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Required Auditor Disclosure Letter Conclusion of Audit

March 7, 2024

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Texas (the “City”) for the year ended September 30, 2023. Professional standards require that we provide the City Council (the “governing body”) with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter previously sent at the start of the annual audit. Professional standards also require that we communicate to the governing body the following information related to our audit.

I. Significant Audit Matters

1. *Qualitative Aspects of Accounting Practices*

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. As described in the notes to the financial statements, the City changed accounting policies related to accounting for the use of information technology arrangements by adopting Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), in fiscal year 2023. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of the useful lives of capital assets is based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Estimates are used in the calculation of the pension liability and the required annual contribution. The Texas Municipal Retirement System (TMRS) hires a licensed actuary to make key assumptions and to perform calculations, as well as an independent auditor to review those assumptions and calculations. We evaluated the reasonableness of the employee data provided by the City to TMRS.

Estimates are used in the calculation of the health care liability for other postemployment benefits. The City hires a licensed actuary to perform the calculation. We evaluated the key factors and assumptions used to develop the liability in relation to the financial statements taken as a whole.

- C. The financial statement disclosures are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of long-term debt in the financial statements is significant to financial statement users because it discloses the City's long-term financial obligations.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures. Management has corrected all misstatements.

4. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 7, 2024.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Changes in Risk Assessment

No changes in risk assessment were noted in the completion of the audit as previously communicated in our planning letter.

II. Other Matters

We applied certain limited procedures to the Required Supplementary Information (RSI), as identified on the table of contents, which supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information, as identified on the table of contents, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

III. Restrictions on Use

This information is intended solely for the use of the Mayor, City Council, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

 **DRAFT**
Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

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Client: **City of Montgomery, Texas**
 Engagement: **Montgomery 09/30/23**
 Period Ending: **9/30/2023**
 Trial Balance: **2.2.01 - TB**
 Workpaper: **2.5.06 - AJE Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
			C.02	
To reverse prior year and record current year mixed beverage receivable.				
100-00-14010-0000000	Mixed Beverage Tax		2,278.93	
100-11303-00000	A/R Mixed Beverage Tax		2,159.72	
100-00-14010-0000000	Mixed Beverage Tax			2,159.72
100-11303-00000	A/R Mixed Beverage Tax			2,278.93
Total			<u>4,438.65</u>	<u>4,438.65</u>
Adjusting Journal Entries JE # 2				
			C.02	
To reverse prior year and record current year sales tax receivable.				
100-00-14070-0000000	Sales Tax		449,614.69	
100-00-14080-0000000	Sales Tax ILO AdVal Tax		224,807.35	
100-11300-00000	Accounts Receivable		775,666.07	
400-00-44110-0000000	Sales Tax Revenue		224,807.35	
400-41210-00000	Accounts Receivable Audit		258,555.36	
100-00-14070-0000000	Sales Tax			517,110.71
100-00-14080-0000000	Sales Tax ILO AdVal Tax			258,555.36
100-11300-00000	Accounts Receivable			674,422.04
400-00-44110-0000000	Sales Tax Revenue			258,555.36
400-41210-00000	Accounts Receivable Audit			224,807.35
Total			<u>1,933,450.82</u>	<u>1,933,450.82</u>
Adjusting Journal Entries JE # 3				
			F.01	
To reverse prior year payroll accrual.				
100-12007-00000	Payroll Liabilities		4,913.25	
100-12008-00000	Payroll Liabilities - Payroll Payable		66,563.01	
300-12007-00000	Payroll Liabilities.		805.15	
300-32120-00000	Payroll Liabilities:Payroll Payable		10,907.91	
100-10-16008-0000000	Payroll Taxes			1,243.05
100-10-16009-0000000	Wages			16,840.44
100-11-16008-0000000	Payroll Taxes			2,828.07
100-11-16009-0000000	Wages			38,313.67
100-12-16008-0000000	Payroll Taxes			345.89
100-12-16009-0000000	Wages			4,686.04
100-13-16008-0000000	Payroll Taxes			496.24
100-13-16009-0000000	Wages			6,722.86
300-30-16008-0000000	Payroll Taxes			805.15
300-30-16009-0000000	Wages			10,907.91
Total			<u>83,189.32</u>	<u>83,189.32</u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 4		F.05		
To record current year pension expense for the water and sewer fund.				
300-30-36115-0000000	TMRS Pension Expense		4,871.00	
300-32280-00000	Deferred inflows - Pension		16,198.00	
300-32290-00000	Deferred outflows - Pension		41,233.00	
300-32270-00000	Net Pension Liability			62,302.00
Total			<u>62,302.00</u>	<u>62,302.00</u>
Adjusting Journal Entries JE # 5		F.06		
To record current year OPEB activity for the water and sewer fund.				
300-30-36114-0000000	OPEB Expense		807.00	
300-32271-00000	OPEB Liability		3,296.00	
300-32280-00000	Deferred inflows - Pension		323.00	
300-32291-00000	Deferred Outflows - OPEB		304.00	
300-32281-00000	Deferred Inflows - OPEB			323.00
300-32281-00000	Deferred Inflows - OPEB			4,407.00
Total			<u>4,730.00</u>	<u>4,730.00</u>
Adjusting Journal Entries JE # 6		C.01		
To adjust property taxes for FY23.				
100-11301-00000	A/R Delinquent Taxes		3,980.34	
500-52130-00000	Deferred Property Taxes		2,996.81	
100-12400-00000	Deferred Revenue-Taxes			3,980.34
500-51240-00000	A/R Property Taxes			2,996.81
Total			<u>6,977.15</u>	<u>6,977.15</u>
Adjusting Journal Entries JE # 7		J.01		
To correct fund balance.				
100-13200-00000	Unassigned Fund Balance		28,393.52	
100-11590-00000	Lease Rights of Use			28,393.52
Total			<u>28,393.52</u>	<u>28,393.52</u>
Adjusting Journal Entries JE # 8		F.03		
To adjust for CY compensated absences.				
300-32190-00000	Accrued Compensated Absences:VacatGÇª		1,080.21	
300-30-16009-0000000	Wages			1,080.21
Total			<u>1,080.21</u>	<u>1,080.21</u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 9			F.01	
To correct payroll accrual.				
100-12007-00000	Payroll Liabilities		13,271.43	
100-12007-00000	Payroll Liabilities		29,092.71	
300-12007-00000	Payroll Liabilities.		15,690.18	
100-11-16002-0000000	Health Insurance			29,092.71
100-12008-00000	Payroll Liabilities - Payroll Payable			13,271.43
300-32120-00000	Payroll Liabilities:Payroll Payable			15,690.18
Total			<u>58,054.32</u>	<u>58,054.32</u>
Adjusting Journal Entries JE # 10			E.03	
To correct retainage payable and accounts payable.				
200-20-26401-017B366	Water System - WP #3 Generator - GLO		7,796.90	
200-20-26404-0062715	Water System - Water Plant #3 Imp TWDB		61,021.74	
200-22000-00000	Accounts Payable		62,659.48	
200-22000-00000	Accounts Payable		83,272.50	
200-22000-00000	Accounts Payable		161,766.00	
200-22110-00000	Retainage Payable		7,796.90	
200-22110-00000	Retainage Payable		9,252.50	
200-22110-00000	Retainage Payable		9,412.11	
200-22110-00000	Retainage Payable		11,797.00	
200-22110-00000	Retainage Payable		17,049.40	
200-22110-00000	Retainage Payable		17,974.00	
200-22110-00000	Retainage Payable		24,936.58	
200-22110-00000	Retainage Payable		101,817.62	
200-20-26401-017B366	Water System - WP #3 Generator - GLO			7,796.90
200-20-26401-017B366	Water System - WP #3 Generator - GLO			9,252.50
200-20-26401-017B366	Water System - WP #3 Generator - GLO			17,049.40
200-20-26401-017B366	Water System - WP #3 Generator - GLO			83,272.50
200-20-26404-0062715	Water System - Water Plant #3 Imp TWDB			101,817.62
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			11,797.00
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			17,209.01
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			17,974.00
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			24,936.58
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			62,659.48
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			161,766.00
200-22110-00000	Retainage Payable			61,021.74
Total			<u>576,552.73</u>	<u>576,552.73</u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 11		2.4.01a		
Client adjusting entry.				
100-00-14110-0000000	Building Permits/MEP		400.00	
100-00-14130-0000000	Sign Fees			400.00
Total			<u><u>400.00</u></u>	<u><u>400.00</u></u>
Adjusting Journal Entries JE # 12		E.02a		
To accrue 2023 sanitary sewer rehabilitation September activity.				
200-20-26318-0000000	Wastewater System - Sanitary Sewer &		32,500.00	
200-22000-00000	Accounts Payable			32,500.00
Total			<u><u>32,500.00</u></u>	<u><u>32,500.00</u></u>
Adjusting Journal Entries JE # 13		I.06		
To reclass GASB 87 lease principal and interest payments.				
100-10-16900	Right to use principal		10,114.17	
100-10-16901	Right to use interest		333.27	
100-11-16900	Right to use principal		5,383.90	
100-11-16901	Right to use interest		177.40	
100-12-16900	Right to use principal		1,780.38	
100-12-16901	Right to use interest		58.66	
100-13-16900	Right to use principal		9,103.49	
100-13-16901	Right to use interest		299.97	
100-10-16404-0000000	Copier/Fax Machine			10,447.44
100-11-16404-0000000	Copier/Fax Machine			5,561.30
100-12-17001-0000000	Misc Expenses - Other			1,839.04
100-13-16404-0000000	Copier/Fax Machine			9,403.46
Total			<u><u>27,251.24</u></u>	<u><u>27,251.24</u></u>
Adjusting Journal Entries JE # 14		D.02b		
To reverse prior year and accrue current year unbilled activity.				
300-00-34110-0000000	Water Revenue		109,187.43	
300-31320-00000	Unbilled Revenue Receivable		106,033.68	
300-00-34110-0000000	Water Revenue			106,033.68
300-31320-00000	Unbilled Revenue Receivable			109,187.43
Total			<u><u>215,221.11</u></u>	<u><u>215,221.11</u></u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 15		C.08		
To accrue Entergy franchise tax revenue.				
100-11305-00000	Accounts Receivable		81,379.02	
100-00-14020-0000000	Franchise Tax			81,379.02
Total			<u>81,379.02</u>	<u>81,379.02</u>
Adjusting Journal Entries JE # 16				
To correct due to others and transfers.				
100-12-16413-0000000	Culverts		275.40	
700-70-76120-0000000	Contracted Services - Security Services		600.00	
100-11400-00000	Due from Other			275.40
700-70-76340-0000000	Bailiff Transfer to General Fund			600.00
Total			<u>875.40</u>	<u>875.40</u>
Adjusting Journal Entries JE # 17				
Client adjusting entry to correct interfunds.				
100-11420-00000	Due From Construction		1,800.34	
200-20-26810-0000000	Transfer Out - PD / Admin Building		801.16	
200-20-26810-0000000	Transfer Out - PD / Admin Building		999.18	
100-00-14980-0000000	Admin from Capital Projects			801.16
100-00-14980-0000000	Admin from Capital Projects			999.18
200-22120-00000	Due To General Fund			1,800.34
Total			<u>3,600.68</u>	<u>3,600.68</u>
Adjusting Journal Entries JE # 18		J.01		
To correct fund balance in MEDC fund.				
400-00-44300-0000000	Events Revenue		383.90	
400-43100-00000	Unrestricted Net Assets			383.90
Total			<u>383.90</u>	<u>383.90</u>
Adjusting Journal Entries JE # 19		E.03a		
To accrue flagship storm sewer project.				
200-20-26715-0000000	Capital Outlay - Flagship Storm Sewer		30,527.78	
200-22000-00000	Accounts Payable			30,527.78
Total			<u>30,527.78</u>	<u>30,527.78</u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 20			H.01	
To capitalize current year water, sewer and sanitation activity.				
200-00-26900-00000	Transfer to W&S fund		1,333,149.35	
200-20-26404-0062715	Water System - Water Plant #3 Imp TWDB		38,163.38	
300-30-36116-0000000	Depreciation Expense		429,305.16	
300-31440-00000	Accum Depreciation		18,915.50	
300-31470-00000	Ford Ranger 2003		24,815.15	
300-31570-00000	Water Plant #3		1,577,881.64	
300-31590-00000	Transfer to Gen Fixed Assets-Sewer Imp		132,076.92	
300-31590-00000	Transfer to Gen Fixed Assets-Sewer Imp		650,777.99	
300-31590-00000	Transfer to Gen Fixed Assets-Sewer Imp		1,026,019.24	
200-20-26101-0000000	Engineering - Lift Station 10 Expansion			2,982.50
200-20-26102-0062715	Engineering - Water Plant #3 Imp - TWDB			7,876.44
200-20-26117-017B366	Engineering - All GLO			14,859.00
200-20-26123-0000000	Engineering - McCown St & Caroline St Wtr Rep			22,097.50
200-20-26124-0000000	Engineering - Downtown Sanitary Sewer Rehab			18,674.63
200-20-26125-0000000	Engineering - Old Plantersville Force Main Ext			32,000.00
200-20-26126-0000000	Engineering - Old Plantersville Waterline Ext			38,200.00
200-20-26130-0000000	Engineering - Sanitary Sewer & Manhole Rehab			41,227.85
200-20-26132-0000000	Engineering - Flagship Storm Sewer			54,284.48
200-20-26314-0000000	Wastewater System - Downtown Sanitary Sewer Rehab			113,402.29
200-20-26317-0000000	Wastewater System - Lift Station 10 Improvements			19,248.75
200-20-26318-0000000	Wastewater System - Sanitary Sewer & Manhole Rehab			32,500.00
200-20-26401-017B366	Water System - WP #3 Generator - GLO			301,022.08
200-20-26509-0000000	Roadway System - Downtown Master Drainage Study			48,750.00
200-20-26707-017B366	Capital Outlay - Baja / MLK GLO			80,316.93
200-20-26715-0000000	Capital Outlay - Flagship Storm Sewer			543,870.28
300-00-34390-00000	Transfer in from Capital projects			1,333,149.35
300-30-36604-0000000	Water & Sewer Items			24,815.15
300-31440-00000	Accum Depreciation			429,305.16
300-31470-00000	Ford Ranger 2003			18,915.50
300-31600-00000	Construction in Progress			2,053,606.44
Total			<u>5,231,104.33</u>	<u>5,231,104.33</u>

Adjusting Journal Entries JE # 21

To correct due to/froms in the general fund.

100-11450-00000	Due from Debt Service		149,211.14	
100-12303-00000	Due To I&S Debt Service Fund			149,211.14
Total			<u>149,211.14</u>	<u>149,211.14</u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 22				
To record FY21 impact fees from the water sewer fund to the capital projects fund.				
200-21240-00000	Due from Utility		30,238.00	
300-30-37003-0000000	Utility Projects - Impact Fees Transfer to CPF		30,238.00	
200-00-24203-0000000	Impact Fees Transfer			30,238.00
300-32220-00000	Due to Capital Projects			30,238.00
Total			<u>60,476.00</u>	<u>60,476.00</u>