

City of Conroe Comprehensive Annual Financial Report Year Ended September 30, 2016



*“To 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, 2016

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, 2016

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March 23, 2017

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, 2016, 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 13.

I. 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, street and drainage maintenance, recreation and parks, transportation/transit, 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, Owen Theatre, Firearms Training Facility, and Woodlands Township Regional Participation. Capital project and grant funds are adopt project length budgets. The City of Conroe Other Post Employment Benefit Trust Fund also does not have an annually appropriated budget.

The Assistant City Administrator/Chief Financial Officer 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 and encumbered in the new fiscal year.

The City amends the budget on a quarterly basis. Such amendment 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 2015 Census data for Texas. The population of the City of Conroe was listed at 68,602. Conroe's estimated population for 2017 is 71,879, which includes increases in population related to annexation.

The tax roll certified by the Montgomery Central Appraisal District for 2016 (FY16-17) increased by \$816,508,992 or 12.9%. New improvements accounted for approximately \$218,627,517 of this amount. Newly annexed property added approximately \$32,390,111 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 \$1,479,946,195 or 30.6%.

Sales tax revenue is the largest revenue source for the City. Excluding the CIDC's portion, the City's sales tax revenue totaled \$31,323,407 for the fiscal year ending September 30, 2016. This amount represents a decrease of \$689,652, or 2.0%, from the prior fiscal year.

The City issued 1,218 building permits for properties & improvements valued at \$248,149,197. This included 612 building permits for single family housing starts totaling \$110,069,443. The average single family home value, exclusive of land, was \$179,852. The City reported a total labor force of 32,415 with an unemployment rate of 4.2% as of September 2016. These data are 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 project was the construction of a new Police and Municipal Court Facility on Plantation Drive, which is anticipated for completion in the Fall of 2016. A partial list of other projects from FY 15-16 includes the following (dollar amounts represent amounts expended in FY 15-16):

Streets

- Drennan Road – East - \$1,892,122
- Crighton Road – TIRZ# 3 - \$1,674,937
- Conroe MMD #1 Intersections (reimbursed by developer) - \$1,090,102
- Longmire Road, Phase II-B & III - \$707,609
- Frazier from Railroad Overpass to North Loop sidewalk - \$538,042 (completed)
- M.P. Clark Road - \$531,607
- Wilson Road widening - \$303,442
- Guinn Road improvements - \$210,277 (completed)
- Street rehabilitations in the Dugan area - \$103,264 (completed)
- Grace Crossing extension - \$55,133
- Pinewood/Woodcrest Subdivision & Forest Estates/Hunter Trail - \$41,550

Signals

- Conroe MMD #1 Intersections (reimbursed by developer) - \$403,750
- FM 1488 at Peoples Road - \$269,221
- North Loop 336 at Oxford Drive - \$237,793 (completed)
- Loop 336 at Owen Drive - \$148,270 (completed)
- Loop 336 at Riverpoint - \$145,200
- South Loop 336 at IH-45 - \$46,229
- Frazier Street at Foster Street - \$30,678
- FM 1488 at Grace Crossing - \$12,057

Drainage

- East Grand Lake Creek - \$129,357

Transit

- State Highway (SH) 105 access management and safety - \$978,401
- Park and Ride at FM 2854 - \$314,449

Facilities

- Police and Municipal Court Facility - \$15,740,581
- Fire Station No. 7 - \$855,170
- Dean Towery Service Center upgrades - \$510,849
- Fire Department Training Facility - \$169,417

Parks & Recreation

- Candy Cane Park access and entrances - \$177,255 (completed)
- Carl Barton Park Amenity Center - \$101,984 (completed)
- Dr. Martin Luther King, Jr. Park improvements - \$99,345
- McDade Park Trail improvements - \$93,750 (completed)

Water & Sewer

- Surface Water System Improvements - \$4,837,444
- Live Oak and White Oak Creek sewer line - \$2,269,583 (completed)
- Existing Waste Water Treatment Plant - \$1,859,714
- Robinwood Subdivision replacement - \$1,636,753
- SH 242 and FM 1488 sewer line- \$1,529,125
- Sanitary Sewer Overflow Initiative (SSOI) - \$1,000,815
- Thousand Trails Resort water and sewer line - \$776,344
- Water Well No. 23 - \$459,182
- MUD No. 95 extension - \$396,420 (completed)

- Plantation Drive trunk line - \$386,414 (completed)
- 3rd Street, Montrose, Halo, Reaves Street water line rehab - \$356,309
- New Waste Water Treatment Plant - \$338,384
- Grand Central Park sewer - \$246,827 (completed)
- 1st Street Water Line replacement - \$237,988
- Panorama/Shenandoah Catahoula well - \$169,025
- Surface Water Generators – \$120,391
- Water Well #14 Ground Storage Tank replacement - \$116,455
- Treatment Plant Outfall relocation - \$114,818
- LaSalle at League Line Road sewer line - \$102,036
- Robinwood water well replacement (Catahoula) - \$61,500
- Plant No. 19 1-million gallon storage tank and pump station – \$44,900
- Milltown Area water line rehabilitation - \$14,675

LONG-TERM FINANCIAL PLANNING

The \$20,237,960 unassigned fund balance in the General Fund is the equivalent of 115 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, 2021, 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 for FY 15-16. The City was also able to lower its tax rate to \$0.4175 in FY 16-17.

Bonded debt per capita decreased from \$3,413 in 2015 to \$3,392 in 2016. The current ratio of net general bonded debt to assessed value of all taxable property is 2.08%. 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, the City funds 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. The City funded 100% of the actuarially determined contribution (ADC). In the past, one hundred (100) percent of the effective premiums were 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

In September 2016, the City issued \$11,275,000 in Certificates of Obligation. The Certificates of Obligation (COs) will be used to fund the following street improvement projects: Wilson Road East Widening (IH-45 to Frazier), Drennan Road East Phase 2, TIRZ #3 Crighton Road Widening, Pedestrian Access & Transit Improvements, Pincrest/Woodcrest Subdivision & Forest Estates/Hunter Trail, TIRZ #3 Longmire Road Phase 2B. The COs will fund traffic signals at Loop 336 at Riverpoint, FM 1488 at Grace Crossing, FM 1488 at Peoples Road, Loop 336 at Owens Drive, Frazier Street at Foster Street, and South Loop 336 at IH-45.

Additional projects include the construction of Fire Station #7, Fire Department Training Facility-Phase 1, Dean Towery Service Center Upgrades/Repairs, Dr. Martin Luther King Jr. Park Improvements, SH 105 Access Management & Safety, Park and Ride at FM 2854, and Infrastructure Improvements near College Park & Windsor Lakes.

The City also refunded the remaining balance of Conroe Industrial Development Corporation's (CIDC) 2011 sales tax bonds amounting to \$12,785,000.

The City of Conroe Transportation department has achieved continued growth in year two (FY15-16) of the new public transportation system, Conroe Connection Transit (CCT). The bus system, which consists of two (2) bus

routes and a complementary ADA paratransit component, has demonstrated a steady climb in ridership and exemplary service. The department also successfully administers the county's urbanized area Section 5310 Grant Program. This Federal Transit Administration (FTA) program continues to remain competitive for the allocation of federal funds to support demand response services to seniors and persons with disabilities.

The Transportation department will continue management of the current operations contracts to include the consulting agreement with The Goodman Corporation. The Goodman Corporation provides support in the areas of grant management and oversight, Section 5310 Administration, federal compliance, financial planning, transit planning, roadway planning, program development, coordination and management, procurement assistance and implementation assistance and oversight.

Major projects include the following:

- Federal/State procurement of two (2) ADA mini-vans used to support paratransit services.
- Recipient of FY16 State Public Transportation Appropriations for transit operations reimbursement.
- Conducted an annual "Fixed Route Data Collection" survey to examine performance of the transit system, identify any needed amenities for the fixed route and form a base line for future data collection, surveys, and ridership analyses.
- Expanded fixed route service to access the new Police and Municipal Court Facility after a thorough public participation process.
- Updated many transit amenities to include signs and benches.
- Completed the construction of the Conroe Park & Ride at FM 2854.
- Construction in progress of the IH-45 & SH-105 Access Management improvements.
- Secured funding through the HGAC Congestion Mitigation and Air Quality (CMAQ) Improvement Program for a full turnkey operations contract for the Park & Ride.
- Recovered \$500,000 in grant reimbursement for operating expenses.
- In the second year of service, CCT provided approximately 28,000 trips for local riders.

In FY15-16, the City completed the annexation of the following areas: Sapp Road South, Brabham/Meador, Forest Creek, Lindley, FM 830 Pie, South Airport, Cane Lake, Lone Star Convention Center Fairgrounds, IH-45 Strip, and MUD 138's additions of Tract A, Tract B, and Tract C. The City provides for the delivery of certain municipal services to annexed areas in accordance with state law. These annexations added a total of 1,306 acres and approximately 287 citizens to the City.

The City is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA constructed a surface water treatment facility and transmission system to provide treated surface water to the City. The transmission system was interconnected to the City's water system, and the City began receiving surface water in December 2015.

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

CAFR 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, 2015. This was the tenth 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 & 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.

PAFR Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for the Popular Annual Financial Reporting Award Program (PAFR) for the fiscal year ended September 30, 2015. This was the first year that the City has achieved this prestigious award. State and local governments must be able to extract information from their comprehensive annual financial report to produce a high quality popular annual financial report specifically designed to be readily accessible and easily understandable to the general public and other interested parties without a background in public finance.

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 Weaver, PLLC was selected by the City Council. This requirement has been fulfilled, and the auditors' opinion is included in this report. Weaver, PLLC, has issued an unmodified ("clean") opinion of the City's financial statements for the year ended September 30, 2016. 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**

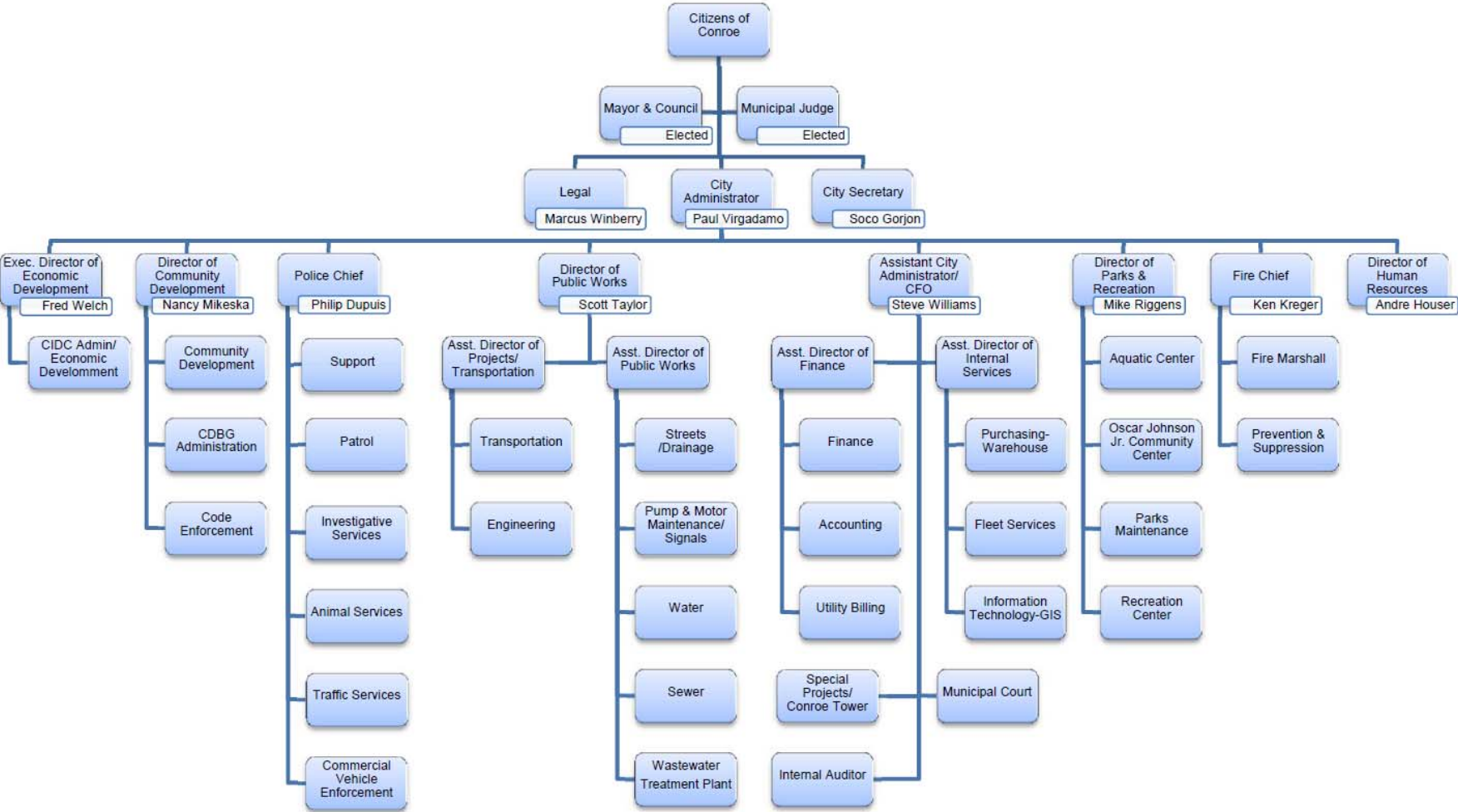
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO

City of Conroe Texas Organization Chart

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City of Conroe, Texas

Listing of City Officials

September 30, 2016

Elected Officials

| | |
|------------------------------------|--------------|
| Mayor | Toby Powell |
| Councilman Place 1 | Duane Ham |
| Councilman Place 2 | Seth Gibson |
| Councilman Place 3 - Mayor Pro Tem | Duke W. Coon |
| Councilman Place 4 | Guy Martin |
| Councilman Place 5 | Gil Snider |
| Municipal Court Judge | Mike Davis |

Appointed Officials

| | |
|---|--------------------|
| City Administrator | Paul Virgadamo, Jr |
| City Secretary | Soco Gorjon |
| City Attorney | Marcus Winberry |
| Assistant City Administrator/Chief Financial Officer | Steve Williams |
| Police Chief | Philip Dupuis |
| Fire Chief | Ken Kreger |
| Director of Parks and Recreation | Mike Riggins |
| Director of Public Works | Scott Taylor |
| Director of Human Resources | Andre Houser |
| Executive Director of Conroe Industrial Development Corporation | Fred Welch |
| Director of Community Development | Nancy Mikeska |



Independent Auditor's Report

The City Council of
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 discretely presented component units, each major fund, and the aggregate remaining fund information of City of Conroe, Texas (City), as of and for the year ended September 30, 2016, and the related notes to 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 discretely presented component units, each major fund, and the aggregate remaining fund information of City of Conroe, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note O. to the financial statements, the financial statements have been restated to correct a misstatement. 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 the Required Supplementary Information, 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Conroe, Texas' basic financial statements. The Introductory Section, Supplementary Information and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates 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 Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017 on our consideration of 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.

Yours truly,

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Conroe, Texas

March 10, 2017

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, 2016. 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 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.

The financial statements presented herein include the activities of the City and its component units.

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's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

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

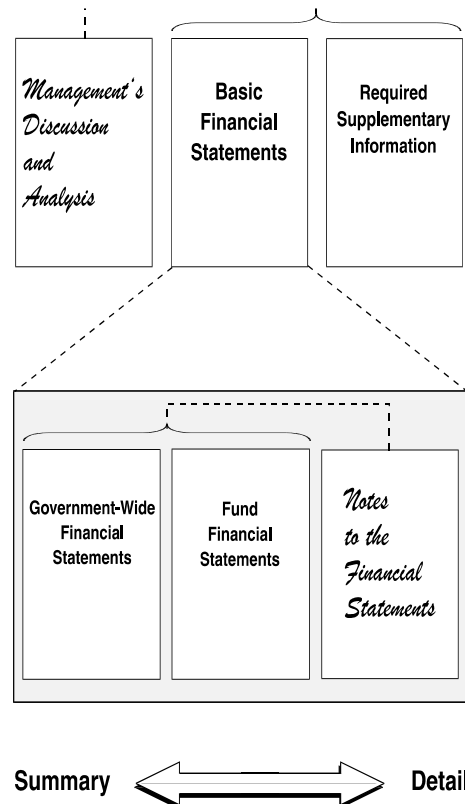


Figure A-2: Major Features of the City's Government-Wide and Fund Financial Statements

| 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, Expenses & Changes in 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 expenses during year, regardless of when cash is received or paid | All revenues and expenses 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 27 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, Debt Service Fund, Street Improvements Fund, and Facilities CIP 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 and deferred inflows of resources at the close of the most recent fiscal year by \$170,960,892.
- The City's total net position increased by \$4,714,497. The majority of the increase is attributable to property tax revenues due to an increase in property tax values from growth and annexation and an increase in grant revenue due to the transportation grant activity.
- As of September 30, 2016, the City of Conroe's governmental funds reported combined ending fund balances of \$55,737,470 a decrease of \$17,461,028 in comparison with the prior year. Approximately 36 percent of this total amount, \$20,237,960, is available for spending at the government's discretion (unassigned fund balance). Of the \$55,737,470 fund balance, \$135,892 is classified as nonspendable, \$27,799,046 is classified as restricted, \$955,771 is classified as committed, \$6,608,801 is classified as assigned, and \$20,237,960 is classified as unassigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$20,237,960, or 31 percent of total General Fund expenditures.
- The City of Conroe's gross bonded debt decreased by \$965,000 during the current fiscal year. The key factors in this increase were debt payments amounting to \$12,240,000 and the issuance of \$11,275,000 in Certificates of Obligation bonds.

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

Net Position – Total assets of the City at September 30, 2016, were \$479,406,397, deferred outflows of resources were \$14,535,453, while total liabilities were \$320,881,792 and deferred inflows of resources were \$1,937,826, resulting in a net position balance of \$171,122,232 (Table A-1).

The largest portion of the City's net position, \$164,156,199 (96%), 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 | |
|---|-------------------------|----------------------|--------------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and Other Assets | \$ 66,004,126 | \$ 87,843,298 | \$ 30,168,453 | \$ 43,374,995 | \$ 96,172,579 | \$ 131,218,293 |
| Capital Assets | 221,710,133 | 159,711,080 | 161,523,685 | 143,213,590 | 383,233,818 | 302,924,670 |
| Total Assets | 287,714,259 | 247,554,378 | 191,692,138 | 186,588,585 | 479,406,397 | 434,142,963 |
| Total Deferred Outflows of Resources | 12,530,239 | 7,336,382 | 2,005,214 | 833,503 | 14,535,453 | 8,169,885 |
| Long-term Liabilities Outstanding | 191,201,877 | 183,041,027 | 111,093,368 | 114,386,514 | 302,295,245 | 297,427,541 |
| Other Liabilities | 11,581,009 | 14,114,661 | 7,005,538 | 11,124,031 | 18,586,547 | 25,238,692 |
| Total Liabilities | 202,782,886 | 197,155,688 | 118,098,906 | 125,510,545 | 320,881,792 | 322,666,233 |
| Total Deferred Inflows of Resources | 1,801,724 | 369,028 | 136,102 | 104,085 | 1,937,826 | 473,113 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 97,563,851 | 53,413,374 | 66,592,348 | 43,883,640 | 164,156,199 | 97,297,014 |
| Restricted | 15,433,737 | 15,469,839 | 5,455,067 | 5,455,067 | 20,888,804 | 20,924,906 |
| Unrestricted | (17,337,700) | (11,517,169) | 3,414,929 | 12,468,751 | (13,922,771) | 951,582 |
| Total Net Position | \$ 95,659,888 | \$ 57,366,044 | \$ 75,462,344 | \$ 61,807,458 | \$ 171,122,232 | \$ 119,173,502 |

A portion of the City's net position, \$16,856,097 (10%), is restricted for debt service. The remaining restricted amounts are the result of various contracts and/or legislation.

Change in Net Position – At the end of the current fiscal year, the City is able to report positive balances for both the government as a whole, as well as for its separate governmental and business-type activities. The City's combined changes in net position were \$4,714,497 at September 30, 2016, which is a smaller increase in net position than in the prior year (See Table A-2).

Governmental Activities

The City's total revenues were \$82,197,129 from all governmental activities. A significant portion, \$31,280,147, or 38%, comes from sales taxes, while property tax revenue accounts for \$26,473,354, or 32%, and charges for services include \$6,895,263, or 8%. (See Figure A-3.)

The total cost of all governmental programs and services was \$85,770,899. The general government and public safety functions accounted for \$56,562,267, or 66%, of this total. (See Figure A-4.)

Program revenues of \$11,225,625 are comprised in large part (46%) of general government revenues of \$5,227,043. The public safety function makes up 25% of program revenues at \$2,857,332; which includes Municipal Court's traffic and criminal fines. The parks function is 11% at \$1,214,957, and the public works function 17% at \$1,926,293. As expected, general revenues provided the required support and coverage for expenses not covered by program revenues.

The governmental activities showed a decrease in net position of \$3,954,659, which is attributable to expenditures and transfers out in excess of revenues. A summary of key elements attributable to the change in net position is as follows:

- Lower sales tax collections and building permit revenue due to moderate economic slowdown.
- Lower traffic and criminal fine revenue.
- Planned fund balance drawdown to pay outstanding principal in the General Obligation Debt Service Fund.
- Capital project and infrastructure expenditures from existing bond proceeds in the Facilities CIP and Street Improvements funds.

Table A-2
Change in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|--------------------------------|----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 6,895,263 | \$ 8,871,359 | \$ 35,332,149 | \$ 31,887,635 | \$ 42,227,412 | \$ 40,758,994 |
| Operating Grants and Contributions | 4,174,614 | 5,057,482 | - | - | 4,174,614 | 5,057,482 |
| Capital Grants and Contributions | 155,748 | - | 130,785 | - | 286,533 | - |
| General Revenues: | | | | | | |
| Property Taxes | 26,473,354 | 20,045,759 | - | - | 26,473,354 | 20,045,759 |
| In Lieu of Taxes | 682,266 | 592,302 | - | - | 682,266 | 592,302 |
| Gross Receipts Taxes | 6,205,833 | 5,794,059 | - | - | 6,205,833 | 5,794,059 |
| Sales and Other Taxes | 31,280,147 | 32,013,059 | - | - | 31,280,147 | 32,013,059 |
| Hotel Occupancy Taxes | 1,220,471 | 1,237,267 | - | - | 1,220,471 | 1,237,267 |
| Mixed Beverage Taxes | 298,859 | 272,002 | - | - | 298,859 | 272,002 |
| Miscellaneous ⁽¹⁾ | 3,446,410 | 1,807,243 | 306,949 | 563,412 | 3,753,359 | 2,370,655 |
| Donations | 47,035 | 167,455 | - | - | 47,035 | 167,455 |
| Grants and Contributions Not | | | | | | - |
| Restricted to Specific Programs | 1,019,223 | 1,145,225 | 5,004,392 | 6,612,682 | 6,023,615 | 7,757,907 |
| Unrestricted Investment Earnings | 291,145 | 132,911 | 109,148 | 28,576 | 400,293 | 161,487 |
| Gain (Loss) on Investments | 6,761 | 18,778 | (1,967) | (695) | 4,794 | 18,083 |
| Total Revenues | 82,197,129 | 77,154,901 | 40,881,456 | 39,091,610 | 123,078,585 | 116,246,511 |
| Expenses: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 18,032,626 | 15,956,134 | - | - | 18,032,626 | 15,956,134 |
| Finance | 2,092,724 | 1,654,077 | - | - | 2,092,724 | 1,654,077 |
| Public Safety | 38,529,641 | 36,628,246 | - | - | 38,529,641 | 36,628,246 |
| Parks | 8,248,715 | 7,227,345 | - | - | 8,248,715 | 7,227,345 |
| Public Works | 14,263,646 | 10,252,452 | - | - | 14,263,646 | 10,252,452 |
| Interest and Fiscal Charges | 4,603,547 | 5,079,185 | - | - | 4,603,547 | 5,079,185 |
| Total Governmental Activities | 85,770,899 | 76,797,439 | - | - | 85,770,899 | 76,797,439 |
| Business-Type Activities: | | | | | | |
| Water and Sewer | - | - | 30,902,787 | 29,304,349 | 30,902,787 | 29,304,349 |
| Fleet Services | - | - | 1,690,402 | 1,596,959 | 1,690,402 | 1,596,959 |
| Total Business-Type Activities | - | - | 32,593,189 | 30,901,308 | 32,593,189 | 30,901,308 |
| Total Expenses | 85,770,899 | 76,797,439 | 32,593,189 | 30,901,308 | 118,364,088 | 107,698,747 |
| Excess (Deficiency) before Transfers | (3,573,770) | 357,462 | 8,288,267 | 8,190,302 | 4,714,497 | 8,547,764 |
| Transfers In (Out) | (380,889) | (1,002,698) | 380,889 | 1,002,698 | - | - |
| Change in Net Position | (3,954,659) | (645,236) | 8,669,156 | 9,193,000 | 4,714,497 | 8,547,764 |
| Net Position - Beginning | 57,366,044 | 88,136,749 | 61,807,458 | 57,971,407 | 119,173,502 | 146,108,156 |
| Prior Period Adjustment - Current Year ⁽²⁾ | 42,248,503 | - | 4,985,730 | - | 47,234,233 | - |
| Prior Period Adjustment - Prior Year | - | (30,125,469) | - | (5,356,949) | - | (35,482,418) |
| Net Position - Beginning, as restated | 99,614,547 | 58,011,280 | 66,793,188 | 52,614,458 | 166,407,735 | 110,625,738 |
| Net Position - Ending | \$ 95,659,888 | \$ 57,366,044 | \$ 75,462,344 | \$ 61,807,458 | \$ 171,122,232 | \$ 119,173,502 |

(1) Included in miscellaneous revenues is a payment in the amount of \$1,268,121 which was received from CIDC for Parks and Recreation related debt.

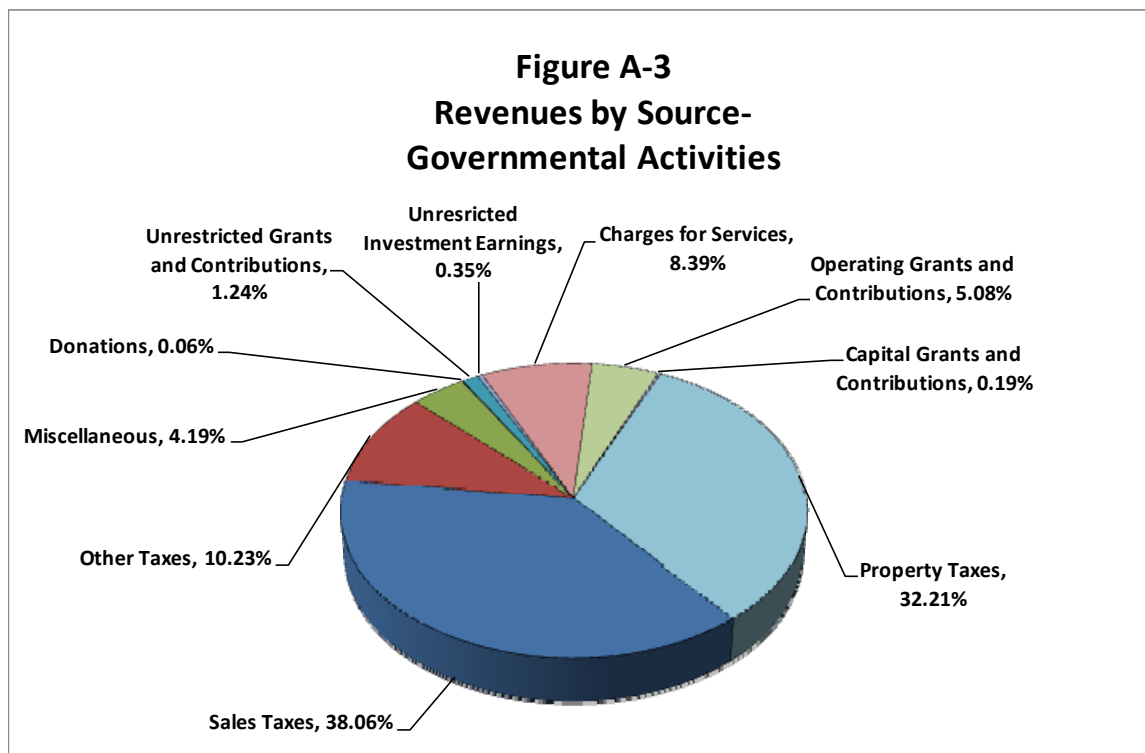
(2) Prior period adjustment detail can be found in the Notes to the Financial Statements, item O.

Business-type Activities

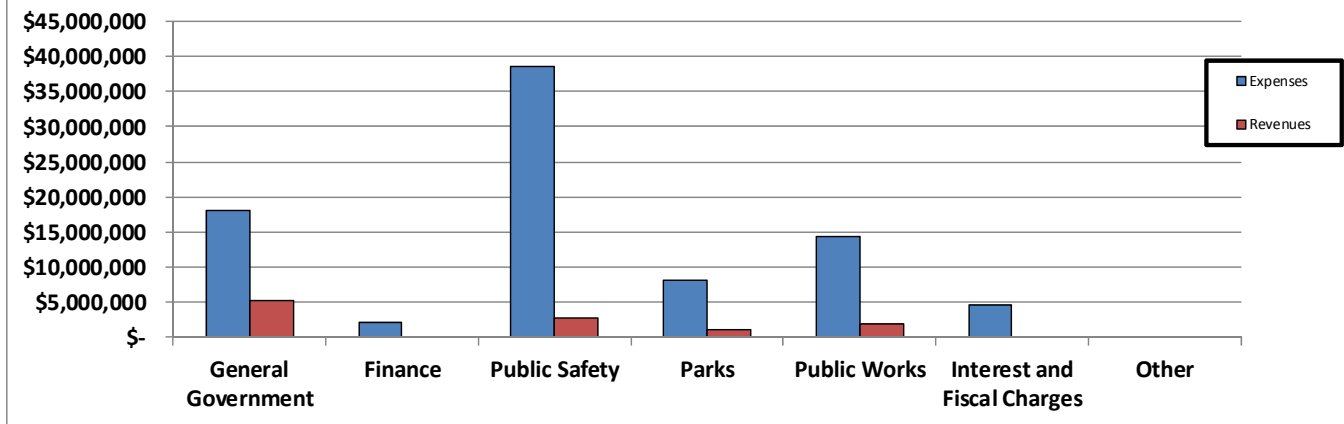
Business-type activities are financed in whole or part by fees charged to external users for goods or services. They are usually reported in an Enterprise Fund. Business-type activities increased the City's net position by \$8,669,156. Revenue can be reported as program revenue or general revenue—all 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 \$35,332,149 and program expenses were \$32,593,189.

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

- Sewer rates were increased on October 1, 2015, to ensure financial stability of the water and sewer systems. Sewer rates increased 4.0% over the previous fiscal year. Commercial customer water rates were increased by 4.5%, and the rate per gallon for usage over 150,000 gallons will drop to \$2.57 (per 1,000). Previously, the rate dropped at 100,000 gallons. Commercial customers will also have a 4% increase in sewer rates.
- The City implemented a water and sewer Lifeline Rate for customers over age 65 and/or disabled customers.
- The surface water conversion fee increased from \$2.70 cents to \$2.95 cents per 1,000 gallons consumed for residential, sprinkler and non-residential customers. This fee was implemented to help transition to treated surface water and is passed through from the San Jacinto River Authority (SJRA).
- Total water accounts increased from 17,841 in September 2015 to 18,345 in September 2016.



**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 \$20,237,960, while the total fund balance reached \$28,651,695. 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 \$20,237,960, or 31% of total General Fund expenditures. The number of days in unassigned fund balance is 115 days of General Fund expenditures. The General Fund also had nonspendable amounts of \$31,622 for inventories and \$104,270 for prepaid items; restricted amounts of \$158,386 for Court Efficiency, \$60,548 for Juvenile Case Manager, \$6,844 for Truancy Prevention Fund, \$19,376 for Severance Pay 2% Sinking Fund, \$612,575 for Seized Assets, \$526,237 for Red Light Cameras and, \$285,076 for the State Cable Franchise 1% PEG fee; and assigned amounts of \$75,507 for Tree Mitigation Revenue, \$4,031,972 for vehicle and equipment replacement, \$629,322 for General Fund-Balance FY2016 Appropriations and \$1,872,000 for Self-Funded Insurance at year end.

The fund balances of the following major funds changed during the current fiscal year as described below:

- \$82,076 in General Fund, due to increased property tax revenues. The current fiscal year's taxable property values increased 30.6% due to the annexation of the State Highway 105 West area.
- Debt Service Fund fund balance decreased due to a planned reduction of fund balance.
- Street Improvements Fund fund balance decreased due to a planned spending on capital projects.
- Facilities CIP Fund fund balance decreased due to a planned spending on capital projects.

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 \$2,786,997. The total increase in net position of \$13,400,525 was largely due from an increased customer base and rate increases, netted against prior period adjustment for net investments in capital assets, as restated for CIDC.

General Fund Budgetary Highlights

During the year, there was a \$2,443,739 increase in appropriations between the original and final amended budget.

Following are the main components of the increase:

- \$98,100 to the Community Development Department for the approval to outsource an Urban Forester position (\$86,100) and demolition costs for city building at 502 S. 5th Street determined to be structurally unsafe (\$12,000).
- \$73,439 to the Police Patrol Department for the Council approved purchase of a Redundant Digital Recorder.
- \$586,850 to the Non-Departmental Department for the Council approved purchase of land near Fire Station #6 on SH 105 West.
- \$34,509 to the Mayor and City Council Department for the approval of Election Services Agreement for May 2016 General Election (\$20,000) and the runoff election (\$14,509).
- \$48,406 to the Administration Department for the purchase of equipment from Low Power FM Radio station.
- \$55,311 to the Mayor and City Council Department for the amendment to salaries and benefits due to retirement of City Secretary.
- \$61,819 to the Transportation Department for the transfer of budget from the Transportation Grant Fund to General Fund operations Department 1044.
- \$177,559 to the Transportation Department for the transfer of budget from the Transportation Grant Fund to General Fund operations Department 1044.
- \$36,632 to the Police Patrol Department for the amendment to salaries and benefits due to retirement of a Police Officer.
- \$43,582 to the Police Patrol Department for the purchase of radio system for Mobile Incident Command truck, funds will come from seized assets fund reserves.
- \$40,000 to the Police Investigative Services Department for the purchase of Morpho Trak Lite and MorphoDend device.
- \$130,825 to the Fire Department for the purchase of equipment for the Public Safety Radio Inner-Connect between the City of Conroe & Montgomery County Health District (MCHD) Harris Radio System and Montgomery County Motorola Radio System. Funding of \$261,649 will be split between the City and MCHD.
- \$45,974 to the Parks Operations for improvements to the median at Frazier and Gladstell by Hou-Scape, Inc.
- \$126,766 to the Engineering Department for the contract with LIA Engineering for work with Glood Planning Grant.

Actual General Fund revenues exceeded original and amended budgeted revenues by \$876,224 during FY15-16. This increase includes the positive variance of \$499,284 for intergovernmental which is primarily due to increased grant funding for the City's transportation program. The revenue budget increase also includes a positive variance of \$117,252 for charges for sales and services primarily from planning and zoning fees.

Total expenditures were lower than budgeted amounts by \$1,243,874 for the fiscal year. This decrease is mainly due to less expenditures for capital outlay than were expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY15-16, the City had cumulatively invested \$383,233,818 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 | |
|--------------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land and Easements | \$ 14,678,035 | \$ 13,971,139 | \$ 1,957,409 | \$ 1,933,880 | \$ 16,635,444 | \$ 15,905,019 |
| Construction in Progress | 48,747,273 | 23,528,646 | 58,488,845 | 56,096,495 | 107,236,118 | 79,625,141 |
| Buildings and Improvements | 71,700,126 | 71,303,877 | 1,973,847 | 1,973,847 | 73,673,973 | 73,277,724 |
| Machinery and Equipment | 31,931,590 | 28,451,664 | 9,841,565 | 12,096,444 | 41,773,155 | 40,548,108 |
| Infrastructure | 156,321,736 | 111,691,016 | 176,640,458 | 153,591,827 | 332,962,194 | 265,282,843 |
| Totals | \$ 323,378,760 | \$ 248,946,342 | \$ 248,902,124 | \$ 225,692,493 | \$ 572,280,884 | \$ 474,638,835 |
| Total Accumulated Depreciation | \$ (101,668,627) | \$ (89,235,262) | \$ (87,378,439) | \$ (82,478,903) | \$ (189,047,066) | \$ (171,714,165) |
| Capital Assets, Net | \$ 221,710,133 | \$ 159,711,080 | \$ 161,523,685 | \$ 143,213,590 | \$ 383,233,818 | \$ 302,924,670 |

At year end, the City had \$5,063,486 in remaining commitments for ongoing capital projects. These commitments are shown in the following funds:

- Water and Sewer Fund - \$2,067,794
- Facilities CIP Fund - \$4,779
- Street Improvements - \$2,990,913

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

Long-Term Debt

At year-end the City had \$302,295,242 in long-term debt outstanding (See Table A-4), of which \$228,720,000 is bonded. During the year, the City issued \$11,275,000 in Certificates of Obligation Bonds. The City's Standard & Poor's credit rating for the Water and Wastewater Revenue Bonds remained unchanged at AA and the General Obligation Bonds also remained unchanged at AA. General bonded debt per capita increased from \$1,720 in 2015 to \$1,771 in 2016. The current ratio of net bonded debt to assessed value of all taxable property is 2.08%. More detailed information about the City's debt is presented in Note G of the basic financial statements.

Table A-4
Long-Term Debt

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|--------------------------------|-----------------------|---------------------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Capital Leases | \$ 341,241 | \$ 400,827 | \$ 2,524,923 | \$ 2,974,909 | \$ 2,866,164 | \$ 3,375,736 |
| Bonds Payable, Net | 138,640,600 | 135,705,804 | 101,531,935 | 105,404,059 | 240,172,535 | 241,109,863 |
| Notes Payable | 761,002 | 868,002 | - | - | 761,002 | 868,002 |
| Health Claims Liability | 542,204 | 527,897 | - | - | 542,204 | 527,897 |
| OPEB Liability | 3,528,532 | 3,526,466 | - | - | 3,528,532 | 3,526,466 |
| Net Pension Liability/TMRS | 20,417,299 | 15,782,675 | 5,758,726 | 4,451,524 | 26,176,025 | 20,234,199 |
| Net Pension Liability/Fire R/R | 18,764,327 | 17,721,835 | - | - | 18,764,327 | 17,721,835 |
| Severance Payable | 968,794 | 996,365 | - | - | 968,794 | 996,365 |
| Compensated Absences | 7,237,878 | 7,527,567 | 666,524 | 919,233 | 7,904,402 | 8,446,800 |
| Customer Deposits | - | - | 611,260 | 636,789 | 611,260 | 636,789 |
| Total Long-Term Debt | \$ 191,201,877 | \$ 183,057,438 | \$ 111,093,368 | \$ 114,386,514 | \$ 302,295,245 | \$ 297,443,952 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Appraised value used for the FY16-17 budget preparation is up \$816,508,992, or 12.9%, from FY15-16.
- Sales tax revenue for the City was conservatively estimated with no increase for FY16-17. This was based on the decline in oil prices and the resulting impact on our local economy
- Spending in the General Fund increases in the FY16-17 budget from \$62,076,417 to \$64,006,232. This is a 3.1% increase.

These indicators were taken into account when adopting the General Fund budget for FY16-17. Amounts available for appropriation in the General Fund budget are \$64,006,232, a decrease of 2.3% over the final FY15-16 budget of \$65,542,668. 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 currently offered.

If these estimates are realized, the City's budgetary General Fund fund balance is expected to decrease by approximately \$219,311 at the close of FY16-17. The decrease in the General Fund's fund balance is due to planned capital expenditures.

SAN JACINTO RIVER AUTHORITY GROUNDWATER REDUCTION PLAN

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF CONROE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

EXHIBIT A-1

| | Primary Government | | | Component Units | |
|---|-------------------------|--------------------------|-----------------------|------------------------------------|---|
| | Governmental Activities | Business-type Activities | Total | Oscar Johnson, Jr Community Center | Conroe Industrial Development Corporation |
| ASSETS | | | | | |
| Non-pooled Cash and Cash Equivalents | \$ 32,326 | \$ 837,431 | \$ 869,757 | \$ - | \$ - |
| Investments | 52,990,085 | 25,476,590 | 78,466,675 | - | 17,705,588 |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Property Taxes | 694,411 | - | 694,411 | - | - |
| Gross Receipts Tax | 823,770 | - | 823,770 | - | - |
| Accounts | 632,978 | 4,589,651 | 5,222,629 | - | - |
| Interest | 100,887 | 8,302 | 109,189 | - | 10,129 |
| Other | 1,188,563 | 4,843 | 1,193,406 | 13,161 | 2 |
| Internal Balances | 1,429,416 | (1,429,416) | - | - | - |
| Due from Other Governments | 7,525,560 | - | 7,525,560 | - | - |
| Receivables from External Parties | 450,238 | - | 450,238 | - | - |
| Due from Primary Government | - | - | - | - | 1,941,547 |
| Prepaid Items | 104,270 | - | 104,270 | - | - |
| Inventories | 31,622 | 681,052 | 712,674 | - | - |
| Land Held for Resale | - | - | - | - | 23,452,728 |
| Capital Assets: | | | | | |
| Land and Easements | 14,678,035 | 1,957,409 | 16,635,444 | 108,770 | - |
| Buildings and Improvements | 71,700,126 | 1,973,847 | 73,673,973 | 1,421,618 | - |
| Machinery and Equipment | 31,931,590 | 9,841,565 | 41,773,155 | 226,003 | - |
| Infrastructure | 156,321,736 | 176,640,458 | 332,962,194 | - | - |
| Construction in Progress | 48,747,273 | 58,488,845 | 107,236,118 | - | - |
| Less Accumulated Depreciation | (101,668,627) | (87,378,439) | (189,047,066) | (727,001) | - |
| Total Capital Assets (net of depreciation) | 221,710,133 | 161,523,685 | 383,233,818 | 1,029,390 | - |
| TOTAL ASSETS | 287,714,259 | 191,692,138 | 479,406,397 | 1,042,551 | 43,109,994 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Deferred Charge on Refunding | 2,466,620 | - | 2,466,620 | - | 1,517,213 |
| Deferred Outflows for Pensions | 10,063,619 | 2,005,214 | 12,068,833 | - | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 12,530,239 | 2,005,214 | 14,535,453 | - | 1,517,213 |
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable and Other Current Liabilities | 8,028,087 | 4,719,483 | 12,747,570 | 238,455 | 32,174 |
| Unearned Revenue | 1,352,573 | 831,199 | 2,183,772 | - | - |
| Payable to External Parties | 44,648 | - | 44,648 | - | - |
| Due to Component Unit | 1,941,547 | - | 1,941,547 | - | - |
| Accrued Interest Payable | 214,154 | 1,454,856 | 1,669,010 | - | 55,285 |
| Noncurrent Liabilities: | | | | | |
| Due within One Year | 9,716,742 | 5,043,742 | 14,760,484 | - | 1,240,000 |
| Due in More Than One Year | 181,485,135 | 106,049,626 | 287,534,761 | - | 36,249,360 |
| TOTAL LIABILITIES | 202,782,886 | 118,098,906 | 320,881,792 | 238,455 | 37,576,819 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Deferred Inflows for Pensions | 1,801,724 | 136,102 | 1,937,826 | - | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 1,801,724 | 136,102 | 1,937,826 | - | - |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | 97,563,851 | 66,592,348 | 164,156,199 | 1,029,390 | - |
| Restricted for: | | | | | |
| Debt Service | 11,401,030 | 5,455,067 | 16,856,097 | - | 3,904,788 |
| Other Purposes | 4,032,707 | - | 4,032,707 | - | - |
| Unrestricted | (17,337,700) | 3,414,929 | (13,922,771) | (225,294) | 3,145,600 |
| TOTAL NET POSITION | \$ 95,659,888 | \$ 75,462,344 | \$ 171,122,232 | \$ 804,096 | \$ 7,050,388 |

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, 2016

| Functions/Programs | Expenses | Program Revenues | | |
|---|-----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General Government | \$ 18,032,626 | \$ 2,774,101 | \$ 2,452,942 | \$ - |
| Finance | 2,092,724 | - | - | - |
| Public Safety | 38,529,641 | 2,030,468 | 826,864 | - |
| Parks | 8,248,715 | 1,214,957 | - | - |
| Public Works | 14,263,646 | 875,737 | 894,808 | 155,748 |
| Debt Service: | | | | |
| Interest and Fiscal Charges | 4,603,547 | - | - | - |
| Total Governmental Activities | <u>85,770,899</u> | <u>6,895,263</u> | <u>4,174,614</u> | <u>155,748</u> |
| Business-type Activities: | | | | |
| Water and Sewer | 30,902,787 | 33,379,807 | - | 130,785 |
| Fleet Services | 1,690,402 | 1,952,342 | - | - |
| Total Business-type Activities | <u>32,593,189</u> | <u>35,332,149</u> | <u>-</u> | <u>130,785</u> |
| Total Primary Government | <u>\$ 118,364,088</u> | <u>\$ 42,227,412</u> | <u>\$ 4,174,614</u> | <u>\$ 286,533</u> |
| COMPONENT UNITS: | | | | |
| Oscar Johnson, Jr. Community Center | \$ 1,357,701 | \$ 688,205 | \$ - | \$ - |
| Conroe Industrial Development Corporation | <u>\$ 6,463,832</u> | <u>\$ -</u> | <u>\$ -</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 and Transfers

Change in Net Position

Net Position - Beginning
 Prior Period Adjustment
 Net Position - Beginning, as restated
 Net Position - Ending

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

| Net (Expense) Revenue and Changes in Net Position | | | Component Units | |
|--|-----------------------------|-----------------------|--|---|
| Governmental Activities | Business-type Activities | Total | Oscar Johnson Jr. Community Center | Conroe Industrial Development Corporation |
| \$ (12,805,583) | \$ - | \$ (12,805,583) | \$ - | \$ - |
| (2,092,724) | - | (2,092,724) | - | - |
| (35,672,309) | - | (35,672,309) | - | - |
| (7,033,758) | - | (7,033,758) | - | - |
| (12,337,353) | - | (12,337,353) | - | - |
| (4,603,547) | - | (4,603,547) | - | - |
| <u>(74,545,274)</u> | <u>-</u> | <u>(74,545,274)</u> | - | - |
| - | 2,607,805 | 2,607,805 | - | - |
| - | 261,940 | 261,940 | - | - |
| <u>-</u> | <u>2,869,745</u> | <u>2,869,745</u> | - | - |
| <u>(74,545,274)</u> | <u>2,869,745</u> | <u>(71,675,529)</u> | - | - |
| | | | <u>(669,496)</u> | <u>(6,463,832)</u> |
| 26,473,354 | - | 26,473,354 | - | - |
| 682,266 | - | 682,266 | - | - |
| 6,205,833 | - | 6,205,833 | - | - |
| 31,280,147 | - | 31,280,147 | - | 10,426,666 |
| 1,220,471 | - | 1,220,471 | - | - |
| 298,859 | - | 298,859 | - | - |
| 3,446,410 | 306,949 | 3,753,359 | 2,891 | 925,528 |
| 47,035 | - | 47,035 | 7,850 | - |
| 1,019,223 | 5,004,392 | 6,023,615 | 599,542 | - |
| 291,145 | 109,148 | 400,293 | - | 72,692 |
| 6,761 | (1,967) | 4,794 | - | (358) |
| <u>(380,889)</u> | <u>380,889</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>70,590,615</u> | <u>5,799,411</u> | <u>76,390,026</u> | <u>610,283</u> | <u>11,424,528</u> |
| (3,954,659) | 8,669,156 | 4,714,497 | (59,213) | 4,960,696 |
| 57,366,044 | 61,807,458 | 119,173,502 | 863,309 | 33,994,322 |
| 42,248,503 | 4,985,730 | 47,234,233 | - | (31,904,630) |
| <u>99,614,547</u> | <u>66,793,188</u> | <u>166,407,735</u> | <u>863,309</u> | <u>2,089,692</u> |
| <u>\$ 95,659,888</u> | <u>\$ 75,462,344</u> | <u>\$ 171,122,232</u> | <u>\$ 804,096</u> | <u>\$ 7,050,388</u> |

CITY OF CONROE, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

| | General Fund | Debt Service Fund |
|--|----------------------|----------------------|
| ASSETS | | |
| Non-pooled Cash and Cash Equivalents | \$ 4,605 | \$ - |
| Investments | 24,391,762 | 11,312,205 |
| Property Taxes | 416,221 | 278,190 |
| Gross Receipts Tax | 823,770 | - |
| Accounts | - | - |
| Interest | 93,059 | 5,988 |
| Other | 166,717 | - |
| Due from Other Funds | 4,925,786 | 80,092 |
| Due from Other Governments | 7,525,560 | - |
| Prepaid Items | 104,270 | - |
| Inventories | 31,622 | - |
| TOTAL ASSETS | \$ 38,483,372 | \$ 11,676,475 |
| LIABILITIES | | |
| Accounts Payable | \$ 4,232,141 | \$ 61,291 |
| Accrued Expenditures/Expenses | 1,309,150 | - |
| Retainage Payable | - | - |
| Due to Other Funds | 609,527 | - |
| Due to Component Unit | 1,986,195 | - |
| Customer Deposits | - | - |
| Unearned Revenue | 1,349,978 | - |
| TOTAL LIABILITIES | 9,486,991 | 61,291 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable Revenue-Property Taxes | 344,686 | 258,419 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 344,686 | 258,419 |
| FUND BALANCES | | |
| Nonspendable: | | |
| Prepaid Items | 104,270 | - |
| Inventories | 31,622 | - |
| Restricted for: | | |
| Court Efficiency | 158,386 | - |
| Juvenile Case Manager | 60,548 | - |
| Truancy Prevention Fund | 6,844 | - |
| Severance Pay 2% Sinking Fund | 19,376 | - |
| Seized Assets | 612,575 | - |
| Red Light Cameras | 526,237 | - |
| State Cable Franchise 1% PEG Fee | 285,076 | - |
| Debt Service | - | 11,356,765 |
| Capital Project Funds | - | - |
| Special Revenue Funds | - | - |
| Committed for: | | |
| TIRZ #2-Property Tax Receipts | - | - |
| TIRZ #3-Property Tax Receipts | - | - |
| Conroe Tower-Lease Income | - | - |
| Owen Theatre-Ticket Sales | - | - |
| Woodlands Township Reg. Participation | - | - |
| Assigned to: | | |
| Tree Mitigation Revenue | 75,507 | - |
| Equipment Replacement | 4,031,972 | - |
| Fund Balance FY2017 Appropriations | 629,322 | - |
| Self-Funded Insurance | 1,872,000 | - |
| Unassigned | 20,237,960 | - |
| TOTAL FUND BALANCES | 28,651,695 | 11,356,765 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 38,483,372 | \$ 11,676,475 |

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

EXHIBIT A-3

| Street Improvements Fund | Facilities CIP Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------|------------------------|-----------------------------------|--------------------------------|
| \$ - | \$ - | \$ 27,721 | \$ 32,326 |
| 5,567,704 | 4,871,746 | 6,846,668 | 52,990,085 |
| - | - | - | 694,411 |
| - | - | - | 823,770 |
| - | - | 632,978 | 632,978 |
| 52 | 20 | 1,768 | 100,887 |
| 369,240 | - | 636,479 | 1,172,436 |
| 78,615 | 29,752 | 365,148 | 5,479,393 |
| - | - | - | 7,525,560 |
| - | - | - | 104,270 |
| - | - | - | 31,622 |
| <u>\$ 6,015,611</u> | <u>\$ 4,901,518</u> | <u>\$ 8,510,762</u> | <u>\$ 69,587,738</u> |
| | | | |
| \$ 945,507 | \$ 147,166 | \$ 464,895 | \$ 5,851,000 |
| - | - | 9,256 | 1,318,406 |
| 188,374 | 532,090 | 27,435 | 747,899 |
| - | - | 1,372,266 | 1,981,793 |
| - | - | - | 1,986,195 |
| - | - | 9,297 | 9,297 |
| - | - | 2,595 | 1,352,573 |
| <u>1,133,881</u> | <u>679,256</u> | <u>1,885,744</u> | <u>13,247,163</u> |
| | | | |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>603,105</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>603,105</u> |
| | | | |
| - | - | - | 104,270 |
| - | - | - | 31,622 |
| - | - | - | 158,386 |
| - | - | - | 60,548 |
| - | - | - | 6,844 |
| - | - | - | 19,376 |
| - | - | - | 612,575 |
| - | - | - | 526,237 |
| - | - | - | 285,076 |
| - | - | - | 11,356,765 |
| 4,881,730 | 4,222,262 | 3,305,582 | 12,409,574 |
| - | - | 2,363,665 | 2,363,665 |
| - | - | 25 | 25 |
| - | - | 447,238 | 447,238 |
| - | - | 319,548 | 319,548 |
| - | - | 42,539 | 42,539 |
| - | - | 146,421 | 146,421 |
| - | - | - | 75,507 |
| - | - | - | 4,031,972 |
| - | - | - | 629,322 |
| - | - | - | 1,872,000 |
| - | - | - | 20,237,960 |
| <u>4,881,730</u> | <u>4,222,262</u> | <u>6,625,018</u> | <u>55,737,470</u> |
| | | | |
| <u>\$ 6,015,611</u> | <u>\$ 4,901,518</u> | <u>\$ 8,510,762</u> | <u>\$ 69,587,738</u> |



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

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016*

Total Fund Balances - Governmental Funds (Exhibit A-3) \$ 55,737,470

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 | \$ 323,378,760 | |
| Accumulated Depreciation of Governmental Capital Assets | <u>(101,668,627)</u> | 221,710,133 |

| | |
|---|---------|
| 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. | 603,105 |
|---|---------|

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 | \$ (130,980,000) | |
| Premiums/Discounts on Bonds Payable | (7,660,600) | |
| Deferred Charge on Refunding | 2,466,620 | |
| Accrued Interest on Bonds | (214,154) | |
| Capital Lease Payable | (341,241) | |
| Notes Payable | (761,002) | |
| Net Pension Liability - TMRS | (20,417,299) | |
| Net Pension Liability - Firefighters' Retirement | (18,764,327) | |
| Deferred Outflows for Pensions | 10,063,619 | |
| Deferred Inflows for Pensions | (1,801,724) | |
| Severance Benefits | (968,794) | |
| Compensated Absences | <u>(7,237,878)</u> | (176,616,780) |

| | |
|---|--------------------|
| 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>(5,774,040)</u> |
|---|--------------------|

Total Net Position - Governmental Activities (Exhibit A-1) \$ 95,659,888

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, 2016

| | General Fund | Debt Service Fund |
|--|----------------------|----------------------|
| REVENUES | | |
| Taxes | \$ 55,666,956 | \$ 9,099,711 |
| Licenses and Permits | 2,498,341 | - |
| Charges for Sales and Services | 2,149,135 | - |
| Lease Income | 104,112 | - |
| Fines and Forfeitures | 1,877,614 | - |
| Intergovernmental | 2,606,547 | - |
| Investment Income | 152,093 | 72,776 |
| Gain (Loss) on Investment | 24,246 | (15,228) |
| Penalties and Interest | 131,516 | 75,987 |
| Other | 949,368 | 917,357 |
| TOTAL REVENUES | 66,159,928 | 10,150,603 |
| EXPENDITURES | | |
| Current: | | |
| General Government | - | 12,550 |
| Administration | 1,676,642 | - |
| Legal | 597,500 | - |
| Municipal Court | 1,157,029 | - |
| CDBG | 237,767 | - |
| Warehouse/Purchasing | 325,297 | - |
| Information Technology | 2,145,678 | - |
| Human Resources | 768,802 | - |
| Non-Departmental | 4,837,440 | - |
| Finance | 1,880,428 | - |
| Public Safety | | |
| Police | 18,479,674 | - |
| Fire | 13,500,952 | - |
| Parks | | |
| Parks and Recreation Administration | 536,412 | - |
| Recreation Center | 1,556,313 | - |
| Aquatic Center | 1,419,355 | - |
| Parks Operations | 1,839,241 | - |
| Public Works | | |
| Community Development | 1,640,364 | - |
| Drainage Maintenance | 822,239 | - |
| Streets | 4,376,250 | - |
| Signal Maintenance | 881,710 | - |
| Engineering | 2,499,599 | - |
| Debt Service: | | |
| Principal Retirement | 59,586 | 8,600,000 |
| Interest and Fiscal Charges | 15,592 | 4,626,719 |
| Bond Issuance Costs | - | 69,041 |
| Capital Outlay | 3,044,924 | - |
| TOTAL EXPENDITURES | 64,298,794 | 13,308,310 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,861,134 | (3,157,707) |
| OTHER FINANCING SOURCES (USES) | | |
| Issuance of Certificates of Obligation | - | - |
| Premium on Issuance of Bonds | - | - |
| Transfers In | 75,655 | 2,429,724 |
| Transfers Out | (1,854,713) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (1,779,058) | 2,429,724 |
| Net Change in Fund Balances | 82,076 | (727,983) |
| Fund Balances at Beginning of Year | 28,569,619 | 12,084,748 |
| FUND BALANCES AT END OF YEAR | \$ 28,651,695 | \$ 11,356,765 |

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

EXHIBIT A-5

| Street Improvements Fund | Facilities CIP Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------|------------------------|-----------------------------------|--------------------------------|
| \$ - | \$ - | \$ 1,220,471 | \$ 65,987,138 |
| - | - | - | 2,498,341 |
| - | - | - | 2,149,135 |
| - | - | 266,061 | 370,173 |
| - | - | - | 1,877,614 |
| - | - | 2,743,038 | 5,349,585 |
| 16,057 | 26,470 | 22,335 | 289,731 |
| (340) | (1,110) | 10 | 7,578 |
| - | - | 594 | 208,097 |
| 1,090,102 | - | 863,583 | 3,820,410 |
| <u>1,105,819</u> | <u>25,360</u> | <u>5,116,092</u> | <u>82,557,802</u> |
| - | 2,157,547 | 3,363,249 | 5,533,346 |
| - | - | - | 1,676,642 |
| - | - | - | 597,500 |
| - | - | - | 1,157,029 |
| - | - | - | 237,767 |
| - | - | - | 325,297 |
| - | - | - | 2,145,678 |
| - | - | - | 768,802 |
| - | - | - | 4,837,440 |
| - | - | - | 1,880,428 |
| - | - | - | 18,479,674 |
| - | - | - | 13,500,952 |
| - | - | - | 536,412 |
| - | - | - | 1,556,313 |
| - | - | - | 1,419,355 |
| - | - | - | 1,839,241 |
| - | - | - | 1,640,364 |
| - | - | - | 822,239 |
| - | - | - | 4,376,250 |
| - | - | - | 881,710 |
| - | - | - | 2,499,599 |
| - | - | 107,000 | 8,766,586 |
| - | - | 48,708 | 4,691,019 |
| 26,432 | 34,177 | 32,834 | 162,484 |
| <u>7,148,085</u> | <u>15,118,470</u> | <u>5,988,174</u> | <u>31,299,653</u> |
| <u>7,174,517</u> | <u>17,310,194</u> | <u>9,539,965</u> | <u>111,631,780</u> |
| <u>(6,068,698)</u> | <u>(17,284,834)</u> | <u>(4,423,873)</u> | <u>(29,073,978)</u> |
| 3,189,312 | 4,123,815 | 3,961,873 | 11,275,000 |
| 203,335 | 262,914 | 252,590 | 718,839 |
| - | - | 1,465,186 | 3,970,565 |
| - | - | (2,496,741) | (4,351,454) |
| <u>3,392,647</u> | <u>4,386,729</u> | <u>3,182,908</u> | <u>11,612,950</u> |
| (2,676,051) | (12,898,105) | (1,240,965) | (17,461,028) |
| 7,557,781 | 17,120,367 | 7,865,983 | 73,198,498 |
| <u>\$ 4,881,730</u> | <u>\$ 4,222,262</u> | <u>\$ 6,625,018</u> | <u>\$ 55,737,470</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, 2016

Total Net Change in Fund Balances - Governmental Funds (Exhibit A-5) \$ (17,461,028)

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> | \$ 31,497,524 | |
| Depreciation Expense | <u>(11,419,415)</u> | 20,078,109 |

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position. (327,559)

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. (33,711)

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 | \$ (11,275,000) | |
| (Premium) Discount | <u>(718,839)</u> | (11,993,839) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 8,600,000

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. 59,586

Repayment of notes principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 107,000

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>increase</i>) decrease | \$ (4,950) | |
| Amortization of Bond Premium/Discount | 459,043 | |
| Amortization of Deferred Amount on Refunding | <u>(204,137)</u> | 249,956 |

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. (1,838,615)

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. 289,689

The (increase) decrease in net pension liability 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. (1,042,492)

The (increase) decrease in net pension liability 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. (4,634,624)

| | | |
|---|--|--------------------|
| The increase (decrease) of deferred outflows for firefighters pension | | 1,243,743 |
| The increase (decrease) of deferred outflows for TMRS pension | | 4,154,251 |
| The (increase) decrease of deferred inflows for TMRS pension | | (113,514) |
| The (increase) decrease in deferred inflow for fire fighters pension | | <u>(1,319,182)</u> |

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. 27,571

Change in Net Position - Governmental Activities (Exhibit A-2) **\$ (3,954,659)**

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, 2016

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Taxes | \$ 56,327,420 | \$ 55,904,397 | \$ 55,666,956 | \$ (237,441) |
| Licenses and Permits | 2,724,008 | 2,724,008 | 2,498,341 | (225,667) |
| Charges for Sales and Services | 2,031,883 | 2,031,883 | 2,149,135 | 117,252 |
| Lease Income | 63,440 | 63,440 | 104,112 | 40,672 |
| Fines and Forfeitures | 2,163,300 | 2,163,300 | 1,877,614 | (285,686) |
| Intergovernmental | 1,849,856 | 2,107,263 | 2,606,547 | 499,284 |
| Investment Income | 54,386 | 56,986 | 152,093 | 95,107 |
| Gain (Loss) on Investment | - | - | 24,246 | 24,246 |
| Penalties and Interest | 73,894 | 73,894 | 131,516 | 57,622 |
| Other | 146,269 | 158,533 | 949,368 | 790,835 |
| TOTAL REVENUES | 65,434,456 | 65,283,704 | 66,159,928 | 876,224 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | | | | |
| Administration | 1,137,353 | 1,599,998 | 1,676,642 | (76,644) |
| Legal | 589,868 | 589,868 | 597,500 | (7,632) |
| Municipal Court | 1,225,314 | 1,193,650 | 1,157,029 | 36,621 |
| CDBG | 252,997 | 252,997 | 237,767 | 15,230 |
| Warehouse/Purchasing | 356,356 | 356,356 | 325,297 | 31,059 |
| Information Technology | 2,114,549 | 2,142,479 | 2,145,678 | (3,199) |
| Human Resources | 814,202 | 814,202 | 768,802 | 45,400 |
| Non-Departmental | 5,162,178 | 5,209,446 | 4,837,440 | 372,006 |
| Finance | 1,789,092 | 1,838,847 | 1,880,428 | (41,581) |
| Public Safety | | | | |
| Police | 17,995,734 | 18,148,384 | 18,479,674 | (331,290) |
| Fire | 13,280,334 | 13,395,493 | 13,500,952 | (105,459) |
| Parks | | | | |
| Parks and Recreation Administration | 459,180 | 459,180 | 536,412 | (77,232) |
| Recreation Center | 1,429,638 | 1,429,638 | 1,556,313 | (126,675) |
| Aquatic Center | 1,521,519 | 1,521,519 | 1,419,355 | 102,164 |
| Parks Operations | 1,888,655 | 1,888,655 | 1,839,241 | 49,414 |
| Public Works | | | | |
| Community Development | 1,645,558 | 1,756,828 | 1,640,364 | 116,464 |
| Drainage Maintenance | 906,802 | 906,802 | 822,239 | 84,563 |
| Streets | 3,869,112 | 3,869,112 | 4,376,250 | (507,138) |
| Signal Maintenance | 1,055,956 | 1,055,956 | 881,710 | 174,246 |
| Engineering | 2,686,809 | 2,813,575 | 2,499,599 | 313,976 |
| Debt Service: | | | | |
| Principal Retirement | 59,586 | 59,586 | 59,586 | - |
| Interest and Fiscal Charges | 15,592 | 15,592 | 15,592 | - |
| Capital Outlay | 2,842,545 | 4,224,505 | 3,044,924 | 1,179,581 |
| TOTAL EXPENDITURES | 63,098,929 | 65,542,668 | 64,298,794 | 1,243,874 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 2,335,527 | (258,964) | 1,861,134 | 2,120,098 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 1,052,461 | 1,071,440 | 75,655 | (995,785) |
| Transfers Out | (3,965,751) | (3,834,693) | (1,854,713) | 1,979,980 |
| TOTAL OTHER FINANCING SOURCES (USES) | (2,913,290) | (2,763,253) | (1,779,058) | 984,195 |
| Net Change in Fund Balance | (577,763) | (3,022,217) | 82,076 | 3,104,293 |
| Fund Balance at Beginning of Year | 28,569,619 | 28,569,619 | 28,569,619 | - |
| FUND BALANCE AT END OF YEAR | \$ 27,991,856 | \$ 25,547,402 | \$ 28,651,695 | \$ 3,104,293 |

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, 2016

EXHIBIT A-8

| | Enterprise Fund Water and Sewer Fund | Internal Service Funds |
|--|--|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Non-pooled Cash and Cash Equivalents | \$ 837,431 | \$ - |
| Investments | 24,891,217 | 585,373 |
| Receivables (Net of Allowances for Uncollectibles): | | |
| Accounts | 4,585,819 | 3,832 |
| Interest | 8,286 | 16 |
| Other | 4,843 | 16,127 |
| Due from Other Funds | - | 105,821 |
| Receivables from External Parties | - | 450,238 |
| Inventories | 633,643 | 47,409 |
| Total Current Assets | <u>30,961,239</u> | <u>1,208,816</u> |
| Noncurrent Assets: | | |
| Capital Assets (Net of Accumulated Depreciation) | <u>161,523,685</u> | <u>-</u> |
| Total Noncurrent Assets | <u>161,523,685</u> | <u>-</u> |
| TOTAL ASSETS | <u>192,484,924</u> | <u>1,208,816</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Outflows for Pensions | <u>2,005,214</u> | <u>-</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>2,005,214</u> | <u>-</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 3,019,974 | 160,770 |
| Due to Other Funds | 1,535,237 | 2,068,184 |
| Retainage Payable | 1,342,750 | - |
| Accrued Expenditures/Expenses | 282,019 | 15,455 |
| Health Claims Liability | - | 542,204 |
| Compensated Absences | 15,245 | 1,548 |
| Customer Deposits | 319,189 | - |
| Unearned Revenue | 831,199 | - |
| Capital Lease | 467,760 | - |
| Accrued Interest Payable | 1,454,856 | - |
| Revenue Bonds Payable | 4,240,000 | - |
| Total Current Liabilities | <u>13,508,229</u> | <u>2,788,161</u> |
| Noncurrent Liabilities, net of current portion | | |
| Compensated Absences | 611,500 | 38,231 |
| OPEB Liability | - | 3,528,532 |
| Net Pension Liability | 5,758,726 | - |
| Customer Deposits | 292,072 | - |
| Capital Lease | 2,057,162 | - |
| Revenue Bonds, Net | 97,291,935 | - |
| Total Noncurrent Liabilities | <u>106,011,395</u> | <u>3,566,763</u> |
| TOTAL LIABILITIES | <u>119,519,624</u> | <u>6,354,924</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Inflows for Pensions | <u>136,102</u> | <u>-</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>136,102</u> | <u>-</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | 66,592,348 | - |
| Restricted for Debt Service | 5,455,067 | - |
| Unrestricted | 2,786,997 | (5,146,108) |
| TOTAL NET POSITION | <u>\$ 74,834,412</u> | <u>\$ (5,146,108)</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | <u>627,932</u> | |
| Net Position of Business-type Activities (Exhibit A-1) | <u>\$ 75,462,344</u> | |

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

CITY OF CONROE, TEXAS**EXHIBIT A-9**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| | Enterprise Fund Water and Sewer Fund | Internal Service Funds |
|---|--|------------------------------|
| OPERATING REVENUES | | |
| Charges for Sales and Services | \$ 33,379,807 | \$ 10,730,342 |
| TOTAL OPERATING REVENUES | <u>33,379,807</u> | <u>10,730,342</u> |
| OPERATING EXPENSES | | |
| Public Works | 12,216,475 | 1,690,402 |
| Utility Billing and Collection | 1,022,397 | - |
| Water Production | 3,880,297 | - |
| Sewage Treatment | 4,119,182 | - |
| Pump and Motor Maintenance | 1,264,465 | - |
| General Government | - | 10,617,212 |
| Depreciation | 4,612,026 | - |
| TOTAL OPERATING EXPENSES | <u>27,114,842</u> | <u>12,307,614</u> |
| Operating Income (Loss) | <u>6,264,965</u> | <u>(1,577,272)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Intergovernmental | 4,876,535 | - |
| Investment Income | 108,089 | 2,473 |
| Gain (Loss) on Investment | (1,967) | (817) |
| Other Income | 565,591 | - |
| Interest Expense | (3,787,945) | - |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>1,760,303</u> | <u>1,656</u> |
| Income (Loss) Before Transfers | <u>8,025,268</u> | <u>(1,575,616)</u> |
| Transfers In | 440,775 | - |
| Transfers Out | (51,248) | (8,638) |
| NET TRANSFERS | <u>389,527</u> | <u>(8,638)</u> |
| Change in Net Position | <u>8,414,795</u> | <u>(1,584,254)</u> |
| Net Position at Beginning of Year | 61,433,887 | (3,561,854) |
| Prior Period Adjustment | 4,985,730 | - |
| NET POSITION AT END OF YEAR | <u>\$ 74,834,412</u> | <u>\$ (5,146,108)</u> |
| Change in Net Position | <u>\$ 8,414,795</u> | |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | <u>254,361</u> | |
| Change in Net Position of Business-type Activities (Exhibit A-2) | <u>\$ 8,669,156</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, 2016

EXHIBIT A-10

| | Enterprise Fund Water and Sewer Fund | Internal Service Funds |
|--|--|------------------------------|
| Cash Flows from Operating Activities: | | |
| <i>Cash Received from Customers</i> | \$ 34,354,543 | \$ 1,948,510 |
| <i>Cash Received from External Parties</i> | - | 134,740 |
| <i>Cash Received from Employees</i> | - | 1,091,800 |
| <i>Cash Received from Other Funds</i> | - | 8,912,103 |
| <i>Cash Received from Customer Deposits</i> | 958,027 | - |
| <i>Cash Payments to Other Funds</i> | - | (105,821) |
| <i>Cash Payments to Employees for Services</i> | (5,387,873) | (658,744) |
| <i>Cash Payments to Other Suppliers for Goods and Services</i> | (21,540,675) | (2,314,469) |
| <i>Cash Payments for Loss Claims</i> | - | (9,237,518) |
| <i>Cash Payments for Return of Customer Deposits</i> | (983,556) | - |
| Net Cash Provided by (Used for) Operating Activities | 7,400,466 | (229,399) |
| Cash Flows from Non-Capital Financing Activities: | | |
| <i>Transfer To Other Funds</i> | (51,248) | (8,638) |
| <i>Transfer From Other Funds</i> | 1,976,012 | - |
| Net Cash Provided by (Used for) Non-Capital Financing Activities | 1,924,764 | (8,638) |
| Cash Flows from Capital and Related Financing Activities: | | |
| <i>Proceeds from Sale of Capital Assets</i> | 580,859 | - |
| <i>Intergovernmental Reimbursements</i> | 5,351,434 | - |
| <i>Principal and Interest Paid</i> | (7,982,673) | - |
| <i>Acquisition or Construction of Capital Assets</i> | (18,566,118) | - |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | (20,616,498) | - |
| Cash Flows from Investing Activities: | | |
| <i>Purchase of Investment Securities</i> | (13,308,119) | (272,086) |
| <i>Proceeds from Sale and Maturities of Securities</i> | 22,171,138 | 350,875 |
| <i>Interest and Dividends on Investments</i> | 106,747 | 1,645 |
| Net Cash Provided by (Used for) Investing Activities | 8,969,766 | 80,434 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (2,321,502) | (157,603) |
| Cash and Cash Equivalents at Beginning of Year | 3,158,933 | 157,603 |
| Cash and Cash Equivalents at End of Year | \$ 837,431 | \$ - |
| Reconciliation of Operating Income (Loss) to Net Cash | | |
| Provided by (Used for) Operating Activities: | | |
| Operating Income (Loss) | \$ 6,264,965 | \$ (1,577,272) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash | | |
| Provided by (Used for) Operating Activities: | | |
| <i>Depreciation</i> | 4,612,026 | - |
| Changes in Assets and Liabilities: | | |
| <i>Decrease (Increase) in Receivables</i> | 719,212 | (6,458) |
| <i>Decrease (Increase) in Other Receivables</i> | 1,273 | - |
| <i>Decrease (Increase) from External Parties</i> | - | (314,754) |
| <i>Decrease (Increase) in Inventories</i> | (11,414) | 1,235 |
| <i>Decrease (Increase) in Deferred Outflows</i> | (1,171,711) | - |
| <i>Increase (Decrease) in Accounts Payable</i> | (4,303,587) | 131,103 |
| <i>Increase (Decrease) in Due to Other Funds</i> | - | 1,572,202 |
| <i>Increase (Decrease) in Compensated Absences</i> | (202,842) | (49,867) |
| <i>Increase (Decrease) in Accrued Expenses</i> | (75,397) | (4,065) |
| <i>Increase (Decrease) of Customer Deposits</i> | (25,528) | - |
| <i>Increase (Decrease) in Unearned Revenue</i> | 254,250 | - |
| <i>Increase (Decrease) in OPEB Liability</i> | - | 18,477 |
| <i>Increase (Decrease) in Net Pension Liability/TMRS</i> | 1,307,202 | - |
| <i>Increase (Decrease) in Deferred Inflows</i> | 32,017 | - |
| Total Adjustments | 1,135,501 | 1,347,873 |
| Net Cash Provided by (Used for) Operating Activities | \$ 7,400,466 | \$ (229,399) |

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

CITY OF CONROE, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUND
SEPTEMBER 30, 2016

EXHIBIT A-11

| | City of Conroe OPEB Trust Fund |
|---|--------------------------------------|
| ASSETS | |
| Stable Value/PARS Fund | \$ 4,249,282 |
| Receivables (Net of Allowances for Uncollectibles): | |
| Other | 30 |
| Receivables from External Parties | 44,648 |
| TOTAL ASSETS | 4,293,960 |
| LIABILITIES | |
| Payable to External Parties | 288,898 |
| TOTAL LIABILITIES | 288,898 |
| NET POSITION | |
| Assets Held in Trust for OPEB | 4,005,062 |
| TOTAL NET POSITION | \$ 4,005,062 |

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

CITY OF CONROE, TEXAS**STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016****EXHIBIT A-12**

| | City of Conroe OPEB Trust Fund |
|--|--------------------------------------|
| ADDITIONS | |
| Contributions: | |
| Employer Contributions | \$ 1,745,112 |
| Investment Earnings: | |
| Investment Income | 116,868 |
| Gain (Loss) on Investment | 185,522 |
| TOTAL ADDITIONS | <u>2,047,502</u> |
| DEDUCTIONS | |
| Benefits and Refunds Paid to Members and Beneficiaries | 1,198,515 |
| TOTAL DEDUCTIONS | <u>1,198,515</u> |
| Change in Net Position | 848,987 |
| Net Position at Beginning of the Year | 3,156,075 |
| NET POSITION AT END OF YEAR | <u><u>\$ 4,005,062</u></u> |

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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 codification, include whether:

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

BLENDING COMPONENT UNIT

The following entity is included in the financial statements as a blended component unit based upon its significant financial and operational relationship to the City:

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. does not issue separate financial statements.

DISCRETE COMPONENT UNITS

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

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

Conroe Industrial Development Corporation - (CIDC) A nonprofit corporation organized under the Texas Non-Profit Corporation Act whose sole purpose is to expend the proceeds of any sales and use taxes levied for the City's benefit in order to promote economic development. Directors are appointed by the governing body of the City. The CIDC does not issue separate financial statements.

2. 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. Interfund services that are provided and used are not eliminated in the process of consolidation. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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.

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. Other sources of revenue include intergovernmental revenue from the CIDC to pay for certain parks and recreation debt service, as well as transfers in from the TIRZ #3 fund to pay for certain street improvement debt service.

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 proceeds from the sale of bonds.

Facilities CIP Fund. This is a capital projects fund used to account for design, construction, and improvements of City buildings, facilities, and related infrastructure. The principal resources of the fund are proceeds from the sale of bonds.

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 (SFIF). 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 SFIF accounts for the costs of providing health, dental, and vision insurance to the City's employees, retirees, and dependents.

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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).

Government-wide Financial Statements: 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.

The fiduciary funds financial statements reflect the City's OPEB trust fund. The measurement focus of the OPEB trust fund is on the flow of economic resources. This focus emphasizes the determination of net income, changes in net position, and financial position. With this measurement focus all assets and liabilities associated with the operation of the fund are included on the statement of fiduciary net position. The fund uses the accrual basis of accounting whereby revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred.

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 and sales taxes. Property tax revenues and revenues received from Federal and State governments are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and claims and judgments which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

a. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

| | Statement of Net Position | Statement of Net Position | Balance Sheet - Governmental Funds | |
|---|------------------------------|------------------------------|------------------------------------|----------------------|
| | Governmental Activities | Business-type Activities | General Fund | Debt Service Fund |
| Deferred Outflows of Resources | | | | |
| Deferred Outflows from Pension Activities - TMRS | \$ 4,602,492 | \$ 1,298,139 | \$ - | \$ - |
| Deferred Contributions After the Measurement Date - TMRS | 2,506,904 | 707,075 | - | - |
| Deferred Outflow from Pension Activities - CFFR&RF | 2,954,223 | - | - | - |
| Deferred Charge on Refunding | 2,466,620 | - | - | - |
| Total Deferred Outflows of Resources | <u>\$ 12,530,239</u> | <u>\$ 2,005,214</u> | <u>\$ -</u> | <u>\$ -</u> |
| Deferred Inflows of Resources | | | | |
| Deferred Inflows from Pension Activities - TMRS | \$ 482,542 | \$ 136,102 | \$ - | \$ - |
| Deferred Inflows from Pension Activities - CFFR&RF | 1,319,182 | - | - | - |
| Unavailable Property Taxes | - | - | 344,686 | 258,419 |
| Total Deferred Inflows of Resources | <u>\$ 1,801,724</u> | <u>\$ 136,102</u> | <u>\$ 344,686</u> | <u>\$ 258,419</u> |

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Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- City contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes 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. Pensions

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

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

4. 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 demand deposits to be cash equivalents.

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

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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, 2016, was \$0.4200 per \$100, allocated \$0.2750 for the General Fund and \$0.1450 for the Debt Service Fund. The tax rate for the year ended September 30, 2015, 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 payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

d. Land Held for Resale

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

e. Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized cost of the assets constructed. During the year ended September 30, 2016, no interest was capitalized by the City.

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

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

f. 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.

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

CITY OF CONROE, TEXAS

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g. 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.

h. 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.

i. 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.

j. Fund Balances

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

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

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

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

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

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

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5. Budgetary Control

a. Budgetary Information

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

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

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

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

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

b. Excess of Expenditures Over Appropriations

For the year ended September 30, 2016, expenditures exceeded appropriations in the following departments (the legal level of budgetary control):

- (1) Administration department of the General Fund by \$76,644. These over expenditures were funded by fund balance.
- (2) Legal department of the General Fund by \$7,632. These over expenditures were funded by fund balance.
- (3) Information and Technology department of the General Fund by \$3,199. These over expenditures were funded by fund balance.
- (4) Finance department of the General Fund by \$41,581. These over expenditures were funded by fund balance.
- (5) Police department of the General Fund by \$331,290. These over expenditures were funded by fund balance.
- (6) Fire department of the General Fund by \$105,459. These over expenditures were funded by fund balance.
- (7) Parks and Recreation Administration department of the General Fund by \$77,232. These over expenditures were funded by fund balance.
- (8) Recreation Center department of the General Fund by \$126,675. These over expenditures were funded by fund balance.
- (9) Streets department of the General Fund by \$507,138. These over expenditures were funded by under spending within the department's capital budget.

CITY OF CONROE, TEXAS

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6. Encumbrances

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

Encumbrances are reported in the financial statements as restricted, committed, or assigned for specific purposes in the governmental funds. As of September 30, 2016, significant encumbrances included in governmental fund balances are as follows:

| | Encumbrances Included in: | |
|--------------------------|---------------------------|--------------------------|
| | Committed Fund Balance | Assigned Fund Balance |
| General Fund | \$ - | \$ 977,468 |
| Water and Sewer Fund | 2,067,794 | 733,229 |
| Street Improvements Fund | 2,990,913 | - |
| Facilities CIP Fund | 4,779 | - |
| Total Encumbrances | <u>\$ 5,063,486</u> | <u>\$ 1,710,697</u> |

B. Compliance and Accountability

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

The Self-Funded Insurance Fund had a deficit fund net position of \$5,935,380 at September 30, 2016. Exclusive of the City's OPEB liability of \$3,528,532, the City would recognize a negative net position of \$2,406,848.

Effective January 2016, the City offers an HMO plan (Kelsey Care) as an alternative to the Health Savings Account Plan (HSA) and a Buy-Up plan with the current insurance carrier. The City also increased employee and dependent premiums for medical and dental insurance, as well as retiree premiums for medical insurance. The City also increased the employer contribution for employee insurance.

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

| Description | Government- Wide | Fund | Difference | Remarks |
|-------------------|---------------------|----------------|----------------|---|
| Total Assets | \$ 191,692,138 | \$ 192,484,924 | \$ (792,786) | 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 | \$ 118,098,906 | \$ 119,519,624 | \$ (1,420,718) | 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. |

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C. Deposits and Investments

Primary Government:

Cash Deposit: The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments: The City's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. City policy limits credit risk by authorizing the following investments: 1) Obligations of the United States of America, its agencies and instrumentalities; 2) Certificates of Deposit issued by a bank or broker approved by the City Council and organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the City; 3) Fully collateralized direct repurchase agreements with a defined termination date secured by a combination of cash and obligations of the United States, its agencies or instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City. 4) No-Load Money Market Mutual funds that are: a) Registered and regulated by the Securities and Exchange Commission; b) Provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; c) Have a dollar weighted average stated maturity of 90 days or less; d) Continuously rated AAA by at least one nationally recognized rating service; e) Seek to maintain a net asset value of \$1.00 per share; and f) Mark its portfolio to market daily; 5) Local government investment pools, which: a) Meet the requirements of Chapter 2256.016 of the Public Funds Investment Act; b) Are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service; c) Seek to maintain a \$1.00 net asset value, and; d) Are authorized by resolution or ordinance by the City Council; 6) Obligations of the State of Texas or its agencies and instrumentalities; 7) Obligations of States, Agencies, Counties, Cities, and other political subdivisions of any State rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; 8) Commercial Paper that has a stated final maturity of 270 days or fewer from the date of its issuance and is rated A-1, P-1, or equivalent rating by at least two nationally recognized credit rating agencies; 9) Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; 10) Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States. Investment of City funds in any instrument or security not authorized for investment is prohibited.

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

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

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

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

| | September 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Percent of Total Investments | Weighted Average Maturity (Years) | Credit Risk |
|--|-----------------------|--|------------------------------------|---|----------------|
| Government Activities | | | | | |
| Investments Measured at Amortized Cost: | | | | | |
| TexPool | \$ 9,414,274 | \$ - | 17.77% | 0.12 | AAAm |
| Investments Measured at Net Asset Value (NAV), Fair Value: | | | | | |
| TexSTAR | 10,244,486 | - | 19.33% | 0.12 | AAAm |
| Texas CLASS | 11,167,186 | - | 21.07% | 0.15 | AAAm |
| Money Market Mutual Fund | 25,060 | - | 0.05% | - | Not Rated |
| Invesco Money Market Fund | 2,921,474 | - | 5.51% | 0.12 | AAAm |
| Investments Subject to Fair Value: | | | | | |
| U.S. Government | 15,051,230 | 15,051,230 | 28.40% | 1.00 | AA+ |
| Municipal Bonds | 4,166,375 | 4,166,375 | 7.86% | 1.98 | AA-,AA,Aa2,AAA |
| Total Value | <u>\$ 52,990,085</u> | <u>\$ 19,217,605</u> | <u>100.00%</u> | | |
| Portfolio Weighted Average Maturity | | | | 0.52 | |
| Business-type Activities | | | | | |
| Investments Measured at Amortized Cost: | | | | | |
| TexPool | \$ 4,508,803 | \$ - | 17.70% | 0.12 | AAAm |
| Investments Measured at Net Asset Value (NAV), Fair Value: | | | | | |
| TexSTAR | 6,713,382 | - | 26.35% | 0.12 | AAAm |
| Texas CLASS | 8,820,128 | - | 34.62% | 0.15 | AAAm |
| Invesco Money Market Fund | 1,936,289 | - | 7.60% | 0.12 | AAAm |
| Investments Subject to Fair Value: | | | | | |
| U.S. Government | 3,008,200 | 3,008,200 | 11.81% | 1.64 | AA+ |
| Municipal Bonds | 489,788 | 489,788 | 1.92% | 1.73 | AA,AA- |
| Total Value | <u>\$ 25,476,590</u> | <u>\$ 3,497,988</u> | <u>100.00%</u> | | |
| Portfolio Weighted Average Maturity | | | | 0.35 | |
| Fiduciary Fund | | | | | |
| Investments Measured at Net Asset Value (NAV), Fair Value: | | | | | |
| Invesco Money Market Fund | \$ 238,200 | \$ - | 5.61% | 0.12 | AAAm |
| Investments Subject to Fair Value: | | | | | |
| Money Market Mutual Funds | 150,988 | 150,988 | 3.55% | - | Not Rated |
| Money Market Fixed Income | 1,960,358 | 1,960,358 | 46.13% | 7.34 | -A |
| Money Market Equity | 1,899,736 | 1,899,736 | 44.71% | n/a | Not Rated |
| Total Value | <u>\$ 4,249,282</u> | <u>\$ 4,011,082</u> | <u>100.00%</u> | | |

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

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

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

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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

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

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

Credit risk: For fiscal year 2016, the City invested in various investment types. The credit rating for those investments are noted in the preceding table. In compliance with the City's Investment Policy, as of September, 30, 2016, the City minimized credit risk 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 that were rated AAAM by Standard and Poor's;
- Purchasing investments in obligations of the United States of America, its agencies or instrumentalities;
- Purchasing commercial paper investments that were rates 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 securities 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 to it. As of February 1, 2016, City deposits with financial institutions in excess of federal depository insurance limits were not fully collateralized.

In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

1. Depository: Woodforest National Bank
2. Largest cash, savings and time deposit combined account balance amounted to \$9,480,801 and occurred February 1, 2016
3. Total amount of FDIC coverage at the time of largest combined balance was \$500,000
4. On February 1, 2016, the City's highest daily combined bank balance of \$9,480,801 was exposed to custodial credit risk as it was under collateralized by \$642,115 due to deposits for property taxes and the maturing of investments. The City invested \$1,500,000 in Texas CLASS the next day, February 2, 2016, which relieved the uncollateralized balance, and the bank balances were adequately secured and collateralized with no loss of funds to the City.

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Discretely Presented Component Unit:

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

| Component Unit | September 30, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Percent of Total Investments | Weighted Average Maturity (Years) | Credit Risk |
|--|-----------------------|--|------------------------------------|---|----------------|
| Investments Measured at Amortized Cost: | | | | | |
| TexPool | \$ 1,142,045 | \$ - | 6.45% | 0.12 | AAAm |
| Investments Measured at Net Asset Value (NAV), Fair Value: | | | | | |
| TexSTAR | 1,835,860 | - | 10.37% | 0.12 | AAAm |
| Texas CLASS | 6,426,618 | - | 36.30% | 0.15 | AAAm |
| Invesco Money Market Fund | 266,257 | - | 1.50% | 0.12 | AAAm |
| Investments Subject to Fair Value: | | | | | |
| U.S. Government Agencies | 6,003,080 | 6,003,080 | 33.91% | 0.75 | AA+ |
| Municipal Bonds | 2,031,728 | 2,031,728 | 11.48% | 0.92 | Aa2, AAA |
| Total Value | <u>\$ 17,705,588</u> | <u>\$ 8,034,808</u> | <u>100.00%</u> | | |
| Portfolio Weighted Average Maturity | | | | 0.44 | |

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

Credit risk: For fiscal year 2016, the CIDC invested in various investments. The credit ratings for these investments are noted in the preceding table.

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

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

D. Accounts Receivable

Accounts receivable are shown net of allowance for uncollectibles for certain funds. Below is the detail of receivables for the General and Debt Service funds and the nonmajor governmental funds including the applicable allowances for uncollectable accounts:

| Receivables | General Fund | Debt Service Fund | Street Improvements Fund | Facilities CIP Fund | Nonmajor Governmental | Total |
|-------------------------------------|---------------------|----------------------|--------------------------------|------------------------|--------------------------|---------------------|
| Property Taxes | \$ 452,743 | \$ 307,914 | \$ - | \$ - | \$ - | \$ 760,657 |
| Gross Receipts Tax | 823,770 | - | - | - | - | 823,770 |
| Accounts | - | - | - | - | 632,978 | 632,978 |
| Interest | 93,059 | 5,988 | 52 | 20 | 1,768 | 100,887 |
| Other | 166,717 | - | 369,240 | - | 636,479 | 1,172,436 |
| Gross Receivables | \$ 1,536,289 | \$ 313,902 | \$ 369,292 | \$ 20 | \$ 1,271,225 | \$ 3,490,728 |
| Less: Allowance for uncollectables: | | | | | | |
| Property Taxes | (36,522) | (29,724) | - | - | - | (66,246) |
| Net Receivables | <u>\$ 1,499,767</u> | <u>\$ 284,178</u> | <u>\$ 369,292</u> | <u>\$ 20</u> | <u>\$ 1,271,225</u> | <u>\$ 3,424,482</u> |

CITY OF CONROE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

E. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

| | Beginning Balances, as Previously Reported | Prior Period Adjustment* | Beginning Balance, as Restated | Increases | Decreases/ Reclasses ⁽¹⁾ | Ending Balance |
|---|---|--------------------------------|--------------------------------------|---------------|--|-------------------|
| Governmental Activities: | | | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | | | |
| Land and Easements | \$ 13,971,139 | \$ 19,132 | \$ 13,990,271 | \$ 177,910 | \$ 509,854 | \$ 14,678,035 |
| Construction in Progress | 23,528,646 | - | 23,528,646 | 28,807,928 | (3,589,301) | 48,747,273 |
| Total capital assets, not being depreciated | 37,499,785 | 19,132 | 37,518,917 | 28,985,838 | (3,079,447) | 63,425,308 |
| <i>Capital assets, being depreciated:</i> | | | | | | |
| Buildings and Improvements | 71,303,877 | 104,319 | 71,408,196 | 35,672 | 256,258 | 71,700,126 |
| Machinery and Equipment | 28,451,664 | 1,424,027 | 29,875,691 | 2,476,014 | (420,115) | 31,931,590 |
| Infrastructure | 111,691,016 | 42,481,361 | 154,172,377 | - | 2,149,359 | 156,321,736 |
| Total capital assets, being depreciated | 211,446,557 | 44,009,707 | 255,456,264 | 2,511,686 | 1,985,502 | 259,953,452 |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Improvements | (25,207,582) | - | (25,207,582) | (3,085,037) | - | (28,292,619) |
| Machinery and Equipment | (14,224,122) | (439,974) | (14,664,096) | (2,895,197) | 766,385 | (16,792,908) |
| Infrastructure | (49,803,558) | (1,340,362) | (51,143,920) | (5,439,180) | - | (56,583,100) |
| Total accumulated depreciation | (89,235,262) | (1,780,336) | (91,015,598) | (11,419,414) | 766,385 | (101,668,627) |
| Total capital assets being depreciated, net | 122,211,295 | 42,229,371 | 164,440,666 | (8,907,728) | 2,751,887 | 158,284,825 |
| Governmental Activities capital assets, net | \$ 159,711,080 | \$ 42,248,503 | \$ 201,959,583 | \$ 20,078,110 | \$ (327,560) | \$ 221,710,133 |

* The beginning balances were changed as noted in the prior period adjustment footnote O.

- (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 \$3,589,301. The amount of \$509,854 was transferred to Land. The amount of \$256,259 was transferred to Buildings and Improvements. The amount of \$673,829 was transferred to Equipment. The amount of \$2,149,359 was transferred to Infrastructure.

| | Beginning Balances, as Previously Reported | Prior Period Adjustment* | Beginning Balance, as Restated | Increases | Decreases/ Reclasses ⁽¹⁾ | Ending Balance |
|--|---|--------------------------------|--------------------------------------|---------------|--|-------------------|
| Business-type Activities: | | | | | | |
| <i>Capital assets not being depreciated:</i> | | | | | | |
| Land and Easements | \$ 1,933,880 | \$ - | \$ 1,933,880 | \$ 23,529 | \$ - | \$ 1,957,409 |
| Construction in Progress | 56,096,495 | - | 56,096,495 | 17,683,094 | (15,290,744) | 58,488,845 |
| Total capital assets not being depreciated | 58,030,375 | - | 58,030,375 | 17,706,623 | (15,290,744) | 60,446,254 |
| <i>Capital assets being depreciated:</i> | | | | | | |
| Buildings and Improvements | 1,973,847 | - | 1,973,847 | - | - | 1,973,847 |
| Machinery and Equipment | 12,096,444 | (1,397,216) | 10,699,228 | 719,932 | (1,577,595) | 9,841,565 |
| Infrastructure | 153,591,827 | 7,757,887 | 161,349,714 | - | 15,290,744 | 176,640,458 |
| Total capital assets being depreciated | 167,662,118 | 6,360,671 | 174,022,789 | 719,932 | 13,713,149 | 188,455,870 |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Improvements | (389,647) | - | (389,647) | (74,851) | - | (464,498) |
| Machinery and Equipment | (4,892,267) | 428,803 | (4,463,464) | (671,634) | 1,087,430 | (4,047,668) |
| Infrastructure | (77,196,989) | (1,803,744) | (79,000,733) | (3,865,540) | - | (82,866,273) |
| Total accumulated depreciation | (82,478,903) | (1,374,941) | (83,853,844) | (4,612,025) | 1,087,430 | (87,378,439) |
| Total capital assets being depreciated, net | 85,183,215 | 4,985,730 | 90,168,945 | (3,892,093) | 14,800,579 | 101,077,431 |
| Business-type Activities capital assets, net | \$ 143,213,590 | \$ 4,985,730 | \$ 148,199,320 | \$ 13,814,530 | \$ (490,165) | \$ 161,523,685 |

* The beginning balances were changed as noted in the prior period adjustment footnote O.

- (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 \$15,290,744. The amount of \$15,290,744 was transferred to Infrastructure.

CITY OF CONROE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS****SEPTEMBER 30, 2016**

Depreciation expense was charged to functions as follows:

| | |
|---------------------------|----------------------|
| Governmental Activities: | |
| General Government | \$ 1,060,545 |
| Finance | 84,128 |
| Public Safety | 4,631,357 |
| Parks | 2,779,952 |
| Public Works | 2,863,432 |
| | <u>\$ 11,419,414</u> |
| Business-type Activities: | |
| Water and Sewer | \$ 4,612,025 |
| | <u>\$ 4,612,025</u> |

The City has active construction projects as of September 30, 2016. Total accumulated commitments for ongoing capital projects are composed of the following:

| | <u>Spent-to Date</u> | <u>Remaining Commitment</u> |
|---------------------|----------------------|---------------------------------|
| Water and Sewer | \$ 34,703,426 | \$ 2,067,794 |
| Street Improvements | 4,155,039 | 2,990,913 |
| Facilities | 21,035,981 | 4,779 |
| Totals | <u>\$ 59,894,446</u> | <u>\$ 5,063,486</u> |

These commitments will be funded by bond proceeds.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Discrete Component Units:

| | Beginning Balance* | Increases | Decreases/ Reclasses | Ending Balances |
|---|-----------------------|-------------|-------------------------|--------------------|
| <u>Oscar Johnson Jr. Community Center:</u> | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and Easements | \$ 108,770 | \$ - | \$ - | \$ 108,770 |
| Total capital assets not being depreciated | 108,770 | - | - | 108,770 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and Improvements | 1,421,618 | - | - | 1,421,618 |
| Machinery and Equipment | 226,003 | - | - | 226,003 |
| Total capital assets being depreciated | 1,647,621 | - | - | 1,647,621 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (562,482) | (42,272) | - | (604,754) |
| Machinery and Equipment | (105,304) | (16,943) | - | (122,247) |
| Total accumulated depreciation | (667,786) | (59,215) | - | (727,001) |
| Total capital assets being depreciated, net | 979,835 | (59,215) | - | 920,620 |
| Oscar Johnson Jr. Community Center capital assets, net | \$ 1,088,605 | \$ (59,215) | \$ - | \$ 1,029,390 |

| | Beginning Balances, as Previously Reported | Prior Period Adjustment* | Beginning Balance, as Restated | Increases | Decreases/ Reclasses | Ending Balance |
|--|---|--------------------------------|--------------------------------------|-----------|-------------------------|-------------------|
| <u>Conroe Industrial Development Corporation:</u> | | | | | | |
| <i>Capital assets not being depreciated:</i> | | | | | | |
| Land and Easements | \$ 23,331,197 | \$ (23,331,197) | \$ - | \$ - | \$ - | \$ - |
| Construction in Progress | 11,553,607 | (11,553,607) | - | - | - | - |
| Total capital assets not being depreciated | 34,884,804 | (34,884,804) | - | - | - | - |
| <i>Capital assets being depreciated:</i> | | | | | | |
| Machinery and Equipment | 26,811 | (26,811) | - | - | - | - |
| Infrastructure | 21,240,096 | (21,240,096) | - | - | - | - |
| Total capital assets being depreciated | 21,266,907 | (21,266,907) | - | - | - | - |
| Less Accumulated Depreciation for: | | | | | | |
| Machinery and Equipment | (11,171) | 11,171 | - | - | - | - |
| Infrastructure | (923,845) | 923,845 | - | - | - | - |
| Total accumulated depreciation | (935,016) | 935,016 | - | - | - | - |
| Total capital assets being depreciated, net | 20,331,891 | (20,331,891) | - | - | - | - |
| Conroe Industrial Development Corporation capital assets, net | \$ 55,216,695 | \$ (55,216,695) | \$ - | \$ - | \$ - | \$ - |

* The beginning balances were changed as noted in the prior period adjustment footnote O.

The remaining land was reclassified to Land Held for Resale since it is land that will not be used for CIDC's operational use.

Depreciation expense was charged to functions as follows:

| | |
|------------------------------------|-----------|
| Depreciation Component Unit: | |
| Oscar Johnson Jr. Community Center | \$ 59,215 |
| Total | \$ 59,215 |

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

F. Interfund Balances and Activity

1. Due To and From Other Funds

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

A summary of interfund receivables and payables at September 30, 2016 is as follows:

| | Interfund Receivables | Interfund Payables |
|-----------------------------|--------------------------|-----------------------|
| Governmental Funds: | | |
| General Fund | \$ 4,925,786 | \$ 609,527 |
| Debt Service Fund | 80,092 | - |
| Street Improvement Fund | 78,615 | - |
| Facilities CIP Fund | 29,752 | - |
| Nonmajor Governmental Funds | 365,148 | 1,372,266 |
| Total Governmental Funds | <u>5,479,393</u> | <u>1,981,793</u> |
| Proprietary Funds: | | |
| Enterprise Funds | - | 1,535,237 |
| Internal Service Funds | 105,821 | 2,068,184 |
| Total Proprietary Funds | <u>105,821</u> | <u>3,603,421</u> |
| Total - All Funds | <u>\$ 5,585,214</u> | <u>\$ 5,585,214</u> |

2. Transfers To and From Other Funds

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

Transfers between funds during the year were as follows:

| Transfers From | Transfers To | Amount | Reason |
|-----------------------|-----------------------|---------------------|---|
| General Fund | Nonmajor Governmental | \$ 265,819 | Increase in TIRZ #2 property tax value |
| General Fund | Nonmajor Governmental | 994,375 | Increase in TIRZ #3 property tax value |
| General Fund | Nonmajor Governmental | 153,744 | In lieu of rent for Conroe Tower |
| General Fund | Water and Sewer | 440,775 | Administration costs |
| Water and Sewer | Nonmajor Governmental | 51,248 | In lieu of rent for Conroe Tower |
| Nonmajor Governmental | General Fund | 18,979 | Administration cost reimbursement (TX-16-X024-00 Grant Fund) |
| Nonmajor Governmental | General Fund | 2,253 | To fund vehicle & equipment purchases |
| Nonmajor Governmental | General Fund | 45,785 | Administration cost reimbursement (CDBG) |
| Nonmajor Governmental | Debt Service | 27,177 | Principal & interest retirement |
| Nonmajor Governmental | Debt Service | 2,402,547 | TIRZ #3 Principal & interest requirements |
| Internal Service | General Fund | <u>8,638</u> | To fund vehicle & equipment purchases |
| Total | | <u>\$ 4,411,340</u> | |

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

G. Long-Term Obligations

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

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

On September 1, 2016, the City issued \$11,275,000 in Certificates of Obligation to fund the design, planning, acquisition, construction, equipping, expansion, repair, renovation, and/or rehabilitation of certain public works.

1. Long-Term Obligation Activity

A summary of the long-term bonded debt of the City at September 30, 2016 is presented below:

| Refunding Bonds | Rate | | Issue Date | Amount of Original Issue | Maturity Date | | Bonds Outstanding |
|--|------------|---|------------|--------------------------|---------------|----|-------------------|
| Refunding Bonds, Series 2007 | 4.00 | % | 2007 | \$ 13,155,000 | 2017 | \$ | 1,025,000 |
| Refunding Bonds, Series 2010 | 2.00-3.00 | % | 2010 | 4,035,000 | 2017 | | 565,000 |
| Refunding Bonds, Series 2012 | 2.00-3.00 | % | 2012 | 7,560,000 | 2023 | | 5,495,000 |
| Refunding Bonds, Series 2015 | 2.00-5.00 | % | 2015 | 33,370,000 | 2030 | | 33,280,000 |
| Total Refunding Bond Payable | | | | | | \$ | 40,365,000 |
| Contractual and Certificates of Obligation | | | | | | | |
| Series 2005 | 4.325 | % | 2005 | \$ 3,865,000 | 2030 | \$ | 3,540,000 |
| Series 2007 | 4.25-4.40 | % | 2007 | 10,820,000 | 2018 | | 695,000 |
| Series 2008 | 3.50-4.00 | % | 2008 | 17,100,000 | 2018 | | 1,405,000 |
| Series 2009 | 2.00-4.25 | % | 2009 | 12,750,000 | 2030 | | 10,205,000 |
| Series 2010 | 2.00-4.00 | % | 2010 | 9,270,000 | 2030 | | 7,860,000 |
| Series 2011 | 1.875-5.00 | % | 2011 | 18,235,000 | 2031 | | 16,515,000 |
| Series 2012 | 2.00-3.125 | % | 2012 | 8,970,000 | 2032 | | 3,170,000 |
| Series 2014 | 2.00-5.00 | % | 2014 | 31,100,000 | 2034 | | 30,255,000 |
| Series 2015 | 2.00-4.00 | % | 2015 | 8,795,000 | 2035 | | 5,695,000 |
| Series 2016 | 2.00-4.00 | % | 2016 | 11,275,000 | 2036 | | 11,275,000 |
| Total Certificates of Obligation Payable | | | | | | \$ | 90,615,000 |
| Revenue Bonds | | | | | | | |
| Waterworks and Sewer System | | | | | | | |
| Bonds, Series 2006 | 4.375-5.00 | % | 2006 | \$ 10,850,000 | 2030 | \$ | 8,305,000 |
| Bonds, Series 2007 | 4.25-6.00 | % | 2007 | 5,700,000 | 2030 | | 4,380,000 |
| Bonds, Series 2008 | 3.50-5.00 | % | 2008 | 11,225,000 | 2030 | | 8,610,000 |
| Bonds, Series 2009 | 3.00-4.375 | % | 2009 | 7,350,000 | 2030 | | 5,770,000 |
| Bonds, Series 2010 | 2.00-4.00 | % | 2010 | 15,715,000 | 2031 | | 12,620,000 |
| Bonds, Series 2011 | 1.75-4.25 | % | 2011 | 5,160,000 | 2032 | | 4,350,000 |
| Bonds, Series 2012 | 1.75-5.00 | % | 2012 | 18,130,000 | 2032 | | 16,210,000 |
| Bonds, Series 2013 | 2.00-4.25 | % | 2013 | 6,790,000 | 2033 | | 6,275,000 |
| Bonds, Series 2014 | 2.00-5.00 | % | 2014 | 17,130,000 | 2035 | | 16,520,000 |
| Bonds, Series 2015 | 2.00-5.00 | % | 2015 | 14,400,000 | 2035 | | 14,400,000 |
| Total Revenue Bonds | | | | | | \$ | 97,440,000 |

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2016, are as follows:

| | Beginning Balance* | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|-----------------------|---------------|-----------------|-------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Refunding bonds | \$ 42,665,000 | \$ - | \$ (2,300,000) | \$ 40,365,000 | \$ 2,450,000 |
| Certificates of obligation | 85,640,000 | 11,275,000 | (6,300,000) | 90,615,000 | 6,405,000 |
| Less deferred amounts: | | | | | |
| Issuance premiums | 7,400,804 | 718,839 | (459,043) | 7,660,600 | - |
| Total bonds payable, net | 135,705,804 | 11,993,839 | (9,059,043) | 138,640,600 | 8,855,000 |
| Capital leases | 400,827 | - | (59,586) | 341,241 | 61,940 |
| Notes payable | 868,002 | - | (107,000) | 761,002 | 113,000 |
| Health claims liability | 527,897 | 8,641,650 | (8,627,343) | 542,204 | 542,204 |
| OPEB liability | 3,526,466 | 1,747,178 | (1,745,112) | 3,528,532 | - |
| Net pension liability/TMRS | 15,782,675 | 12,705,966 | (8,071,342) | 20,417,299 | - |
| Net pension liability/Fire R/R | 17,721,835 | 7,810,931 | (6,768,439) | 18,764,327 | - |
| Severance payable | 996,365 | 81,743 | (109,314) | 968,794 | - |
| Compensated absences | 7,527,567 | 329,510 | (619,199) | 7,237,878 | 144,598 |
| Total governmental activities | \$ 183,057,438 | \$ 43,310,817 | \$ (35,166,378) | \$ 191,201,877 | \$ 9,716,742 |

* The beginning balances were changed as noted in note I.

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|----------------------------------|----------------------|--------------|----------------|-------------------|-----------------------------------|
| Business-type Activities: | | | | | |
| Revenue bonds | \$ 101,080,000 | \$ - | \$ (3,640,000) | \$ 97,440,000 | \$ 4,240,000 |
| Less deferred amounts: | | | | | |
| Issuance discount | (134,737) | - | 8,502 | (126,235) | - |
| Issuance premiums | 4,458,796 | - | (240,626) | 4,218,170 | - |
| Revenue bonds, net | 105,404,059 | - | (3,872,124) | 101,531,935 | 4,240,000 |
| Customer deposits | 636,789 | 958,027 | (983,556) | 611,260 | 319,189 |
| Capital leases | 2,974,909 | - | (449,986) | 2,524,923 | 467,760 |
| Net pension liability/TMRS | 4,451,524 | 3,583,734 | (2,276,532) | 5,758,726 | - |
| Compensated absences | 919,233 | 59,730 | (312,439) | 666,524 | 16,793 |
| Total business-type activities | \$ 114,386,514 | \$ 4,601,491 | \$ (7,894,637) | \$ 111,093,368 | \$ 5,043,742 |

Long-term liabilities from the Self-Funded Insurance internal service fund in the amount \$3,528,532 (OPEB liability) are included in the governmental activities column of Exhibit A-1, and are included in Exhibit A-8, Statement of Net Position-Proprietary Funds.

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

| Liability | Activity Type | Fund |
|--------------------------------|---------------|-----------------------|
| 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 liability/TMRS | Governmental | General |
| Net pension liability/Fire R/R | Governmental | General |
| Net pension liability/TMRS | Business-type | Water and Sewer |

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Discrete Component Unit:

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

A summary of the long-term bonded debt of the CIDC at September 30, 2016 is presented below:

| | Rate | Issue Date | Amount of Original Issue | Maturity Date | Bonds Outstanding |
|---------------------------------------|-------------|------------|--------------------------|---------------|----------------------|
| Sales Tax Revenue Bonds | | | | | |
| Series 2012 CIDC | 2.00-5.00 % | 2012 | \$ 25,385,000 | 2032 | \$ 22,315,000 |
| Series 2016 Refunding CIDC | 2.90 | 2016 | 13,815,000 | 2030 | 13,815,000 |
| Total Sales Tax Revenue Bonds Payable | | | | | <u>\$ 36,130,000</u> |

Long-term obligations of the CIDC include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2016, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|--------------------------|----------------------|----------------------|------------------------|----------------------|-----------------------------|
| Sales tax revenue bonds | \$ 35,935,000 | \$ 13,815,000 | \$ (13,620,000) | \$ 36,130,000 | \$ 1,240,000 |
| Less deferred amounts: | | | | | |
| Issuance discounts | (81,360) | - | 81,360 | - | - |
| Issuance premiums | 1,444,320 | - | (84,960) | 1,359,360 | - |
| Total bonds payable, net | <u>\$ 37,297,960</u> | <u>\$ 13,815,000</u> | <u>\$ (13,623,600)</u> | <u>\$ 37,489,360</u> | <u>\$ 1,240,000</u> |

In June 2016, CIDC issued \$13,815,000 of sales tax revenue refunding bonds. The proceeds of the refunding bonds were used to legally defease \$12,785,000 of previously issued CIDC bonds in order to permit the sale of property, in the Technology Park and to avoid any adverse income tax issues. The reacquisition price exceeded the net carrying value of the old debt by \$1,476,793. The amount is netted against the new debt and amortized over the life of the new debt. The refunding resulted in an increase in debt service requirements of \$409,887 and an economic loss of \$326,217.

In prior years, the City defeased certain outstanding general obligation capital improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the City's financial statements.

At September 30, 2016, the following outstanding bonds are considered defeased:

| | |
|--|----------------------|
| 2007 General Obligation Bonds (maturing 2019-2030, callable March 1, 2017) | \$ 9,750,000 |
| 2008 General Obligation Bonds (maturing 2019-2030, callable March 1, 2017) | 14,625,000 |
| 2011 Sales Tax Revenue Bonds (maturing 2017-2030, callable September 20, 2030) | 12,510,000 |
| Total | <u>\$ 36,885,000</u> |

Pursuant to the Closing Agreement between the CIDC and the Internal Revenue Service, the CIDC has agreed to redeem on September 1, 2021, \$8,360,000 principal amount of the 2012 Bonds maturing on and after September 1, 2022. Amounts to be used for such redemption will be deposited with the paying agent for the 2012 Bonds by September 1, 2021, and at least 30 days prior to September 1, 2021, the paying agent will give notice of the specific bonds to be redeemed as provided in the bond resolution authorizing the 2012 Bonds.

In accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Rebate arbitrage is the excess of the amount earned on investments purchased with bond proceeds over the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. Rebate arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary of the bond issue and upon final redemption of all outstanding bonds of the issue.

CITY OF CONROE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****2. Debt Service Requirements****Primary Government:**

Debt service requirements on long-term debt at September 30, 2016, are as follows:

| Year Ending September 30, | Governmental Activities - Bonded Debt | | |
|---------------------------|---------------------------------------|----------------------|-----------------------|
| | Principal | Interest | Total |
| 2017 | \$ 8,855,000 | \$ 4,731,204 | \$ 13,586,204 |
| 2018 | 6,325,000 | 4,523,529 | 10,848,529 |
| 2019 | 6,515,000 | 4,333,680 | 10,848,680 |
| 2020 | 6,705,000 | 4,143,530 | 10,848,530 |
| 2021 | 6,915,000 | 3,936,105 | 10,851,105 |
| 2022 | 7,145,000 | 3,703,605 | 10,848,605 |
| 2023 | 7,415,000 | 3,434,743 | 10,849,743 |
| 2024 | 7,735,000 | 3,115,338 | 10,850,338 |
| 2025 | 8,085,000 | 2,764,806 | 10,849,806 |
| 2026 | 8,420,000 | 2,428,846 | 10,848,846 |
| 2027 | 8,730,000 | 2,122,779 | 10,852,779 |
| 2028 | 9,055,000 | 1,797,614 | 10,852,614 |
| 2029 | 9,390,000 | 1,458,635 | 10,848,635 |
| 2030 | 9,750,000 | 1,101,335 | 10,851,335 |
| 2031 | 5,000,000 | 796,922 | 5,796,922 |
| 2032 | 4,105,000 | 590,519 | 4,695,519 |
| 2033 | 4,305,000 | 394,750 | 4,699,750 |
| 2034 | 4,510,000 | 187,075 | 4,697,075 |
| 2035 | 1,315,000 | 54,500 | 1,369,500 |
| 2036 | 705,000 | 14,100 | 719,100 |
| Totals | \$ <u>130,980,000</u> | \$ <u>45,633,615</u> | \$ <u>176,613,615</u> |

| Year Ending September 30, | Governmental Activities - Notes Payable | | |
|---------------------------|---|-------------------|-------------------|
| | Principal | Interest | Total |
| 2017 | \$ 113,000 | \$ 42,999 | \$ 155,999 |
| 2018 | 118,000 | 36,833 | 154,833 |
| 2019 | 123,000 | 30,289 | 153,289 |
| 2020 | 129,000 | - | 129,000 |
| 2021 | 135,000 | - | 135,000 |
| 2022 | 143,002 | 47,692 | 190,694 |
| Totals | \$ <u>761,002</u> | \$ <u>157,813</u> | \$ <u>918,815</u> |

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

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

| Year Ending September 30, | Business-type Activities - Bonded Debt | | |
|---------------------------|--|---------------|----------------|
| | Principal | Interest | Total |
| 2017 | \$ 4,240,000 | \$ 3,816,578 | \$ 8,056,578 |
| 2018 | 4,375,000 | 3,683,555 | 8,058,555 |
| 2019 | 4,515,000 | 3,536,585 | 8,051,585 |
| 2020 | 4,680,000 | 3,381,596 | 8,061,596 |
| 2021 | 4,850,000 | 3,211,901 | 8,061,901 |
| 2022 | 5,030,000 | 3,021,495 | 8,051,495 |
| 2023 | 5,250,000 | 2,803,266 | 8,053,266 |
| 2024 | 5,500,000 | 2,558,464 | 8,058,464 |
| 2025 | 5,745,000 | 2,310,505 | 8,055,505 |
| 2026 | 5,995,000 | 2,066,674 | 8,061,674 |
| 2027 | 6,235,000 | 1,818,380 | 8,053,380 |
| 2028 | 6,485,000 | 1,566,821 | 8,051,821 |
| 2029 | 6,745,000 | 1,311,134 | 8,056,134 |
| 2030 | 7,020,000 | 1,043,537 | 8,063,537 |
| 2031 | 7,305,000 | 752,028 | 8,057,028 |
| 2032 | 3,920,000 | 517,662 | 4,437,662 |
| 2033 | 3,705,000 | 363,578 | 4,068,578 |
| 2034 | 2,590,000 | 225,719 | 2,815,719 |
| 2035 | 2,225,000 | 107,125 | 2,332,125 |
| 2036 | 1,030,000 | 25,750 | 1,055,750 |
| Totals | \$ 97,440,000 | \$ 38,122,353 | \$ 135,562,353 |

Component Unit requirements on long-term debt for component unit CIDC at September 30, 2016, are as follows:

| Year Ending September 30, | Discrete Component Unit - CIDC - Bonded Debt | | |
|---------------------------|--|--------------|---------------|
| | Principal | Interest | Total |
| 2017 | \$ 1,240,000 | \$ 1,250,817 | \$ 2,490,817 |
| 2018 | 2,145,000 | 1,214,002 | 3,359,002 |
| 2019 | 2,220,000 | 1,137,771 | 3,357,771 |
| 2020 | 2,310,000 | 1,045,566 | 3,355,566 |
| 2021 | 2,410,000 | 949,386 | 3,359,386 |
| 2022 | 2,505,000 | 848,836 | 3,353,836 |
| 2023 | 2,610,000 | 747,661 | 3,357,661 |
| 2024 | 2,700,000 | 654,261 | 3,354,261 |
| 2025 | 2,800,000 | 557,591 | 3,357,591 |
| 2026 | 2,895,000 | 457,306 | 3,352,306 |
| 2027 | 2,985,000 | 371,546 | 3,356,546 |
| 2028 | 3,075,000 | 283,121 | 3,358,121 |
| 2029 | 2,095,000 | 192,031 | 2,287,031 |
| 2030 | 2,160,000 | 129,173 | 2,289,173 |
| 2031 | 975,000 | 64,350 | 1,039,350 |
| 2032 | 1,005,000 | 32,663 | 1,037,663 |
| Totals | \$ 36,130,000 | \$ 9,936,081 | \$ 46,066,081 |

CITY OF CONROE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS****SEPTEMBER 30, 2016****3. Capital Leases****Primary Government:**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2016, are as follows:

| | |
|---|-------------------|
| Governmental Activities | |
| Year Ending September 30: | |
| 2017 | \$ 75,178 |
| 2018 | 75,178 |
| 2019 | 75,178 |
| 2020 | 75,178 |
| 2021 | 81,267 |
| Total Minimum Lease Payments | \$ 381,979 |
| Less: amount representing interest | (40,738) |
| Present Value of Minimum Lease Payments | \$ <u>341,241</u> |

The net amount of capital assets (machinery, equipment and improvements) acquired through governmental activities capital leases is \$454,346 as of September 30, 2016.

| | |
|---|---------------------|
| Business-type Activities | |
| Year Ending September 30: | |
| 2017 | \$ 567,735 |
| 2018 | 567,735 |
| 2019 | 567,736 |
| 2020 | 567,736 |
| 2021 | 561,646 |
| Total Minimum Lease Payments | \$ 2,832,588 |
| Less: amount representing interest | (307,665) |
| Present Value of Minimum Lease Payments | \$ <u>2,524,923</u> |

The gross amount of capital assets (machinery, equipment and improvements) acquired through business-type activities capital leases is \$2,747,707 as of September 30, 2016.

This year, \$295,027 was included in depreciation expense for the assets acquired through the capital lease with Siemens Financial Services, Inc. The related accumulated depreciation is as follows:

| | Governmental Activities | Business-type Activities |
|--------------------------------|----------------------------|-----------------------------|
| Machinery & Equipment | \$ - | \$ 2,212,869 |
| Less: Accumulated depreciation | - | (676,154) |
| Total | \$ <u>-</u> | \$ <u>1,536,715</u> |
| Improvements: | \$ 838,793 | \$ 4,121,560 |
| Less: Accumulated depreciation | (384,447) | (1,373,853) |
| Total | \$ <u>454,346</u> | \$ <u>2,747,707</u> |

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

H. Risk Management

1. Health Care Coverage

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

The City pays all claims. The third-party administrator submits monthly check registers for all processed claims. The City issues payment to the plan administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past three years. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims. The premiums for these policies are billed monthly by the third-party administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2016, was estimated by third party administrators. It is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in the Self-Funded Insurance Fund, which is an internal service fund.

Changes in the health claims for the two fiscal years ended September 30, 2016 and 2015 are as follows:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Health Claim Liability, beginning of the year | \$ 527,897 | 666,041 |
| Current-year Claims and Changes in Estimates | 8,641,650 | 5,920,549 |
| Claim payments | (8,627,343) | (6,058,693) |
| Health Claim Liability, End of Year | \$ <u>542,204</u> | \$ <u>527,897</u> |

2. Workers' Compensation and Property and Liability Insurance

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverages. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

I. 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 through a defined benefit plan. The first irrevocable trust was established in 2009 and was held by ICMA RC who was also the administrator of the plan. The City discontinued funding its annual contribution to this plan, and the balance of funds was fully liquidated. The City established a new irrevocable trust in 2012, and the trust is held by Public Agency Retirement Services (PARS), who is also 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).
 - 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.
 - 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 Conroe Fire Fighters' Relief and Retirement Fund (CFFR&RF).

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) A minimum of fifty (50) percent of the actuarially determined contribution (ADC) cost will be paid by the City in the OPEB trust.
- (2) Payment of any remaining ADC 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

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

f. Exception

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

g. Death-in-Service Retirement Benefits

Surviving spouses of active employees are allowed COBRA coverage only.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

h. Benefits for Spouses of Retired Employees

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

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 one post 65 retiree who is covered under special agreements.
- (2) As of the valuation date, December 31, 2013, there were 11 grandfathered retirees who have their Medicare Part B premiums paid for by the City. No other current or future retirees will have their Part B premiums reimbursed by the City. The Part B premiums were \$104.90 per month as of the valuation date.

j. Dental and Vision Coverage

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

k. Life Insurance Coverage

The City provides a \$7,500 life insurance benefit for retirees. The life insurance benefit extends past age 65. As of December 1, 2015, there were four retirees who accrued a life insurance benefit of \$12,500.

l. Monthly Unsubsidized Retiree Premiums Effective October 1, 2015

| Benefit | Retiree Only | Spouse |
|------------------|--------------|--------|
| Medical - OAP | \$ 668 | \$ 171 |
| Medical - HDHP | 583 | 144 |
| Medical - Kelsey | 550 | 104 |
| Dental | 36 | 36 |
| Vision | 4 | 8 |

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

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

For the year ended September 30, 2016, the City funded 99.9% of the normal cost and the pay-go amount totaling \$1,745,112 in an irrevocable trust, and reported it in a fiduciary fund in the financial statements. Withdrawals in the amount of \$1,026,473 were made from the irrevocable trust to reimburse the City for pre-65 and post-65 retirees' claims and administrative fees paid by the Self-Funded Insurance Fund. Administrative fees are those fees related to services that retirees utilize, including, stop-loss premiums and 3rd party administrator charges.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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 | Entry Age Normal |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 30 Years - Closed Payroll |
| Asset Valuation Method | Market Value |
| Investment Rate of Return | 6% Blended rate assumed (contributions earn 7.5% and general assets of City earn 4.5% over life of plan) |
| Payroll Growth | 3% |
| Health Care Trends | RP 2000 Combined Healthy Mortality Table for males and females projected to the year 2003 by scale AA, with a 5 year setback for both males and females. |
| Inflation Rate | 3% |

| | 2016 | 2015* | 2014 |
|--|---------------------|---------------------|---------------------|
| <u>Annual OPEB Cost:</u> | | | |
| Annual required contribution (ARC) | \$ 1,745,112 | \$ 1,710,645 | \$ 1,471,511 |
| Interest on prior year net OPEB obligation | 229,220 | 213,342 | 199,412 |
| Adjustment to the ARC | <u>(227,154)</u> | <u>(208,196)</u> | <u>(240,758)</u> |
| Annual OPEB Cost | 1,747,178 | 1,715,791 | 1,430,165 |
| Employer Contributions | <u>(1,745,112)</u> | <u>(1,471,512)</u> | <u>(1,471,512)</u> |
| Increase in OPEB obligation | 2,066 | 244,279 | (41,347) |
| Net OPEB obligation, October 1 | <u>3,526,466</u> | <u>3,282,187</u> | <u>3,323,534</u> |
| Net OPEB obligation, September 30 | <u>\$ 3,528,532</u> | <u>\$ 3,526,466</u> | <u>\$ 3,282,187</u> |
| Percentage of annual OPEB cost contributed | 99.88% | 85.76% | 102.89% |

*The balances were restated due to a change in the interest rate from 6.0% to 6.5%; however, the change was accounted for in current year activity.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

n. Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 10.09% funded. The actuarial accrued liability for benefits was \$19,268,678, and the actuarial value of assets was \$1,944,901, resulting in an unfunded actuarial liability (UAAL) of \$17,323,777. The covered payroll (annual payroll of active employees covered by the plan) was \$24,668,464, and the ratio of UAAL to the covered payroll was 70.23%.

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.

J. Pension Plans

1. Plan Descriptions

Texas Municipal Retirement System (TMRS): The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Conroe Fire Fighters' Relief and Retirement Fund (CFFR&RF): The City participates in funding a contributory, defined benefit retirement plan, Conroe Firefighters' Relief and Retirement Fund. The Fund was established in accordance with the provisions of H.B. 258 passed by the Texas State Legislature in 1937, with the purpose of providing pension benefits to volunteer, part-time and full-time firefighters. The Fund is administered in accordance with State laws by the members of the Fund's Pension Board of Trustees. The fund is a governmental plan under section 414(d) of the Internal Revenue Code of 1986, as amended, and is established and maintained by the City for its employees as a single-employer defined benefit pension plan covering paid firefighters of the City for the purpose of providing retirement, death, disability, and withdrawal benefits. The fiscal year of the pension fund ends December 31. The most recently available financial statements of the pension fund is for the year ended December 31, 2015.

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.

2. Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest are used to purchase an annuity. Members may choose to receive their retirement benefits in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

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 2015 | Plan Year 2014 |
|---|------------------------------|------------------------------|
| Employee Deposit Rate | 7% | 7% |
| Retirement Eligibility | 5 Yrs/Age 60, 20 Yrs/Any Age | 5 Yrs/Age 60, 20 Yrs/Any Age |
| Matching Ratio (City to Employee) | 2 to 1 | 2 to 1 |
| Years Required for Vesting | 5 | 5 |
| Service Retirement Eligibility (expressed as age/years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated Service Credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity Increase (to retirees) | 70% of CPI Repeating | 70% of CPI Repeating |

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

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

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

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

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

Plan provisions for the Fund were as follows:

| | Plan Year 2015 | Plan Year 2014 |
|---|--|--|
| Employee Deposit Rate | 13.24% | 13.24% |
| Matching Ratio (City to Employee) | 15% | 15% |
| Years Required for Vesting | 20 | 20 |
| Service Retirement Eligibility (expressed as age/years of service) | 50/20 | 50/20 |
| Annuity Increase (to retirees) | Not automatic; may provide ad hoc increases | Not automatic; may provide ad hoc increases |

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

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

| | TMRS | CFFR&RF |
|--|------|---------|
| Inactive employees or beneficiaries currently receiving benefits | 159 | 29 |
| Inactive employees entitled to but not yet receiving benefits | 143 | 5 |
| Active employees | 411 | 111 |
| Totals | 713 | 145 |

3. Contributions

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

Employees for the City of Conroe, Texas, were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.45% and 16.06% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$4,393,652, and were equal to the required contributions.

Conroe Fire Fighters' Relief and Retirement Fund: Contributions to the Fund are based on the TLFFRA requirements rather than an actuarially determined rate. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each paid firefighter. The funding policy of the Fund requires contributions from both the City and the firefighters. The City's contribution rate is currently 15% of member payroll with each active member contributing 13.24% of plan compensation. The City's contribution rate is set by and subject to change by ordinance; subject to the minimum rate with TLFFRA. The City's contributions to the Fund for the year ended September 30, 2016 were \$1,260,195, and were equal to the required contributions.

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

4. Net Pension Liability

TMRS: The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Provision Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Conroe Fire Fighters' Relief and Retirement Fund: The Total Pension Liability, Net Pension Liability, and the associated sensitivity information provided are derived from the results of the December 31, 2015, valuation. The Total Pension Liability was rolled-forward from the 2015 valuation date to the fiscal year ending September 30, 2016, using generally accepted actuarial principles.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

Actuarial Assumptions:

TMRS: The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Salary Increases | 3.00% per year |
| Investment rate of return | 6.75% net of pension plan investment expense, including inflation |

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|--|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.10% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 3.65% |
| Real Return | 10.0% | 4.03% |
| Real Estate | 10.0% | 5.00% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 8.00% |
| Total | 100.0% | |

CITY OF CONROE, TEXAS

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Conroe Fire Fighters Relief and Retirement Fund: The Total Pension Liability, Net Pension Liability, and the associated sensitivity information provided are derived from the results of the December 31, 2015, valuation. The Total Pension Liability was rolled-forward from the 2015 valuation date to the fiscal year ending September 30, 2016, using generally accepted actuarial principles. A full experience study is not available due to the size of the fund.

| | |
|------------------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Open period, level percentage of pay |
| Asset Valuation method | The fair value of assets plus 20% of the unrecognized gains and losses from each of the past four years. The resulting value is further limited to be no less than 90% and no greater than 110% of the fair value of assets. |
| Investment rate of return | 7.75% per annum (net of expenses) |
| Salary scale | 5.50% per annum plus a merit/promotion component |
| General inflation rate | 4.00% per annum |
| Interest on employee contributions | 2.5% per annum |
| Contribution rates | Rates in effect are assumed to remain constant for future years. |
| Mortality rates | RP-2014 combined healthy tables for blue collar males and females with adjustment backwards to 2006 using Scale MP-2014 and projected with scale MP-2015. |
| Termination rates | 0% to 6% |

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

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation assumed at 2.5%) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of December 31, 2015, (see the discussion of the pension plan's investment policy for more details) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|--------------|--|
| Equity | 6.5% |
| Fixed Income | 4.0% |
| Real Estate | 5.0% |
| Cash | 0.0% |

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

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

CITY OF CONROE, TEXAS

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TMRS:

Discount Rate:

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

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a) - (b) |
| Balance at 12/31/2014 | \$ 111,547,685 | \$ 91,313,486 | \$ 20,234,199 |
| Changes for the Year: | | | |
| Service Cost | 4,033,744 | - | 4,033,744 |
| Interest | 7,807,423 | - | 7,807,423 |
| Differences Between Expected and Actual Experience | 302,517 | - | 302,517 |
| Changes of Assumptions | (307,855) | - | (307,855) |
| Contributions - Employer | - | 4,102,398 | (4,102,398) |
| Contributions - Employee | - | 1,742,976 | (1,742,976) |
| Net Investment Income | - | 134,753 | (134,753) |
| Benefit Payments, Including | | | |
| Refunds of Employee Contributions | (4,059,893) | (4,059,893) | - |
| Administrative Expense | - | (82,069) | 82,069 |
| Other Changes | - | (4,054) | 4,054 |
| Net Changes | 7,775,936 | 1,834,111 | 5,941,825 |
| Balances at 12/31/2015 | \$ 119,323,621 | \$ 93,147,597 | \$ 26,176,024 |

CITY OF CONROE, TEXAS

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Conroe Fire Fighters' Relief and Retirement Fund: The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the City contributions would equal 15.00% of payroll and that member contributions would equal 13.24% of payroll. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability. The Net Pension Liability amounts shown below were measured as of the City's fiscal year end. The Total Pension Liability used to calculate the Net Pension Liability and certain sensitivity information was based on the December 31, 2015, actuarial valuation. The Total Pension Liability was rolled forward to the fiscal year end measurement dates using generally accepted actuarial principles.

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a) - (b) |
| Balance at 9/30/2015 | \$ 36,925,669 | \$ 19,203,834 | \$ 17,721,835 |
| Changes for the Year: | | | |
| Service Cost | 1,591,635 | - | 1,591,635 |
| Interest | 2,803,599 | - | 2,803,599 |
| Differences Between Expected and Actual Experience | 1,819,271 | - | 1,819,271 |
| Contributions - Employer | - | 1,194,547 | (1,194,547) |
| Contributions - Employee | - | 1,054,387 | (1,054,387) |
| Net Investment Income | - | 2,052,206 | (2,052,206) |
| Benefit Payments | (1,493,932) | (1,493,932) | - |
| Refunds | (6,475) | (6,475) | - |
| Administrative Expense | - | (96,019) | 96,019 |
| Assumption Changes | (966,892) | - | (966,892) |
| Net Changes | 3,747,206 | 2,704,714 | 1,042,492 |
| Balances at 9/30/2016 | \$ 40,672,875 | \$ 21,908,548 | \$ 18,764,327 |

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

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|---|-----------------------|---|
| City's Net Pension Liability | \$ 44,805,891 | \$ 26,176,024 | \$ 11,055,684 |

Conroe Fire Fighters' Relief and Retirement Fund: The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

| | 1% Decrease in Discount Rate (6.75%) | Discount Rate (7.75%) | 1% Increase in Discount Rate (8.75%) |
|----------------------------------|---|-----------------------|---|
| CFFR&RF Net Pension Liability \$ | 24,457,563 | \$ 18,764,327 | \$ 14,077,677 |

CITY OF CONROE, TEXAS

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Pension Plan Fiduciary Net Position:

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

Conroe Fire Fighters' Relief and Retirement Fund:

Detailed information about the plan's Fiduciary Net Position is available in a separately issued Conroe Fire Fighters' Relief and Retirement Fund financial report. That report may be obtained by contacting Jennifer Hanna, Plan Administrator at P.O. Box 497, Conroe, TX 77305, or jhanna@conroefirepension.com.

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

TMRS: For the year ended September 30, 2016, the City recognized pension expense of \$5,155,045. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual economic experience | \$ 245,439 | \$ 368,875 |
| Change in actuarial assumption | - | 249,769 |
| Difference between projected and actual investment earnings | 5,655,192 | - |
| Contributions subsequent to the measurement date | 3,213,979 | - |
| Totals | <u>\$ 9,114,610</u> | <u>\$ 618,644</u> |

\$3,213,979 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended September 30: | |
|--------------------------|---------------------|
| 2017 | \$ 1,362,673 |
| 2018 | 1,362,673 |
| 2019 | 1,362,673 |
| 2020 | 1,194,270 |
| 2021 | (302) |
| Total | <u>\$ 5,281,987</u> |

Conroe Fire Fighters' Relief and Retirement Fund: For the year ended September 30, 2016, the City should recognize a pension expense of \$2,312,478. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual economic experience | \$ 1,671,363 | \$ - |
| Change in actuarial assumption | - | 888,283 |
| Difference between projected and actual investment earnings | 1,282,860 | 430,899 |
| Totals | <u>\$ 2,954,223</u> | <u>\$ 1,319,182</u> |

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

| Year Ended December 31: | |
|-------------------------|---------------------|
| 2017 | \$ 389,194 |
| 2018 | 389,194 |
| 2019 | 389,194 |
| 2020 | (38,425) |
| 2021 | 69,299 |
| Thereafter | 436,585 |
| Total | <u>\$ 1,635,041</u> |

K. Commitments and Contingencies

1. 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, 2016, these programs are subject to financial and compliance audits by the granting agencies. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

The City of Conroe is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA has constructed a surface water treatment facility and transmission system to provide treated surface water to the City. Based on the agreement between the City and the SJRA, the City pays the SJRA for groundwater pumped from the Jasper aquifer and for treated surface water from Lake Conroe. During FY 15-16, the SJRA notified the City of their intent to increase rates effective September 1, 2016. The groundwater pumpage rate was increased by \$0.18 from \$2.32 to \$2.50 per 1,000 gallons, and the surface water rate was increased by \$0.18 from \$2.51 to \$2.69 per 1,000 gallons. On August 16, 2016, the City Council adopted a resolution refusing to pay the proposed increase in SJRA fees. The SJRA filed suit in Travis County for an expedited declaratory judgement confirming the validity of the GRP Contracts and the SJRA's legal authority to enforce the GRP Contract terms, including the fiscal year 2017 GRP Rates. The City's financial statements include a liability for the portion of the increased SJRA rates that the City has refused to pay, as well as any applicable penalties and interest, while the litigation is pending.

The 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.

2. Deferred Compensation Plan

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

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.

CITY OF CONROE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

M. Net Position

The following restrictions on net position result from laws, contracts, or grants:

| | | |
|----------------------------------|----|------------------|
| Court Efficiency | \$ | 158,386 |
| Juvenile Case Manager | | 60,548 |
| Truancy Prevention Fund | | 6,844 |
| Severance Pay 2% Sinking Fund | | 19,376 |
| Seized Assets | | 612,575 |
| Red Light Cameras | | 526,237 |
| State Cable Franchise 1% PEG Fee | | 285,076 |
| Special Revenue Funds | | <u>2,363,665</u> |
| Total | \$ | <u>4,032,707</u> |

N. 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.

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" - This statement changes the focus of accounting of postemployment benefits other than pensions from how much it costs to adequately fund the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective for the City in fiscal year 2018.

Statement No. 77, "Tax Abatement Disclosures" - This statement requires governments that enter into tax abatement agreements to provide certain disclosures regarding these commitments. This statement will become effective for the City in fiscal year 2017.

O. Prior Period Adjustment

The prior period adjustments are made up of the following amounts:

| | |
|---|----------------------|
| Primary Government, Governmental Activities, Exhibit A-2: | |
| Add Capital Assets from CIDC | \$ 27,832,776 |
| Add Annexed Capital Asset to GTA | 13,447,314 |
| Move BTA Capital Asset to GTA | <u>968,413</u> |
| | \$ <u>42,248,503</u> |
| Primary Government, Business-type Activities, Exhibit A-2: | |
| Add Capital Assets from CIDC | \$ 4,071,853 |
| Add Annexed Capital Asset to BTA | 1,882,290 |
| Move BTA Capital Asset to GTA | <u>(968,413)</u> |
| | \$ <u>4,985,730</u> |
| Component Unit, Conroe Industrial Development Corporation, Exhibit A-2: | |
| Transfer CIDC Capital Assets to GTA and BTA | \$ 31,904,630 |
| Capital Asset - Land | (23,331,197) |
| Land Held for Resale | <u>23,331,197</u> |
| | \$ <u>31,904,630</u> |

The prior period adjustments noted above were the result of three corrections. First, the City re-evaluated and then reversed the movement of all CIDC capital assets from the City to CIDC during the year and determined that the land was the only capital asset that should be recorded in CIDC since the City is required to maintain the other capital assets. Secondly, the City was able to record the assets annexed over the past two prior years since the information was made available. The City noted that some governmental activity capital assets were inadvertently recorded as business-type activity capital assets. Additionally, the remaining land held by CIDC was reclassified to Land Held for Resale since it is not to be used by CIDC for operational use and is intended to be sold.

CITY OF CONROE, TEXAS*REQUIRED SUPPLEMENTARY INFORMATION**SCHEDULE OF FUNDING PROGRESS**OTHER POST EMPLOYMENT BENEFITS (OPEB)**YEAR ENDED SEPTEMBER 30, 2016*

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|--|--|--|-----------------------------------|---|--|
| 12/31/08 | \$ - | \$ 19,393,024 | \$ 19,393,024 | - | \$ 26,241,409 | 73.90% |
| 12/31/11 | 1,535,927 | 14,851,911 | 13,315,984 | 10.3% | 21,528,653 | 61.85% |
| 12/31/13 | 1,944,901 | 19,268,678 | 17,323,777 | 10.1% | 24,668,464 | 70.23% |

See accompanying notes to required supplementary information.

CITY OF CONROE, TEXAS**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS****TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)****DECEMBER 31, 2015 AND BUILDING (10 YEARS)**

| | <u>2014</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Total Pension Liability | | |
| Service cost | \$ 3,488,323 | \$ 4,033,744 |
| Interest | 7,342,819 | 7,807,423 |
| Differences between expected and actual experience | (577,351) | 302,517 |
| Change of assumptions | - | (307,855) |
| Benefit payments, including refunds of employee contributions | (3,718,726) | (4,059,893) |
| Net Change in Total Pension Liability | <u>6,535,065</u> | <u>7,775,936</u> |
| Total Pension Liability - Beginning | 105,012,620 | 111,547,685 |
| Total Pension Liability - Ending (a) | <u>\$ 111,547,685</u> | <u>\$ 119,323,621</u> |
| Plan Fiduciary Net Position | | |
| Contributions - Employer | \$ 3,975,261 | \$ 4,102,398 |
| Contributions - Employee | 1,625,218 | 1,742,976 |
| Net Investment Income | 4,842,663 | 134,753 |
| Benefit payments, including refunds of employee contributions | (3,718,726) | (4,059,893) |
| Administrative expense | (50,554) | (82,069) |
| Other | (4,156) | (4,054) |
| Net Change in Plan Fiduciary Net Position | <u>6,669,706</u> | <u>1,834,111</u> |
| Plan Fiduciary Net Position - Beginning | 84,643,780 | 91,313,486 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 91,313,486</u> | <u>\$ 93,147,597</u> |
| Net Pension Liability - Ending (a) - (b) | <u>\$ 20,234,199</u> | <u>\$ 26,176,024</u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 81.86% | 78.06% |
| Covered Employee Payroll | \$ 23,217,402 | \$ 24,899,652 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 87.15% | 105.13% |

* The amounts presented for the fiscal year were determined as of the plan's fiscal year end December 31, 2015.

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

See accompanying notes to the required supplementary information.

CITY OF CONROE, TEXAS**REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF CONTRIBUTIONS****TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)****LAST FISCAL YEAR AND BUILDING**

| Year Ending September 30 | Actuarially Determined Contribution | Contributions in relation to the actuarially determined contribution | Contribution deficiency (excess) | Covered employee payroll | Contributions as a % of covered employee payroll |
|-------------------------------------|--|---|---|---|---|
| 2015 | \$ 4,057,674 | \$ 4,057,674 | \$ - | \$ 24,365,506 | 16.7% |
| 2016 | 4,393,653 | 4,393,653 | - | 27,183,590 | 16.2% |

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

See accompanying notes to the required supplementary information.

CITY OF CONROE, TEXAS*REQUIRED SUPPLEMENTARY INFORMATION**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**CONROE FIRE FIGHTERS' RELIEF AND RETIREMENT FUND**SEPTEMBER 30, 2016 AND BUILDING (10 YEARS)*

| | <u>2015</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Total Pension Liability | | |
| Service cost | \$ 1,310,699 | \$ 1,591,635 |
| Interest | 2,703,863 | 2,803,599 |
| Difference between expected and actual experience | - | 1,819,271 |
| Changes in assumptions | - | (966,892) |
| Benefit payments, including refunds of member contributions | <u>(1,333,500)</u> | <u>(1,500,407)</u> |
| Net Change in Total Pension Liability | 2,681,062 | 3,747,206 |
| Total Pension Liability - Beginning | 34,244,607 | 36,925,669 |
| Total Pension Liability - Ending (a) | <u><u>\$ 36,925,669</u></u> | <u><u>\$ 40,672,875</u></u> |
| Plan Fiduciary Net Position | | |
| Contributions - employer | \$ 1,102,093 | \$ 1,194,547 |
| Contributions - member | 972,779 | 1,054,387 |
| Net Investment Income | (626,136) | 2,052,206 |
| Benefit payments, including refunds of member contributions | (1,333,500) | (1,500,407) |
| Administrative expense | <u>(99,850)</u> | <u>(96,019)</u> |
| Net Change in Plan Fiduciary Net Position | 15,386 | 2,704,714 |
| Plan Fiduciary Net Position - Beginning | 19,188,448 | 19,203,834 |
| Plan Fiduciary Net Position - Ending (b) | <u><u>\$ 19,203,834</u></u> | <u><u>\$ 21,908,548</u></u> |
| Net Pension Liability - Ending (a) - (b) | <u><u>\$ 17,721,835</u></u> | <u><u>\$ 18,764,327</u></u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 52.01% | 53.87% |
| Covered-Employee Payroll | \$ 7,347,278 | \$ 8,401,284 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 241.20% | 223.35% |

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

See accompanying notes to the required supplementary information.

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

| Year Ending September 30 | Actuarially Determined Contribution | Contributions in relation to the actuarially determined contribution | Contribution deficiency (excess) | Covered employee payroll | Contributions as a % of covered employee payroll |
|-------------------------------------|--|---|---|---|---|
| 2015 | \$ 1,102,093 | \$ 1,102,093 | \$ - | \$ 7,347,278 | 15.0% |
| 2016 | 1,260,195 | 1,260,195 | - | 8,401,284 | 15.0% |

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

See accompanying notes to the required supplementary information.

CITY OF CONROE, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

OPEB AND PENSIONS

SEPTEMBER 30, 2016

A. OPEB

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 30 years - Closed Payroll |
| Asset Valuation Method | Market Value |
| Inflation | 3.00% |
| Salary Increases | 3.00% |
| Investment Rate of Return | 6.50% Blended rate assumed (contributors earn 7.50% and general assets of City earn 4.50% over life of plan) |
| Retirement Age | Years of service and age at retirement must equal 80 (Rule of 80). Exceptions can be found in the summary of benefits. |
| Mortality | Healthy Retirees: RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

Disabled Retirees: RP2000 Disabled Retiree Mortality Table for males and females; multiplied by 80%. Mortality rates were adjusted as described above to include margin for future mortality improvement. No provision is currently made for future improvements in disabled mortality after the measurement date.

Active Members: RP2000 Combined Healthy Mortality Table for males and females projected to year 2003 by Scale AA, with a 5 year setback for both males and females. Mortality rates were adjusted as described above to include margin for future mortality improvements.

B. Pensions

TMRS:

Valuation date:

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

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | 10-year smoothed market; 15% soft corridor |
| Inflation | 2.50% |
| Salary Increases | 3.50% to 10.50% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014. |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

Other information:

Notes: There were no benefit changes during the year.

See accompanying notes to required supplementary information.

CITY OF CONROE, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

OPEB AND PENSIONS

SEPTEMBER 30, 2016

Conroe Fire Fighters' Relief and Retirement Fund:

Valuation date: December 31, 2015, the total pension liability was rolled forward to the fiscal year end.

Methods and assumptions used to determine contribution rates:

| | |
|------------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Open period, level percentage of pay |
| Asset Valuation Method | The fair value of assets plus 20% of the unrecognized gains and losses from each of the past four years. The resulting value is further limited to be no less than 90% and no greater than 110% of the fair value of assets. |
| Investment Rate of Return | 7.75% per annum (net of expenses) |
| Salary Scale | 5.50% per annum plus a merit/promotion component |
| General Inflation Rate | 4.00% per annum |
| Interest on Employee Contributions | 2.5% per annum |
| Contribution Rates | Rates in effect are assumed to remain constant for future years |
| Mortality Rates | RP-2014 combined healthy tables for blue collar males and females with adjustment backwards to 2006 using Scale MP-2014 and projected with scale MP-2015. |
| Termination Rates | 0% to 6% |

See accompanying notes to required supplementary information.

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

EXHIBIT B-1

| | Special Revenue Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-3) |
|---|-----------------------------|------------------------------|--|
| ASSETS | | | |
| Non-pooled Cash and Cash Equivalents | \$ 27,721 | \$ - | \$ 27,721 |
| Investments | 2,755,899 | 4,090,769 | 6,846,668 |
| Receivables (Net of Allowances for Uncollectibles): | | | |
| Accounts | 632,978 | - | 632,978 |
| Interest | 47 | 1,721 | 1,768 |
| Other | 267,763 | 368,716 | 636,479 |
| Due from Other Funds | 199,265 | 165,883 | 365,148 |
| TOTAL ASSETS | \$ 3,883,673 | \$ 4,627,089 | \$ 8,510,762 |
| LIABILITIES | | | |
| Accounts Payable | \$ 172,860 | \$ 292,035 | \$ 464,895 |
| Accrued Expenditures/Expenses | 9,256 | - | 9,256 |
| Retainage Payable | - | 27,435 | 27,435 |
| Due to Other Funds | 817,492 | 554,774 | 1,372,266 |
| Customer Deposits | 9,297 | - | 9,297 |
| Unearned Revenue | 2,595 | - | 2,595 |
| TOTAL LIABILITIES | 1,011,500 | 874,244 | 1,885,744 |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Capital Project Funds | - | 3,305,582 | 3,305,582 |
| Special Revenue Funds | 2,363,665 | - | 2,363,665 |
| Committed for: | | | |
| TIRZ #2-Property Tax Receipts | - | 25 | 25 |
| TIRZ #3-Property Tax Receipts | - | 447,238 | 447,238 |
| Conroe Tower-Lease Income | 319,548 | - | 319,548 |
| Owen Theatre-Ticket Sales | 42,539 | - | 42,539 |
| Woodlands Township Reg. Participation | 146,421 | - | 146,421 |
| TOTAL FUND BALANCES | 2,872,173 | 3,752,845 | 6,625,018 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 3,883,673 | \$ 4,627,089 | \$ 8,510,762 |



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

*COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016*

| | Special Revenue Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-5) |
|--|-----------------------------|------------------------------|--|
| REVENUES | | | |
| Taxes | \$ 1,220,471 | \$ - | \$ 1,220,471 |
| Lease Income | 266,061 | - | 266,061 |
| Intergovernmental | 1,596,083 | 1,146,955 | 2,743,038 |
| Investment Income | 10,577 | 11,758 | 22,335 |
| Gain (Loss) on Investment | - | 10 | 10 |
| Penalties and Interest | 594 | - | 594 |
| Other | 459,832 | 403,751 | 863,583 |
| TOTAL REVENUES | <u>3,553,618</u> | <u>1,562,474</u> | <u>5,116,092</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Government | 3,002,974 | 360,275 | 3,363,249 |
| Debt Service: | | | |
| Principal Retirement | 107,000 | - | 107,000 |
| Interest and Fiscal Charges | 48,708 | - | 48,708 |
| Bond Issuance Costs | - | 32,834 | 32,834 |
| Capital Outlay | 118,527 | 5,869,647 | 5,988,174 |
| TOTAL EXPENDITURES | <u>3,277,209</u> | <u>6,262,756</u> | <u>9,539,965</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>276,409</u> | <u>(4,700,282)</u> | <u>(4,423,873)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of Certificates of Obligation | - | 3,961,873 | 3,961,873 |
| Premium on Issuance of Bonds | - | 252,590 | 252,590 |
| Transfers In | 204,992 | 1,260,194 | 1,465,186 |
| Transfers Out | (67,017) | (2,429,724) | (2,496,741) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>137,975</u> | <u>3,044,933</u> | <u>3,182,908</u> |
| Net Change in Fund Balances | 414,384 | (1,655,349) | (1,240,965) |
| Fund Balances at Beginning of Year | 2,457,789 | 5,408,194 | 7,865,983 |
| FUND BALANCES AT END OF YEAR | <u>\$ 2,872,173</u> | <u>\$ 3,752,845</u> | <u>\$ 6,625,018</u> |

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Hotel/Motel Occupancy Tax Fund | Public Improvement District "PID" Assessments | Community Development Block Grant Entitlement |
|---|--------------------------------------|--|--|
| ASSETS | | | |
| Non-pooled Cash and Cash Equivalents | \$ - | \$ 3,323 | \$ - |
| Investments | 2,239,990 | - | - |
| Receivables (Net of Allowances for Uncollectibles): | | | |
| Accounts | 76,354 | - | - |
| Interest | 24 | - | - |
| Other | 2 | 2,335 | 263,938 |
| Due from Other Funds | 41,602 | - | - |
| TOTAL ASSETS | <u>\$ 2,357,972</u> | <u>\$ 5,658</u> | <u>\$ 263,938</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 18,013 | \$ - | \$ - |
| Accrued Expenditures/Expenses | 6,819 | - | - |
| Due to Other Funds | - | - | 260,874 |
| Customer Deposits | - | - | - |
| Unearned Revenue | - | 2,595 | - |
| TOTAL LIABILITIES | <u>24,832</u> | <u>2,595</u> | <u>260,874</u> |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Special Revenue Funds | 2,333,140 | 3,063 | 3,064 |
| Committed for: | | | |
| Conroe Tower-Lease Income | - | - | - |
| Owen Theatre-Ticket Sales | - | - | - |
| Woodlands Township Reg. Participation | - | - | - |
| TOTAL FUND BALANCES | <u>2,333,140</u> | <u>3,063</u> | <u>3,064</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 2,357,972</u> | <u>\$ 5,658</u> | <u>\$ 263,938</u> |

| The Conroe Tower | Owen Theatre | Woodlands Township Regional Participation | Transportation Grants Fund | Longmire Creek Estates PID |
|---------------------|------------------|--|-------------------------------|-------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 17,667 |
| 343,276 | 49,337 | 123,296 | - | - |
| 6 | - | - | - | - |
| 5 | 3 | 15 | - | - |
| - | - | - | 1,488 | - |
| 8,827 | 4,527 | 23,110 | 121,199 | - |
| <u>\$ 352,114</u> | <u>\$ 53,867</u> | <u>\$ 146,421</u> | <u>\$ 122,687</u> | <u>\$ 17,667</u> |
| \$ 20,832 | \$ 11,328 | \$ - | \$ 122,687 | \$ - |
| 2,437 | - | - | - | - |
| - | - | - | - | - |
| 9,297 | - | - | - | - |
| - | - | - | - | - |
| <u>32,566</u> | <u>11,328</u> | <u>-</u> | <u>122,687</u> | <u>-</u> |
| - | - | - | - | 17,667 |
| 319,548 | - | - | - | - |
| - | 42,539 | - | - | - |
| - | - | 146,421 | - | - |
| <u>319,548</u> | <u>42,539</u> | <u>146,421</u> | <u>-</u> | <u>17,667</u> |
| <u>\$ 352,114</u> | <u>\$ 53,867</u> | <u>\$ 146,421</u> | <u>\$ 122,687</u> | <u>\$ 17,667</u> |

Continued

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Wedgewood Falls PID | TX-90-YO49-00 Grant Fund | TX-90-YO63-00 Grant Fund |
|---|------------------------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Non-pooled Cash and Cash Equivalents | \$ 6,731 | \$ - | \$ - |
| Investments | - | - | - |
| Receivables (Net of Allowances for Uncollectibles): | | | |
| Accounts | - | 3,399 | 111,332 |
| Interest | - | - | - |
| Other | - | - | - |
| Due from Other Funds | - | - | - |
| TOTAL ASSETS | <u>\$ 6,731</u> | <u>\$ 3,399</u> | <u>\$ 111,332</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ - | \$ - | \$ - |
| Accrued Expenditures/Expenses | - | - | - |
| Due to Other Funds | - | 3,399 | 111,332 |
| Customer Deposits | - | - | - |
| Unearned Revenue | - | - | - |
| TOTAL LIABILITIES | <u>-</u> | <u>3,399</u> | <u>111,332</u> |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Special Revenue Funds | 6,731 | - | - |
| Committed for: | | | |
| Conroe Tower-Lease Income | - | - | - |
| Owen Theatre-Ticket Sales | - | - | - |
| Woodlands Township Reg. Participation | - | - | - |
| TOTAL FUND BALANCES | <u>6,731</u> | <u>-</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 6,731</u> | <u>\$ 3,399</u> | <u>\$ 111,332</u> |

| TX-2016-049-00 Grant Fund | TX-16-X024-00 Grant Fund | FY 13-15 State Public Transportation Grant | FY 16 State Public Transportation Grant | Total Nonmajor Special Revenue Funds (See Exhibit B-1) |
|------------------------------|-----------------------------|---|--|---|
| \$ - | \$ - | \$ - | \$ - | \$ 27,721 |
| - | - | - | - | 2,755,899 |
| 441,887 | - | - | - | 632,978 |
| - | - | - | - | 47 |
| - | - | - | - | 267,763 |
| - | - | - | - | 199,265 |
| <u>\$ 441,887</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,883,673</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 172,860 |
| - | - | - | - | 9,256 |
| 441,887 | - | - | - | 817,492 |
| - | - | - | - | 9,297 |
| - | - | - | - | 2,595 |
| <u>441,887</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,011,500</u> |
| - | - | - | - | 2,363,665 |
| - | - | - | - | 319,548 |
| - | - | - | - | 42,539 |
| - | - | - | - | 146,421 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,872,173</u> |
| <u>\$ 441,887</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,883,673</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, 2016*

| | Hotel/Motel Occupancy Tax Fund | Public Improvement District "PID" Assessments | Community Development Block Grant Entitlement |
|--|--------------------------------------|--|--|
| REVENUES | | | |
| Taxes | \$ 1,220,471 | \$ - | \$ - |
| Lease Income | - | - | - |
| Intergovernmental | - | - | 785,351 |
| Investment Income | 8,556 | 856 | - |
| Penalties and Interest | - | 594 | - |
| Other | - | 345,120 | - |
| TOTAL REVENUES | <u>1,229,027</u> | <u>346,570</u> | <u>785,351</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Government | 848,821 | 353,074 | 583,858 |
| Principal Retirement | - | - | 107,000 |
| Interest and Fiscal Charges | - | - | 48,708 |
| Capital Outlay | - | - | - |
| TOTAL EXPENDITURES | <u>848,821</u> | <u>353,074</u> | <u>739,566</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>380,206</u> | <u>(6,504)</u> | <u>45,785</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | - | - |
| Transfers Out | - | - | (45,785) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>-</u> | <u>(45,785)</u> |
| Net Change in Fund Balances | 380,206 | (6,504) | - |
| Fund Balances at Beginning of Year | 1,952,934 | 9,567 | 3,064 |
| FUND BALANCES AT END OF YEAR | <u>\$ 2,333,140</u> | <u>\$ 3,063</u> | <u>\$ 3,064</u> |

| <u>The Conroe Tower</u> | <u>Owen Theatre</u> | <u>Woodlands Township Regional Participation</u> | <u>Transportation Grants Fund</u> | <u>Longmire Creek Estates PID</u> |
|-----------------------------|---------------------|--|---------------------------------------|---------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 266,061 | - | - | - | - |
| - | - | 48,016 | - | - |
| 974 | 108 | 83 | - | - |
| - | - | - | - | - |
| 22,246 | 64,119 | - | - | 19,914 |
| <u>289,281</u> | <u>64,227</u> | <u>48,099</u> | <u>-</u> | <u>19,914</u> |
| 522,636 | 65,426 | - | - | 2,247 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| <u>522,636</u> | <u>65,426</u> | <u>-</u> | <u>-</u> | <u>2,247</u> |
| <u>(233,355)</u> | <u>(1,199)</u> | <u>48,099</u> | <u>-</u> | <u>17,667</u> |
| 204,992 | - | - | - | - |
| <u>(2,253)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>202,739</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| (30,616) | (1,199) | 48,099 | - | 17,667 |
| 350,164 | 43,738 | 98,322 | - | - |
| <u>\$ 319,548</u> | <u>\$ 42,539</u> | <u>\$ 146,421</u> | <u>\$ -</u> | <u>\$ 17,667</u> |

Continued

CITY OF CONROE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | WedgeWOOD Falls PID | TX-90-YO49-00 Grant Fund | TX-90-YO63-00 Grant Fund |
|--|------------------------|-----------------------------|-----------------------------|
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Lease Income | - | - | - |
| Intergovernmental | - | 191,104 | 117,692 |
| Investment Income | - | - | - |
| Penalties and Interest | - | - | - |
| Other | 8,433 | - | - |
| TOTAL REVENUES | <u>8,433</u> | <u>191,104</u> | <u>117,692</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Government | 1,702 | 191,104 | 117,692 |
| Principal Retirement | - | - | - |
| Interest and Fiscal Charges | - | - | - |
| Capital Outlay | - | - | - |
| TOTAL EXPENDITURES | <u>1,702</u> | <u>191,104</u> | <u>117,692</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>6,731</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | - | - |
| Transfers Out | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | 6,731 | - | - |
| Fund Balances at Beginning of Year | - | - | - |
| FUND BALANCES AT END OF YEAR | <u>\$ 6,731</u> | <u>\$ -</u> | <u>\$ -</u> |

| TX-2016-049-00 Grant Fund | TX-16-X024-00 Grant Fund | FY 13-15 State Public Transportation Grant | FY 16 State Public Transportation Grant | Total Nonmajor Special Revenue Funds (See Exhibit B-2) |
|------------------------------|-----------------------------|---|--|---|
| \$ - | \$ - | \$ - | \$ - | \$ 1,220,471 |
| - | - | - | - | 266,061 |
| 205,087 | 18,979 | 157,602 | 72,252 | 1,596,083 |
| - | - | - | - | 10,577 |
| - | - | - | - | 594 |
| - | - | - | - | 459,832 |
| <u>205,087</u> | <u>18,979</u> | <u>157,602</u> | <u>72,252</u> | <u>3,553,618</u> |
| 205,087 | - | 39,075 | 72,252 | 3,002,974 |
| - | - | - | - | 107,000 |
| - | - | - | - | 48,708 |
| - | - | 118,527 | - | 118,527 |
| <u>205,087</u> | <u>-</u> | <u>157,602</u> | <u>72,252</u> | <u>3,277,209</u> |
| - | 18,979 | - | - | 276,409 |
| - | - | - | - | 204,992 |
| - | (18,979) | - | - | (67,017) |
| - | (18,979) | - | - | 137,975 |
| - | - | - | - | 414,384 |
| - | - | - | - | 2,457,789 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,872,173</u> |

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

*HOTEL/MOTEL OCCUPANCY TAX FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,187,631 | \$ 1,187,631 | \$ 1,220,471 | \$ 32,840 |
| Investment Income | - | - | 8,556 | 8,556 |
| TOTAL REVENUES | <u>1,187,631</u> | <u>1,187,631</u> | <u>1,229,027</u> | <u>41,396</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 822,143 | 942,393 | 848,821 | 93,572 |
| TOTAL EXPENDITURES | <u>822,143</u> | <u>942,393</u> | <u>848,821</u> | <u>93,572</u> |
| Net Change in Fund Balance | 365,488 | 245,238 | 380,206 | 134,968 |
| Fund Balance at Beginning of Year | 1,952,934 | 1,952,934 | 1,952,934 | - |
| FUND BALANCE AT END OF YEAR | <u>\$ 2,318,422</u> | <u>\$ 2,198,172</u> | <u>\$ 2,333,140</u> | <u>\$ 134,968</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, 2016*

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|-----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 657,852 | \$ 1,242,051 | \$ 785,351 | \$ (456,700) |
| TOTAL REVENUES | <u>657,852</u> | <u>1,242,051</u> | <u>785,351</u> | <u>(456,700)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 410,574 | 994,773 | 583,858 | 410,915 |
| Debt Service: | | | | |
| Principal Retirement | 107,000 | 107,000 | 107,000 | - |
| Interest and Fiscal Charges | 48,708 | 48,708 | 48,708 | - |
| TOTAL EXPENDITURES | <u>566,282</u> | <u>1,150,481</u> | <u>739,566</u> | <u>410,915</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 91,570 | 91,570 | 45,785 | (45,785) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers Out | (91,570) | (91,570) | (45,785) | (45,785) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(91,570)</u> | <u>(91,570)</u> | <u>(45,785)</u> | <u>(45,785)</u> |
| Net Change in Fund Balance | - | - | - | - |
| Fund Balance at Beginning of Year | 3,064 | 3,064 | 3,064 | - |
| FUND BALANCE AT END OF YEAR | <u>\$ 3,064</u> | <u>\$ 3,064</u> | <u>\$ 3,064</u> | <u>\$ -</u> |

CITY OF CONROE, TEXAS
THE CONROE TOWER
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT B-7

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Lease Income | \$ 260,000 | \$ 260,000 | \$ 266,061 | \$ 6,061 |
| Investment Income | - | - | 974 | 974 |
| Other | - | - | 22,246 | 22,246 |
| TOTAL REVENUES | <u>260,000</u> | <u>260,000</u> | <u>289,281</u> | <u>29,281</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 523,499 | 523,499 | 522,636 | 863 |
| TOTAL EXPENDITURES | <u>523,499</u> | <u>523,499</u> | <u>522,636</u> | <u>863</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(263,499)</u> | <u>(263,499)</u> | <u>(233,355)</u> | <u>30,144</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 204,992 | 204,992 | 204,992 | - |
| Transfers Out | (2,253) | (2,253) | (2,253) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>202,739</u> | <u>202,739</u> | <u>202,739</u> | <u>-</u> |
| Net Change in Fund Balance | <u>(60,760)</u> | <u>(60,760)</u> | <u>(30,616)</u> | <u>30,144</u> |
| Fund Balance at Beginning of Year | 350,164 | 350,164 | 350,164 | - |
| FUND BALANCE AT END OF YEAR | <u>\$ 289,404</u> | <u>\$ 289,404</u> | <u>\$ 319,548</u> | <u>\$ 30,144</u> |

CITY OF CONROE, TEXAS
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT B-8

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 9,020,202 | \$ 9,020,202 | \$ 9,099,711 | \$ 79,509 |
| Investment Income | 19,616 | 19,616 | 72,776 | 53,160 |
| Gain (Loss) on Investment | - | - | (15,228) | (15,228) |
| Penalties and Interest | 55,718 | 55,718 | 75,987 | 20,269 |
| Other | - | - | 917,357 | 917,357 |
| TOTAL REVENUES | <u>9,095,536</u> | <u>9,095,536</u> | <u>10,150,603</u> | <u>1,055,067</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 22,650 | 22,650 | 12,550 | 10,100 |
| Debt Service: | | | | |
| Principal Retirement | 8,600,000 | 8,600,000 | 8,600,000 | - |
| Interest and Fiscal Charges | 4,833,512 | 4,833,512 | 4,626,719 | 206,793 |
| Bond Issuance Costs | 55,000 | 55,000 | 69,041 | (14,041) |
| TOTAL EXPENDITURES | <u>13,511,162</u> | <u>13,511,162</u> | <u>13,308,310</u> | <u>202,852</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(4,415,626)</u> | <u>(4,415,626)</u> | <u>(3,157,707)</u> | <u>1,257,919</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 3,264,560 | 3,300,944 | 2,429,724 | (871,220) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>3,264,560</u> | <u>3,300,944</u> | <u>2,429,724</u> | <u>(871,220)</u> |
| Net Change in Fund Balance | <u>(1,151,066)</u> | <u>(1,114,682)</u> | <u>(727,983)</u> | <u>386,699</u> |
| Fund Balance at Beginning of Year | 12,084,748 | 12,084,748 | 12,084,748 | - |
| FUND BALANCE AT END OF YEAR | <u>\$ 10,933,682</u> | <u>\$ 10,970,066</u> | <u>\$ 11,356,765</u> | <u>\$ 386,699</u> |

CITY OF CONROE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 2016

| | Signals CIP Fund | Transportation Grants CIP Fund | Firearms Training Facility |
|---|---------------------|-----------------------------------|-------------------------------|
| ASSETS | | | |
| Investments | \$ 566,944 | \$ 425,914 | \$ 34,217 |
| Receivables (net of allowances for uncollectibles): | | | |
| Interest | 14 | 53 | 4 |
| Other | 368,716 | - | - |
| Due from Other Funds | 21,895 | 79,833 | 6,414 |
| TOTAL ASSETS | <u>\$ 957,569</u> | <u>\$ 505,800</u> | <u>\$ 40,635</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 292,035 | \$ - | \$ - |
| Retainage Payable | 27,435 | - | - |
| Due to Other Funds | - | - | - |
| TOTAL LIABILITIES | <u>319,470</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Capital Project Funds | 638,099 | 505,800 | 40,635 |
| Committed for: | | | |
| TIRZ #2-Property Tax Receipts | - | - | - |
| TIRZ #3-Property Tax Receipts | - | - | - |
| TOTAL FUND BALANCES | <u>638,099</u> | <u>505,800</u> | <u>40,635</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 957,569</u> | <u>\$ 505,800</u> | <u>\$ 40,635</u> |

EXHIBIT B-9

| Woodlands Annexation | Drainage CIP Fund | Park CIP Fund | Tax Incr Reinv. Zone 2 | Tax Incr Reinv. Zone 3 | Total Nonmajor Capital Projects Funds (See Exhibit B-1) |
|-------------------------|----------------------|---------------------|---------------------------|---------------------------|--|
| \$ - | \$ 452,261 | \$ 1,611,012 | \$ 21 | \$ 1,000,400 | \$ 4,090,769 |
| - | 13 | 25 | - | 1,612 | 1,721 |
| - | - | - | - | - | 368,716 |
| - | 19,866 | 37,871 | 4 | - | 165,883 |
| <u>\$ -</u> | <u>\$ 472,140</u> | <u>\$ 1,648,908</u> | <u>\$ 25</u> | <u>\$ 1,002,012</u> | <u>\$ 4,627,089</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 292,035 |
| - | - | - | - | - | 27,435 |
| - | - | - | - | 554,774 | 554,774 |
| - | - | - | - | 554,774 | 874,244 |
| | | | | | |
| - | 472,140 | 1,648,908 | - | - | 3,305,582 |
| - | - | - | 25 | - | 25 |
| - | - | - | - | 447,238 | 447,238 |
| <u>-</u> | <u>472,140</u> | <u>1,648,908</u> | <u>25</u> | <u>447,238</u> | <u>3,752,845</u> |
| <u>\$ -</u> | <u>\$ 472,140</u> | <u>\$ 1,648,908</u> | <u>\$ 25</u> | <u>\$ 1,002,012</u> | <u>\$ 4,627,089</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, 2016

| | Signals CIP Fund | Transportation Grants CIP Fund | Firearms Training Facility |
|--|---------------------|-----------------------------------|-------------------------------|
| REVENUES | | | |
| Intergovernmental | \$ - | \$ 155,748 | \$ 20,000 |
| Investment Income | 225 | 77 | 42 |
| Gain (Loss) on Investment | - | - | - |
| Other | 403,751 | - | - |
| TOTAL REVENUES | <u>403,976</u> | <u>155,825</u> | <u>20,042</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Government | - | - | 706 |
| Debt Service: | | | |
| Bond Issuance Costs | 9,450 | 12,055 | - |
| Capital Outlay | 1,293,197 | 1,292,850 | 25,658 |
| TOTAL EXPENDITURES | <u>1,302,647</u> | <u>1,304,905</u> | <u>26,364</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(898,671)</u> | <u>(1,149,080)</u> | <u>(6,322)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of Certificates of Obligation | 1,140,264 | 1,454,624 | - |
| Premium on Issuance of Bonds | 72,698 | 92,740 | - |
| Transfers In | - | - | - |
| Transfers Out | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>1,212,962</u> | <u>1,547,364</u> | <u>-</u> |
| Net Change in Fund Balances | 314,291 | 398,284 | (6,322) |
| Fund Balances at Beginning of Year | 323,808 | 107,516 | 46,957 |
| FUND BALANCES AT END OF YEAR | <u>\$ 638,099</u> | <u>\$ 505,800</u> | <u>\$ 40,635</u> |

| Woodlands Annexation | Drainage CIP Fund | Park CIP Fund | Tax Incr Reinv. Zone 2 | Tax Incr Reinv. Zone 3 | Total Nonmajor Capital Projects Funds (See Exhibit B-2) |
|-------------------------|----------------------|---------------------|---------------------------|---------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ 971,207 | \$ 1,146,955 |
| 522 | 1,963 | 3,354 | 14 | 5,561 | 11,758 |
| - | - | - | - | 10 | 10 |
| - | - | - | - | - | 403,751 |
| <u>522</u> | <u>1,963</u> | <u>3,354</u> | <u>14</u> | <u>976,778</u> | <u>1,562,474</u> |
| - | - | 93,750 | 265,819 | - | 360,275 |
| 5,921 | - | 5,408 | - | - | 32,834 |
| <u>2,750,000</u> | <u>129,357</u> | <u>378,585</u> | <u>-</u> | <u>-</u> | <u>5,869,647</u> |
| <u>2,755,921</u> | <u>129,357</u> | <u>477,743</u> | <u>265,819</u> | <u>-</u> | <u>6,262,756</u> |
| <u>(2,755,399)</u> | <u>(127,394)</u> | <u>(474,389)</u> | <u>(265,805)</u> | <u>976,778</u> | <u>(4,700,282)</u> |
| 714,452 | - | 652,533 | - | - | 3,961,873 |
| 45,550 | - | 41,602 | - | - | 252,590 |
| - | - | - | 265,819 | 994,375 | 1,260,194 |
| <u>(27,177)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,402,547)</u> | <u>(2,429,724)</u> |
| <u>732,825</u> | <u>-</u> | <u>694,135</u> | <u>265,819</u> | <u>(1,408,172)</u> | <u>3,044,933</u> |
| (2,022,574) | (127,394) | 219,746 | 14 | (431,394) | (1,655,349) |
| <u>2,022,574</u> | <u>599,534</u> | <u>1,429,162</u> | <u>11</u> | <u>878,632</u> | <u>5,408,194</u> |
| <u>\$ -</u> | <u>\$ 472,140</u> | <u>\$ 1,648,908</u> | <u>\$ 25</u> | <u>\$ 447,238</u> | <u>\$ 3,752,845</u> |

CITY OF CONROE, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2016

EXHIBIT B-11

| | Fleet Services Fund | Self Funded Insurance | Total Internal Service Funds (See Exhibit A-8) |
|--|------------------------|--------------------------|--|
| ASSETS | | | |
| Current Assets: | | | |
| Investments | \$ 585,373 | \$ - | \$ 585,373 |
| Receivable (Net of Allowances for Uncollectibles): | | | |
| Accounts | 3,832 | - | 3,832 |
| Interest | 16 | - | 16 |
| Other | - | 16,127 | 16,127 |
| Due from Other Funds | 105,821 | - | 105,821 |
| Receivables from External Parties | - | 450,238 | 450,238 |
| Inventories | 47,409 | - | 47,409 |
| Total Current Assets | <u>742,451</u> | <u>466,365</u> | <u>1,208,816</u> |
| TOTAL ASSETS | <u>742,451</u> | <u>466,365</u> | <u>1,208,816</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts Payable | 59,285 | 101,485 | 160,770 |
| Due to Other Funds | - | 2,068,184 | 2,068,184 |
| Accrued Expenditures/Expenses | 15,455 | - | 15,455 |
| Health Claims Liability | - | 542,204 | 542,204 |
| Compensated Absences | 1,548 | - | 1,548 |
| Total Current Liabilities | <u>76,288</u> | <u>2,711,873</u> | <u>2,788,161</u> |
| Noncurrent Liabilities, net of current portion | | | |
| Compensated Absences | 38,231 | - | 38,231 |
| OPEB Liability | - | 3,528,532 | 3,528,532 |
| Total Noncurrent Liabilities | <u>38,231</u> | <u>3,528,532</u> | <u>3,566,763</u> |
| TOTAL LIABILITIES | <u>114,519</u> | <u>6,240,405</u> | <u>6,354,924</u> |
| NET POSITION | | | |
| Unrestricted | 627,932 | (5,774,040) | (5,146,108) |
| TOTAL NET POSITION | <u>\$ 627,932</u> | <u>\$ (5,774,040)</u> | <u>\$ (5,146,108)</u> |

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

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

| | Fleet Services Fund | Self Funded Insurance | Total Internal Service Funds (See Exhibit A-9) |
|---|------------------------|--------------------------|--|
| OPERATING REVENUES | | | |
| Charges for Sales and Services | \$ 1,952,342 | \$ 8,778,000 | \$ 10,730,342 |
| TOTAL OPERATING REVENUES | <u>1,952,342</u> | <u>8,778,000</u> | <u>10,730,342</u> |
| OPERATING EXPENSES | | | |
| Public Works | 1,690,402 | - | 1,690,402 |
| General Government | - | 10,617,212 | 10,617,212 |
| TOTAL OPERATING EXPENSES | <u>1,690,402</u> | <u>10,617,212</u> | <u>12,307,614</u> |
| Operating Income (Loss) | <u>261,940</u> | <u>(1,839,212)</u> | <u>(1,577,272)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment Income | 1,059 | 1,414 | 2,473 |
| Gain (Loss) on Investment | - | (817) | (817) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>1,059</u> | <u>597</u> | <u>1,656</u> |
| Income (Loss) Before Transfers | <u>262,999</u> | <u>(1,838,615)</u> | <u>(1,575,616)</u> |
| Transfer Out | (8,638) | - | (8,638) |
| NET TRANSFERS | <u>(8,638)</u> | <u>-</u> | <u>(8,638)</u> |
| Change in Net Position | <u>254,361</u> | <u>(1,838,615)</u> | <u>(1,584,254)</u> |
| Net Position at Beginning of Year | 373,571 | (3,935,425) | (3,561,854) |
| NET POSITION AT END OF YEAR | <u>\$ 627,932</u> | <u>\$ (5,774,040)</u> | <u>\$ (5,146,108)</u> |



CITY OF CONROE, TEXAS
COMBINING STATEMENT OF CASH FLOWS
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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> | \$ 1,948,510 | \$ - | \$ 1,948,510 |
| <i>Cash Received from External Parties</i> | - | 134,740 | 134,740 |
| <i>Cash Received from Employees</i> | - | 1,091,800 | 1,091,800 |
| <i>Cash Received from Other Funds</i> | - | 8,912,103 | 8,912,103 |
| <i>Cash Payments to Other Funds</i> | (105,821) | - | (105,821) |
| <i>Cash Payments to Employees for Services</i> | (658,744) | - | (658,744) |
| <i>Cash Payments to Other Suppliers for Goods and Services</i> | (1,061,872) | (1,252,597) | (2,314,469) |
| <i>Cash Payments for Loss Claims</i> | - | (9,237,518) | (9,237,518) |
| Net Cash Provided by (Used for) Operating Activities | <u>122,073</u> | <u>(351,472)</u> | <u>(229,399)</u> |
| Cash Flows from Non-Capital Financing Activities: | | | |
| <i>Transfer To Other Funds</i> | (8,638) | - | (8,638) |
| Net Cash Provided by (Used for) Non-Capital Financing Activities | <u>(8,638)</u> | <u>-</u> | <u>(8,638)</u> |
| Cash Flows from Investing Activities: | | | |
| <i>Purchase of Investment Securities</i> | (272,086) | - | (272,086) |
| <i>Proceeds from Sale and Maturities of Securities</i> | - | 350,875 | 350,875 |
| <i>Interest on Investments</i> | 1,048 | 597 | 1,645 |
| Net Cash Provided by (Used for) Investing Activities | <u>(271,038)</u> | <u>351,472</u> | <u>80,434</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (157,603) | - | (157,603) |
| Cash and Cash Equivalents at Beginning of Year | 157,603 | - | 157,603 |
| Cash and Cash Equivalents at End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | |
| <i>Operating Income (Loss)</i> | 261,940 | (1,839,212) | (1,577,272) |
| <i>Changes in Assets and Liabilities:</i> | | | |
| <i>Decrease (Increase) in Receivables</i> | (3,832) | (2,626) | (6,458) |
| <i>Decrease (Increase) from External Parties</i> | - | (314,754) | (314,754) |
| <i>Decrease (Increase) in Inventories</i> | 1,235 | - | 1,235 |
| <i>Increase (Decrease) in Accounts Payable</i> | 36,790 | 94,313 | 131,103 |
| <i>Increase (Decrease) in Due to Other Funds</i> | (105,821) | 1,678,023 | 1,572,202 |
| <i>Increase (Decrease) in Compensated Absences</i> | (49,867) | - | (49,867) |
| <i>Increase (Decrease) in Accrued Expenses</i> | (18,372) | 14,307 | (4,065) |
| <i>Increase (Decrease) in OPEB Liability</i> | - | 18,477 | 18,477 |
| <i>Total Adjustments</i> | <u>(139,867)</u> | <u>1,487,740</u> | <u>1,347,873</u> |
| Net Cash Provided by (Used for) Operating Activities | <u>\$ 122,073</u> | <u>\$ (351,472)</u> | <u>\$ (229,399)</u> |



STATISTICAL SECTION

This part of the City of Conroe, Texas 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

1-6

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

7-14

These schedules present information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.

Debt Capacity

15-19

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

Demographic and Economic Information

20-21

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.

Operating Information

22-26

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.

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 | | |
|---|----------------------|-----------------------|-----------------------|
| | 2007 | 2008 | 2009 |
| Governmental Activities: | | | |
| Net Investment in Capital Assets | \$ 15,076,286 | \$ 30,494,416 | \$ 9,491,461 |
| Restricted for: | | | |
| Capital Projects | 3,879,363 | - | 34,504,480 |
| Debt Service | 4,885,305 | 356,030 | 8,598,275 |
| Federal & State Programs | 226,818 | 101,185 | 74,890 |
| CIDC | 11,041,766 | 14,291,377 | 5,794,691 |
| Other Purposes | 837,285 | 590,338 | 711,703 |
| Unrestricted | 13,947,148 | 18,623,082 | 10,289,905 |
| Total Governmental Activities Net Position | <u>\$ 49,893,971</u> | <u>\$ 64,456,428</u> | <u>\$ 69,465,405</u> |
| Business-type Activities: | | | |
| Net Investment in Capital Assets | \$ 40,138,677 | \$ 34,302,455 | \$ 30,550,082 |
| Restricted for: | | | |
| Debt Service | - | - | - |
| Unrestricted | 9,005,666 | 12,443,817 | 16,429,178 |
| Total Business-type Activities Net Position | <u>\$ 49,144,343</u> | <u>\$ 46,746,272</u> | <u>\$ 46,979,260</u> |
| Primary Government: | | | |
| Net Investment in Capital Assets | \$ 55,214,963 | \$ 64,796,871 | \$ 40,041,543 |
| Restricted for: | | | |
| Capital Projects | 3,879,363 | - | 34,504,480 |
| Debt Service | 4,885,305 | 356,030 | 8,598,275 |
| Federal & State Programs | 226,818 | 101,185 | 74,890 |
| CIDC | 11,041,766 | 14,291,377 | 5,794,691 |
| Other Purposes | 837,285 | 590,338 | 711,703 |
| Unrestricted | 22,952,814 | 31,066,899 | 26,719,083 |
| Total Primary Government Net Position | <u>\$ 99,038,314</u> | <u>\$ 111,202,700</u> | <u>\$ 116,444,665</u> |

Effective 2015, GASB 68 was implemented and CIDC is a discrete component unit and is not included.

TABLE C-1

| Fiscal Year | | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| \$ 45,594,829 | \$ 44,291,192 | \$ 46,590,472 | \$ 49,087,033 | \$ 54,366,984 | \$ 53,413,374 | \$ 97,563,851 |
| - | - | - | - | - | - | - |
| 5,114,405 | 6,293,542 | 7,028,107 | 8,342,744 | 10,623,507 | 12,178,899 | 11,401,030 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 3,290,940 | 4,032,707 |
| 22,393,150 | 30,316,480 | 33,221,815 | 42,229,165 | 46,836,093 | (11,517,169) | (17,337,700) |
| <u>\$ 73,102,384</u> | <u>\$ 80,901,214</u> | <u>\$ 86,840,394</u> | <u>\$ 99,658,942</u> | <u>\$ 111,826,584</u> | <u>\$ 57,366,044</u> | <u>\$ 95,659,888</u> |
| \$ 42,313,096 | \$ 41,092,795 | \$ 38,394,869 | \$ 38,080,390 | \$ 38,527,503 | \$ 43,883,640 | \$ 66,592,348 |
| 768,607 | 2,011,388 | 3,469,710 | 2,883,757 | 4,169,587 | 5,455,067 | 5,455,067 |
| 3,482,423 | 6,574,281 | 10,849,396 | 14,536,011 | 15,274,317 | 12,468,751 | 3,414,929 |
| <u>\$ 46,564,126</u> | <u>\$ 49,678,464</u> | <u>\$ 52,713,975</u> | <u>\$ 55,500,158</u> | <u>\$ 57,971,407</u> | <u>\$ 61,807,458</u> | <u>\$ 75,462,344</u> |
| \$ 87,907,925 | \$ 85,383,987 | \$ 84,985,341 | \$ 87,167,423 | \$ 92,894,487 | \$ 97,297,014 | \$ 164,156,199 |
| - | - | - | - | - | - | - |
| 5,883,012 | 8,304,930 | 10,497,817 | 11,226,501 | 14,793,094 | 17,633,966 | 16,856,097 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 3,290,940 | 4,032,707 |
| 25,875,573 | 36,890,761 | 44,071,211 | 56,765,176 | 62,110,410 | 951,582 | (13,922,771) |
| <u>\$ 119,666,510</u> | <u>\$ 130,579,678</u> | <u>\$ 139,554,369</u> | <u>\$ 155,159,100</u> | <u>\$ 169,797,991</u> | <u>\$ 119,173,502</u> | <u>\$ 171,122,232</u> |

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

TABLE C-2

1 of 2

| | | Fiscal Year | | | | | | | | | |
|---|----|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Expenses | | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | | |
| General Government | \$ | 10,673,508 | \$ 15,745,057 | \$ 15,339,833 | \$ 15,821,856 | \$ 16,197,260 | \$ 20,069,578 | \$ 10,710,512 | \$ 11,396,885 | \$ 15,956,134 | \$ 18,032,626 |
| Finance | | 1,005,747 | 1,322,176 | 1,356,686 | 1,829,867 | 1,366,931 | 2,025,523 | 1,384,161 | 1,555,692 | 1,654,077 | 2,092,724 |
| Public Safety | | 18,776,769 | 20,566,227 | 23,126,347 | 24,091,284 | 24,932,831 | 25,729,415 | 26,579,331 | 31,524,935 | 36,628,246 | 38,529,641 |
| Parks | | 4,099,203 | 4,199,935 | 5,606,763 | 5,712,279 | 6,309,608 | 5,531,230 | 5,872,870 | 6,989,269 | 7,227,345 | 8,248,715 |
| Public Works | | 6,004,553 | 8,479,694 | 6,892,655 | 6,858,838 | 7,462,982 | 7,202,936 | 8,408,438 | 9,658,450 | 10,252,452 | 14,263,646 |
| Debt Service: | | | | | | | | | | | |
| Interest and Fiscal Charges | | 3,317,992 | 3,773,890 | 4,710,814 | 4,935,903 | 4,908,920 | 5,649,013 | 5,928,039 | 5,749,864 | 5,079,185 | 4,603,547 |
| Total Governmental Activities Expenses | | 43,877,772 | 54,086,979 | 57,033,098 | 59,250,027 | 61,178,532 | 66,207,695 | 58,883,351 | 66,875,095 | 76,797,439 | 85,770,899 |
| Business-Type Activities: | | | | | | | | | | | |
| Water and Sewer | | 13,582,979 | 13,494,738 | 14,256,678 | 15,432,772 | 17,552,228 | 18,470,310 | 21,378,030 | 25,440,644 | 29,304,349 | 30,902,787 |
| Fleet Services | | 550,206 | 797,463 | 1,008,177 | 1,029,431 | 1,108,717 | 1,252,899 | 1,301,942 | 1,237,286 | 1,596,959 | 1,690,402 |
| Total Business-type Activities Expenses | | 14,133,185 | 14,292,201 | 15,264,855 | 16,462,203 | 18,660,945 | 19,723,209 | 22,679,972 | 26,677,930 | 30,901,308 | 32,593,189 |
| Total Primary Government Expenses | \$ | 58,010,957 | \$ 68,379,180 | \$ 72,297,953 | \$ 75,712,230 | \$ 79,839,477 | \$ 85,930,904 | \$ 81,563,323 | \$ 93,553,025 | \$ 107,698,747 | \$ 118,364,088 |
| Program Revenues | | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | | |
| General Government | \$ | 6,774,117 | \$ 6,760,940 | \$ 7,059,292 | \$ 6,725,603 | \$ 7,577,554 | \$ 8,199,459 | \$ 1,982,113 | \$ 2,500,520 | \$ 3,588,771 | \$ 2,774,101 |
| Public Safety | | 1,430,892 | 1,178,518 | 1,375,485 | 2,430,917 | 4,350,954 | 3,725,515 | 3,489,063 | 3,835,258 | 2,746,233 | 2,030,468 |
| Parks | | 723,509 | 732,336 | 828,233 | 877,457 | 1,084,825 | 1,157,025 | 1,194,628 | 1,246,186 | 1,279,923 | 1,214,957 |
| Public Works | | 579,590 | 705,732 | 573,402 | 618,137 | 722,668 | 718,931 | 742,027 | 696,136 | 1,256,432 | 875,737 |
| Operating Grants & Contributions: | | | | | | | | | | | |
| General Government | | 768,143 | 215,183 | 584,351 | 649,953 | 1,247,405 | 1,698,203 | 1,758,848 | 2,240,844 | 1,860,483 | 2,452,942 |
| Finance | | - | - | 57,995 | - | - | - | - | - | - | - |
| Public Safety | | - | - | 925,361 | 87,564 | 62,070 | 353,102 | 494,595 | 594,235 | 595,556 | 826,864 |
| Parks | | - | - | 191,572 | - | - | - | - | - | - | - |
| Public Works | | - | - | 246,467 | 896,259 | - | - | 104,520 | 426,960 | 2,601,443 | 894,808 |
| Capital Grants & Contributions | | | | | | | | | | | |
| Public Works | | - | - | - | - | - | - | - | - | - | 155,748 |
| Total Governmental Activities Program Revenues | \$ | 10,276,251 | \$ 9,592,709 | \$ 11,842,158 | \$ 12,285,890 | \$ 15,045,476 | \$ 15,852,235 | \$ 9,765,794 | \$ 11,540,139 | \$ 13,928,841 | \$ 11,225,625 |
| Business-type Activities: | | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | | |
| Water and Sewer | \$ | 11,298,324 | \$ 13,767,268 | \$ 14,200,624 | \$ 15,451,810 | \$ 21,660,846 | \$ 20,963,406 | \$ 24,239,291 | \$ 26,350,214 | \$ 30,034,855 | \$ 33,379,807 |
| Service Center | | 803,220 | 745,546 | 951,870 | 1,088,578 | 1,156,833 | 1,211,046 | 1,297,701 | 1,359,544 | 1,852,780 | 1,952,342 |
| Operating Grants & Contributions: | | | | | | | | | | | |
| Water and Sewer | | - | - | 685,721 | - | - | - | - | - | - | - |
| Capital Grants & Contributions | | | | | | | | | | | |
| Water and Sewer | | - | - | - | - | - | - | - | - | - | 130,785 |
| Total Business-type Activities Program Revenues | | 12,101,544 | 14,512,814 | 15,838,215 | 16,540,388 | 22,817,679 | 22,174,452 | 25,536,992 | 27,709,758 | 31,887,635 | 35,462,934 |
| Total Primary Government Program Revenues | \$ | 22,377,795 | \$ 24,105,523 | \$ 27,680,373 | \$ 28,826,278 | \$ 37,863,155 | \$ 38,026,687 | \$ 35,302,786 | \$ 39,249,897 | \$ 45,816,476 | \$ 46,688,559 |

TABLE C-2

2 of 2

| | Fiscal Year | | | | | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Net (Expense) Revenues | | | | | | | | | | |
| Governmental Activities | \$ (33,601,521) | \$ (44,494,270) | \$ (45,190,940) | \$ (46,964,137) | \$ (46,133,056) | \$ (50,355,460) | \$ (49,117,557) | \$ (55,334,956) | \$ (62,868,598) | \$ (74,545,274) |
| Business-type Activities | (2,031,641) | 220,613 | 573,360 | 78,185 | 4,156,734 | 2,451,243 | 2,857,020 | 1,031,828 | 986,327 | 2,869,745 |
| Total Net Expense | <u>\$ (35,633,162)</u> | <u>\$ (44,273,657)</u> | <u>\$ (44,617,580)</u> | <u>\$ (46,885,952)</u> | <u>\$ (41,976,322)</u> | <u>\$ (47,904,217)</u> | <u>\$ (46,260,537)</u> | <u>\$ (54,303,128)</u> | <u>\$ (61,882,271)</u> | <u>\$ (71,675,529)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental Activities: | | | | | | | | | | |
| Property Taxes | \$ 10,542,923 | \$ 12,086,406 | \$ 13,766,694 | \$ 14,490,433 | \$ 14,512,982 | \$ 15,551,084 | \$ 16,887,252 | \$ 18,258,675 | \$ 20,045,759 | \$ 26,473,354 |
| In Lieu of Taxes | 378,998 | 435,170 | 457,851 | 480,206 | 489,904 | 570,277 | 587,634 | 682,113 | 592,302 | 682,266 |
| Gross Receipts Tax | 3,160,436 | 3,747,522 | 3,940,939 | 4,189,983 | 4,715,542 | 4,837,834 | 5,275,521 | 5,498,112 | 5,794,059 | 6,205,833 |
| Sales and Other Taxes | 28,266,100 | 29,786,065 | 28,863,680 | 27,168,790 | 30,033,856 | 31,967,819 | 36,640,659 | 40,261,541 | 32,013,059 | 31,280,147 |
| Hotel Occupancy Taxes | 279,111 | 228,666 | 406,603 | 690,112 | 591,940 | 801,963 | 926,572 | 1,103,093 | 1,237,267 | 1,220,471 |
| Mixed Beverage Taxes | 134,088 | 140,886 | 147,909 | 173,790 | 168,103 | 141,111 | 149,146 | 219,547 | 272,002 | 298,859 |
| Miscellaneous | 2,544,540 | 2,094,181 | 2,852,751 | 811,074 | 839,882 | 1,044,394 | 305,564 | 413,617 | 1,807,243 | 3,446,410 |
| Donations | - | - | 76,412 | 161,124 | 193,335 | 173,978 | 397,521 | 110,556 | 167,455 | 47,035 |
| Grants and Contributions Not | | | | | | | | | | |
| Restricted to Specific Programs | - | - | - | 1,636,394 | 872,055 | 870,190 | 984,394 | 1,050,519 | 1,145,225 | 1,019,223 |
| Unrestricted Investment Earnings | 1,948,043 | 1,211,705 | 718,596 | 240,119 | 176,010 | 160,852 | 122,179 | 135,095 | 132,911 | 291,145 |
| Gain (Loss) on Investments | 285,948 | 467,934 | (240,904) | (83,186) | 38,218 | 14,930 | (221,800) | (126,115) | 18,778 | 6,761 |
| Gain (Loss) on Capital Assets | (504,685) | 4,780,042 | - | - | - | - | - | - | - | - |
| Transfers | 141,445 | 3,441,351 | 453,959 | 642,277 | 1,300,059 | 160,208 | 1,108,072 | (104,155) | (1,002,698) | (380,889) |
| Total Governmental Activities | <u>47,176,947</u> | <u>58,419,928</u> | <u>51,444,490</u> | <u>50,601,116</u> | <u>53,931,886</u> | <u>56,294,640</u> | <u>63,162,714</u> | <u>67,502,598</u> | <u>62,223,362</u> | <u>70,590,615</u> |
| Business-type Activities: | | | | | | | | | | |
| Miscellaneous | 2,898 | - | - | 31,492 | 120,155 | 126,429 | 356,157 | 305,613 | 563,412 | 306,949 |
| Donations | - | - | - | 880 | 105 | 1,000 | 500 | - | - | - |
| Grants and Contributions Not | | | | | | | | | | |
| Restricted to Specific Programs | - | - | - | 119,062 | 48,160 | 576,728 | 1,500,000 | 1,030,521 | 6,612,682 | 5,004,392 |
| Unrestricted Investment Earnings | 389,611 | 873,629 | 216,786 | 24,326 | 36,412 | 41,335 | 32,490 | 36,200 | 28,576 | 109,148 |
| Gain (Loss) on Investments | 125,198 | (26,230) | (103,199) | (26,802) | 52,831 | (1,016) | (36,457) | (37,068) | (695) | (1,967) |
| Gain (Loss) on Capital Assets | 52,528 | - | - | - | - | - | - | - | - | - |
| Transfers | (141,445) | (3,441,351) | (453,959) | (642,277) | (1,300,059) | (160,208) | (1,108,072) | 104,155 | 1,002,698 | 380,889 |
| Total Business-type Activities | <u>428,790</u> | <u>(2,593,952)</u> | <u>(340,372)</u> | <u>(493,319)</u> | <u>(1,042,396)</u> | <u>584,268</u> | <u>744,618</u> | <u>1,439,421</u> | <u>8,206,673</u> | <u>5,799,411</u> |
| Total Primary Government | <u>\$ 47,605,737</u> | <u>\$ 55,825,976</u> | <u>\$ 51,104,118</u> | <u>\$ 50,107,797</u> | <u>\$ 52,889,490</u> | <u>\$ 56,878,908</u> | <u>\$ 63,907,332</u> | <u>\$ 68,942,019</u> | <u>\$ 70,430,035</u> | <u>\$ 76,390,026</u> |
| Change in Net Position | | | | | | | | | | |
| Governmental Activities | \$ 13,575,426 | \$ 13,925,658 | \$ 6,253,550 | \$ 3,636,979 | \$ 7,798,830 | \$ 5,939,180 | \$ 14,045,157 | \$ 12,167,642 | \$ (645,236) | \$ (3,954,659) |
| Business-type Activities | (1,602,851) | (2,373,339) | 232,988 | (415,134) | 3,114,338 | 3,035,511 | 3,601,638 | 2,471,249 | 9,193,000 | 8,669,156 |
| Total Primary Government | <u>\$ 11,972,575</u> | <u>\$ 11,552,319</u> | <u>\$ 6,486,538</u> | <u>\$ 3,221,845</u> | <u>\$ 10,913,168</u> | <u>\$ 8,974,691</u> | <u>\$ 17,646,795</u> | <u>\$ 14,638,891</u> | <u>\$ 8,547,764</u> | <u>\$ 4,714,497</u> |

Effective 2015, CIDC is a discrete component unit and is not included.

CITY OF CONROE, TEXAS**PROGRAM REVENUE BY FUNCTION/PROGRAMS
LAST TEN FISCAL YEARS**

| | Fiscal Year | | |
|----------------------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 |
| Functions/Programs | | | |
| Governmental Activities: | | | |
| Charges for Services | | | |
| General Government | \$ 6,774,117 | \$ 6,760,940 | \$ 7,059,292 |
| Public Safety | 1,430,892 | 1,178,518 | 1,375,485 |
| Parks | 723,509 | 732,336 | 828,233 |
| Public Works | 579,590 | 705,732 | 573,402 |
| Operating Grants & Contributions | | | |
| General Government | 768,143 | 215,183 | 584,351 |
| Finance | - | - | 57,995 |
| Public Safety | - | - | 925,361 |
| Parks | - | - | 191,572 |
| Public Works | - | - | 246,467 |
| Capital Grants & Contributions | | | |
| Public Works | - | - | - |
| Total Governmental Activities | <u>10,276,251</u> | <u>9,592,709</u> | <u>11,842,158</u> |
| Business-type Activities: | | | |
| Charges for Services | | | |
| Water and Sewer | 11,298,324 | 13,767,268 | 14,200,624 |
| Fleet Services | 803,220 | 745,546 | 951,870 |
| Operating Grants & Contributions | | | |
| Enterprise | - | - | 685,721 |
| Capital Grants & Contributions | | | |
| Water and Sewer | - | - | - |
| Total Business-type Activities | <u>12,101,544</u> | <u>14,512,814</u> | <u>15,838,215</u> |
| Total Primary Government | <u>\$ 22,377,795</u> | <u>\$ 24,105,523</u> | <u>\$ 27,680,373</u> |

Effective 2015, CIDC is a discrete component unit and is not included.

TABLE C-3

| Fiscal Year | | | | | | |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| \$ 6,725,603 | \$ 7,577,554 | \$ 8,199,459 | \$ 1,982,113 | \$ 2,500,520 | \$ 3,588,771 | \$ 2,774,101 |
| 2,430,917 | 4,350,954 | 3,725,515 | 3,489,063 | 3,835,258 | 2,746,233 | 2,030,468 |
| 877,457 | 1,084,825 | 1,157,025 | 1,194,628 | 1,246,186 | 1,279,923 | 1,214,957 |
| 618,137 | 722,668 | 718,931 | 742,027 | 696,136 | 1,256,432 | 875,737 |
| 649,953 | 1,247,405 | 1,698,203 | 1,758,848 | 2,240,844 | 1,860,483 | 2,452,942 |
| - | - | - | - | - | - | - |
| 87,564 | 62,070 | 353,102 | 494,595 | 594,235 | 595,556 | 826,864 |
| - | - | - | - | - | - | - |
| 896,259 | - | - | 104,520 | 426,960 | 2,601,443 | 894,808 |
| - | - | - | - | - | - | 155,748 |
| <u>12,285,890</u> | <u>15,045,476</u> | <u>15,852,235</u> | <u>9,765,794</u> | <u>11,540,139</u> | <u>13,928,841</u> | <u>11,225,625</u> |
| 15,451,810 | 21,660,846 | 20,963,406 | 24,239,291 | 26,350,214 | 30,034,855 | 33,379,807 |
| 1,088,578 | 1,156,833 | 1,211,046 | 1,297,701 | 1,359,544 | 1,852,780 | 1,952,342 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 130,785 |
| <u>16,540,388</u> | <u>22,817,679</u> | <u>22,174,452</u> | <u>25,536,992</u> | <u>27,709,758</u> | <u>31,887,635</u> | <u>35,462,934</u> |
| <u>\$ 28,826,278</u> | <u>\$ 37,863,155</u> | <u>\$ 38,026,687</u> | <u>\$ 35,302,786</u> | <u>\$ 39,249,897</u> | <u>\$ 45,816,476</u> | <u>\$ 46,688,559</u> |

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

| | Fiscal Year | | |
|--|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 |
| General Fund | | | |
| Reserved | \$ 4,443,217 | \$ 67,477 | \$ 36,942 |
| Unreserved | 12,946,865 | 18,246,066 | 19,864,037 |
| Nonspendable: | | | |
| Prepaid Items | - | - | - |
| Inventories | - | - | - |
| Restricted for: | | | |
| Court Efficiency Fund | - | - | - |
| Court Security Fund | - | - | - |
| Court Technology Fund | - | - | - |
| Juvenile Case Manager | - | - | - |
| Truancy Prevention Fund | - | - | - |
| Severance Pay 2% Sinking Fund | - | - | - |
| Seized Assets | - | - | - |
| Red Light Cameras | - | - | - |
| State Franchise 1% PEG Fee | - | - | - |
| Commercial Vehicle Enforcement Program | - | - | - |
| Assigned to: | | | |
| Tree Mitigation Revenue | - | - | - |
| Equipment Replacement | 4,375,889 | 5,204,390 | 2,460,433 |
| General Fund-Balance Appropriations | - | - | - |
| Self-Funded Insurance | - | - | - |
| Unassigned | - | - | - |
| Total General Fund | \$ 21,765,971 | \$ 23,517,933 | \$ 22,361,412 |
| All Other Governmental Funds | | | |
| Reserved for: | | | |
| Debt Service | \$ 1,201,318 | \$ 952,326 | \$ 4,304,747 |
| Unreserved, designated for, reported in: | | | |
| Special Revenue Funds: | | | |
| CIDC Fund | 11,010,511 | 14,921,377 | 5,075,144 |
| Retained Risk | - | - | - |
| Unreserved, Undesignated for, reported in: | | | |
| Capital Project Funds | 11,448,676 | 21,910,731 | 29,377,504 |
| Special Projects | 1,256,628 | 765,092 | 865,526 |
| 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. Ind. Park-Infrastructure | - | - | - |
| Conroe Tower-Lease Income | - | - | - |
| Owen Theatre-Ticket Sales | - | - | - |
| Woodlands Township Reg. Participation | - | - | - |
| Assigned to: | | | |
| Parks Foundation-Donations | - | - | - |
| CIDC-Balance Appropriations | - | - | - |
| Unassigned | - | - | - |
| Total All Other Governmental Funds | \$ 24,917,133 | \$ 38,549,526 | \$ 39,622,921 |

Effective 2015, CIDC is a discrete component unit and is not included.

TABLE C-4

| Fiscal Year | | | | | | |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| \$ 165,106 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 17,838,511 | - | - | - | - | - | - |
| - | 120,070 | 116,910 | 113,750 | 110,590 | 107,430 | 104,270 |
| - | 25,373 | 42,871 | 43,791 | 42,208 | 19,681 | 31,622 |
| - | - | 204,460 | 151,170 | 152,115 | 161,308 | 158,386 |
| - | - | 188,541 | 105,605 | 30,333 | - | - |
| - | 100,395 | - | 31,497 | - | - | - |
| - | - | - | - | 72,160 | 57,906 | 60,548 |
| - | - | - | - | 2,433 | 3,392 | 6,844 |
| - | - | - | 15,829 | 20,266 | 19,927 | 19,376 |
| - | 236,503 | 394,828 | 184,389 | 311,048 | 413,679 | 612,575 |
| - | 312,564 | 405,739 | 416,273 | 519,200 | 526,237 | 526,237 |
| - | 11,905 | 54,311 | 93,998 | 79,778 | 142,926 | 285,076 |
| - | - | - | - | 16,032 | - | - |
| - | - | - | 15,353 | 31,353 | 45,838 | 75,507 |
| 2,686,253 | 2,659,177 | 3,082,043 | 3,906,728 | 4,977,087 | 4,418,234 | 4,031,972 |
| - | - | - | 1,751,375 | 4,352,573 | 575,163 | 629,322 |
| - | - | - | - | 1,600,000 | 1,600,000 | 1,872,000 |
| - | 19,911,074 | 23,483,574 | 24,887,074 | 20,500,016 | 20,477,898 | 20,237,960 |
| \$ 20,689,870 | \$ 23,377,061 | \$ 27,973,277 | \$ 31,716,832 | \$ 32,817,192 | \$ 28,569,619 | \$ 28,651,695 |
| \$ 5,028,864 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 11,356,765 |
| 4,910,240 | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 29,668,367 | - | - | - | - | - | 12,409,574 |
| 740,551 | - | - | - | - | - | - |
| - | 5,718,604 | 6,444,898 | 8,591,820 | 4,471,517 | - | - |
| - | 6,441,765 | 10,451,194 | 12,260,043 | 14,537,182 | 12,084,748 | - |
| - | 28,774,112 | 23,677,654 | 12,796,545 | 40,358,188 | 29,207,699 | - |
| - | 822,755 | 1,146,480 | 1,446,517 | 2,313,400 | 1,965,565 | 2,363,665 |
| - | 3,439,652 | 1,621,505 | 2,461,268 | 12,300,254 | - | - |
| - | 362,504 | 362,451 | 340,554 | - | - | - |
| - | 3 | 5 | 8 | 10 | 11 | 25 |
| - | 2,922,942 | 3,023,439 | 3,463,184 | 3,867,574 | 878,632 | 447,238 |
| - | 2,516,382 | - | - | - | - | - |
| - | 385,084 | 466,711 | 385,950 | 344,253 | 350,164 | 319,548 |
| - | 97,514 | 100,739 | 98,386 | 30,121 | 43,738 | 42,539 |
| - | 35,360 | 44,042 | 54,123 | 63,510 | 98,322 | 146,421 |
| - | 4,604 | 4,604 | - | - | - | - |
| - | - | - | 421,649 | - | - | - |
| - | - | (4,872,753) | - | - | - | - |
| \$ 40,348,022 | \$ 51,521,281 | \$ 42,470,969 | \$ 42,320,047 | \$ 78,286,009 | \$ 44,628,879 | \$ 27,085,775 |

CITY OF CONROE, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS LAST TEN FISCAL YEARS (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

| | 2007 | 2008 | 2009 |
|--|----------------------|----------------------|--------------------|
| Revenues | | | |
| Taxes | \$ 42,780,198 | \$ 46,107,838 | \$ 47,521,728 |
| Licenses and Permits | 2,055,529 | 1,628,111 | 1,174,481 |
| Charges for Sales and Services | 1,376,537 | 1,484,854 | 1,518,562 |
| Lease Income | 295,408 | 281,458 | 301,447 |
| Fines and Forfeitures | 1,317,815 | 1,029,715 | 3,820,757 |
| Intergovernmental | 2,542,020 | 2,217,918 | 718,692 |
| Investment Income | 1,915,809 | 1,138,113 | (247,791) |
| Gain (Loss) on Investments | 275,649 | 471,925 | 124,740 |
| Penalties and Interest | 132,178 | 121,257 | 830,453 |
| Sale of Assets | 1,299,847 | - | - |
| Land Sales | 953,745 | 5,142,836 | 1,192,527 |
| Other | 991,527 | 217,811 | 1,325,953 |
| Total Revenues | <u>55,936,262</u> | <u>59,841,836</u> | <u>58,281,549</u> |
| Expenditures | | | |
| General Government | 7,061,998 | 10,535,145 | 8,043,022 |
| Finance | 967,077 | 1,269,490 | 1,277,562 |
| Public Safety | 16,987,159 | 19,506,439 | 20,322,601 |
| Parks | 3,033,828 | 3,678,713 | 4,294,923 |
| Public Works | 4,960,344 | 5,397,344 | 5,433,457 |
| Debt Service: | | | |
| Principal Retirement | 5,351,293 | 5,812,976 | 6,496,604 |
| Interest and Fiscal Charges | 3,286,714 | 3,810,590 | 4,730,550 |
| Bond Issuance Costs | - | - | - |
| Capital Outlay | 14,329,659 | 28,827,746 | 21,013,380 |
| Total Expenditures | <u>55,978,072</u> | <u>78,838,443</u> | <u>71,612,099</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (41,810) | (18,996,607) | (13,330,550) |
| Other Financing Sources (Uses) | | | |
| Issuance of Bonds and COs | 33,701,208 | 32,100,000 | 12,750,000 |
| Refunding Bonds Issued | - | - | - |
| Premiums and Discounts | (152,284) | 122,115 | 43,466 |
| Payment to Refunded Bond Escrow Agent | (13,086,693) | (1,282,504) | - |
| Transfers In | 4,072,130 | 18,298,629 | 19,193,905 |
| Transfers Out | (3,930,685) | (14,857,278) | (18,739,946) |
| Total Other Financing Sources (Uses) | <u>20,603,676</u> | <u>34,380,962</u> | <u>13,247,425</u> |
| Net Change in Fund Balances | <u>\$ 20,561,866</u> | <u>\$ 15,384,355</u> | <u>\$ (83,125)</u> |
| Debt Service as a Percentage of Noncapital Expenditures | 20.7% | 19.2% | 22.2% |

Effective 2015, CIDC is a discrete component unit and is not included.

TABLE C-5

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----|--------------|---------------|----------------|---------------|---------------|-----------------|-----------------|
| \$ | 46,779,434 | \$ 50,327,235 | \$ 53,584,786 | \$ 60,358,883 | \$ 65,879,766 | \$ 59,891,274 | \$ 65,987,138 |
| | 1,293,727 | 1,240,026 | 1,414,723 | 1,752,598 | 2,260,525 | 3,336,634 | 2,498,341 |
| | 1,545,589 | 1,833,902 | 1,909,626 | 1,979,380 | 1,966,939 | 2,573,767 | 2,149,135 |
| | 312,867 | 332,526 | 339,640 | 331,029 | 357,568 | 365,578 | 370,173 |
| | 2,247,748 | 4,204,363 | 3,480,694 | 3,344,824 | 3,693,068 | 2,595,380 | 1,877,614 |
| | 3,789,076 | 2,705,939 | 3,610,177 | 3,342,357 | 4,312,558 | 6,202,707 | 5,349,585 |
| | 290,805 | 183,455 | 277,440 | 116,658 | 130,335 | 130,154 | 289,731 |
| | (78,519) | 33,809 | (9,121) | (191,185) | (121,797) | 18,538 | 7,578 |
| | 150,095 | 107,349 | 140,798 | 112,655 | 106,932 | 129,761 | 208,097 |
| | - | 3,439,652 | 1,621,505 | 2,645,283 | 4,777,829 | - | - |
| | 751,187 | - | - | - | - | - | - |
| | 614,992 | 677,273 | 830,787 | 852,106 | 627,045 | 2,116,637 | 3,820,410 |
| | 57,697,001 | 65,085,529 | 67,201,055 | 74,644,588 | 83,990,768 | 77,360,430 | 82,557,802 |
| | 10,469,930 | 9,858,475 | 12,912,210 | 11,444,046 | 13,396,364 | 14,835,320 | 17,279,501 |
| | 1,259,066 | 1,302,032 | 1,354,043 | 1,333,034 | 1,421,763 | 1,540,445 | 1,880,428 |
| | 21,289,975 | 22,150,568 | 22,534,671 | 24,048,252 | 26,836,475 | 31,447,082 | 31,980,626 |
| | 4,403,634 | 4,724,826 | 4,124,585 | 4,238,271 | 4,905,220 | 5,039,267 | 5,351,321 |
| | 5,269,914 | 5,772,043 | 5,519,381 | 6,703,354 | 7,369,859 | 8,032,281 | 10,220,162 |
| | 6,687,970 | 6,916,093 | 7,437,033 | 13,183,048 | 7,194,144 | 5,300,320 | 8,766,586 |
| | 4,859,814 | 4,889,929 | 5,751,981 | 5,887,124 | 5,530,863 | 4,662,641 | 4,691,019 |
| | - | 453,738 | 239,023 | 433,014 | 345,651 | 520,406 | 162,484 |
| | 13,646,743 | 29,127,940 | 21,033,141 | 18,897,565 | 14,557,532 | 27,735,071 | 31,299,653 |
| | 67,887,046 | 85,195,644 | 80,906,068 | 86,167,708 | 81,557,871 | 99,112,833 | 111,631,780 |
| | (10,190,045) | (20,110,115) | (13,705,013) | (11,523,120) | 2,432,897 | (21,752,403) | (29,073,978) |
| | 9,270,000 | 32,080,000 | 8,970,000 | 13,080,000 | 31,100,000 | 8,795,000 | 11,275,000 |
| | 4,035,000 | - | 7,560,000 | 12,305,000 | - | 33,370,000 | - |
| | 425,757 | 590,506 | 258,044 | (11,377,320) | 3,637,580 | 2,843,082 | 718,839 |
| | (4,064,917) | - | (7,697,335) | 13,761,078 | - | (36,111,136) | - |
| | 9,374,078 | 7,848,088 | 7,289,803 | (12,653,006) | 8,258,452 | 17,073,716 | 3,970,565 |
| | (9,796,314) | (6,548,029) | (7,129,595) | - | (8,362,607) | (18,498,029) | (4,351,454) |
| | 9,243,604 | 33,970,565 | 9,250,917 | 15,115,752 | 34,633,425 | 7,472,633 | 11,612,950 |
| \$ | (946,441) | \$ 13,860,450 | \$ (4,454,096) | \$ 3,592,632 | \$ 37,066,322 | \$ (14,279,770) | \$ (17,461,028) |
| | 21.3% | 21.1% | 22.0% | 28.3% | 19.0% | 14.0% | 16.8% |

CITY OF CONROE, TEXAS
SPENDING AND GROWTH ANALYSIS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

| | 2007 | 2008 | 2009 | 2010 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Expenditures | | | | |
| General Government | \$ 7,061,998 | \$ 10,535,145 | \$ 8,043,022 | \$ 10,469,930 |
| Finance | 967,077 | 1,269,490 | 1,277,562 | 1,259,066 |
| Public Safety | 16,987,159 | 19,506,439 | 20,322,601 | 21,289,975 |
| Parks | 3,033,828 | 3,678,713 | 4,294,923 | 4,403,634 |
| Pubic Works | 4,960,344 | 5,397,344 | 5,433,457 | 5,269,914 |
| Debt Service - principal | 5,351,293 | 5,812,976 | 6,496,604 | 6,687,970 |
| Debt Service - interest | 3,286,714 | 3,810,590 | 4,730,550 | 4,859,814 |
| Debt Service - bond issuance costs | - | - | - | - |
| Capital Outlay | 14,329,659 | 28,827,746 | 21,013,380 | 13,646,743 |
| Total | <u>\$ 55,978,072</u> | <u>\$ 78,838,443</u> | <u>\$ 71,612,099</u> | <u>\$ 67,887,046</u> |

Distribution of Spending

| | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|
| General Government | 12.6% | 13.4% | 11.2% | 15.4% |
| Finance | 1.7% | 1.6% | 1.8% | 1.9% |
| Public Safety | 30.3% | 24.7% | 28.4% | 31.4% |
| Parks | 5.4% | 4.7% | 6.0% | 6.5% |
| Pubic Works | 8.9% | 6.8% | 7.6% | 7.8% |
| Debt Service - principal | 9.6% | 7.4% | 9.1% | 9.9% |
| Debt Service - interest | 5.9% | 4.8% | 6.6% | 7.2% |
| Debt Service - bond issuance costs | 0.0% | 0.0% | 0.0% | 0.0% |
| Capital Outlay | 25.6% | 36.6% | 29.3% | 20.1% |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Per Capita Expenditures Adjusted for CPI

| | | | | |
|--|----------|----------|----------|----------|
| Population | 51,538 | 53,472 | 55,195 | 56,207 |
| Per Capita | \$ 1,086 | \$ 1,474 | \$ 1,297 | \$ 1,208 |
| CPI Index (National) | 208 | 219 | 216 | 218 |
| Per Capita Spending Adjusted to 2006 Dollars | \$ 1,086 | \$ 1,405 | \$ 1,253 | \$ 1,153 |

*The Compounded Average Growth Rate is a useful measure of growth that takes compounding into account over the time period.
Per Capita Spending Adjusted to 2007 Dollars is a measure of spending that is adjusted for purchasing power taking inflation into account.*

TABLE C-6

| | | | | | | | Compounded Average Growth Rate |
|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|--------------|--------------------------------------|
| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | % CHG | |
| \$ 9,858,475 | \$ 12,912,210 | \$ 11,444,046 | \$ 13,396,364 | \$ 14,835,320 | \$ 17,279,501 | 144.7% | 10.45% |
| 1,302,032 | 1,354,043 | 1,333,034 | 1,421,763 | 1,540,445 | 1,880,428 | 94.4% | 7.67% |
| 22,150,568 | 22,534,671 | 24,048,252 | 26,836,475 | 31,447,082 | 31,980,626 | 88.3% | 7.28% |
| 4,724,826 | 4,124,585 | 4,238,271 | 4,905,220 | 5,039,267 | 5,351,321 | 76.4% | 6.51% |
| 5,772,043 | 5,519,381 | 6,703,354 | 7,369,859 | 8,032,281 | 10,220,162 | 106.0% | 8.36% |
| 6,916,093 | 7,437,033 | 13,183,048 | 7,194,144 | 5,300,320 | 8,766,586 | 63.8% | 5.64% |
| 4,889,929 | 5,751,981 | 5,887,124 | 5,530,863 | 4,662,641 | 4,691,019 | 42.7% | 4.03% |
| 453,738 | 239,023 | 433,014 | 345,651 | 520,406 | 162,484 | -62.5% | -10.32% |
| 29,127,940 | 21,033,141 | 18,897,565 | 14,557,532 | 27,735,071 | 31,299,653 | 118.4% | 9.07% |
| <u>\$ 85,195,644</u> | <u>\$ 80,906,068</u> | <u>\$ 86,167,708</u> | <u>\$ 81,557,871</u> | <u>\$ 99,112,833</u> | <u>\$ 111,631,780</u> | <u>99.4%</u> | <u>7.97%</u> |
| 11.6% | 16.0% | 13.3% | 16.4% | 15.0% | 15.5% | | |
| 1.5% | 1.7% | 1.5% | 1.7% | 1.6% | 1.7% | | |
| 26.0% | 27.9% | 27.9% | 32.9% | 31.7% | 28.6% | | |
| 5.5% | 5.1% | 4.9% | 6.0% | 5.1% | 4.8% | | |
| 6.8% | 6.8% | 7.8% | 9.0% | 8.1% | 9.2% | | |
| 8.1% | 9.2% | 15.3% | 8.8% | 5.3% | 7.9% | | |
| 5.7% | 7.1% | 6.8% | 6.8% | 4.7% | 4.2% | | |
| 0.5% | 0.3% | 0.5% | 0.4% | 0.5% | 0.1% | | |
| 34.2% | 26.0% | 21.9% | 17.8% | 28.0% | 28.0% | | |
| <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | | |
| | | | | | | | Compounded Growth Rate |
| 56,257 | 56,530 | 61,564 | 71,592 | 71,879 | 71,879 | | 3.77% |
| \$ 1,514 | \$ 1,431 | \$ 1,400 | \$ 1,139 | \$ 1,379 | \$ 1,553 | | 2.69% |
| 227 | 231 | 234 | 238 | 238 | 241 | | 1.48% |
| \$ 1,392 | \$ 1,289 | \$ 1,246 | \$ 998 | \$ 1,208 | \$ 1,344 | | 1.19% |

CITY OF CONROE, TEXAS**TABLE C-7**
**TAX REVENUES BY SOURCE-GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

| Fiscal Year | Property | Sales & Use ⁽¹⁾ | Hotel/Motel Occupancy | Franchise | Other | Total |
|---------------------|---------------|----------------------------|--------------------------|--------------|------------|---------------|
| 2007 | \$ 10,376,943 | \$ 28,266,100 | \$ 279,111 | \$ 3,160,436 | \$ 697,608 | \$ 42,780,198 |
| 2008 | 11,716,511 | 29,786,065 | 228,666 | 3,747,522 | 629,074 | 46,107,838 |
| 2009 | 13,171,609 | 28,863,680 | 406,603 | 3,940,939 | 1,138,897 | 47,521,728 |
| 2010 | 14,164,088 | 27,168,790 | 690,112 | 4,189,983 | 566,461 | 46,779,434 |
| 2011 | 14,222,611 | 30,033,856 | 591,940 | 4,715,542 | 763,286 | 50,327,235 |
| 2012 | 14,951,252 | 31,967,819 | 801,963 | 4,837,834 | 1,025,918 | 53,584,786 |
| 2013 | 16,610,584 | 36,640,659 | 926,572 | 5,275,521 | 905,547 | 60,358,883 |
| 2014 | 17,950,171 | 40,261,541 | 1,103,093 | 5,498,112 | 1,066,849 | 65,879,766 |
| 2015 | 19,787,780 | 32,013,059 | 1,237,267 | 5,794,059 | 1,059,109 | 59,891,274 |
| 2016 | 26,080,220 | 31,323,407 | 1,220,471 | 6,205,833 | 1,157,207 | 65,987,138 |
| Change 2007-2016 | 151% | 11% | 337% | 96% | 66% | 54% |

(1) Effective 2015, CIDC is a discrete component unit and is not included.

CITY OF CONROE, TEXAS**TABLE C-8****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 |
|----------------|-------------------------|------------------------|----------------------|---------------------------------|------------------------------------|-----------------------------|
| 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 |
| 2014 | 2,673,472,876 | 1,434,769,376 | 1,444,595,982 | 1,230,012,103 | 4,322,826,131 | 0.4200 |
| 2015 | 2,969,005,808 | 1,544,076,046 | 1,577,299,368 | 1,260,587,672 | 4,829,793,550 | 0.4200 |
| 2016 | 4,207,510,421 | 1,933,038,857 | 1,762,388,483 | 1,593,198,016 | 6,309,739,745 | 0.4200 |

Source: Montgomery Central Appraisal District

Note: Taxable property in the City is appraised at its market value each year by the Montgomery Central Appraisal District (MCAD)
Tax rates are per \$100 of assessed value.

CITY OF CONROE, TEXAS

PROPERTY TAX RATES-DIRECT AND OVERLAPPING LAST TEN FISCAL YEARS

| Fiscal Year | City Direct Rates | | | Overlapping Rates | | | | |
|----------------|-----------------------------|---------------------------------------|-------------------------|----------------------|-----------------------------------|-------------------------|---------------|---------------|
| | Operations & Maintenance | General Obligation Debt Service | Total Direct Rate | Montgomery County | Mont. Co. Hospital District | Lone Star College | Conroe ISD | Willis ISD |
| 2007 | \$ 0.2400 | \$ 0.1900 | \$ 0.4300 | \$ 0.4913 | \$ 0.0781 | \$ 0.1167 | \$ 1.5900 | \$ 1.3060 |
| 2008 | 0.2350 | 0.1900 | 0.4250 | 0.4888 | 0.0777 | 0.1144 | 1.2400 | 1.3700 |
| 2009 | 0.2300 | 0.1900 | 0.4200 | 0.4838 | 0.0760 | 0.1101 | 1.2700 | 1.3700 |
| 2010 | 0.2450 | 0.1750 | 0.4200 | 0.4838 | 0.0755 | 0.1101 | 1.2850 | 1.3700 |
| 2011 | 0.2500 | 0.1700 | 0.4200 | 0.4838 | 0.0754 | 0.1176 | 1.2950 | 1.3700 |
| 2012 | 0.2500 | 0.1700 | 0.4200 | 0.4838 | 0.0729 | 0.1198 | 1.2900 | 1.3900 |
| 2013 | 0.2500 | 0.1700 | 0.4200 | 0.4838 | 0.0727 | 0.1160 | 1.2850 | 1.3900 |
| 2014 | 0.2500 | 0.1700 | 0.4200 | 0.4767 | 0.0725 | 0.1081 | 1.2800 | 1.3900 |
| 2015 | 0.2500 | 0.1700 | 0.4200 | 0.4767 | 0.0710 | 0.1079 | 1.2800 | 1.3900 |
| 2016 | 0.2750 | 0.1450 | 0.4200 | 0.4667 | 0.0665 | 0.1078 | 1.2800 | 1.3900 |

Source: Montgomery County Tax Assessor/Collector

TABLE C-9

| Overlapping Rates | | | | | | | | |
|----------------------|----------------------|-----------------------|------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|
| Mont. Co. MUD #90 | Mont. Co. MUD #92 | Mont. Co. MUD #107 | Conroe MUD #1 | Mont. Co. MUD #132 | Mont. Co. MUD #126 | Mont. Co. MUD #138 | Utility District #3 | Utility District #4 |
| \$ 0.6000 | \$ 0.6000 | \$ 0.6000 | \$ 0.0000 | \$ 0.0000 | \$ 0.0000 | \$ 0.0000 | \$ 0.0000 | \$ 0.0000 |
| 0.6000 | 0.6000 | 0.6000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.6000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| 0.6000 | 0.6000 | 0.7000 | 0.6000 | 0.7000 | 0.9000 | 0.8800 | 0.0900 | 0.0800 |

CITY OF CONROE, TEXAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
TABLE C-10

| Taxpayer | 2016 | | | 2007 | | |
|---------------------------------------|-----------------------|------|--------------------------------------|-----------------------|------|--------------------------------------|
| | Taxable Assessed | Rank | Percentage of Total Taxable Assessed | Taxable Assessed | Rank | Percentage of Total Taxable Assessed |
| | Value | | Value | Value | | Value |
| Conroe Hospital Corporation | \$ 94,723,650 | 1 | 1.50% | \$ 70,675,880 | 1 | 2.87% |
| Professional Directional LTD | 56,508,590 | 2 | 0.90 | | | |
| McKesson Corporation | 55,514,040 | 3 | 0.88 | 50,898,578 | 2 | 2.07 |
| The GEO Group | 55,044,190 | 4 | 0.87 | | | |
| Wal-Mart Real Estate Bus. Trust | 51,904,695 | 5 | 0.82 | 45,218,968 | 3 | 1.84 |
| National Oilwell Varco DHT LP | 43,881,160 | 6 | 0.70 | | | |
| Entergy Texas Inc. | 41,573,400 | 7 | 0.66 | | | |
| Strata Woodlands, LLC | 35,702,930 | 8 | 0.57 | | | |
| National Oilwell Varco LP/Brandt | 34,558,978 | 9 | 0.55 | | | |
| National Oilwell Varco / TX Oil Tools | 33,270,149 | 10 | 0.53 | | | |
| Maverick Tube Texas Works | | | | 34,237,370 | 4 | 1.39 |
| Consolidated Communications of TX Co | | | | 32,872,340 | 5 | 1.34 |
| Conroe Regional Medical Center | | | | 23,143,556 | 7 | 0.94 |
| Gulf States Utilities Co | | | | 21,547,760 | 8 | 0.88 |
| Crown Cork & Seal Co | | | | 24,666,850 | 6 | 1.00 |
| Town Center Venture LLP | | | | 18,294,800 | 9 | 0.74 |
| US Filter | | | | 15,575,260 | 10 | 0.63 |
| | <u>\$ 502,681,782</u> | | <u>7.97%</u> | <u>\$ 337,131,362</u> | | <u>13.70%</u> |

CITY OF CONROE, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN CALENDAR YEARS

TABLE C-11

| 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 |
| 2007 | \$ 10,549,673 | \$ 10,376,943 | 98.38% | \$ 145,123 | \$ 10,522,066 | 99.74% |
| 2008 | 11,813,302 | 11,716,511 | 99.18% | 76,585 | 11,793,096 | 99.83% |
| 2009 | 13,395,885 | 13,171,609 | 98.33% | 193,236 | 13,364,845 | 99.77% |
| 2010 | 14,378,880 | 14,164,088 | 98.51% | 178,478 | 14,342,566 | 99.75% |
| 2011 | 14,452,462 | 14,222,611 | 98.41% | 195,271 | 14,417,882 | 99.76% |
| 2012 | 15,205,842 | 14,951,252 | 98.33% | 214,007 | 15,165,259 | 99.73% |
| 2013 | 16,858,196 | 16,610,584 | 98.53% | 197,390 | 16,807,974 | 99.70% |
| 2014 | 18,076,015 | 17,950,171 | 99.30% | 80,030 | 18,030,201 | 99.75% |
| 2015 | 20,245,827 | 19,787,780 | 97.74% | 373,574 | 20,161,354 | 99.58% |
| 2016 | 26,641,542 | 26,080,220 | 97.89% | - | 26,080,220 | 97.89% |

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)

| | Calendar Year | | |
|----------------------------|---------------------|---------------------|---------------------|
| | 2006 | 2007 | 2008 |
| Agriculture | | | |
| Forestry & Fishing | \$ 218 | \$ 287 | \$ 2 |
| Mining | 3,928 | 8,895 | 11,527 |
| Construction | 36,790 | 40,017 | 45,295 |
| Manufacturing | 58,104 | 70,697 | 80,117 |
| Transportation, | | | |
| Communication & Utilities | 1,750 | 3,819 | 5,877 |
| Wholesale Trade | 99,775 | 110,891 | 88,029 |
| Retail Trade | 627,361 | 760,016 | 798,061 |
| Information | 19,228 | 39,333 | 53,842 |
| Finance, | | | |
| Insurance & Real Estate | 27,275 | 36,160 | 39,862 |
| Services | 179,955 | 187,367 | 193,176 |
| Other | 5 | - | 11 |
| Total | <u>\$ 1,054,390</u> | <u>\$ 1,257,482</u> | <u>\$ 1,315,799</u> |
| City Direct Sales Tax Rate | 2.00% | 2.00% | 2.00% |

(1) As of October 1, 2014 (FY2015) CIDC is recorded as a discrete component unit and is not included.

Source: Texas Comptroller of Public Accounts

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

TABLE C-12

| Calendar Year | | | | | | |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 ⁽¹⁾ | 2015 |
| \$ - | \$ 4 | \$ 6 | \$ 54 | \$ 55 | \$ 39 | \$ 21 |
| 11,892 | 11,915 | 6,053 | 25,385 | 32,553 | 53,172 | 56,577 |
| 28,214 | 27,992 | 23,958 | 33,488 | 31,336 | 38,737 | 44,597 |
| 57,968 | 55,559 | 75,498 | 115,291 | 141,766 | 144,822 | 107,946 |
| 3,813 | 4,117 | 1,524 | 843 | 562 | 1,227 | 2,112 |
| 58,721 | 56,385 | 72,428 | 93,319 | 113,592 | 139,891 | 159,804 |
| 745,719 | 775,226 | 786,202 | 850,416 | 952,609 | 1,033,821 | 1,046,251 |
| 23,303 | 23,282 | 29,425 | 31,573 | 35,432 | 42,848 | 50,631 |
| 22,009 | 20,163 | 28,683 | 28,226 | 37,252 | 42,252 | 55,274 |
| 198,447 | 193,343 | 201,872 | 218,972 | 237,869 | 307,646 | 307,164 |
| - | - | - | - | - | 1 | - |
| <u>\$ 1,150,086</u> | <u>\$ 1,167,986</u> | <u>\$ 1,225,649</u> | <u>\$ 1,397,567</u> | <u>\$ 1,583,026</u> | <u>\$ 1,804,455</u> | <u>\$ 1,830,377</u> |
| 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 1.50% |

CITY OF CONROE, TEXAS**DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS****TABLE C-13**

| Fiscal Year | General Fund | | CIDC Fund Discrete | Total Sales Tax Rate |
|----------------|--|--|--|----------------------------|
| | Primary Government | | Component Unit | |
| | Sales Tax Rate For General Revenue | Sales Tax Rate For Property Tax Relief | Sales Tax Rate For Economic Development (4B) | |
| 2007 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2008 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2009 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2010 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2011 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2012 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2013 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2014 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2015 | 1.00% | 0.50% | 0.50% | 2.00% |
| 2016 | 1.00% | 0.50% | 0.50% | 2.00% |

Effective 2015, CIDC is a discrete component unit and is not included with the primary government.

Source: City Finance and Administration Department

CITY OF CONROE, TEXAS
TABLE C-14
SALES TAX REVENUE PAYERS BY INDUSTRY
FISCAL YEARS 2005 AND 2015
(DOLLARS ARE IN MILLIONS)

| Tax Remitter | Fiscal Year 2005 | | | | Fiscal Year 2015 | | | |
|--|---------------------|---------------|------------------|---------------|---------------------|---------------|------------------|---------------|
| | Number of Filers | % of Total | Tax Liability | % of Total | Number of Filers | % of Total | Tax Liability | % of Total |
| Agriculture, Forestry & Fishing | 306 | 3.54% | \$ 0.09 | 0.38% | 50 | 0.40% | \$ - | 0.00% |
| Mining | 39 | 0.45% | 0.12 | 0.52% | 170 | 1.36% | 1.16 | 3.11% |
| Construction | 521 | 6.02% | 0.24 | 1.05% | 1,039 | 8.34% | 0.87 | 2.34% |
| Manufacturing | 364 | 4.21% | 0.83 | 3.68% | 1,078 | 8.65% | 2.48 | 6.67% |
| Transportation, Communication & Utilities | 103 | 1.19% | 0.61 | 2.68% | 119 | 0.96% | 0.04 | 0.12% |
| Wholesale Trade | 417 | 4.82% | 1.71 | 7.58% | 816 | 6.55% | 3.11 | 8.37% |
| Retail Trade | 3,591 | 41.51% | 14.87 | 65.93% | 4,148 | 33.30% | 21.02 | 56.55% |
| Information | 77.00 | 0.89% | 0.27 | 1.18% | 165 | 1.32% | 0.97 | 2.60% |
| Finance, Insurance & Real Estate | 288 | 3.33% | 0.49 | 2.19% | 464 | 3.72% | 1.08 | 2.91% |
| Services | 2,746 | 31.75% | 3.34 | 14.82% | 4,383 | 35.19% | 6.44 | 17.33% |
| Other | 198.00 | 2.29% | - | 0.01% | 25 | 0.20% | - | 0.00% |
| Total | 8,650 | 100.00% | \$ 22.57 | 100.00% | 12,457 | 100.00% | \$ 37.17 | 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.

CITY OF CONROE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE LAST TEN FISCAL YEARS

| Fiscal Year | Governmental Activities | | | |
|----------------|---|---------------------------------|--------------|----------------------------|
| | Refunding Bonds, CO Bonds & Sales Tax Revenue Bonds ⁽¹⁾ | Capital Leases Obligation | Notes | Total Long-Term Debt |
| 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 |
| 2014 | 172,569,882 | 458,149 | 971,000 | 173,999,031 |
| 2015 | 135,705,804 | 400,827 | 868,002 | 136,974,633 |
| 2016 | 138,640,599 | 341,241 | 761,002 | 139,742,842 |

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

(2) See Table C-20 for personal income and population data.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Effective 2015, CIDC is a discrete component unit and is not included.

TABLE C-15

| Business-type Activities | | | | | |
|--------------------------|---------------------------------|----------------------------|--------------------------------|--|---------------|
| Revenue Bonds | Capital Leases Obligation | Total Long-Term Debt | Total Primary Government | Percentage of Personal Income ⁽²⁾ | Per Capita |
| \$ 16,865,000 | \$ 6,634,623 | \$ 23,499,623 | \$ 106,725,219 | 11.16% | 2,071 |
| 27,479,444 | 6,082,839 | 33,562,283 | 142,333,557 | 15.09% | 2,662 |
| 34,434,295 | 5,517,554 | 39,951,849 | 155,073,967 | 12.83% | 2,810 |
| 49,811,369 | 4,980,983 | 54,792,352 | 173,124,220 | 14.51% | 3,080 |
| 53,963,439 | 4,610,237 | 58,573,676 | 202,658,590 | 15.39% | 3,602 |
| 71,718,321 | 4,224,846 | 75,943,167 | 221,542,664 | 16.86% | 3,919 |
| 76,694,943 | 3,824,233 | 80,519,176 | 227,137,428 | 17.14% | 3,689 |
| 92,995,074 | 3,407,795 | 96,402,869 | 270,401,900 | 16.82% | 3,777 |
| 105,404,059 | 2,974,908 | 108,378,967 | 245,353,600 | 15.20% | 3,413 |
| 101,531,935 | 2,524,923 | 104,056,858 | 243,799,700 | 13.66% | 3,392 |

CITY OF CONROE, TEXAS
TABLE C-16
**RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

| Fiscal Year | General Bonded Debt Outstanding | | | Less: Amounts Available in Debt Service Fund ⁽¹⁾ | Total | Percentage of Actual Taxable Value of Property | Per Capita |
|----------------|---------------------------------|----------------------------------|---------------|--|---------------|---|---------------|
| | Refunding Bonds | Certificates of Obligation | Total | | | | |
| 2007 | \$ 22,420,000 | \$ 44,220,000 | \$ 66,640,000 | \$ 4,885,305 | \$ 61,754,695 | 2.51% | 1,198 |
| 2008 | 20,820,000 | 58,470,000 | 79,290,000 | 356,030 | 78,933,970 | 2.84% | 1,476 |
| 2009 | 18,490,000 | 69,365,000 | 87,855,000 | 8,598,275 | 79,256,725 | 2.49% | 1,436 |
| 2010 | 19,084,735 | 73,711,569 | 92,796,304 | 5,114,405 | 87,681,899 | 2.55% | 1,560 |
| 2011 | 16,036,643 | 90,451,528 | 106,488,171 | 6,293,542 | 100,194,629 | 2.87% | 1,781 |
| 2012 | 19,831,478 | 90,832,124 | 110,663,602 | 7,028,107 | 103,635,495 | 2.82% | 1,833 |
| 2013 | 15,704,830 | 84,000,514 | 99,705,344 | 8,342,744 | 91,362,600 | 2.25% | 1,484 |
| 2014 | 12,661,361 | 117,096,025 | 129,757,386 | 10,632,394 | 119,124,992 | 2.64% | 1,664 |
| 2015 | 45,626,859 | 90,078,945 | 135,705,804 | 12,084,748 | 123,621,056 | 2.41% | 1,720 |
| 2016 | 43,116,188 | 95,524,412 | 138,640,600 | 11,356,765 | 127,283,835 | 2.08% | 1,771 |

Note: (1) This is the amount restricted for debt service payments on general obligation and certificate of obligation bonds.

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

Fiscal Years 2009 and prior, the detailed information to present debt net of related items is unavailable.

See Table C-7 for property value data.

Population data can be found on Table C-20.

CITY OF CONROE, TEXAS
DIRECT AND OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT
AS OF SEPTEMBER 30, 2016
(DOLLARS IN THOUSANDS)

TABLE C-17

| <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 | \$ 426,470 | 12.97% | \$ 55,313 |
| Conroe Independent School District | 1,042,395 | 17.27% | 180,022 |
| Willis Independent School District | 119,332 | 22.09% | 26,360 |
| Lone Star College | 526,080 | 3.74% | 19,675 |
| MUD #90 | 6,530 | 100.00% | 6,530 |
| MUD #92 | 3,395 | 100.00% | 3,395 |
| MUD #107 | 14,320 | 100.00% | 14,320 |
| Conroe MUD #1 | 3,670 | 100.00% | 3,670 |
| UD #4 | 12,295 | 100.00% | 12,295 |
| Subtotal, Overlapping Debt | | | 321,581 |
| City Direct Debt (Net of original issuance discounts and premiums) \$ | 138,641 | | 138,641 |
| Total Direct and Overlapping Debt | | | <u>\$ 460,222</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 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

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|---|----------------------|----------------------|----------------------|
| Assessed Value | \$ 2,461,301,012 | \$ 2,782,770,982 | \$ 3,183,689,979 |
| Debt Limit <5% of assessed value> | 123,065,051 | 139,138,549 | 159,184,499 |
| Debt Applicable to Limit: | | | |
| Total Bonded Debt | 66,640,000 | 79,290,000 | 87,855,000 |
| Less: Assets in Debt | | | |
| Service Funds available | | | |
| for payment of principal | <u>(4,885,305)</u> | <u>(356,030)</u> | <u>(8,598,275)</u> |
| Total Net Debt Applicable to Limit | <u>61,754,695</u> | <u>78,933,970</u> | <u>79,256,725</u> |
| Net Legal Debt Margin | <u>\$ 61,310,356</u> | <u>\$ 60,204,579</u> | <u>\$ 79,927,774</u> |
| | | | |
| Total Net Debt Applicable to the Debt Limit | | | |
| As a Percentage of Debt Limit | 50.18% | 56.73% | 49.79% |
| | | | |
| Total Net Debt Margin as a Percentage | | | |
| of Debt Limit | 49.82% | 43.27% | 50.21% |
| | | | |
| Total Bonded Debt as a Percentage | | | |
| of Assessed Value | 2.71% | 2.85% | 2.76% |

Computation of Legal Debt Margin:

As a home rule city, the City of Conroe is not limited by the law in the amount of debt it may issue. The City's Charter (Section 9.18) states: The City Council shall have the power under the provisions of the state law to levy, assess and collect an annual tax upon real and personal property within the City to the maximum provided by the Constitution and the general laws of the State of Texas. The City Council shall also have the power to levy occupation taxes on such occupations as consistent with the general laws of the State of Texas.

Article II, Section 5 of the State of Texas Constitution states in part:

...but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city.

The tax rate at October 1, 2015 is \$0.4200 per \$100.00 with valuation at 100% of assessed value.

TABLE C-18

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 3,427,354,014 | \$ 3,450,170,655 | \$ 3,630,957,910 | \$ 4,002,688,279 | \$ 4,322,826,131 | \$ 4,829,793,550 | \$ 6,303,027,629 |
| 171,367,701 | 172,508,533 | 181,547,896 | 200,134,414 | 216,141,307 | 241,489,678 | 315,151,381 |
| 92,520,000 | 105,360,000 | 109,345,000 | 98,475,000 | 124,930,000 | 128,305,000 | 130,980,000 |
| (5,114,405) | (6,293,542) | (7,028,107) | (8,342,744) | (10,632,394) | (12,084,748) | (11,356,748) |
| 87,405,595 | 99,066,458 | 102,316,893 | 90,132,256 | 114,297,606 | 116,220,252 | 119,623,252 |
| <u>\$ 83,962,106</u> | <u>\$ 73,442,075</u> | <u>\$ 79,231,003</u> | <u>\$ 110,002,158</u> | <u>\$ 101,843,701</u> | <u>\$ 125,269,426</u> | <u>\$ 195,528,129</u> |
| 51.00% | 57.43% | 56.36% | 45.04% | 52.88% | 48.13% | 37.96% |
| 49.00% | 42.57% | 43.64% | 54.96% | 47.12% | 51.87% | 62.04% |
| 2.70% | 3.05% | 3.01% | 2.46% | 2.89% | 2.66% | 2.08% |

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

TABLE C-19

| Water and Sewer Revenue Bonds | | | | | | |
|-------------------------------|------------------------|--|-----------------------|--------------|------------|----------|
| Fiscal Year | Utility Service Charge | Less: | Net Available Revenue | Debt Service | | Coverage |
| | | Adjusted Operating Expenses ⁽¹⁾ | | Principal | Interest | |
| 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 |
| 2014 | 26,395,316 | 14,947,138 | 11,448,178 | 2,595,000 | 2,839,499 | 2.11 |
| 2015 | 30,034,855 | 18,108,103 | 11,926,752 | 2,945,000 | 3,463,381 | 1.86 |
| 2016 | 33,379,807 | 17,104,279 | 16,275,528 | 3,640,000 | 3,890,755 | 2.16 |

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

(1) 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.

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

TABLE C-20

| Year | Population | Personal Income (thousands of dollars) | Per Capita Personal Income | Median Age | School Enrollment | Unemployment Rate |
|------|------------|---|-------------------------------------|---------------|----------------------|----------------------|
| 2007 | 51,538 | \$ 956,700 | \$ 18,563 | 29.1 | 10,594 | 3.5% |
| 2008 | 53,472 | 943,193 | 17,639 | 29.8 | 10,806 | 3.8% |
| 2009 | 55,195 | 1,208,439 | 21,894 | 33.0 | 11,495 | 7.4% |
| 2010 | 56,207 | 1,192,937 | 21,224 | 28.8 | 12,229 | 7.6% |
| 2011 | 56,257 | 1,317,033 | 23,411 | 33.0 | 11,091 | 7.8% |
| 2012 | 56,530 | 1,313,870 | 23,242 | 33.0 | 11,861 | 6.5% |
| 2013 | 61,564 | 1,325,350 | 21,528 | 33.0 | 12,518 | 5.1% |
| 2014 | 71,592 | 1,607,670 | 22,456 | 33.0 | 13,345 | 3.9% |
| 2015 | 71,879 | 1,614,115 | 22,456 | 31.5 | 12,447 | 3.8% |
| 2016 | 71,879 | 1,785,043 | 24,834 | 31.0 | 15,124 | 4.2% |

Sources: Various school websites, the Conroe Greater Economic Development Council, and the GIS Section of the City of Conroe Website.

CITY OF CONROE, TEXAS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
TABLE C-21

| Employer | 2016 | | | 2007 | | |
|---------------------------------------|---------------|------|---|---------------|------|---|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Conroe Independent School District | 7,200 | 1 | 23.35% | 5,500 | 1 | 23.71% |
| Montgomery County | 2,166 | 2 | 7.02% | 1,774 | 2 | 7.65% |
| Conroe Regional Medical Center | 1,226 | 3 | 3.98% | 1,070 | 3 | 4.61% |
| City of Conroe | 529 | 4 | 1.72% | 453 | 5 | 1.95% |
| Community Pathology Associates | 424 | 5 | 1.38% | | | |
| National Oilwell Varco - Downhole | 400 | 6 | 1.30% | | | |
| Tony Gullo Motors | 305 | 7 | 0.99% | | | |
| Lowe's | 300 | 8 | 0.97% | | | |
| Medivators, Inc. | 300 | 9 | 0.97% | | | |
| Wal-Mart | 300 | 10 | 0.97% | | | |
| National Oilwell Varco - Reed Hycalog | | | | 476 | 4 | 2.05% |
| Consolidated Communications of Texas | | | | 225 | 10 | 0.97% |
| ReedHYCALLOC | | | | 450 | 6 | 1.94% |
| Sadler Clinic | | | | 388 | 7 | 1.67% |
| Tenaris | | | | 300 | 8 | 1.29% |
| Bordon Milk Products | | | | 228 | 9 | 0.98% |
| | <u>13,150</u> | | <u>42.65%</u> | <u>10,864</u> | | <u>46.82%</u> |



CITY OF CONROE, TEXAS

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

| | 2007 ⁽¹⁾ | 2008 ⁽²⁾ | 2009 ⁽³⁾ | 2010 ⁽⁴⁾ | 2011 ⁽⁵⁾ | 2012 ⁽⁶⁾ | 2013 ⁽⁷⁾ | 2014 ⁽⁸⁾ | 2015 ⁽⁹⁾ | 2016 |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------|
| Functions/Programs | | | | | | | | | | |
| General Government | | | | | | | | | | |
| Administration | 3 | 3 | 3 | 3 | 3 | 2 | 3 | 3 | 3 | 3 |
| Mayor & Council | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Arts & Communications | 1 | 1 | 1 | 1 | 1 | 1 | 1 | - | - | - |
| Downtown Development | 1 | 1 | 1 | 1 | 1 | 1 | - | - | - | - |
| Legal | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Municipal Court | 9 | 9 | 9 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| CDBG Administration | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 |
| Human Resources | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 |
| Finance | 9 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 12 |
| Transit | - | - | - | - | - | - | - | 1 | 1 | 1 |
| Information Technology | 5 | 5 | 7 | 7 | 7 | 11 | 11 | 11 | 11 | 11 |
| Public Safety | | | | | | | | | | |
| Police Administration | 5 | 4 | 5 | 5 | 6 | 5 | 7 | 9 | 9 | 9 |
| Police Support | 28 | 30 | 30 | 29 | 28 | 28 | 28 | 12 | 12 | 13 |
| Police Patrol | 60 | 65 | 66 | 64 | 63 | 63 | 63 | 99 | 100 | 102 |
| Police Investigative Services | 26 | 29 | 28 | 28 | 28 | 29 | 29 | 32 | 33 | 34 |
| Police Professional Services | 12 | 11 | 11 | 14 | 14 | 14 | 15 | - | - | - |
| Police Animal Services | - | - | - | 5 | 5 | 5 | 5 | 5 | 2 | 2 |
| Red Light Program | - | - | - | - | 1 | 1 | 1 | 1 | - | - |
| Traffic Services | - | - | - | - | 2 | 2 | 2 | 2 | 2 | - |
| Commercial Vehicle Enforcement | - | - | - | - | - | - | - | - | 1 | 1 |
| Fire | 86 | 87 | 87 | 88 | 88 | 88 | 86 | 87 | 117 | 117 |
| Parks | | | | | | | | | | |
| Parks & Rec Admin | 11 | 11 | 13 | 13 | 13 | 2 | 2 | 2 | 2 | 2 |
| Recreation Center | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 |
| Oscar Johnson, Jr. CC | 4 | 4 | - | - | - | - | - | - | - | - |
| Swim Center | 7 | 7 | - | - | - | - | - | - | - | - |
| Aquatic Center | - | - | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Parks Operations | - | - | - | - | - | 11 | 11 | 11 | 11 | 11 |
| Public Works | | | | | | | | | | |
| Community Development | 23 | 27 | 27 | 26 | 25 | 13 | 15 | 15 | 19 | 19 |
| Drainage Construction | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 8 |
| Streets | 28 | 28 | 28 | 28 | 28 | 28 | 28 | 28 | 27 | 36 |
| Signal Maintenance | - | - | - | - | 2 | 2 | 3 | 3 | 3 | 4 |
| Engineering | - | - | - | - | - | 8 | 21 | 21 | 22 | 22 |
| Building Maintenance | - | - | - | - | - | - | - | - | - | - |
| Warehouse Purchasing | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 4 |
| Conroe Industrial Development | - | - | - | - | - | - | 5 | 4 | 4 | 4 |
| Conroe Tower | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Hotel/Motel Occupancy Tax | - | - | - | 2 | 2 | 3 | 3 | 4 | 4 | 4 |
| Component Unit | | | | | | | | | | |
| Oscar Johnson, Jr. CC | - | - | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |

TABLE C-22

| | 2007 ⁽²⁾ | 2008 ⁽³⁾ | 2009 ⁽⁴⁾ | 2010 ⁽⁵⁾ | 2011 ⁽⁶⁾ | 2012 ⁽⁷⁾ | 2013 ⁽⁸⁾ | 2014 ⁽⁹⁾ | 2015 ⁽⁹⁾ | 2016 |
|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------|
| Water & Sewer | | | | | | | | | | |
| Utilities/Meter Readers | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 |
| Public Works | 3 | 3 | 5 | 6 | 6 | 5 | 5 | 6 | 6 | 7 |
| Water Conservation | - | - | - | - | - | - | 1 | 1 | 1 | - |
| Water | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 11 | 12 |
| Wastewater Treatment | 14 | 11 | 11 | 11 | 11 | 11 | 11 | 10 | 10 | 11 |
| Sewer | 18 | 18 | 20 | 20 | 20 | 20 | 20 | 20 | 12 | 18 |
| Pump & Motor Maint. | 6 | 7 | 7 | 7 | 7 | 7 | 7 | 6 | 6 | 9 |
| Project Engineering | 12 | 12 | 12 | 12 | 13 | 13 | - | - | - | - |
| Project Construction | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 29 | - |
| Fleet Services | 7 | 7 | 7 | 7 | 6 | 6 | 7 | 8 | 8 | 8 |
| Self Funded Insurance | 1 | 1 | 1 | 1 | 1 | 1 | 1 | - | - | - |
| Total | <u>450</u> | <u>462</u> | <u>471</u> | <u>480</u> | <u>483</u> | <u>482</u> | <u>493</u> | <u>505</u> | <u>538</u> | <u>534</u> |

Source: City Finance Office.

Notes: (1) 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.

(2) In FY 2008, Oscar Johnson, Jr. Community Center (OJJCC) was reported as a discretely presented component unit in the CAFR.

(3) In FY 2009, Oscar Johnson, Jr. Community Center (OJJCC) was removed from the Parks function. Swim Center was renamed to Aquatic Center.

(4) In FY 2010, Police Animal Services was added to the Public Safety function. Hotel/Motel Occupancy Tax was added.

(5) 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.

(6) 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.

(7) In FY 2014, the following changes were made:
The Arts & Communications position was moved to the Recreation Center.
The Self Funded Insurance position was moved to Human Resources.
One position previously in CIDC was moved to the newly created Transit fund.
The Communications Officers in Police Support were moved to Police Patrol.
The positions in Professional Services were moved to Police Administration, Police Patrol, and Criminal Investigations.
The secretary position previously in Waste Water Treatment Plant was moved to Public Works.

(8) In FY 2015, the following changes were made:
The Citizens voted to eliminate Red Light Cameras thereby moving the position to Police Patrol Department.
The Animal Shelter was out-sourced to a private company reducing the number of positions needed
The Commercial Vehicle Enforcement division was added.
The annexation of April Sound included the need for another Fire Station which increased the number of Fire personnel by 30.
Four positions from Water and eight positions from Sewer were moved to Project Construction.

(9) In FY 2016, the following changes were made:
The Project Construction division department was closed and all remaining positions were transferred to the General Fund and Water & Sewer Fund.

CITY OF CONROE, TEXAS

OPERATING INDICATORS BY FUNCTIONS/PROGRAMS

LAST TEN FISCAL YEARS

| | 2007 | 2008 | 2009 |
|---|---------|---------|---------|
| Functions/Programs | | | |
| General Government | | | |
| Building Permits Issued | 850 | 682 | 546 |
| Building Inspections Conducted | 24,537 | 19,362 | 18,377 |
| Police | | | |
| Physical Arrests | 4,178 | 4,146 | 4,049 |
| Parking Violations | 5,425 | 1,473 | 1,922 |
| Traffic Violations | 17,079 | 15,429 | 15,671 |
| Fire | | | |
| Emergency Responses | 3,644 | 5,383 | 5,063 |
| Fires Extinguished | 172 | 257 | 244 |
| Inspections | 1,236 | 1,143 | 2,655 |
| Refuse Collection | | | |
| Refuse Collected (tons per day) (a) | 65.00 | 50.44 | 55.04 |
| Recyclables Collected (tons per day) (a) | 0.35 | 0.58 | 1.73 |
| Other Public Works | | | |
| Street Resurfacing (miles) | 11.00 | 5.83 | 2.50 |
| Potholes Repaired (b) | N/A | N/A | N/A |
| Parks and Recreation | | | |
| Athletic Field Permits Issued | 460 | 402 | 285 |
| Community Center Admissions | 384,340 | 390,000 | 339,000 |
| Water | | | |
| New Connections (c) | 768 | 441 | 557 |
| Water Main Breaks | 735 | 861 | 726 |
| Average Daily Consumption (thousands of gallons) | 7,389 | 8,730 | 9,182 |
| Peak Monthly Consumption (thousands of gallons) | 286,000 | 374,576 | 399,575 |
| Wastewater | | | |
| Average Daily Sewage Treatment (thousands of gallons) | 6,792 | 6,609 | 6,800 |
| Transit | | | |
| Total Route Miles - OJJCC | 6,948 | 8,874 | 7,440 |
| Total Route Miles - Conroe Connection (d) | - | - | - |
| Passenger - OJJCC | 13,680 | 12,617 | 12,240 |
| Passenger - Conroe Connection (d) | - | - | - |

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.

(d) Conroe Connection began service in FY2015

*Refuse tonnage has decreased due to the new curbside recycling program. Total refuse 9,945.19 tons, total recycle tonnage 2,465.39.

TABLE C-23

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------|---------|---------|---------|---------|---------|---------|
| 645 | 489 | 520 | 789 | 1,443 | 1,486 | 1,089 |
| 16,950 | 15,317 | 14,957 | 16,995 | 17,871 | 20,924 | 20,365 |
| 4,163 | 3,915 | 4,313 | 4,758 | 4,502 | 4,289 | 4,237 |
| 2,485 | 3,113 | 4,554 | 2,972 | 3,724 | 2,560 | 1,672 |
| 13,865 | 26,673 | 27,181 | 15,482 | 16,142 | 14,449 | 12,919 |
| 5,425 | 6,111 | 6,417 | 7,124 | 7,083 | 8,427 | 9,018 |
| 180 | 320 | 133 | 129 | 222 | 204 | 244 |
| 2,863 | 2,724 | 1,675 | 1,017 | 1,778 | 1,333 | 2,537 |
| 58.07 | 38.00 | 37.50 | 58.00 | 41.00 | 73.20 | 65.58 |
| 0.61 | 9.48 | 12.10 | 16.00 | 10.00 | 17.20 | 16.53 |
| 1.50 | 5.63 | 2.20 | 5.10 | 9.00 | 11.00 | 3.00 |
| N/A | N/A | 550 | 582 | 415 | 2,193 | 1,360 |
| 288 | 326 | 297 | 304 | 290 | 292 | 691 |
| 298,261 | 307,662 | 366,045 | 424,640 | 353,024 | 422,884 | 452,564 |
| 387 | 787 | 400 | 736 | 923 | 613 | 2,418 |
| 770 | 888 | 800 | 775 | 692 | 1,072 | 622 |
| 8,554 | 11,291 | 9,893 | 9,652 | 9,189 | 9,249 | 9,770 |
| 384,058 | 500,038 | 395,510 | 393,936 | 377,559 | 281,344 | 14,400 |
| 7,000 | 7,000 | 7,000 | 7,000 | 7,200 | 7,800 | 7,700 |
| 8,100 | 7,140 | 8,330 | 11,219 | 12,240 | 9,912 | 11,018 |
| - | - | - | - | - | 54,108 | 83,258 |
| 13,140 | 12,175 | 12,222 | 14,020 | 14,232 | 18,420 | 19,984 |
| - | - | - | - | - | 22,811 | 34,487 |

CITY OF CONROE, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTIONS/PROGRAMS

LAST TEN FISCAL YEARS

| Functions/Programs | Fiscal Year | | |
|---|-------------|--------|--------|
| | 2007 | 2008 | 2009 |
| Police | | | |
| Stations | 1 | 1 | 1 |
| Zone Offices | - | 1 | 1 |
| Patrol Units | 49 | 45 | 46 |
| Fire Stations | 4 | 5 | 5 |
| Refuse Collection | | | |
| Collection trucks | 5 | 6 | 8 |
| Other Public Works | | | |
| Streets (miles) | 220.00 | 225.00 | 240.00 |
| Highways (miles) (a) | N/A | N/A | N/A |
| Streetlights (b) | N/A | N/A | N/A |
| Traffic Signals | 5 | 5 | 5 |
| Parks and Recreation | | | |
| Acreage | 347.50 | 350.00 | 350.00 |
| Playgrounds | 32 | 34 | 34 |
| Baseball/Softball Diamonds | 31 | 31 | 35 |
| Soccer/Football Fields | 10 | 10 | 13 |
| Community Centers | 3 | 3 | 3 |
| Water (d) | | | |
| Water Mains (miles) | 314.01 | 318.09 | 334.72 |
| Fire Hydrants | 2,700 | 2,800 | 2,955 |
| Storage Capacity (thousands of gallons) | 7,490 | 8,490 | 9,490 |
| Wastewater (d) | | | |
| Sanitary Sewers (miles) | 337.59 | 340.61 | 355.92 |
| Storm Sewers (miles) (c) | 26.340 | 26.340 | 36.564 |
| Treatment capacity (thousands of gallons) | 10,000 | 10,000 | 10,000 |
| Transit | | | |
| Buses | 4 | 4 | 4 |
| Vans | - | - | - |

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-24

| Fiscal Year | | | | | | |
|-------------|--------|--------|--------|--------|--------|--------|
| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| 1 | 1 | 1 | 1 | 1 | 1 | 2 |
| 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 46 | 48 | 46 | 55 | 56 | 56 | 56 |
| 5 | 5 | 5 | 5 | 5 | 6 | 6 |
| 8 | 8 | 8 | 8 | 9 | 10 | 10 |
| 248.00 | 268.00 | 276.00 | 270.00 | 270.00 | 315.00 | 350.00 |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 3,200 | 3,200 | 3,518 | 3,530 | 3,550 | 3,550 | 3,550 |
| 6 | 6 | 80 | 82 | 102 | 110 | 125 |
| 354.00 | 354.00 | 407.00 | 407.00 | 407.00 | 407.00 | 407.00 |
| 17 | 18 | 19 | 19 | 19 | 19 | 20 |
| 28 | 25 | 27 | 27 | 27 | 27 | 27 |
| 18 | 21 | 18 | 18 | 18 | 18 | 18 |
| 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| 340.61 | 342.44 | 367.00 | 403.00 | 403.00 | 409.50 | 417.22 |
| 2,996 | 3,009 | 3,009 | 3,009 | 3,335 | 3,410 | 3,032 |
| 9,490 | 11,490 | 11,490 | 11,490 | 11,490 | 11,490 | 11,589 |
| 357.65 | 360.21 | 389.00 | 391.00 | 398.00 | 404.00 | 427.10 |
| 40.162 | 40.280 | 41.720 | 42.000 | 42.953 | 49.000 | 50.530 |
| 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| 4 | 4 | 4 | 4 | 4 | 8 | 4 |
| - | - | - | - | - | - | 2 |

CITY OF CONROE, TEXAS**TABLE C-25**

*WATER WORKS SYSTEM – TOP TEN WATER AND SEWER USERS (IN GALLONS)
AS OF SEPTEMBER 30, 2016*

| Customer | Fiscal Year 2016 Water Consumption | Fiscal Year 2016 Water Revenues | Percent of Total 2016 Water Revenues |
|-------------------------------|--|---------------------------------------|--|
| EvoQua Water Technologies LLC | 126,800,000 | \$342,348 | 2.6% |
| Borden Inc. | 88,036,000 | 240,343 | 1.8 |
| The Geo Group - Joe Corley | 57,535,000 | 164,863 | 1.3 |
| Ball Metal Container Group | 49,684,000 | 147,942 | 1.1 |
| Crown Cork & Seal | 45,946,000 | 135,945 | 1.1 |
| Medical Center Hospital | 40,079,000 | 165,861 | 1.3 |
| Reedhycalog L.P. | 38,910,000 | 117,434 | 0.9 |
| Montgomery County MUD #112 | 19,829,000 | 63,092 | 0.5 |
| Strata Woodland LLC | 19,329,000 | 67,417 | 0.5 |
| Montgomery County MUD #126 | 19,144,000 | 69,428 | 0.5 |

| Customer | Fiscal Year 2016 Sewer Consumption | Fiscal Year 2016 Sewer Revenues | Percent of Total 2016 Sewer Revenues |
|-------------------------------|--|---------------------------------------|--|
| EvoQua Water Technologies LLC | 126,800,000 | \$360,289 | 3.5% |
| City of Willis | 91,841,000 | 114,801 | 1.1 |
| Borden Inc. | 88,036,000 | 250,199 | 2.5 |
| The Geo Group - Joe Corley | 57,392,000 | 163,170 | 1.6 |
| Ball Metal Container Group | 48,786,000 | 138,729 | 1.4 |
| San Jacinto River Authority | 46,011,000 | 261,696 | 2.6 |
| Crown Cork & Seal | 45,946,000 | 130,663 | 1.1 |
| Reedhycalog L.P. | 38,662,000 | 109,977 | 1.1 |
| Medical Center Hospital | 32,055,000 | 97,012 | 0.1 |
| Strata Woodland LLC | 19,487,000 | 55,520 | 0.5 |

CITY OF CONROE, TEXAS

WATER AND SEWER RATES

AS OF SEPTEMBER 30, 2016

TABLE C-26

Minimum Monthly Base Charge By Meter Size

| Meter Size | Minimum Base Charge |
|------------|------------------------|
| 5/8 Inch* | \$ 12.00 |
| 1 Inch | 18.00 |
| 1.5 Inch | 25.00 |
| 2 Inch | 35.00 |
| 3 Inch | 46.00 |
| 4 Inch | 65.00 |
| 6 Inch | 90.00 |
| 8 Inch | 145.00 |
| 10 Inch | 250.00 |

* Typical residential meter size.

A Surface Water Fee was implemented to recover expenses the City incurred participating in the Groundwater Reduction Plan with the San Jacinto River Authority. This charge is assessed at \$2.95 per 1,000 gallons of water consumed for residential, sprinkler and commercial customers. The Lone Star Groundwater Conservation District fee is a pass through fee to regulate ground water consumption. This charge is assessed at \$.06 per 1,000 gallons consumed for residential, sprinkler and non-residential customers.

Water and Sewer Service Charges

There is charged and collected each month by the City from the consumers of water, water service and sewer service residing within the limits of the City, the amounts of money hereinafter set out upon the following rates:

Residential and Sprinkler Rates Inside City Limits

| Usage | Water Rate Base Charge | Sanitary Sewer Rate |
|---|---------------------------|------------------------|
| Minimum 0 - 3,999 gallons Per thousand gallons | | \$ 23.25 |
| 4,000 - 10,999 gallons, per thousand | \$ 2.56 | 2.84 |
| 11,000 - 15,999 gallons, per thousand | 3.15 | |
| 16,000 - 25,999 gallons, per thousand | 3.74 | |
| 26,000 - 35,999 gallons, per thousand | 4.27 | |
| 36,000 gallons and over | 7.47 | |
| Total Charge at 10,000 gallons | | 43.13 |

Non-Residential Rates Inside City Limits

| Usage | Water Rate Base Charge | Sanitary Sewer Rate |
|---|---------------------------|------------------------|
| Minimum 0 - 3,999 gallons Per thousand gallons | | \$ 23.25 |
| 4,000 - 10,999 gallons, per thousand | \$ 2.79 | 2.84 |
| 11,000 - 15,999 gallons, per thousand | 3.29 | |
| 16,000 - 25,999 gallons, per thousand | 3.91 | |
| 26,000 - 35,999 gallons, per thousand | 4.46 | |
| 36,000 - 150,999 gallons, per thousand | 7.81 | |
| 151,000 gallons and over | 2.57 | |

Residential and Sprinkler/Non-Residential Water & Sanitary Sewer Rates Outside City Limits

The amount to be charged and collected for water service outside the corporate limits of the City is computed and charged as double the amount established for service inside the City.

LifeLine Residential Rates Inside City Limits

| Usage | Water Rate Base Charge | Sanitary Sewer Rate |
|---|---------------------------|------------------------|
| Minimum 0 - 3,999 gallons Per thousand gallons | | \$ 17.44 |
| 4,000 - 10,999 gallons, per thousand | \$ 2.05 | 2.27 |
| 11,000 - 15,999 gallons, per thousand | 2.68 | |
| 16,000 - 25,999 gallons, per thousand | 3.74 | |
| 26,000 - 35,999 gallons, per thousand | 4.27 | |
| 36,000 - and Up | 7.47 | |
| Total Charge at 10,000 gallons | | 33.33 |





CITY OF CONROE