

DRAFT

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

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the City of Montgomery, Texas (the "City") for further information on the responsibilities of management and of Crowe LLP.

COMMUNICATIONS REGARDING OUR INDEPENDENCE FROM THE CITY

Auditing standards generally accepted in the United States of America require independence for all audits, and we confirm that we are independent auditors with respect to the City under the independence requirements established by the American Institute of Certified Public Accountants.

Additionally, we wish to communicate that we have the following relationships with the City that do not impair our independence but which, in our professional judgment, may reasonably be thought to bear on our independence and that we gave significant consideration to in reaching the conclusion that our independence has not been impaired.

Relationship	Safeguards
<p>Non-Audit Services: We were engaged to perform the following non-audit services during your last fiscal year:</p> <ul style="list-style-type: none">• Assistance with preparation of your financial statements and related disclosures• Assistance with preparation of the conversion entries for financial statement preparation• Assistance with pension/OPEB calculations, adjustments, and disclosures• Updates to the capital assets listing and disclosures• Assistance with debt amortization schedules and disclosures	<p>We believe your management is capable of evaluating and taking responsibility for their management decisions regarding our services, and we did not assume the role of an employee or of management of the City in performing and reporting on our services.</p>

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters regarding the planned scope and timing of the audit were discussed with you on September 19, 2024.

- How we proposed to address the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- The nature and extent of specialized skills or knowledge needed to plan and evaluate the results of the audit, including the use of an auditor's expert.
- Your views and knowledge of matters you consider warrant our attention during the audit, as well as your views on:
 - The allocation of responsibilities between you and management.
 - The City's objectives and strategies, and the related business risks that may result in material misstatements.
 - Significant communications between the City and regulators.
 - Other matters you believe are relevant to the audit of the financial statements.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: Those Charged with Governance should be informed of the initial selection of and changes in significant accounting policies or their application. Also, Those Charged with Governance should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform Those Charged with Governance about such matters. There were no such accounting changes or significant policies requiring communication.

Accounting Standard	Impact of Adoption
Significant Unusual Transactions.	No such matters noted.
Significant Accounting Policies in Controversial or Emerging Areas.	No such matters noted.

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in the City's year-end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Useful Lives of Fixed Assets	Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the City.	We tested the propriety of information underlying management's estimates.
Pension and Postretirement Obligations	Amounts reported for pension and postretirement obligations require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets.	We reviewed the reasonableness of these estimates and assumptions.

AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with you our comments about the following matters related to the City's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the City, considering the need to balance the cost of providing information with the likely benefit to users of the City's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the City's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

See the attached schedule that summarizes any such misstatements.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were

determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying the uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if it was concluded that the uncorrected misstatements are immaterial to the financial statements under audit. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements. There were no such misstatements.

OTHER COMMUNICATIONS

Communication Item	Results
<p>Other Information Included in an Annual Report</p> <p>Information may be prepared by management that accompanies or includes the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether a material inconsistency exists between the other information and the financial statements. We are also to remain alert for indications that:</p> <ul style="list-style-type: none"> • Material inconsistency exists between the other information and the auditor's knowledge obtained in the audit; or • A material misstatement of fact exists, or the other information is otherwise misleading. <p>If we identify a material inconsistency between the other information and the financial statements, we are to seek a resolution of the matter.</p>	<p>We understand that management has not prepared other information to accompany the audited financial statements.</p>
<p>Significant Difficulties Encountered During the Audit</p> <p>We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p>
<p>Disagreements with Management</p> <p>We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the City's financial statements or the auditor's report.</p>	<p>During our audit, there were no such disagreements with management.</p>
<p>Difficulties or Contentious Matters</p> <p>We are required to discuss with the Those Charged with Governance any difficulties or contentious matters for which we consulted outside of the engagement team.</p>	<p>During the audit, there were no such issues for which we consulted outside the engagement team.</p>
<p>Circumstances that Affect the Form and Content of the Auditor's Report</p> <p>We are to discuss with you any circumstances that affect the form and content of the auditor's report, if any.</p>	<p>There are no such circumstances that affect the form and content of the auditor's report.</p>

Communication Item	Results
Consultations with Other Accountants If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.	We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.
Representations the Auditor Is Requesting from Management We are to provide you with a copy of management's requested written representations to us.	We direct your attention to a copy of the letter of management's representation to us provided separately.
Significant Issues Discussed, or Subject to Correspondence, With Management We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.	There were no such significant issues discussed, or subject to correspondence, with management.
Significant Related Party Findings or Issues We are to communicate to you significant findings or issues arising during the audit in connection with the City's related parties.	There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.
Other Findings or Issues We Find Relevant or Significant We are to communicate to you other findings or issues, if any, arising during the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.	There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.

We are pleased to serve your City as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the City Council and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.

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Houston, Texas



CITY OF MONTGOMERY, TEXAS
SCHEDULE OF CORRECTED MISSTATEMENTS
For the year ended September 30, 2024

Number	Date	Name	Account No	Debit	Credit
1	9/30/2024	Net Pension Liability	300-32270-00000 300	24,077.00	
1	9/30/2024	Deferred inflow s - pension	300-32280-00000 300		(3,658.00)
1	9/30/2024	Deferred outflow s	300-32290-00000 300		(19,993.00)
1	9/30/2024	TMRS Pension Expense	300-30-36115-0000000 300		(426.00)
				24,077.00	(24,077.00)
		To record current year pension expense for the water and sewer fund.			
2	9/30/2024	OPEB Liability	300-32271-00000 300	295.00	
2	9/30/2024	Deferred Inflow s - OPEB	300-32281-00000 300		(337.00)
2	9/30/2024	Deferred Outflow s - Assumption Change OPEB	300-32291-00000 300		(66.00)
2	9/30/2024	OPEB Expense	300-30-36114-0000000 300	108.00	
				403.00	(403.00)
		To record current year OPEB activity for the water and sewer fund.			
3	9/30/2024	Right to use principal	100-12-16900 100	1,496.00	
3	9/30/2024	Right to use interest	100-12-16901 100	17.00	
3	9/30/2024	Copier/Fax Machine	100-10-16404-0000000 100	2,659.00	
3	9/30/2024	Right to use Principal	100-10-16900-0000000 100		(2,401.00)
3	9/30/2024	Right to use Interest	100-10-16901-0000000 100		(258.00)
3	9/30/2024	Copier/Fax Machine	100-11-16404-0000000 100	1,259.00	
3	9/30/2024	Right to use Principal	100-11-16900-0000000 100		(1,128.00)
3	9/30/2024	Right to use Interest	100-11-16901-0000000 100		(131.00)
3	9/30/2024	Misc Expenses - Other	100-12-17001-0000000 100		(1,513.00)
3	9/30/2024	Copier/Fax Machine	100-13-16404-0000000 100	2,247.00	
3	9/30/2024	Right to use Principal	100-13-16900-0000000 100		(2,017.00)
3	9/30/2024	Right to use Interest	100-13-16901-0000000 100		(230.00)
3	9/30/2024	Right to use Principal	300-30-16900-0000000 300		(1,568.00)
3	9/30/2024	Right to use Interest	300-30-16901-0000000 300		(52.00)
3	9/30/2024	Copier / Fax Machine	300-30-36402-0000000 300	1,620.00	
				9,298.00	(9,298.00)
		To reclass GASB 87 lease principal and interest payments.			
4	9/30/2024	Premium	200-00-54310-0000000 200		(220,449.00)
4	9/30/2024	Transfer In	200-20-14940-0000000 200	3,500,000.00	
4	9/30/2024	Issuance Costs	200-50-56602-0000000 200	160,449.00	
4	9/30/2024	Cert of Obligation Proceeds - Series 2024	500-00-54325-0020240 500	3,500,000.00	
4	9/30/2024	Transfer Out	500-50-17151-0000000 500		(3,500,000.00)
4	9/30/2024	Cert of Obligation Proceeds	200-00-543255-0020240 200		(3,440,000.00)
				7,160,449.00	(7,160,449.00)
		To reclass debt issuance from debt service fund to capital projects fund.			

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CITY OF MONTGOMERY, TEXAS
SCHEDULE OF CORRECTED MISSTATEMENTS
For the year ended September 30, 2024

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Number	Date	Name	Account No	Debit	Credit
5	9/30/2024	Accounts Receivable	100-11300-00000 100		(775,666.00)
5	9/30/2024	Accounts Receivable	100-11300-00000 100	936,256.00	
5	9/30/2024	Accounts Receivable Audit	400-41210-00000 400		(258,555.00)
5	9/30/2024	Accounts Receivable Audit	400-41210-00000 400	312,085.00	
5	9/30/2024	Sales Tax	100-00-14070-0000000 100	517,111.00	
5	9/30/2024	Sales Tax	100-00-14070-0000000 100		(624,171.00)
5	9/30/2024	Sales Tax ILO AdVal Tax	100-00-14080-0000000 100	258,555.00	
5	9/30/2024	Sales Tax ILO AdVal Tax	100-00-14080-0000000 100		(312,085.00)
5	9/30/2024	Sales Tax Revenue	400-00-44110-0000000 400	258,555.00	
5	9/30/2024	Sales Tax Revenue	400-00-44110-0000000 400		(312,085.00)
				2,282,562.00	(2,282,562.00)
To reverse prior year and record current year sales tax receivable.					
6	9/30/2024	Accounts Payable Pending	200-12099-00000 200		(34,056.00)
6	9/30/2024	Accounts Payable Pending	200-12099-00000 200		(128,970.00)
6	9/30/2024	Accounts Payable Pending	200-12099-00000 200		(79,581.00)
6	9/30/2024	Retainage Payable	200-22110-00000 200	16,556.00	
6	9/30/2024	Retainage Payable	200-22110-00000 200		(14,330.00)
6	9/30/2024	Retainage Payable	200-22110-00000 200	73,960.00	
6	9/30/2024	Cons - Old Plantersville Force Main	200-20-26300-0000500 200	17,500.00	
6	9/30/2024	Cons - Buffalo Springs Dr Road Impr	200-20-26500-0001400 200	49,044.00	
6	9/30/2024	Cons - Buffalo Springs Dr Road Impr	200-20-26500-0001400 200	30,537.00	
6	9/30/2024	Cons - Buffalo Springs Dr Road Impr	200-20-26500-0001400 200		(73,960.00)
6	9/30/2024	WP #2 Improvements	200-20-26500-000-1600 200	143,300.00	
				330,897.00	(330,897.00)
To adjust retainage payable.					
7	9/30/2024	Accum Depreciation	300-31440-00000 300		(480,508.00)
7	9/30/2024	Accum Depreciation	300-31440-00000 300	25,027.00	
7	9/30/2024	Ford Ranger 2003	300-31470-00000 300		(25,027.00)
7	9/30/2024	Wastewater Treatment Plant	300-31540-00000 300	62,106.00	
7	9/30/2024	Transfer to Gen Fixed Assets-Sewer Imp	300-31590-00000 300	1,923,915.00	
7	9/30/2024	Construction in Progress	300-31600-00000 300		(1,923,915.00)
7	9/30/2024	Construction in Progress	300-31600-00000 300	3,425,926.00	
7	9/30/2024	Construction in Progress	400-31600-00000 400	25,958.00	
7	9/30/2024	Capital Contributions	300-00-34400-00000 300		(3,425,926.00)
7	9/30/2024	Depreciation Expense	300-30-36116-0000000 300	480,508.00	
7	9/30/2024	Repairs & Maintenance	300-30-36601-0000000 300		(62,106.00)
7	9/30/2024	Downtown Dev. Imp.	400-40-46103-0000000 400		(25,958.00)
				5,943,440.00	(5,943,440.00)
To record CY capital asset activity.					

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CITY OF MONTGOMERY, TEXAS
SCHEDULE OF CORRECTED MISSTATEMENTS
For the year ended September 30, 2024

Number	Date	Name	Account No	Debit	Credit
8	9/30/2024	Accounts Payable	200-22000-00000 200	63,028.00	
8	9/30/2024	Cons - Sanitary Sewer & Manhole Rehab	200-20-26300-0001100 200		(32,500.00)
8	9/30/2024	Cons - Flagship Storm Sewer	200-20-26500-0001000 200		(30,528.00)
				63,028.00	(63,028.00)
		To reverse PY accounts payable accrual.			
9	9/30/2024	Claim on Cash - General Fund 100	100-11111-00000 100	88,880.00	
9	9/30/2024	Payroll Liabilities	100-12007-00000 100		(56,408.00)
9	9/30/2024	Payroll Liabilities	100-12007-00000 100		(42,364.00)
9	9/30/2024	Payroll Liabilities - Payroll Payable	100-12008-00000 100		(72,971.00)
9	9/30/2024	Claim on Cash - Water & Sewer Fund 300	300-11111-00000 300	15,627.00	
9	9/30/2024	Payroll Liabilities.	300-12007-00000 300		(17,436.00)
9	9/30/2024	Payroll Liabilities: Payroll Payable	300-32120-00000 300	63.00	
9	9/30/2024	Health Insurance	100-10-16002-0000000 100	40,499.00	
9	9/30/2024	Health Insurance	100-10-16002-0000000 100	29,093.00	
9	9/30/2024	Wages	100-10-16009-0000000 100	13,271.00	
9	9/30/2024	Wages	300-30-16009-0000000 300	1,746.00	
				189,179.00	(189,179.00)
		To correct payroll accrual.			
10	9/30/2024	Unassigned Fund Balance	100-13200-00000 100		(2.00)
10	9/30/2024	Ford Ranger 2003	300-31470-00000 300		(1.00)
10	9/30/2024	Transfer to Gen Fixed Assets-Sewer Imp	300-31590-00000 300		(2.00)
10	9/30/2024	Transfer to Gen Fixed Assets-Sewer Imp	300-31590-00000 300		(1.00)
10	9/30/2024	Construction in Progress	300-31600-00000 300	3.00	
10	9/30/2024	System Software	300-31610-00000 300		(1.00)
10	9/30/2024	Retained Earnings	300-33200-00000 300	3.00	
10	9/30/2024	Unrestricted Net Assets	400-43100-00000 400	1.00	
10	9/30/2024	Restricted Fund Balance	500-53000-00000 500		(1.00)
10	9/30/2024	Retained Earnings	800-83200-00000 800	1.00	
10	9/30/2024	Culverts	100-00-14150-0000000 100	2.00	
10	9/30/2024	Gas & Oil	300-30-36605-0000000 300		(1.00)
10	9/30/2024	Interest Income	400-00-44230-0000000 400		(1.00)
10	9/30/2024	Ad Valorem Taxes - Delinquent	500-00-54115-0000000 500	1.00	
10	9/30/2024	Interest Income	800-00-84210-0000000 800		(1.00)
				11.00	(11.00)
		To adjust fund balance and rounding for reporting purposes.			
11	9/30/2024	Accrued Compensated Absences: Vacation	300-32190-00000 300		(11,503.00)
11	9/30/2024	Wages	300-30-16009-0000000 300	11,503.00	
				11,503.00	(11,503.00)
		To adjust for CY compensated absences.			