	-	-	2	2	3	3
Component Unit										
Oscar Johnson, Jr. CC	-	-	-	-	-	4	4	4	4	4

CITY OF CONROE, TEXAS

TABLE C-21

FULL – TIME EQUIVALENT EMPLOYEES BY FUNCTIONS/PROGRAMS LAST TEN FISCAL YEARS

	<u>2004</u> ⁽¹⁾	<u>2005</u>	<u>2006</u> ⁽²⁾	<u>2007</u> ⁽³⁾	<u>2008</u> ⁽⁴⁾	<u>2009</u> ⁽⁵⁾	<u>2010</u> ⁽⁶⁾	<u>2011</u> ⁽⁷⁾	<u>2012</u> ⁽⁸⁾	<u>2013</u> ⁽⁹⁾
Water & Sewer										
Utilities/Meter Readers	11	11	12	9	9	9	9	9	9	9
Public Works	4	4	5	3	3	5	6	6	5	5
Water Conservation	-	-	-	-	-	-	-	-	-	1
Water	13	13	15	15	15	15	15	15	15	15
Wastewater Treatment	15	15	15	14	11	11	11	11	11	11
Sewer	15	15	18	18	18	20	20	20	20	20
Pump & Motor Maint.	-	-	-	6	7	7	7	7	7	7
Project Engineering	12	12	12	12	12	12	12	13	13	-
Project Construction	4	5	17	17	17	17	17	17	17	17
Service Center Fund	8	8	7	7	7	7	7	6	6	7
Self Funded Insurance	-	-	1	1	1	1	1	1	1	1
Total	0 <u>383</u>	<u>406</u>	<u>448</u>	<u>450</u>	<u>462</u>	<u>471</u>	<u>480</u>	<u>483</u>	<u>482</u>	<u>493</u>

Source: City Finance Office.

Notes:

- (1) In FY 2004, the Police Patrol Dept. and Criminal Investigations Dept. were added to the Public Safety function.
- (2) In FY 2006, the Mayor & Council Dept. was added to the General Government function.
Self Funded Insurance was added.
- (3) In FY 2007, the Building Maintenance Dept. was renamed Pump & Motor Maintenance and moved from the Public Works function and added to the Water & Sewer function.
- (4) In FY 2008, Oscar Johnson, Jr. Community Center (OJCC) was reported as a discretely presented component unit in the CAFR.
- (5) In FY 2009, Oscar Johnson, Jr. Community Center (OJCC) was removed from the Parks function.
Swim Center was renamed to Aquatic Center.
- (6) In FY 2010, Police Animal Services was added to the Public Safety function.
Hotel/Motel Occupancy Tax was added.
- (7) In FY 2011, Red Light Cameras and Traffic Services were added to the Public Safety function.
Signal Maintenance was added to the Public Works function.
- (8) In FY 2012, Parks Operations and Engineering were added.
- (9) In FY 2013, the following changes were made:
Downtown Development was moved to the Conroe Industrial Development Corporation (CIDC) Fund.
Engineering and Project Engineering were combined.
Water Conservation was added.

CITY OF CONROE, TEXAS

OPERATING INDICATORS BY FUNCTIONS/PROGRAMS

LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008
<u>Functions/Programs</u>					
General Government					
Building Permits Issued	867	890	1,027	850	682
Building Inspections Conducted	15,141	20,067	24,934	24,537	19,362
Police					
Physical Arrests	3,392	3,982	3,561	4,178	4,146
Parking Violations	4,399	4,424	4,988	5,425	1,473
Traffic Violations	12,714	13,489	10,791	17,079	15,429
Fire					
Emergency Responses	4,227	4,424	4,069	3,644	5,383
Fires Extinguished	265	318	378	172	257
Inspections	1,592	1,087	674	1,236	1,143
Refuse Collection					
Refuse Collected (tons per day) (a)	68.70	68.20	67.40	65.00	50.44
Recyclables Collected (tons per day) (a)	0.21	0.20	0.24	0.35	0.58
Other Public Works					
Street Resurfacing (miles)	5.82	-	-	11.00	5.83
Potholes Repaired (b)	N/A	N/A	N/A	N/A	N/A
Parks and Recreation					
Athletic Field Permits Issued	217	250	316	460	402
Community Center Admissions	459,645	467,519	476,122	384,340	390,000
Water					
New Connections (c)	3,415	3,632	4,139	4,032	1,990
Water Main Breaks	480	600	800	735	861
Average Daily Consumption (thousands of gallons)	6,132	6,890	8,306	7,389	8,730
Peak Monthly Consumption (thousands of gallons)	241,729	460,262	305,349	286,000	374,576
Wastewater					
Average Daily Sewage Treatment (thousands of gallons)	5,600	4,900	5,500	6,792	6,609
Transit					
Total Route Miles	3,146	3,312	8,670	6,948	8,874
Passenger	3,181	3,348	16,740	13,680	12,617

Source: Various City Departments

Notes:

(a) Refuse Collection information is provided by a private waste company.

(b) No operating indicators are available for Potholes Repaired for the Other Public Works function prior to 2012.

(c) Estimate was utilized for FY2012

TABLE C-22

2009	2010	2011	2012	2013
546	645	489	520	789
18,377	16,950	15,317	14,957	16,995
4,049	4,163	3,915	4,313	4,758
1,922	2,485	3,113	4,554	2,972
15,671	13,865	26,673	27,181	15,482
5,063	5,425	6,111	6,417	7,124
244	180	320	133	129
2,655	2,863	2,724	1,675	1,017
55.04	58.07	38.00	37.50	58.00
1.73	0.61	9.48	12.10	16.00
2.50	1.50	5.63	2.20	5.10
N/A	N/A	N/A	550	582
285	288	326	297	304
339,000	298,261	307,662	366,045	424,640
1,859	1,862	2,115	2,221	2,521
726	770	888	800	775
9,182	8,554	11,291	9,893	9,652
399,575	384,058	500,038	395,510	393,936
6,800	7,000	7,000	7,000	7,000
7,440	8,100	7,140	8,330	11,219
12,240	13,140	12,175	12,222	14,020

CITY OF CONROE, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTIONS/PROGRAMS

LAST TEN FISCAL YEARS

<u>Functions/Programs</u>	Fiscal Year			
	2004	2005	2006	2007
Police				
Stations	2	2	2	2
Zone Offices	-	-	-	-
Patrol Units	45	45	51	49
Fire Stations	4	4	4	4
Refuse Collection				
Collection trucks	4	4	4	5
Other Public Works				
Streets (miles)	320.72	327.56	218.60	220.00
Highways (miles) (a)	N/A	N/A	N/A	N/A
Streetlights (b)	N/A	N/A	N/A	N/A
Traffic Signals	2	3	4	5
Parks and Recreation				
Acreage	342.20	345.70	345.70	347.50
Playgrounds	32	32	32	32
Baseball/Softball Diamonds	31	31	31	31
Soccer/Football Fields	10	10	10	10
Community Centers	3	3	3	3
Water (d)				
Water Mains (miles)	297.00	305.35	309.53	314.01
Fire Hydrants	1,250	1,819	2,300	2,700
Storage Capacity (thousands of gallons)	7,490	7,490	7,490	7,490
Wastewater (d)				
Sanitary Sewers (miles)	322.00	329.95	333.67	337.59
Storm Sewers (miles) (c)	16.654	20.892	23.691	26.340
Treatment capacity (thousands of gallons)	10,000	10,000	10,000	10,000
Transit				
Vans	2	2	4	4

Source: Various City Departments

Notes:

- (a) No capital asset indicators are available for Highways for the Other Public Works function.
All highways are owned and maintained by TxDOT.
- (b) No capital asset indicators are available for Streetlights for the Other Public Works function prior to 2010.
- (c) Data shown as miles of storm sewers are estimates only. Data is currently being compiled for retroactive infrastructure reporting.
- (d) Estimates were utilized for FY2010.

TABLE C-23

	Fiscal Year				
2008	2009	2010	2011	2012	2013
1	1	1	1	1	1
1	1	1	1	1	1
45	46	46	48	46	55
5	5	5	5	5	5
6	8	8	8	8	8
225.00	240.00	248.00	268.00	276.00	270.00
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	3,200	3,200	3,518	3,530
5	5	6	6	80	82
350.00	350.00	354.00	354.00	407.00	407.00
34	34	17	18	19	19
31	35	28	25	27	27
10	13	18	21	18	18
3	3	4	4	4	4
318.09	334.72	340.61	342.44	367.00	403.00
2,800	2,955	2,996	3,009	3,009	3,009
8,490	9,490	9,490	11,490	11,490	11,490
340.61	355.92	357.65	360.21	389.00	391.00
26.340	36.564	40.162	40.280	41.720	42.000
10,000	10,000	10,000	10,000	10,000	10,000
4	4	4	4	4	4



