

City of South Houston, Texas

Annual Financial Report

September 30, 2022



City of South Houston, Texas
September 30, 2022

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Financial Section



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Independent Auditor's Report

The Honorable Mayor and
Council Members of the City
of South Houston, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Houston, Texas (the City), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of South Houston, Texas, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 14 to the financial statements, beginning of year net position for governmental activities, business type activities and the enterprise fund has been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, in fiscal year 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension, and other postemployment benefit information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April __, 2023, on our consideration of City's 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 solely 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 the effectiveness of City's 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's internal control over financial reporting and compliance.

FORVIS, LLP

Houston, Texas
May 3, 2023

City of South Houston, Texas

Management's Discussion and Analysis

Year Ended September 30, 2022

Introduction

As Management of the City of South Houston, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022. This information is not intended to be a complete statement of the City's financial condition.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$39,123,661 (net position). Included in this amount is the City's net investment in capital assets of \$31,398,813. The net position restricted for specific purposes totals \$3,345,144. The remaining \$4,379,704 is unrestricted net position which may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies. The City's restated net position increased by \$4,316,002 during the current fiscal year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,140,690, an increase of \$925,614 from the prior year. \$2,058,853 of this amount is restricted by specific legal requirements such as bond instruments and related debt covenants leaving an unassigned fund balance of \$2,081,837.
- The City's debt decreased by \$364,315 due to scheduled principal payments.
- Effective October 1, 2021, the City adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Comparative information presented herein has not been restated for the adoption of GASB 87 because the basic financial statements present fiscal year 2022 only.
- The City restated beginning net position for Governmental Activities, Business-type Activities and the Enterprise fund for correction of errors. Comparative information presented herein has not been restated for the restatements because the basic financial statements present fiscal year 2022 only.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis, information related to the City's pension and other post-employment benefits (OPEB) plans and budgetary comparison information.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finance, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position serve as useful indicators of whether the financial position of the City is improving or deteriorating. This statement combines governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure, *i.e.*, roads, drainage improvements, storm sewer, water distribution and sewer collection lines, etc., to assess the overall financial condition of the City.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 not used compensated absences.

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 the governmental fund statements.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees (business-type activities). The governmental activities include most of the City's basic services, (general government, public safety, public works and community development). Property taxes, sales taxes and franchise fees primarily finance these activities. The business-type activities include the City's water and sewer system. Charges for services cover all or most of the costs for these services.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used by state and local governments to control and manage money for particular purposes and to ensure finance-related legal requirements. The City uses two fund types – governmental and proprietary.

Governmental Funds – Governmental funds are used to account for similar functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds focus on current sources and uses of spendable resources. The governmental fund statements provide a detailed short-term view of the City's general government operations and help you to determine whether resources are available in the near future to finance City programs. Comparing the information presented for governmental funds with the information presented for governmental activities in the government-wide financial statements will help the reader to better understand the long-term impact of the government's near-term financing decisions.

The governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances include a reconciliation to provide such comparison.

The City maintains 15 governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the grant fund; these funds are considered to be major funds. The other 13 funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements found in this report.

Proprietary Funds – The City maintains one type of proprietary fund. The City uses the Enterprise Fund for water and sewer operations. The Enterprise Fund reports the same functions presented as business-type activities in the government-wide financial statements.

Fiduciary Fund – The fiduciary fund administered by the City includes the State Court Costs Custodial Fund. This fund includes court costs collected by the City on behalf of the State of Texas, which are remitted to the state quarterly. Funds collected by the City Fiduciary Fund are not presented in the government-wide financial statements as these funds are restricted and are not available to support the programs of the City.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, the basic financial statements contain required supplementary information including this discussion and analysis, information concerning the City’s progress in funding its obligations to provide pension benefits to its employees and information related to its OPEB plan.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 59-69 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$39,123,661 at the close of the most recent fiscal year.

The largest portion of the City’s net position, \$31,398,813 reflects its investments in capital assets, *e.g.*, land, buildings, equipment, improvements, construction in progress and infrastructure, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the primary government’s net position, \$3,345,144, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$4,379,704, may be used to meet the City’s ongoing obligation to citizens and creditors.

The following table reflects the condensed statement of net position.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 9,908,443	\$ 6,392,507	\$ 5,431,653	\$ 5,280,761	\$ 15,340,096	\$ 11,673,268
Other non current assets	1,136,364	-	218,669	-	1,355,033	-
Capital assets, net	22,446,264	20,011,524	12,419,001	12,348,436	34,865,265	32,359,960
Total assets	33,491,071	26,404,031	18,069,323	17,629,197	51,560,394	44,033,228
Deferred outflows of resources	777,597	440,916	151,818	89,189	929,415	530,105
Noncurrent liabilities	4,168,257	4,683,961	1,239,995	1,419,087	5,408,252	6,103,048
Other liabilities	5,108,320	2,569,011	774,717	920,621	5,883,037	3,489,632
Total liabilities	9,276,577	7,252,972	2,014,712	2,339,708	11,291,289	9,592,680
Deferred inflows of resources	1,729,512	853,635	345,347	171,459	2,074,859	1,025,094
Net position:						
Net investment in capital assets	19,944,812	17,475,291	11,454,001	11,283,436	31,398,813	28,758,727
Restricted	3,126,475	2,257,617	218,669	-	3,345,144	2,257,617
Unrestricted	191,292	(994,568)	4,188,412	3,923,783	4,379,704	2,929,215
Total net position	\$ 23,262,579	\$ 18,738,340	\$ 15,861,082	\$ 15,207,219	\$ 39,123,661	\$ 33,945,559

Total assets and deferred outflows of resources increased in governmental activities by \$7,423,721 primarily due to an increase in net pension asset of \$1,067,622, an increase in due from other governments of \$566,918 related to grant receivables, and an increase in capital assets of \$2,434,740 related to construction in progress for drainage improvements. Total liabilities and deferred inflows of resources increased in governmental activities by \$2,899,482 primarily due to the increase in unearned revenue of \$2,200,063 related to the *American Rescue Plan Act* (ARPA) funding that had not been spent as of year-end, an increase in accounts payable of \$339,246 primarily related to construction in progress expenditures, and an increase in deferred inflows of resources, primarily related to net pension liability investment returns, of \$882,567, partially offset by a decrease in net pension liabilities of \$195,237.

Total assets and deferred outflows of resources increased in business-type activities by \$502,755, primarily due to an increase in net pension asset of \$218,669. Total liabilities and deferred inflows of resources decreased in business-type activities by \$151,108 primarily due to a decrease in net pension liability of \$250,227, and a decrease in accounts payable of \$168,489 due to the timing of payment of invoices, partially offset by an increase in customer deposits of \$22,585, and an increase in deferred inflows of resources, primarily related to net pension liability investment returns, of \$175,337.

The City's overall restated net position increased by \$4,316,002 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections.

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

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues:						
Charges for services	\$ 2,070,079	\$ 2,051,681	\$ 4,435,645	\$ 3,924,278	\$ 6,505,724	\$ 5,975,959
Operating grants and contributions	145,044	154,337	-	-	145,044	154,337
Capital grants and contributions	2,406,069	250,845	-	-	2,406,069	250,845
General revenues:						
Property taxes	5,807,481	5,353,705	-	-	5,807,481	5,353,705
Sales tax	4,768,086	4,298,741	-	-	4,768,086	4,298,741
Franchise and local taxes	700,941	708,949	-	-	700,941	708,949
Other taxes	70,643	63,009	-	-	70,643	63,009
Loss on disposal of capital assets	(13,629)	-	-	-	(13,629)	-
Investment income	3,444	1,602	-	-	3,444	1,602
Other	594,252	287,515	-	-	594,252	287,515
Total revenues	16,552,410	13,170,384	4,435,645	3,924,278	20,988,055	17,094,662
Expenses						
General government	2,613,072	2,405,191	-	-	2,613,072	2,405,191
Public safety	7,688,704	5,664,777	-	-	7,688,704	5,664,777
Public works	1,367,332	3,685,743	-	-	1,367,332	3,685,743
Community services	883,658	833,674	-	-	883,658	833,674
Water and sewer	-	-	4,103,775	4,362,010	4,103,775	4,362,010
Interest and fees on debt	15,512	163,166	-	-	15,512	163,166
Total expenses	12,568,278	12,752,551	4,103,775	4,362,010	16,672,053	17,114,561
Increase (Decrease) in Net Position Before Transfers	3,984,132	417,833	331,870	(437,732)	4,316,002	(19,899)
Transfers In (Out)	41,374	359,585	(41,374)	(359,585)	-	-
Change in Net Position	4,025,506	777,418	290,496	(797,317)	4,316,002	(19,899)
Net Position, Beginning, as Previously Reported	18,738,340	17,960,922	15,207,219	16,004,536	33,945,559	33,965,458
Restatement: Error Correction	498,733	-	363,367	-	862,100	-
Net Position, Beginning, as Restated	19,237,073	17,960,922	15,570,586	16,004,536	34,807,659	33,965,458
Net Position, Ending	\$ 23,262,579	\$ 18,738,340	\$ 15,861,082	\$ 15,207,219	\$ 39,123,661	\$ 33,945,559

The increase in governmental-type activities of \$4,025,506 was the result of revenues exceeding expenses by \$3,984,132 before transfers in of \$41,374. The net increase is primarily the result of an increase in capital grants and contributions of \$2,155,224 related to a grant received to fund Hurricane Harvey drainage improvements, an increase in property tax revenues of \$453,776 and an increase in sales tax revenues of \$469,345 and proceeds from insurance related to Hurricane Harvey building damages of \$246,878.

The increase in business-type activities of \$290,496 was the result of a net increase in net position before transfers of \$331,870 and transfers out to governmental-type activities of \$41,374. The increase is primarily the result of an increase in charges for services of \$511,367 due to adoption of an inflation rate adjustment ordinance for utility services.

Financial Analysis of the Government's Funds

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

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At the end of the current fiscal year, the City's governmental funds reflect a combined fund balance of \$4,160,690. Of this, \$2,058,853 is restricted for various purposes. The City has an unassigned fund balance of \$2,081,837. There was an increase in the combined fund balance of \$925,614 from the prior year. This increase is largely due to a net increase in the fund balance of the General Fund of \$1,006,312, resulting from an increase in property taxes of \$414,131, and an increase in sales taxes of \$231,412, and insurance recoveries for Hurricane Harvey related damages of \$246,878.

The general fund is the chief operating fund of the City. At the end of the current year, total fund balance of the general fund was \$2,160,574, all of which was unassigned. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total expenditures. Total fund balance represents 20.7 percent of total general fund expenditures. The general fund balance increased by \$1,006,312. Compared to the prior year, revenues increased \$694,376, or approximately 6.9 percent due primarily from an increase in property taxes of \$414,131 and an increase in sales taxes of \$231,432. Expenditures increased \$455,239 or approximately 4.6 percent compared to the prior year primarily due to an increase in general government expenditures of \$309,857 and an increase in community service expenditures of \$102,530, partially offset by a decrease in public work expenses of \$15,619.

Revenues and expenditures reported in the Grant Fund relate to drainage projects that are being funded by a community development block grant.

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

Unrestricted net position of the enterprise fund is \$4,188,412 at September 30, 2022. The restated net position of the enterprise fund increased by \$290,496.

General Fund Budgetary Highlights – The City's net change in fund balance of the general fund exceeded the budgeted net change in fund balance by \$973,628. This was primarily the result of more revenue than expected from property taxes and sales taxes. The City's actual expenditures were less than budgeted expenditures by \$362,802, primarily due to actual expenditures which were less than budgeted expenditures for general government, public safety and community services.

Capital and Lease Assets

The City's investment in capital and lease assets (net of accumulated depreciation) for its governmental and business-type activities as of September 30, 2022, is \$34,934,007. The investment in capital and lease assets includes a variety of capital assets and infrastructure (net of accumulated depreciation).

	Capital and Lease Assets					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 1,109,495	\$ 1,109,495	\$ 325,693	\$ 325,693	\$ 1,435,188	\$ 1,435,188
Construction in progress	2,926,760	-	124,493	-	3,051,253	-
Buildings	4,237,711	4,403,332	265,472	287,845	4,503,183	4,691,177
Furniture and fixtures	17,068	24,829	-	-	17,068	24,829
Computers	-	-	-	-	-	-
Equipment	955,119	1,064,596	292,255	319,517	1,247,374	1,384,113
Lease assets	68,742	-	-	-	68,742	-
Infrastructure	11,528,095	11,490,651	-	-	11,528,095	11,490,651
Vehicles	1,672,016	1,918,621	197,333	224,850	1,869,349	2,143,471
Water system	-	-	3,555,887	3,607,668	3,555,887	3,607,668
Sewer system	-	-	6,832,692	6,665,525	6,832,692	6,665,525
Southeast water purification plant	-	-	825,176	917,338	825,176	917,338
	<u>\$ 22,515,006</u>	<u>\$ 20,011,524</u>	<u>\$ 12,419,001</u>	<u>\$ 12,348,436</u>	<u>\$ 34,934,007</u>	<u>\$ 32,359,960</u>

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

- Purchase of two vehicles for governmental activities in the amount of \$72,717
- Purchase of three pieces of equipment for governmental activities in the amount of \$126,555
- Drainage and paving projects for governmental activities of \$2,428,027, and \$555,698, respectively
- Water and sewer system construction in progress additions for business type activities of \$514,023

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Debt Administration

At the end of the current fiscal year, the City had lease liabilities of \$62,159, financed purchases of \$168,062, certificates of obligation of \$965,000 and private placement debt of \$2,490,000 outstanding.

	Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Lease liabilities	\$ 62,159	\$ 319,536	\$ -	\$ -	\$ 62,159	\$ 319,536
Financed purchases	168,062	-	-	-	168,062	-
Private placement debt	2,490,000	2,665,000	-	-	2,490,000	2,665,000
Certificates of obligation	-	-	965,000	1,065,000	965,000	1,065,000
	<u>\$ 2,720,221</u>	<u>\$ 2,984,536</u>	<u>\$ 965,000</u>	<u>\$ 1,065,000</u>	<u>\$ 3,685,221</u>	<u>\$ 4,049,536</u>

More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City Council approved a general fund expenditure budget for the year ended September 30, 2023, in the amount of \$11,799,357. The City budgeted for an increase in property tax revenues of 11.5 percent. The property tax decreased from 0.698503 in fiscal year 2022 to 0.633408 in fiscal year 2023. All departments except for parks and police civil service predicted increases in expenditures from the fiscal year 2022 budget due to current economic trends and the rate of inflation.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, City of South Houston, P.O. Box 238, South Houston, Texas 77587.

Basic Financial Statements

City of South Houston, Texas
Statement of Net Position
September 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,661,629	\$ 4,682,558	\$ 12,344,187
Receivables, net	887,274	661,903	1,549,177
Due from other governments	1,446,732	-	1,446,732
Internal balances	(87,192)	87,192	-
Lease assets	68,742	-	68,742
Net pension asset - TMRS	1,067,622	218,669	1,286,291
Capital assets:			
Nondepreciable	4,036,255	450,186	4,486,441
Depreciable, net	18,410,009	11,968,815	30,378,824
Total assets	<u>33,491,071</u>	<u>18,069,323</u>	<u>51,560,394</u>
Deferred Outflows of Resources			
Pensions - TMRS	683,254	138,050	821,304
Pensions - TESRS	31,622	-	31,622
OPEB	62,721	13,768	76,489
Total deferred outflows of resources	<u>777,597</u>	<u>151,818</u>	<u>929,415</u>
Liabilities			
Accounts payable and accrued liabilities	747,801	135,634	883,435
Customer deposits	-	639,083	639,083
Unearned revenue	4,360,519	-	4,360,519
Long term liabilities:			
Bonds, notes, leases, financed purchases, compensated absences:			
Due within one year	1,021,474	223,211	1,244,685
Due in more than one year	2,693,846	923,707	3,617,553
Net pension liability - TESRS	28,928	-	28,928
Total OPEB liability	424,009	93,077	517,086
Total liabilities	<u>9,276,577</u>	<u>2,014,712</u>	<u>11,291,289</u>
Deferred Inflows of Resources			
Pensions - TMRS	1,662,133	340,437	2,002,570
Pensions - TESRS	45,009	-	45,009
OPEB	22,370	4,910	27,280
Total deferred inflows of resources	<u>1,729,512</u>	<u>345,347</u>	<u>2,074,859</u>
Net Position			
Net investment in capital assets	19,944,812	11,454,001	31,398,813
Restricted for:			
Net pension asset	1,067,622	218,669	1,286,291
Debt service	584,307	-	584,307
Enabling legislation	1,270,441	-	1,270,441
Special projects	204,105	-	204,105
Unrestricted	191,292	4,188,412	4,379,704
Total net position	<u>\$ 23,262,579</u>	<u>\$ 15,861,082</u>	<u>\$ 39,123,661</u>

City of South Houston, Texas
Statement of Activities
Year Ended September 30, 2022

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 2,613,072	\$ 140,298	\$ -	\$ -
Public safety	7,688,704	721,150	1,882	-
Public works	1,367,332	1,189,156	4,268	2,406,069
Community services	883,658	19,475	138,894	-
Interest and fees on debt	15,512	-	-	-
Total governmental activities	12,568,278	2,070,079	145,044	2,406,069
Business-type activities:				
Water and sewer	4,103,775	4,435,645	-	-
Total primary government	\$ 16,672,053	\$ 6,505,724	\$ 145,044	\$ 2,406,069

General revenues:

- Property taxes
- Sales taxes
- Franchise fees
- Other taxes
- Investment income
- Loss on disposal of assets
- Other

Transfers

Total general revenues and transfers

Change in Net Position

Net Position, Beginning of Year, as Previously Reported

Restatement

Net Position, Beginning of Year, as Restated

Net Position, End of Year

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (2,472,774)	\$ -	\$ (2,472,774)
(6,965,672)	-	(6,965,672)
2,232,161	-	2,232,161
(725,289)	-	(725,289)
(15,512)	-	(15,512)
(7,947,086)	0	(7,947,086)
-	331,870	331,870
(7,947,086)	331,870	(7,615,216)
5,807,481	-	5,807,481
4,768,086	-	4,768,086
700,941	-	700,941
70,643	-	70,643
3,444	-	3,444
(13,629)	-	(13,629)
594,252	-	594,252
41,374	(41,374)	-
11,972,592	(41,374)	11,931,218
4,025,506	290,496	4,316,002
18,738,340	15,207,219	33,945,559
498,733	363,367	862,100
19,237,073	15,570,586	34,807,659
\$ 23,262,579	\$ 15,861,082	\$ 39,123,661

City of South Houston, Texas
Balance Sheet – Governmental Funds
September 30, 2022

	General Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,547,441	\$ 3,961,161	\$ 2,153,027	\$ 7,661,629
Receivables, net	756,288	-	130,986	887,274
Due from other governments	462,828	566,918	416,986	1,446,732
Due from other funds	486,821	-	-	486,821
	<u>\$ 3,253,378</u>	<u>\$ 4,528,079</u>	<u>\$ 2,700,999</u>	<u>\$ 10,482,456</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 501,452	\$ 220,824	\$ 25,525	\$ 747,801
Unearned revenue	35,348	4,325,171	-	4,360,519
Due to other funds	-	-	574,013	574,013
	<u>536,800</u>	<u>4,545,995</u>	<u>599,538</u>	<u>5,682,333</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	556,004	-	103,429	659,433
	<u>556,004</u>	<u>0</u>	<u>103,429</u>	<u>659,433</u>
Fund Balances (Deficit)				
Restricted:				
Debt service	-	-	584,307	584,307
Enabling legislation	-	-	1,270,441	1,270,441
Special projects	-	-	204,105	204,105
Unassigned	2,160,574	(17,916)	(60,821)	2,081,837
	<u>2,160,574</u>	<u>(17,916)</u>	<u>1,998,032</u>	<u>4,140,690</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,253,378</u>	<u>\$ 4,528,079</u>	<u>\$ 2,700,999</u>	<u>\$ 10,482,456</u>

City of South Houston, Texas
Reconciliation of the Balance Sheet – Governmental Funds to the
Government-wide Statement of Net Position
September 30, 2022

Total fund balances - governmental funds \$ 4,140,690

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets and lease assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund financial statements. 22,515,006

The net pension asset, total OPEB liability and related deferred outflows and inflows of resources do not require current financial resources and, therefore, are not reported in the governmental fund financial statements.

Net pension asset - TMRS	1,067,622
Net pension liability - TESRS	(28,928)
Total OPEB liability	(424,009)
Deferred outflows of resources, pensions - TMRS	683,254
Deferred outflows of resources, pensions - TESRS	31,622
Deferred outflows of resources, OPEB	62,721
Deferred inflows of resources, pensions - TMRS	(1,662,133)
Deferred inflows of resources, pensions - TESRS	(45,009)
Deferred inflows of resources, OPEB	(22,370)

Other long-term assets are not available to pay for current period expenditures and therefore omitted or deferred in the governmental fund financial statements.

Unavailable revenue - property taxes	659,433
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statements.

Private placement debt	(2,490,000)
Lease liabilities	(62,159)
Financed purchases	(168,062)
Compensated absences	(995,099)

Net position of governmental activities \$ 23,262,579

City of South Houston, Texas
Statement of Revenues, Expenditures and Changes
in Fund Balances – Governmental Funds
Year Ended September 30, 2022

	General Fund	Grant Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 5,335,634	\$ -	\$ 420,834	\$ 5,756,468
Sales taxes	2,390,072	-	2,378,014	4,768,086
Franchise fees	700,941	-	-	700,941
Other taxes	47,989	-	22,654	70,643
Licenses and permits	573,480	-	-	573,480
Fines and forfeitures	486,965	-	28,505	515,470
Charges for services	958,887	-	-	958,887
Intergovernmental	4,270	2,406,069	140,776	2,551,115
Other	283,952	-	34,858	318,810
Total revenues	<u>10,782,190</u>	<u>2,406,069</u>	<u>3,025,641</u>	<u>16,213,900</u>
Expenditures				
Current:				
General government	2,972,004	-	-	2,972,004
Public safety	4,448,162	-	366,364	4,814,526
Public works	1,963,208	-	1,235,269	3,198,477
Community services	674,314	-	358,328	1,032,642
Capital outlay	180,348	2,406,616	650,373	3,237,337
Debt service:				
Principal	188,034	-	175,000	363,034
Interest and other charges	11,394	-	69,851	81,245
Total expenditures	<u>10,437,464</u>	<u>2,406,616</u>	<u>2,855,185</u>	<u>15,699,265</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>344,726</u>	<u>(547)</u>	<u>170,456</u>	<u>514,635</u>
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	25,915	-	43,019	68,934
Insurance recovery	246,878	-	-	246,878
Lease proceeds	53,793	-	-	53,793
Transfers in	500,000	-	165,000	665,000
Transfers out	(165,000)	-	(458,626)	(623,626)
Total other financing sources	<u>661,586</u>	<u>0</u>	<u>(250,607)</u>	<u>410,979</u>
Net Change in Fund Balances	1,006,312	(547)	(80,151)	925,614
Fund Balances (Deficit), Beginning of Year	<u>1,154,262</u>	<u>(17,369)</u>	<u>2,078,183</u>	<u>3,215,076</u>
Fund Balances, (Deficit) End of Year	<u>\$ 2,160,574</u>	<u>\$ (17,916)</u>	<u>\$ 1,998,032</u>	<u>\$ 4,140,690</u>

City of South Houston, Texas
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds to the
Government-wide Statement of Activities
September 30, 2022

Net change in fund balances – total governmental funds \$ 925,614

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and amortization expense of \$1,208,418 exceeded capital outlays of \$3,237,337 in the current period. 2,028,919

The net effect of various miscellaneous transactions involving capital assets (*i.e.*, sales, retirements, donations, etc) is to decrease net position. (72,311)

Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in deferred inflows of resources:

Unavailable revenue - property taxes 51,013

The issuance of long-term debt, *e.g.*, bonds, leases, provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt and related items was:

Private placement debt principal payments	175,000
Lease principal payments	39,775
Financed purchase principal payments	151,474
Proceeds from lease	(53,793)

The net change in other long term liabilities, net pension asset, and the pension and OPEB related deferred outflows and inflows of resources do not require the use of current financial resources; therefore, they are not reported as expenditures in the governmental funds. The amount of the changes in these balances was:

Net pension asset - TMRS	1,221,701
Net pension liability - TESRS	41,158
Total OPEB liability	(27,522)
Deferred outflows of resources, pensions - TMRS	329,383
Deferred outflows of resources, pensions - TESRS	20,701
Deferred outflows of resources - OPEB	(13,403)
Deferred inflows of resources, pensions - TMRS	(856,157)
Deferred inflows of resources, pensions - TESRS	(26,410)
Deferred inflows of resources - OPEB	6,690
Compensated absences	83,674

Change in net position of governmental activities \$ 4,025,506

City of South Houston, Texas
Statement of Net Position – Proprietary Fund
September 30, 2022

	Business-type Activities
	Enterprise Fund
Current Assets	
Cash and cash equivalents	\$ 4,682,558
Receivables, net	661,903
Due from other funds	87,192
Total current assets	5,431,653
Noncurrent Assets	
Net pension asset - TMRS	218,669
Capital assets:	
Nondepreciable	450,186
Depreciable, net	11,968,815
Net capital assets	12,419,001
Total noncurrent assets	12,637,670
Total assets	18,069,323
Deferred Outflows of Resources	
Pensions - TMRS	138,050
OPEB	13,768
Total deferred outflows of resources	151,818
Current Liabilities	
Accounts payable and accrued liabilities	135,634
Customer deposits	639,083
Bonds payable, due within one year	105,000
Compensated absences, due within one year	118,211
Total current liabilities	997,928
Noncurrent Liabilities	
Bonds payable	860,000
Total OPEB liability	93,077
Compensated absences	63,707
Total noncurrent liabilities	1,016,784
Total liabilities	2,014,712
Deferred Inflows of Resources	
Pensions - TMRS	340,437
OPEB	4,910
Total deferred inflows of resources	345,347
Net Position	
Net investment in capital assets	11,454,001
Restricted for Net Pension Asset - TMRS	218,669
Unrestricted	4,188,412
Total net position	\$ 15,861,082

City of South Houston, Texas
Statement of Revenues, Expenses and Changes
in Net Position – Proprietary Fund
Year Ended September 30, 2022

	Business-type Activities
	Enterprise Fund
Operating Revenues	
Water charges	\$ 2,069,112
Sewer charges	2,010,482
Penalties	111,832
Miscellaneous	244,220
Total operating revenues	4,435,646
Operating Expenses	
Water costs of sales and service	1,305,726
Sewer costs of sales and service	1,479,093
General and administrative	470,107
Depreciation	806,825
Total operating expenses	4,061,751
Operating Income	373,895
Nonoperating Revenues and Expenses	
Interest expense	(42,025)
Total nonoperating expenses	(42,025)
Income Before Transfers	331,870
Transfers in	458,626
Transfers out	(500,000)
Change in Net Position	290,496
Net Position, Beginning of Year, as Previously Reported	15,207,219
Restatement	363,367
Net Position, Beginning of Year, as Restated	15,570,586
Net Position, End of Year	\$ 15,861,082

City of South Houston, Texas
Statement of Cash Flows – Proprietary Fund
Year Ended September 30, 2022

	Business-type Activities
	Enterprise Fund
Operating Activities	
Receipts from customers	\$ 4,267,151
Payments to employees	(1,174,321)
Payments to suppliers	(2,435,597)
	657,233
Noncapital Financing Activity	
Transfers to other funds	(500,000)
	(500,000)
Capital and Related Financing Activities	
Transfer in from debt service fund for principal and interest	142,025
Principal and interest payments on capital-related debt	(142,025)
Acquisition and construction of capital assets	(197,421)
	(197,421)
Net Decrease in Cash and Cash Equivalents	(40,188)
Cash and Cash Equivalents, Beginning of Year	4,722,746
Cash and Cash Equivalents, End of Year	\$ 4,682,558
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 373,895
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	806,825
Changes in:	
Receivables, net	(191,080)
Accounts payable and accrued liabilities	(168,490)
Customer deposits	22,585
Compensated absences	(53,576)
Net pension asset	(250,227)
Total OPEB liability	6,042
Deferred outflows of resources, pensions - TMRS	(65,572)
Deferred outflows of resources - OPEB	2,943
Deferred inflows of resources, pensions - TMRS	175,357
Deferred inflows of resources - OPEB	(1,469)
	(1,469)
Net cash provided by operating activities	\$ 657,233
Summary of Non-cash Transactions	
Contributed capital assets	\$ 296,602

City of South Houston, Texas
Statement of Fiduciary Fund Net Position
Year Ended September 30, 2022

	Custodial Fund
	State Court Costs Fund
Current Assets	
Cash and cash equivalents	\$ 54,588
Total current assets	54,588
Total Assets	
Current Liabilities	
Accounts payable	(54,588)
Total liabilities	(54,588)
Total Liabilities	
Net Position	
Restricted	-
Total net position	\$ 0

City of South Houston, Texas
Statement of Changes in Fiduciary Fund Net Position
Year Ended September 30, 2022

	Custodial Fund
	State Court Costs Fund
Additions	
State court costs	\$ 190,057
Total Additions	190,057
Deductions	
Court costs distributed to state	190,057
Total Deductions	190,057
Net Increase in Fiduciary Net Position	-
Net Position, Beginning of Year	-
Net Position, End of Year	\$ 0

City of South Houston, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Financial Reporting Entity

The City of South Houston, Texas (the City) was incorporated under the laws of the State of Texas in 1927. The City operates as a Type A “General Law” City, which provides for a “Mayor-Council” form of government. The City provides the following services: public safety, highways and streets, solid waste, water and wastewater utilities, recreation, public improvements, planning and zoning and general administration.

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

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

Blended Component Unit

In April 2005, the South Houston Economic Development Corporation (SHEDC), a nonprofit corporation, was created to act on behalf of the City in the promotion and development of business, commerce, industry and higher education. SHEDC is financed through a one-half of 1 percent sales tax pursuant to the *Development Corporation Act of 1979* (the Act), governed under Section 4B of the Act. The Board of Directors is appointed by the City Council and is charged with developing an overall economic development plan for the City. This plan is subject to approval by the City Council prior to being adopted. In the event of dissolution, any remaining net position is to be transferred to the City. The SHEDC provides services solely to the City of South Houston. The operations of the SHEDC are considered part of the reporting entity and are reported as a blended component unit. Separate financial statements of the SHEDC may be obtained from the Finance Department of the City.

City of South Houston, Texas
Notes to Basic Financial Statements
September 30, 2022

Government-wide and Fund Financial Statements

The government-wide financial statements, *i.e.*, the statement of net position and the statement of activities, report information about the City as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the 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. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows and inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate.

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

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures and charges for services.

Expenditures include general government, public safety, public works and community services. The general fund is always considered a major fund for reporting purposes.

City of South Houston, Texas

Notes to Basic Financial Statements

September 30, 2022

Debt Service Fund

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

Special Revenue Funds

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City's major special revenue fund includes the following:

- Grant Fund - This fund accounts for grant revenues and the related expenditures.

The remaining special revenue funds are considered nonmajor funds for reporting purposes.

Proprietary Fund

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, deferred outflows and inflows of resources, net position, revenues, expenses and transfers relating to the government's business-type activities are accounted for through proprietary funds.

Enterprise Fund

The proprietary fund used by the City includes the enterprise fund which is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

Interfund Balances

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

Similarly, balances between the funds included in business-type activities, *i.e.*, the enterprise funds, are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the

City of South Houston, Texas

Notes to Basic Financial Statements

September 30, 2022

government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Fiduciary Fund

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as a custodian for other governmental agencies. The City reports the following Fiduciary Fund:

The State Court Costs Custodial Fund is used to account for the portion of municipal court fees and fines collected by the City that are due to the State of Texas. These fees and fines are remitted quarterly to the Texas Comptroller.

Measurement Focus and Basis of Accounting

The government-wide statement of net position and statement of activities and all proprietary funds are accounted for with a flow of economic resources measurement focus on the accrual basis of accounting. With this measurement focus, all assets and deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operations of these activities are included on the statement of net position. Proprietary fund equity consists of net position. Proprietary fund operating statements present increases, *i.e.*, revenues, and decreases, *i.e.*, expenses, in changes in net position.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, *i.e.*, revenues and other financing sources, and decreases, *i.e.*, expenditures and other financing uses, in net change in fund balances.

The City uses the modified accrual basis of accounting in the governmental funds. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual, *i.e.*, when they are measurable and available. Measurable means the amount of the transaction can be determined, and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period.

Property taxes, sales taxes, franchise taxes and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

City of South Houston, Texas

Notes to Basic Financial Statements

September 30, 2022

The accrual basis of accounting is used for the proprietary fund types. The statement of net position, statement of activities and financial statements of proprietary fund types are presented on the accrual basis of accounting.

Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Deposits and Investments

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

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month-end.

The City has adopted a written investment policy regarding the investment of its funds as defined in the *Public Funds Investment Act*, Chapter 2256, *Texas Government Code*. In summary, the City is authorized to invest in the following: direct obligations of the U.S. Government, fully collateralized certificates of deposit and money market accounts and statewide investment pools.

Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables," *i.e.*, the current portion of interfund loans, or "advances to/from other funds," *i.e.*, the noncurrent portion of interfund loans. All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of South Houston, Texas
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All trade receivables are shown net of an allowance for uncollectibles. The City reports an allowance of uncollectibles for all utility receivables over 90 days old and for other receivables whose collectability is determined to be unlikely.

Capital and Lease Assets

Capital and lease assets, which include property, plant, equipment and infrastructure assets, *e.g.*, roads, bridges, sidewalks and similar items, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital and lease assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Infrastructure	40 years
Buildings	40 years
Building improvements	20 years
Furniture, fixtures and equipment	4 to 7 years
Water system	40 years
Sewer system	40 years
Vehicles	10 years

Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations. The estimated amount of compensation for services provided that is expected to be liquidated in future years is reported as an expense and a fund liability of the proprietary fund that will pay it when it matures or becomes due.

City of South Houston, Texas
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Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate fund's financial statements. For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

Assets acquired under the terms of a financed purchase are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, financed purchase transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

Lease Liability

The City is a lessee for noncancellable leases. The City recognizes a lease liability and an intangible lease asset in the financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more. At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of its useful life or the lease term.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

City of South Houston, Texas
Notes to Basic Financial Statements
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Pensions

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

Defined Benefit Other Postemployment Benefit Plan

The City has a single-employer defined benefit OPEB plan (the Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources and OPEB expense have been determined on the same basis as it was reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms for the Plan. Allocation of OPEB items to the City's enterprise fund is determined on the basis of full-time employee counts by department.

Deferred Outflows/Inflows of Resources

The City presents deferred outflows and inflows of resources in accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which establish accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. Deferred inflows of resources represent an acquisition of resources that applies to a future reporting period and, therefore, will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. Deferred outflows of resources represent a consumption of resources that applies to a future reporting period and, therefore, will not be recognized as an outflow of resources (expense/expenditure or reduction of liability) until that time. The City has the following items that qualify for reporting in these categories.

Government-wide and Proprietary Fund

- Pension contributions and OPEB contributions subsequent to the measurement date – These amounts are deferred and reported as a reduction in net pension liability (asset) or total OPEB liability, as applicable, in the year subsequent to their deferral.
- Net difference between projected and actual earnings on pension plan investments – This difference is deferred and amortized to pension expense over a closed five-year period, beginning in the year of deferral.

City of South Houston, Texas
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- Differences between expected and actual experience (pensions and OPEB) – This difference is deferred and recognized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension or OPEB through the pension or OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period.
- Changes of assumptions (pensions and OPEB) – This difference is deferred and recognized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension or OPEB through the pension or OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period.
- Changes in proportion (pensions) – This difference is deferred and recognized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.

Fund Equity

Government-wide and Proprietary Fund Net Position

Net position on the statement of net position includes the following categories.

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets and adding back unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Governmental Funds Fund Balance

Fund balances of governmental funds are classified as follows:

Restricted Fund Balance – Represents amounts that are constrained by external parties, constitutional provisions or by enabling legislation.

Committed Fund Balance – Represents fund balance that can be used only for the specific purposes determined by a formal action of the City of South Houston City Council (the City’s highest level of decision-making authority). Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally. The City had no committed fund balance as of September 30, 2022.

City of South Houston, Texas
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Assigned Fund Balance – Assignments of fund balance are imposed by the City’s intention of use for specific purposes, but with no formal action. The City had no assigned fund balance as of September 30, 2022.

Unassigned Fund Balance – Represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted net position/fund balance first, then unrestricted net position/fund balance. Furthermore, when an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed, then assigned funds and finally unassigned funds.

The City Council is the government’s highest level of decision-making authority and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Adoption of GASB Statement No. 87, Leases (GASB 87)

In 2022, the City adopted GASB 87. The Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. The adoption of GASB 87 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

Future Adoption of Accounting Pronouncements

The following standards have been issued, but have not been implemented as not yet effective.

GASB Statement No. 91, *Conduit Debt Obligations*. This statement will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures.

City of South Houston, Texas
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GASB Statement No. 92, *Omnibus 2020*. This statement will enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. This statement will address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs).

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The City has not fully determined the effects that implementation of these statements will have on the City's financial statements.

City of South Houston, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 2: Stewardship, Compliance and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the fiscal year.

The presented budgets for the general fund, debt service fund and special revenue funds are legally adopted. The legal level of budgetary control *i.e.*, the level at which expenditures may not legally exceed appropriations, is the department level. The mayor may transfer appropriations within a department without seeking the approval of City Council.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

Excess of Expenditures Over Appropriations

For the year ended September 30, 2022, General Fund expenditures exceeded appropriations in the following departments and are considered a budgetary violation:

Vehicle maintenance	\$ 56,022
EMS	29,037
Sanitation	57,835

Deficit Fund Balance

The Grant Fund, Senior Citizen Fund and Hotel Occupancy Fund reported deficit fund balances of \$17,916, \$48,133 and \$12,688, respectively, as of September 30, 2022. The City is considering plans to resolve the deficit balances, including consideration of transfers from other funds or adjustments to future year budgets.

Note 3: Deposits and Investments

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2022, all of the City's deposits with financial institutions were covered by federal depository insurance or fully collateralized with standby letters of credit issued by the Federal Home Loan Bank of Atlanta.

City of South Houston, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 4: Receivables

The following comprise receivable balances at year-end:

	General Fund	Other Governmental Funds	Enterprise Fund
Property taxes	\$ 556,004	\$ 103,429	\$ -
Franchise taxes	69,587	-	-
Other taxes	-	6,557	-
Accounts	598,394	-	776,194
Other	21,515	21,000	-
Gross receivable	1,245,500	130,986	776,194
Less allowance for uncollectible accounts	(489,212)	-	(114,291)
Net receivable	<u>\$ 756,288</u>	<u>\$ 130,986</u>	<u>\$ 661,903</u>

Note 5: Capital and Lease Assets

A summary of changes in capital assets for governmental activities for the year ended September 30, 2022, is as follows:

	Beginning Balance, as restated	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 1,109,495	\$ 0	\$ 0	\$ 0	1,109,495
Construction in progress	498,733	2,983,725	-	(555,698)	2,926,760
Total capital assets, not being depreciated	<u>\$ 1,608,228</u>	<u>\$ 2,983,725</u>	<u>\$ -</u>	<u>\$ (555,698)</u>	<u>\$ 4,036,255</u>
Capital assets, being depreciated:					
Buildings	6,939,043	-	-	-	6,939,043
Furniture and fixtures	252,308	-	-	-	252,308
Computers	76,265	-	-	-	76,265
Equipment	2,637,836	126,555	(238,978)	-	2,525,413
Infrastructure	23,525,870	-	-	555,698	24,081,568
Vehicles	4,532,081	72,717	(104,979)	-	4,499,819
Total capital assets, being depreciated	<u>37,963,403</u>	<u>199,272</u>	<u>(343,957)</u>	<u>555,698</u>	<u>38,374,416</u>
Less accumulated depreciation:					
Buildings	(2,535,711)	(165,621)	-	-	(2,701,332)
Furniture and fixtures	(227,479)	(7,761)	-	-	(235,240)
Computers	(76,265)	-	-	-	(76,265)
Equipment	(1,573,240)	(167,066)	170,012	-	(1,570,294)
Infrastructure	(12,035,219)	(518,254)	-	-	(12,553,473)
Vehicles	(2,613,460)	(316,525)	102,182	-	(2,827,803)
Total accumulated depreciation	<u>(19,061,374)</u>	<u>(1,175,227)</u>	<u>272,194</u>	<u>0</u>	<u>(19,964,407)</u>
Total capital assets being depreciated, net	<u>18,902,029</u>	<u>(975,955)</u>	<u>(71,763)</u>	<u>555,698</u>	<u>18,410,009</u>
Governmental activities capital assets, net	<u>\$ 20,510,257</u>	<u>\$ 2,007,770</u>	<u>\$ (71,763)</u>	<u>\$ 0</u>	<u>\$ 22,446,264</u>

City of South Houston, Texas
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The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2022:

	Beginning Balance, as restated	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 325,693	\$ 0	\$ 0	\$ 0	\$ 325,693
Construction in progress	167,312	514,023		(556,842)	124,493
Total capital assets, not being depreciated	\$ 493,005	\$ 514,023	\$ -	\$ (556,842)	\$ 450,186
Capital assets, being depreciated:					
Water system	9,526,601	-	-	138,667	9,665,268
Sewer system	16,295,720	-	-	418,175	16,713,895
Southeast water purification plant	3,686,496	-	-	-	3,686,496
Buildings	1,093,331	-	-	-	1,093,331
Furniture and fixtures	124,527	-	-	-	124,527
Equipment	2,310,361	-	-	-	2,310,361
Vehicles	650,652	-	-	-	650,652
Total capital assets, being depreciated	33,687,688	-	0	556,842	34,244,530
Less accumulated depreciation:					
Water system	(5,889,373)	(220,008)	-	-	(6,109,381)
Sewer system	(9,463,700)	(417,503)	-	-	(9,881,203)
Southeast water purification plant	(2,769,158)	(92,162)	-	-	(2,861,320)
Buildings	(805,486)	(22,373)	-	-	(827,859)
Furniture and fixtures	(124,527)	-	-	-	(124,527)
Equipment	(1,990,844)	(27,262)	-	-	(2,018,106)
Vehicles	(425,802)	(27,517)	-	-	(453,319)
Total accumulated depreciation	(21,468,890)	(806,825)	0	0	(22,275,715)
Total capital assets being depreciated, net	12,218,798	(806,825)	0	556,842	11,968,815
Business-type activities capital assets, net	\$ 12,711,803	\$ (292,802)	\$ 0	\$ 0	\$ 12,419,001

Depreciation was charged to governmental and business-type activities as follows:

Depreciation by Function/Program

Governmental activities:

General government	\$ 10,100
Public safety	490,942
Public works	662,558
Community service	11,627

Total depreciation expense 1,175,227

Business-type activities:

Water and sewer	806,825
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Total depreciation expense, primary government \$ 1,982,052

City of South Houston, Texas
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Lease asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance, as restated	Increases	Decreases	Transfers	Ending Balance
Governmental Activities					
Lease assets being amortized					
Equipment	\$ -	\$ 53,793	\$ -	\$ -	\$ 53,793
Copy machine	48,140	-	-	-	48,140
<hr/>					
Total capital assets, being depreciated	48,140	53,793	0	0	101,933
<hr/>					
Less accumulated amortization					
Equipment	-	(4,306)	-	-	(4,306)
Copy machine	-	(28,885)	-	-	(28,885)
<hr/>					
Total accumulated amortization	-	(33,191)	0	0	(33,191)
<hr/>					
Total lease assets being depreciated, net	48,140	20,602	0	0	68,742
<hr/>					
Governmental activities lease assets, net	\$ 48,140	\$ 20,602	\$ -	\$ -	\$ 68,742

Amortization expense was charged to functions/programs of the primary government as follows:

Amortization by Function/Program

Governmental Activities:

General government	\$ 28,885
Public safety	4,306
Total amortization expense	<u>\$ 33,191</u>

Note 6: Long-term Liabilities

In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds.

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2022.

City of South Houston, Texas
Notes to Basic Financial Statements
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Governmental Activities	Beginning Balance (as restated)	Increases	Decreases	Ending Balance	Amounts Due in One Year
Private placement debt	\$ 2,665,000	\$ -	\$ 175,000	\$ 2,490,000	\$ 180,000
Other liabilities:					
Lease liabilities	48,141	53,793	39,775	62,159	29,784
Financed purchases	319,536	-	151,474	168,062	168,062
Compensated absences	1,078,773	663,060	746,734	995,099	643,628
Total governmental activities long-term liabilities	<u>\$ 4,111,450</u>	<u>\$ 716,853</u>	<u>\$ 1,112,983</u>	<u>\$ 3,715,320</u>	<u>\$ 1,021,474</u>

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due in One Year
Tax and revenue certificates of obligation	\$ 1,065,000	\$ -	\$ 100,000	\$ 965,000	\$ 105,000
Other liabilities:					
Compensated absences	235,494	110,773	164,349	181,918	118,211
Total business-type activities long-term liabilities	<u>\$ 1,300,494</u>	<u>\$ 110,773</u>	<u>\$ 264,349</u>	<u>\$ 1,146,918</u>	<u>\$ 223,211</u>

Long-term debt at year-end was comprised of the following debt issues:

	Maturity Dates	Interest Rates	Governmental Activities	Business-type Activities
Private Placement Debt:				
Tax and Revenue Certificates of Obligation, Series 2019	2020 through 2034	2.71%	\$ 2,490,000	\$ -
Tax and Revenue Certificates of Obligation, Series 2009	2018 through 2030	2.25% to 4.35%	-	965,000

The annual requirements to amortize debt outstanding at year-end were as follows.

City of South Houston, Texas
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Fiscal Year	Tax and Revenue Certificates of Obligation, Series 2009		Tax and Revenue Certificates of Obligation, Series 2019	
	Principal	Interest	Principal	Interest
2023	\$ 105,000	\$ 37,807	\$ 180,000	\$ 65,040
2024	110,000	33,803	180,000	60,162
2025	115,000	29,411	185,000	55,216
2026	115,000	24,696	195,000	50,067
2027	120,000	19,790	200,000	44,715
2028-2032	400,000	26,620	850,000	138,549
2033-2034	-	-	700,000	12,940
	<u>\$ 965,000</u>	<u>\$ 172,127</u>	<u>\$ 2,490,000</u>	<u>\$ 426,689</u>

Private Placement Debt

The City previously issued the Tax and Revenues Certificates of Obligation, Series 2019 in a private placement. The proceeds from the obligation are being used to finance construction, renovation or acquisition of emergency service vehicles, road construction equipment, sanitation and public works vehicles, building and facility improvements, technology upgrades and related costs of professional services incurred as described in the ordinance approving the obligations. Principal and interest are payable semiannually on March 1 and September 1, at an interest rate of 2.71 percent.

Pledged Revenues

The City's Tax and Revenue Certificates of Obligation, Series 2009 are payable from ad valorem taxes and from a subordinate lien on the net revenues of the City's waterworks and sewer system (the system) as reported in the Enterprise Fund of the City. The debt is payable through March 1, 2030. Total principal and interest remaining to be paid is \$1,137,127 with annual payments expected to be paid from ad valorem taxes. Principal and interest paid for the current year and net revenues of the system were \$141,525 and \$1,180,719, respectively.

The City's Tax and Revenue Certificates of Obligation, Series 2019 are secured by the proceeds of a continuing, direct annual ad valorem tax which have been pledged to pay the principal and interest of the certificates. The Certificates are further secured by a subordinate lien on the net revenues of the system as reported in the Enterprise Fund of the City in an amount not to exceed \$10,000. The debt is payable through March 1, 2034. Total principal and interest remaining to be paid is \$2,916,689 with annual payments expected to be paid from ad valorem taxes. Principal and interest paid for the current year and net revenues of the system were \$244,850 and \$1,180,719, respectively.

City of South Houston, Texas
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Net revenues of the system were calculated using amounts from the Enterprise Fund statement of revenue, expenses and changes in net position for the year ended September 30, 2022 as shown below:

	Year Ended September 30, 2022
Total Operating Revenues	\$ 4,435,646
Less: Total Operating Expenses	(4,061,751)
Plus: Depreciation	806,825
Net Revenues of the System	\$ 1,180,720

Federal Arbitrage

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

Lease Liability

The City has agreements as lessee for vehicles and equipment, the terms of which expire in various years through 2026.

The following is a schedule by year of payments under the leases as of September 30, 2022:

Year Ending September 30,	Principal	Interest	Total Payments
2023	\$ 29,784	\$ 1,009	\$ 30,793
2024	10,577	653	11,230
2025	10,790	440	11,230
2026	11,008	222	11,230
Total Future Payments	\$ 62,159	\$ 2,324	\$ 64,483

Financed Purchases

The City has entered into financed purchase agreements for vehicles and equipment, the terms of which expire in 2023.

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The following is a schedule by year of payments under the financed purchases as of September 30, 2022:

Year Ending September 30,	Principal	Interest	Total Payments
2023	\$ 168,062	\$ 5,882	\$ 173,944

Note 7: Interfund Activity

Interfund transfers in and transfers out for the year ended September 30, 2022, are as follows:

Transfers In	Transfers Out			Total
	Governmental Funds		Proprietary Funds	
	General Fund	Other Governmental Funds	Enterprise Fund	
General Fund	\$ -	\$ -	\$ 500,000	\$ 500,000
Other Governmental Funds	165,000	-	-	165,000
Enterprise Fund	-	458,626	-	458,626
	<u>\$ 165,000</u>	<u>\$ 458,626</u>	<u>\$ 500,000</u>	<u>\$ 1,123,626</u>

Transfers are primarily used to move funds from:

- The general fund to other governmental funds to fund programs.
- Other governmental funds to the enterprise fund to fund principal and interest on long-term debt and to fund capital projects.
- The enterprise fund to the general fund to fund indirect costs for administrative expenses.

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

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	486,821
Enterprise Fund	Other Governmental Funds	<u>87,192</u>
		<u>\$ 574,013</u>

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Note 8: Fund Balances

Funds restricted by enabling legislation are \$1,270,441 related to crime control, street improvements, economic development, child safety, court technology, and court security.

Note 9: Commitments and Contingencies

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,362 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

Contingent Liabilities

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

The City is a party to various legal actions. Although the outcome is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Note 10: Pension Plans

Texas Municipal Retirement System

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid agent multiple-employer defined benefit pension plan administered by the 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 annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

	Plan Year 2022
Employee deposit rate	7.00%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service requirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Employees Covered by Benefit Terms

At the December 31, 2021, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	74
Inactive employees entitled to but not yet receiving benefits	83
Active employees	113
Total	270

Contributions

The contribution rates for employees in TMRS are either 5 percent, 6 percent or 7 percent of employee gross earnings, and the City matching percentages are either 100 percent, 150 percent or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry

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Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5 percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.67 percent and 8.87 percent in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022, were \$639,349, and were equal to the required contributions.

Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) (NPL(A)) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the NPL(A) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	2.75 per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Remaining Amortization Period	24 years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Retirement Age	Retirement Age: Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB (10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3.0 percent minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Global equity	35.00%	7.55%
Core fixed income	6.00%	2.00%
Noncore fixed income	20.00%	5.68%
Other public and private markets	12.00%	7.22%
Real estate	12.00%	6.85%
Hedge funds	5.00%	5.35%
Private equity	10.00%	10.00%
Total	<u>100.00%</u>	

Discount Rate

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

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Changes in the NPL(A)

	TPL (a)	Plan Fiduciary Net Position (b)	NPL(A) (a) - (b)
Balances at October 1, 2021	\$ 28,571,221	\$ 28,385,584	\$ 185,637
Changes for the year:			
Service cost	677,486	-	677,486
Interest (on the TPL)	1,904,864	-	1,904,864
Difference between expected and actual experience	504,210	-	504,210
Contributions – employer	-	575,955	(575,955)
Contributions – employee	-	297,665	(297,665)
Net investment income	-	3,701,874	(3,701,874)
Benefit payments, including refunds of employee contributions	(1,379,524)	(1,379,524)	-
Administrative expense	-	(17,122)	17,122
Other	-	116	(116)
Net changes	1,707,036	3,178,964	(1,471,928)
Balances at September 30, 2022	\$ 30,278,257	\$ 31,564,548	\$ (1,286,291)

Sensitivity of the NPL(A) to Changes in the Discount Rate

The following presents the Net Pension Liability (asset) of the City, calculated using the discount rate of 6.75 percent, as well as what the City’s Net Pension Liability (asset) would be if it were calculated using a discount rate that is 1 percent lower (5.75 percent) or 1 percent higher (7.75 percent) than the current rate:

	1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
City’s Net Pension Liability (Asset)	\$ 2,779,700	\$ (1,286,291)	\$ (4,643,361)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2022, the City recognized pension income of \$228,132.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 363,761	\$ 94,376
Changes of assumptions	-	1,903,044
Net difference between projected and actual earnings on pension plan investments	-	5,150
Contributions subsequent to the measurement date	457,543	-
Total	<u>\$ 821,304</u>	<u>\$ 2,002,570</u>

\$457,543 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL(A) for the fiscal year ended September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Net Deferred Outflows / Inflows of Resources
2023	\$ (264,127)
2024	(698,379)
2025	(319,136)
2026	(357,167)
Total	<u>\$ (1,638,809)</u>

Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2020, there were 238 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Annual Financial Report that includes financial statements and Required Supplementary Information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations

City of South Houston, Texas
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that may be of interest are also available at the same link. The plan's fiduciary net position has been determined on the same basis as that used by the plan.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the Board) authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50 percent vested after the 10th year of service, with the vesting percent increasing 10 percent for each of the next five years of service so that a member becomes 100 percent vested with 15 years of service.

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

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

Funding Policy

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

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

The Board rule defining contributions was amended effective July 27, 2014, to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15 percent), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the Board to be 2 percent of the Part One contributions beginning

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September 1, 2017. Based on the August 31, 2018 and 2020, actuarial valuations, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining TESRS, to grant up to 15 years of credit for service per member. Prior service purchased must have occurred before the department began participation in TESRS.

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

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. The City’s contribution to TESRS for the fiscal year ended September 30, 2022, was \$21,081 and exceeded the required contributions.

Actuarial Assumptions

The TPL in the August 31, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	August 31, 2020
Investment Rate of Return	7.5% net of pension plan investment expense, including inflation
Salary Increases	N/A
Inflation	3.00%
Mortality	Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.6 percent) and by adding expected inflation (3.0 percent). In addition, the final 7.5 percent assumption was selected by rounding down. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table.

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Asset Class	Target Allocation	Long-term Expected Net Real Rate of Return
Equities:		
Large-Cap domestic	20.00%	5.83%
Small-Cap domestic	10.00%	5.94%
Developed international	15.00%	6.15%
Emerging markets	5.00%	7.25%
Global infrastructure	5.00%	6.41%
Real estate	10.00%	4.48%
Multi asset income	5.00%	3.84%
Fixed income	30.00%	1.99%
	<hr/>	
Total	<u>100.00%</u>	
Weighted average		4.60%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. No projection of cash flows was used to determine the discount rate because the August 31, 2020, actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the level dollar amortization method. Because of the 30-year amortization period with the amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis

The following presents the NPL of the City, calculated using the discount rate of 7.5 percent, as well as what the City's NPL would be if it were calculated using a discount rate that is 1 percent point lower (6.5 percent) or 1 percent point higher (8.5 percent) than the current rate:

	Sensitivity of the Net Pension Liability (Asset) to the Single Discount Rate Assumption		
	1% Decrease	Current Single Rate Assumption	1% Increase
	6.5%	7.5%	8.5%
NPL	\$ 94,548	\$ 28,928	\$ (14,877)

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

At September 30, 2022, the City reported a liability of \$28,928 for its proportionate share of TESRS's NPL. This liability reflects a reduction for State pension support provided to the City.

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

City's proportionate share of the collective NPL	\$ 28,928
State's proportionate share that is associated with the City*	8,009
	36,937
	\$ 36,937

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

The NPL was measured as of August 31, 2020, and TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2020. GASB Statement No. 68 requires the NPL to be measured as of a date no earlier than the end of the employer's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12-month period, the City used the assumption that any differences in the NPL measured as of August 31, 2020, versus September 30, 2020, would be insignificant. The City's proportion of the NPL was calculated based on the City's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2019 through August 31, 2020.

The City's proportion of the collective NPL for the August 31, 2021 and 2020 measurement date, were 0.270 percent and 0.297 percent, respectively.

Changes in assumptions from the prior valuation were a reduction in the investment return assumption from 7.75 percent to 7.5 percent, an increase in the assumed termination rates, an increase in the assumed average age at which vested terminated members will begin their retirement benefit, and a change to a new published mortality table projected generationally.

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

For the fiscal year ended September 30, 2022, the City recognized pension expense of \$14,638. The City recognized on-behalf revenues of \$3,589 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

At September 30, 2022, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,144
Changes of assumptions	-	39
Changes in proportion	-	16,736
Net difference between projected and actual earnings on pension plan investments	-	27,090
Contributions subsequent to the measurement date	31,622	-
Total	\$ 31,622	\$ 45,009

\$31,622 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Net Deferred Outflows / Inflows of Resources
2022	\$ (9,454)
2023	(6,504)
2024	(11,436)
2025	(11,028)
Thereafter	(6,587)
Total	\$ (45,009)

Note 11: Other Postemployment Benefits (OPEB)

TMRS – Supplemental Death Benefits Fund

Plan Description

The City also participates in a single-employer defined benefit group term life insurance OPEB plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees.

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The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an OPEB.

The plan does not issue a separate financial report.

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another OPEB and is a fixed amount of \$7,500. The SDBF covers both active and retiree participants, with no segregation of assets and no assets are accumulated in a trust that meets the criteria in paragraph four of GASB Statement No. 75.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

As of December 31, 2021, the measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	11
Active employees	113
	176

Actuarial Methods and Assumptions

Significant methods and assumptions used in the December 31, 2021, actuarial valuation are as follows:

Inflation	2.5% per year
Salary increases	3.5% to 11.5%, including inflation
Discount rate	1.84 % (2.00% in prior year)

The discount rate is equal to the tax-exempt municipal bond rate based on the Fidelity 20-Year Municipal G.O. AA Index as of the measurement date.

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Mortality rates for service retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Mortality rates for disabled retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3 percent minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2021, valuation was based on the results of an actuarial experience study for the period of December 31, 2014 to December 31, 2018.

Total OPEB Liability

The City's total OPEB liability of \$517,086 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

The total OPEB liability and related information are as follows for the City at September 30, 2022:

	Total OPEB Liability
Balance as of October 1, 2021	\$ 483,522
Changes for the year:	
Service cost	26,790
Interest on total OPEB liability	9,813
Differences between expected and actual experience	(4,158)
Change of assumptions (discount rate change)	13,621
Benefit payments	(12,502)
Balance as of September 30, 2022	\$ 517,086

OPEB Expense and Deferred Outflows of Resources Related to OPEB:

For the year ended September 30, 2022, the City recognized OPEB expense of \$54,507.

At September 30, 2022, the City reported deferred outflows and inflows of resources related to OPEB from the following sources.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 73,381	\$ 5,662
Differences between expected and actual experience	-	21,618
Benefit payments subsequent to the measurement date	3,108	-
Total	\$ 76,489	\$ 27,280

Benefit payments subsequent to the measurement date and before fiscal year-end of \$3,108 will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2022.

Other amounts reported as deferred outflows and inflows related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30	Net Deferred Outflows / Inflows of Resources
2023	\$ 14,766
2024	16,668
2025	10,518
2026	3,873
2027	276
Total	\$ 46,101

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 1.84 percent, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84 percent) or 1-percentage-point higher (2.84 percent) than the current discount rate:

	1% Decrease in Discount Rate (.84%)	Current Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
Total OPEB liability	\$ 614,014	\$ 517,086	\$ 439,012

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Notes to Basic Financial Statements
September 30, 2022

Note 12: Long-Term Contract for Cost Sharing Water Project

On February 24, 1988, the City entered into an agreement with the City of Houston, Gulf Coast Water Authority (City of Galveston and the City of League City), the City of Nassau Bay, Clear Brook City Municipal Utility District, the LaPorte Area Water Authority, the Harris County Municipal Utility District No. 55, the City of Pasadena, the City of Webster, the City of Friendswood, and Baybrook Municipal Utility District No. 1 for the construction and operation of the Southeast Water Purification Plant (SEWPP). The City of Houston acts as the managing participant in the project. Members of the project are entitled to their proportionate share of SEWPP's water production and share its operating costs on the same basis. The City's percentage of ownership in SEWPP is 2.41 percent. As of September 30, 2022, the City's total investment in SEWPP totaled \$3,686,496. The net investment reported is \$826,176, which includes accumulated depreciation of \$2,861,320.

Note 13: Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Service Code, Section 457. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, termination, death or unforeseeable emergencies.

Federal law requires all assets and income of Section 457 plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. The City's deferred compensation plan is administered by a private corporation under contract with the City.

Note 14: Restatements

The City restated beginning of the year net position for governmental activities related to correction of an error, and to report capital assets of \$498,733. The restatement resulted in an increase in the previously reported increase in net position for the prior year of \$250,845.

The City restated beginning of the year net position for the enterprise fund and business type activities related to correction of an error, and to report capital assets of \$383,367. The restatement resulted in a decrease in the previously reported decrease in net position for the prior year of \$251,240.

City of South Houston, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 15: *American Rescue Plan Act of 2021*

In August 2021, the City was awarded \$4.32 million of funding from the Coronavirus Local Fiscal Recovery Fund (CLFRF) under the *American Rescue Plan Act of 2021*. The City received \$2.16 million in August 2021 with the remaining amount paid in August 2022. The City may use the funds for eligible purposes and will have direct obligations to the Treasury Department, including reporting and recordkeeping requirements. All costs are subject to audit by the Treasury Office of Inspector General and Government Accountability Office. CLFRF funds may be used to cover costs incurred from March 3, 2021 through December 31, 2026. However, participants must obligate all funding by December 31, 2024.

**Required Supplementary Information
(Unaudited)**

City of South Houston, Texas
Schedule of Changes in Net Pension Liability and
Related Ratios – Texas Municipal Retirement System (TMRS) –
Last Eight Fiscal Years

	Measurement Year							
	December 31,							
	2014	2015	2016	2017	2018	2019	2020	2021
Total Pension Liability								
Service cost	\$ 473,753	\$ 530,413	\$ 584,679	\$ 615,545	\$ 622,942	\$ 650,248	\$ 661,565	\$ 677,486
Interest	1,409,195	1,463,290	1,495,374	1,557,512	1,652,199	1,736,924	1,832,301	1,904,864
Difference between expected and actual experience	(435,567)	(58,889)	(402,155)	3,069	(214,280)	(6,073)	(208,724)	504,210
Change of assumptions	-	81,335	-	-	-	(32,246)	-	-
Benefit payments, including refunds of employee contributions	(622,052)	(783,803)	(803,673)	(741,852)	(812,276)	(826,372)	(1,056,672)	(1,379,524)
Net Change in Total Pension Liability	825,329	1,232,346	874,225	1,434,274	1,248,585	1,522,481	1,228,470	1,707,036
Total pension liability - beginning	20,205,511	21,030,840	22,263,186	23,137,411	24,571,685	25,820,270	27,342,751	28,571,221
Total pension liability - ending (a)	\$ 21,030,840	\$ 22,263,186	\$ 23,137,411	\$ 24,571,685	\$ 25,820,270	\$ 27,342,751	\$ 28,571,221	\$ 30,278,257
Plan Fiduciary Net Position								
Contributions - employer	\$ 534,547	\$ 569,733	\$ 562,560	\$ 600,447	\$ 557,734	\$ 572,397	\$ 568,928	\$ 575,955
Contributions - employee	224,981	239,789	257,115	269,503	272,503	286,201	289,399	297,665
Net investment income (loss)	1,041,950	28,599	1,312,402	2,873,565	(710,582)	3,558,539	2,018,241	3,701,874
Benefit payments, including refunds of employee contributions	(622,052)	(783,803)	(803,673)	(741,852)	(812,276)	(826,372)	(1,056,672)	(1,379,524)
Administrative expense	(10,878)	(17,419)	(14,820)	(14,890)	(13,730)	(20,100)	(13,055)	(17,122)
Other	(894)	(860)	(798)	(755)	(717)	(604)	(509)	116
Net Change in Plan Fiduciary Net Position	1,167,654	36,039	1,312,786	2,986,018	(707,068)	3,570,061	1,806,332	3,178,964
Plan Fiduciary Net Position, Beginning	18,213,762	19,381,416	19,417,455	20,730,241	23,716,259	23,009,191	26,579,252	28,385,584
Plan Fiduciary Net Position, Ending (b)	\$ 19,381,416	\$ 19,417,455	\$ 20,730,241	\$ 23,716,259	\$ 23,009,191	\$ 26,579,252	\$ 28,385,584	\$ 31,564,548
Net Pension Liability (Asset), Ending (a) - (b)	\$ 1,649,424	\$ 2,845,731	\$ 2,407,170	\$ 855,426	\$ 2,811,079	\$ 763,499	\$ 185,637	\$ (1,286,291)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	92.16%	87.22%	89.60%	96.52%	89.11%	97.21%	99.35%	104.25%
Covered Payroll	\$ 4,499,617	\$ 4,795,779	\$ 5,142,296	\$ 5,390,062	\$ 5,450,058	\$ 5,724,015	\$ 5,787,970	\$ 5,953,307
Net Pension Liability (Asset) as a Percentage of Covered Payroll	36.66%	59.34%	46.81%	15.87%	51.58%	13.34%	3.21%	-21.61%

Only eight years of data are presented in accordance with GASB Statement No. 68 as the data for the years prior to fiscal year 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule be presented for the year ended as of the current measurement date (December 31).

Other information: For the 2015 valuation, inflation assumption used was 2.5 percent, investment rates of return and the discount rate used was 6.75 percent, and actuarial studies were updated through December 31, 2014.

City of South Houston, Texas
Schedule of the City's Proportionate Share of the Net Pension Liability – Texas
Emergency Services Retirement System (TESRS) –
Last Eight Fiscal Years

	Measurement Year							
	December 31,							
	2014	2015	2016	2017	2018	2019	2020	2021
City's proportion of the net pension liability	0.334%	0.333%	0.437%	0.387%	0.345%	0.297%	0.278%	0.270%
City's proportionate share of the net pension liability	\$ 60,735	\$ 88,834	\$ 127,290	\$ 92,886	\$ 74,694	\$ 84,186	\$ 70,086	\$ 28,928
State's proportionate share of the net pension liability	20,416	30,792	44,005	30,418	20,730	24,972	19,979	8,009
	<u>\$ 81,151</u>	<u>\$ 119,626</u>	<u>\$ 171,295</u>	<u>\$ 123,304</u>	<u>\$ 95,424</u>	<u>\$ 109,158</u>	<u>\$ 90,065</u>	<u>\$ 36,937</u>
Number of active members*	21	26	26	27	18	27	18	18
City's net pension liability per active member	\$ 2,892	\$ 3,417	\$ 4,896	\$ 3,440	\$ 4,150	\$ 3,118	\$ 3,894	\$ 1,607
Plan fiduciary net position as a percentage of the total pension liability	83.50%	76.90%	76.30%	81.40%	84.26%	80.20%	83.20%	93.10%

Only eight years of data are presented in accordance with GASB Statement No. 68 as the data for the years prior to fiscal year 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule be presented for the year ended as of the current measurement date (August 31).

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

Other Information:

There were no benefit changes during the year.

City of South Houston, Texas

Schedule of Contributions – TMRS – Last Eight Fiscal Years

	Fiscal Year							
	2015	2016	2017	2018	2019	2020	2021	2022
Actuarially determined contribution	\$ 553,806	\$ 565,529	\$ 596,496	\$ 560,760	\$ 565,724	\$ 593,496	\$ 576,140	\$ 639,349
Contributions in relation to the actuarially determined contribution	<u>539,946</u>	<u>563,136</u>	<u>596,496</u>	<u>560,760</u>	<u>565,724</u>	<u>593,496</u>	<u>576,140</u>	<u>639,349</u>
Contribution deficiency	<u>\$ 13,860</u>	<u>\$ 2,393</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered payroll	\$ 4,545,001	\$ 5,026,517	\$ 5,383,538	\$ 5,345,117	\$ 5,619,524	\$ 6,009,431	\$ 5,932,784	\$ 6,581,393
Contributions as a percentage of covered payroll	11.88%	11.20%	11.08%	10.49%	10.07%	9.88%	9.71%	9.71%

Valuation Date:

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	24 Years (longest amortization ladder)
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with Scale UMP. Pre-retirement: PUB (10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with Scale UMP.

Only eight years of data are presented in accordance with GASB Statement No. 68 as the data for the years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule be presented for the City's fiscal year ended (September 30).

Other Information:

There were no benefit changes during the year.

City of South Houston, Texas

Schedule of Contributions – TESRS – Last Eight Fiscal Years

	Fiscal Year							
	2015	2016	2017	2018	2019	2020	2021	2022
Contractually determined contribution	\$ 17,075	\$ 20,498	\$ 20,448	\$ 20,662	\$ 23,157	\$ 21,081	\$ 31,623	\$ 10,540
Contributions in relation to the actuarially determined contribution	<u>17,075</u>	<u>20,498</u>	<u>20,448</u>	<u>20,662</u>	<u>23,157</u>	<u>21,081</u>	<u>21,082</u>	<u>21,081</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,541</u>	<u>\$ (10,541)</u>
Number of active members*	21	26	26	27	18	25	18	18

Only eight years of data are presented in accordance with GASB Statement No. 68 as the data for the years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule be presented for the City's fiscal year ended (September 30).

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

City of South Houston, Texas
Schedule of Changes in the City's Total OPEB Liability and
Related Ratios – Supplemental Death Benefits Fund – Last Five Fiscal Years

	Measurement Year December 31,				
	2017	2018	2019	2020	2021
TOTAL OPEB LIABILITY					
Service cost	\$ 14,014	\$ 16,350	\$ 15,455	\$ 19,100	\$ 26,790
Interest	11,575	11,754	13,020	11,691	9,813
Difference between expected and actual experience	-	(5,919)	(15,441)	(16,686)	(4,158)
Change of assumptions*	25,380	(22,562)	63,065	55,878	13,621
Benefit payments, including refunds of employee contributions	(3,234)	(3,270)	(3,434)	(4,052)	(12,502)
Net Change in Total OPEB Liability	47,735	(3,647)	72,665	65,931	33,564
Total OPEB Liability - Beginning	300,838	348,573	344,926	417,591	483,522
Total OPEB Liability - Ending	<u>\$ 348,573</u>	<u>\$ 344,926</u>	<u>\$ 417,591</u>	<u>\$ 483,522</u>	<u>\$ 517,086</u>
Covered-employee Payroll	\$ 5,390,062	\$ 5,450,058	\$ 5,724,015	\$ 5,953,307	\$ 5,953,307
Total OPEB Liability as a Percentage of Covered-employee Payroll	6.47%	6.33%	7.30%	8.12%	8.69%

No assets are accumulated in a trust that meets the criteria in paragraph four of GASB Statement No. 75 to pay related benefits.

*The discount rate changed from 3.31 percent for 2017 to 3.71 percent for 2018, 2.75 percent for 2019, 2.00 percent for 2020 and 1.84 percent for 2021.

Only five years of data are presented in accordance with GASB Statement No. 75 as the data for the years prior to fiscal year 2017 is not available.

City of South Houston, Texas
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (General Fund)
Year Ended September 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Property taxes	\$ 5,303,050	\$ 5,303,050	\$ 5,335,634	\$ 32,584
Sales taxes	2,000,000	2,000,000	2,390,072	390,072
Franchise fees	730,000	730,000	700,941	(29,059)
Other taxes	45,000	45,000	47,989	2,989
Licenses and permits	615,000	615,000	573,480	(41,520)
Fines and forfeitures	425,500	425,500	486,965	61,465
Charges for services	923,900	923,900	958,887	34,987
Intergovernmental	-	-	4,270	4,270
Other	240,500	240,500	283,952	43,452
	<u>10,282,950</u>	<u>10,282,950</u>	<u>10,782,190</u>	<u>499,240</u>
Total revenues				
Expenditures				
Current:				
General government:				
Administration	1,719,899	1,719,899	1,416,630	(303,269)
Finance department	252,060	252,060	245,253	(6,807)
Municipal court	241,814	241,814	198,556	(43,258)
Humane department	308,731	308,731	288,947	(19,784)
Inspection	249,096	249,096	239,663	(9,433)
Vehicle maintenance	401,922	401,922	457,944	56,022
Code enforcement-building maintenance	142,622	142,622	125,011	(17,611)
	<u>3,316,144</u>	<u>3,316,144</u>	<u>2,972,004</u>	<u>(344,140)</u>
Total general government				
Public safety:				
Fire department	338,334	338,334	330,446	(7,888)
Police department	3,645,460	3,645,460	3,620,318	(25,142)
Fire marshal	29,048	29,048	17,940	(11,108)
EMS	750,916	750,916	779,953	29,037
Police civil service	16,419	16,419	9,662	(6,757)
	<u>4,780,177</u>	<u>4,780,177</u>	<u>4,758,319</u>	<u>(21,858)</u>
Total public safety				
Public works:				
Street and bridge	675,414	675,414	645,592	(29,822)
Sanitation	1,329,400	1,329,400	1,387,235	57,835
	<u>2,004,814</u>	<u>2,004,814</u>	<u>2,032,827</u>	<u>28,013</u>
Total public works				

City of South Houston, Texas
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (General Fund) (Continued)
Year Ended September 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Community services:				
Parks	\$ 662,357	\$ 662,357	\$ 652,984	(9,373)
Community center	36,774	36,774	21,330	(15,444)
Total community services	<u>699,131</u>	<u>699,131</u>	<u>674,314</u>	<u>(24,817)</u>
Total expenditures	<u>10,800,266</u>	<u>10,800,266</u>	<u>10,437,464</u>	<u>(362,802)</u>
Revenues Under Expenditures	<u>(517,316)</u>	<u>(517,316)</u>	<u>344,726</u>	<u>862,042</u>
Other Financing Sources				
Proceeds from sale of capital assets	-	-	25,915	25,915
Insurance recovery	-	-	246,878	246,878
Lease proceeds	-	-	53,793	53,793
Transfers in	550,000	550,000	500,000	(50,000)
Transfers out	<u>-</u>	<u>-</u>	<u>(165,000)</u>	<u>(165,000)</u>
Total other financing sources	<u>550,000</u>	<u>550,000</u>	<u>661,586</u>	<u>111,586</u>
Net Change in Fund Balance	<u>\$ 32,684</u>	<u>\$ 32,684</u>	1,006,312	<u>\$ 973,628</u>
Fund Balance, Beginning of Year			<u>1,154,262</u>	
Fund Balance, End of Year			<u>\$ 2,160,574</u>	

Combining and Individual Fund Statements and Schedules

City of South Houston, Texas
Nonmajor Governmental Funds
September 30, 2022

Debt Service Fund

The debt service fund is used to account for and report the payment of interest and principal on all general obligation bonds and other long-term debt of the City.

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted or committed to expenditures for particular purposes.

2019 Certificates of Obligation Fund - this fund accounts for proceeds and uses of the City's 2019 Certifications of Obligations.

Street Improvement Fund – to account for sales tax revenues and expenditures related to street improvements.

South Houston Economic Development Fund – to account for sales tax revenues and expenditures related to economic development.

SHCCPD – to account for South Houston Crime Control and Prevention District restricted for crime control activities in the City.

Senior Citizen Fund – to account for the funds received for community services related to senior citizens.

Law Enforcement Training Fund – to account for fees generated from grants that are restricted for law enforcement training.

Law Enforcement Seizure Fund – to account for funds forfeited through law enforcement seizures.

Hotel Occupancy Tax Fund – to account for revenues received from hotel occupancy taxes.

Court Child Safety Fund – to account for fees generated from court fines which, by law, can only be spent on the Child Safety programs such as school crossing guard programs and programs designed to enhance public safety and security.

Court Technology Fund – to account for fees generated from court fines which, by law, can only be spent on technology expenditures related to the City's municipal court.

Court Security Fund – to account for fees generated from court fines which, by law, can only be spent on security expenditures related to the City's municipal court.

Community Center Fund – to account for donations received by the City to be used for community center activities.

City of South Houston, Texas
Combining Balance Sheet – Nonmajor Governmental Funds
September 30, 2022

	Debt Service	2019 Certificates of Obligation	Street Improvement	South Houston Economic Development Corporation	SHCCPD
Assets					
Cash and cash equivalents	\$ 584,307	\$ 150,027	\$ 91,049	\$ 726,225	\$ 440,465
Receivables, net	103,429	-	-	21,000	-
Due from other governments	-	-	104,880	209,760	102,346
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 687,736</u>	<u>\$ 150,027</u>	<u>\$ 195,929</u>	<u>\$ 956,985</u>	<u>\$ 542,811</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 5,942	\$ 5,782	\$ 7,571
Due to other funds	-	-	-	87,192	424,850
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>0</u>	<u>0</u>	<u>5,942</u>	<u>92,974</u>	<u>432,421</u>
Deferred Inflows of Resources					
Unavailable revenue - property taxes	103,429	0	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances					
Restricted:					
Debt service	584,307	-	-	-	-
Enabling legislation	-	-	189,987	864,011	110,390
Special projects	-	150,027	-	-	-
Unassigned	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficit)	<u>584,307</u>	<u>150,027</u>	<u>189,987</u>	<u>864,011</u>	<u>110,390</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 687,736</u>	<u>\$ 150,027</u>	<u>\$ 195,929</u>	<u>\$ 956,985</u>	<u>\$ 542,811</u>

Senior Citizen	Law Enforcement Training	Law Enforcement Seizure	Hotel Occupancy Tax	Court Child Safety	Court Technology	Court Security	Community Center	Total Nonmajor Governmental Funds
\$ -	\$ 1,170	\$ 52,622	\$ -	\$ 51,093	\$ 34,411	\$ 21,262	\$ 396	\$ 2,153,027
-	-	-	6,557	-	-	-	-	130,986
-	-	-	-	-	-	-	-	416,986
<u>\$ 0</u>	<u>\$ 1,170</u>	<u>\$ 52,622</u>	<u>\$ 6,557</u>	<u>\$ 51,093</u>	<u>\$ 34,411</u>	<u>\$ 21,262</u>	<u>\$ 396</u>	<u>\$ 2,700,999</u>
\$ 2,726	\$ 110	\$ -	\$ 2,681	\$ 376	\$ -	\$ 337	\$ -	\$ 25,525
45,407	-	-	16,564	-	-	-	-	574,013
48,133	110	0	19,245	376	0	337	0	599,538
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>103,429</u>
-	-	-	-	-	-	-	-	584,307
-	-	-	-	50,717	34,411	20,925	-	1,270,441
-	1,060	52,622	-	-	-	-	396	204,105
(48,133)	-	-	(12,688)	-	-	-	-	(60,821)
<u>(48,133)</u>	<u>1,060</u>	<u>52,622</u>	<u>(12,688)</u>	<u>50,717</u>	<u>34,411</u>	<u>20,925</u>	<u>396</u>	<u>1,998,032</u>
<u>\$ 0</u>	<u>\$ 1,170</u>	<u>\$ 52,622</u>	<u>\$ 6,557</u>	<u>\$ 51,093</u>	<u>\$ 34,411</u>	<u>\$ 21,262</u>	<u>\$ 396</u>	<u>\$ 2,700,999</u>

City of South Houston, Texas
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended September 30, 2022

	2019	2019	Street	South Houston	
	Debt Service	Certificates of Obligation	Improvement	Economic Development Corporation	SHCCPD
Revenues					
Property taxes	\$ 420,834	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	597,460	1,194,921	585,633
Other taxes	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Other	-	-	-	1,552	2,892
Total revenues	420,834	0	597,460	1,196,473	588,525
Expenditures					
Current:					
Public safety	-	-	-	-	312,662
Public works	-	60,867	406,237	768,165	-
Community services	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	-	-	269,098	308,558	40,825
Debt service:					
Principal	175,000	-	-	-	-
Interest expense	69,851	-	-	-	-
Total expenditures	244,851	60,867	675,335	1,076,723	353,487
Excess (Deficiency) of Revenues Over Expenditures	175,983	(60,867)	(77,875)	119,750	235,038
Other Financing Sources (Uses)					
Sale of capital assets	-	-	-	-	14,535
Transfers in	-	-	-	-	-
Transfers out	(142,025)	(237,409)	-	(79,192)	-
Total other financing sources (uses)	(142,025)	(237,409)	0	(79,192)	14,535
Net Change in Fund Balances	33,958	(298,276)	(77,875)	40,558	249,573
Fund Balances (Deficits), Beginning of Year	550,349	448,303	267,862	823,453	(139,183)
Fund Balances (Deficits), End of Year	\$ 584,307	\$ 150,027	\$ 189,987	\$ 864,011	\$ 110,390

Senior Citizen	Law Enforcement Training	Law Enforcement Seizure	Hotel Occupancy	Court Child Safety	Court Technology	Court Security	Community Center	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 420,834
-	-	-	-	-	-	-	-	2,378,014
-	-	-	22,654	-	-	-	-	22,654
-	-	12,763	-	4,141	5,597	6,004	-	28,505
138,894	1,882	-	-	-	-	-	-	140,776
2,365	-	-	-	20,889	-	-	7,160	34,858
<u>141,259</u>	<u>1,882</u>	<u>12,763</u>	<u>22,654</u>	<u>25,030</u>	<u>5,597</u>	<u>6,004</u>	<u>7,160</u>	<u>3,025,641</u>
-	2,460	915	-	40,727	6,373	3,227	-	366,364
-	-	-	-	-	-	-	-	1,235,269
325,860	-	-	23,623	-	-	-	8,845	358,328
-	-	-	-	-	-	-	-	-
-	-	31,892	-	-	-	-	-	650,373
-	-	-	-	-	-	-	-	175,000
-	-	-	-	-	-	-	-	69,851
<u>325,860</u>	<u>2,460</u>	<u>32,807</u>	<u>23,623</u>	<u>40,727</u>	<u>6,373</u>	<u>3,227</u>	<u>8,845</u>	<u>2,855,185</u>
<u>(184,601)</u>	<u>(578)</u>	<u>(20,044)</u>	<u>(969)</u>	<u>(15,697)</u>	<u>(776)</u>	<u>2,777</u>	<u>(1,685)</u>	<u>170,456</u>
-	-	28,484	-	-	-	-	-	43,019
165,000	-	-	-	-	-	-	-	165,000
-	-	-	-	-	-	-	-	(458,626)
<u>165,000</u>	<u>0</u>	<u>28,484</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(250,607)</u>
<u>(19,601)</u>	<u>(578)</u>	<u>8,440</u>	<u>(969)</u>	<u>(15,697)</u>	<u>(776)</u>	<u>2,777</u>	<u>(1,685)</u>	<u>(80,151)</u>
<u>(28,532)</u>	<u>1,638</u>	<u>44,182</u>	<u>(11,719)</u>	<u>66,414</u>	<u>35,187</u>	<u>18,148</u>	<u>2,081</u>	<u>2,078,183</u>
<u>\$ (48,133)</u>	<u>\$ 1,060</u>	<u>\$ 52,622</u>	<u>\$ (12,688)</u>	<u>\$ 50,717</u>	<u>\$ 34,411</u>	<u>\$ 20,925</u>	<u>\$ 396</u>	<u>\$ 1,998,032</u>

City of South Houston, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget to Actual (Nonmajor Governmental Funds)
Year Ended September 30, 2022

Debt Service				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Property taxes	\$ 399,646	\$ 399,646	\$ 420,834	\$ 21,188
Total revenues	399,646	399,646	420,834	21,188
Expenditures				
Principal	265,000	265,000	175,000	(90,000)
Interest expense	119,940	119,940	69,851	(50,089)
Total expenditures	384,940	384,940	244,851	(140,089)
Other Financing Uses				
Transfers in	-	-	-	-
Transfers out	-	-	(142,025)	(142,025)
Total other financing uses	0	0	(142,025)	(142,025)
Net Change in Fund Balance	\$ 14,706	\$ 14,706	33,958	\$ 19,252
Fund Balance, Beginning of Year			550,349	
Fund Balance, End of Year			\$ 584,307	

Street Improvement				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Sales taxes	\$ 450,000	\$ 450,000	\$ 597,460	\$ 147,460
Total revenues	450,000	450,000	597,460	147,460
Expenditures				
Public works	651,639	651,639	675,335	(23,696)
Total expenditures	651,639	651,639	675,335	(23,696)
Net Change in Fund Balance	\$ (201,639)	\$ (201,639)	(77,875)	\$ 123,764
Fund Balance, Beginning of Year			267,862	
Fund Balance, End of Year			\$ 189,987	

City of South Houston, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget to Actual (Nonmajor Governmental Funds) (Continued)
Year Ended September 30, 2022

South Houston Economic Development Corporation				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Sales taxes	\$ 950,000	\$ 950,000	\$ 1,194,921	\$ 244,921
Other	1,200	1,200	1,552	352
Total revenues	951,200	951,200	1,196,473	245,273
Expenditures				
Public works	1,631,426	1,631,426	768,165	(863,261)
Total expenditures	1,631,426	1,631,426	768,165	(863,261)
Other Financing Sources				
Sale of capital assets	-	-	-	-
Total other financing sources	-	-	-	0
Net Change in Fund Balance	\$ (680,226)	\$ (680,226)	428,308	\$ 1,108,534
Fund Balance, Beginning of Year			-	
Fund Balance, End of Year			\$ 428,308	

SHCCPD				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Sales taxes	\$ 480,000	\$ 480,000	\$ 585,633	\$ 105,633
Other	177	177	2,892	2,715
Total revenues	480,177	480,177	588,525	108,348
Expenditures				
Public safety	480,177	480,177	353,487	(126,690)
Total expenditures	480,177	480,177	353,487	(126,690)
Other Financing Sources				
Sale of capital assets	-	-	14,535	14,535
Total other financing sources	-	-	14,535	14,535
Net Change in Fund Balance	\$ 0	\$ 0	249,573	\$ 249,573
Fund Deficit, Beginning of Year			(139,183)	
Fund Balance, End of Year			\$ 110,390	

City of South Houston, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget to Actual (Nonmajor Governmental Funds) (Continued)
Year Ended September 30, 2022

Senior Citizen				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Intergovernmental	\$ 145,000	\$ 145,000	\$ 138,894	\$ (6,106)
Other	4,000	4,000	2,365	(1,635)
Total revenues	149,000	149,000	141,259	(7,741)
Expenditures				
Community services	315,132	315,132	325,860	10,728
Total expenditures	315,132	315,132	325,860	10,728
Other Financing Sources				
Transfers in	165,000	165,000	165,000	-
Total other financing sources	165,000	165,000	165,000	0
Net Change in Fund Balance	\$ (1,132)	\$ (1,132)	(19,601)	\$ (18,469)
Fund Deficit, Beginning of Year			(28,532)	
Fund Deficit, End of Year			\$ (48,133)	

Law Enforcement Training				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Intergovernmental	\$ 2,250	\$ 2,250	\$ 1,882	\$ (368)
Total revenues	2,250	2,250	1,882	(368)
Expenditures				
Public safety	3,888	3,888	2,460	(1,428)
Total expenditures	3,888	3,888	2,460	(1,428)
Net Change in Fund Balance	\$ (1,638)	\$ (1,638)	(578)	\$ 1,060
Fund Balance, Beginning of Year			1,638	
Fund Balance, End of Year			\$ 1,060	

City of South Houston, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget to Actual (Nonmajor Governmental Funds) (Continued)
Year Ended September 30, 2022

Law Enforcement Seizure				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Fines and forfeitures	\$ 20,000	\$ 20,000	\$ 12,763	\$ (7,237)
Intergovernmental	-	-	-	-
Total revenues	20,000	20,000	12,763	(7,237)
Expenditures				
Public safety	30,000	30,000	32,807	2,807
Total expenditures	30,000	30,000	32,807	2,807
Other Financing Sources				
Sale of capital assets	-	-	28,484	28,484
Total other financing sources	-	-	28,484	28,484
Net Change in Fund Balance	\$ (10,000)	\$ (10,000)	8,440	\$ 18,440
Fund Balance, Beginning of Year			44,182	
Fund Balance, End of Year			\$ 52,622	

Hotel Occupancy Tax				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Other taxes	\$ 30,000	\$ 30,000	\$ 22,654	\$ (7,346)
Total revenues	30,000	30,000	22,654	(7,346)
Expenditures				
Community services	34,500	34,500	23,623	(10,877)
Total expenditures	34,500	34,500	23,623	(10,877)
Net Change in Fund Balance	\$ (4,500)	\$ (4,500)	(969)	\$ 3,531
Fund Deficit, Beginning of Year			(11,719)	
Fund Deficit, End of Year			\$ (12,688)	

City of South Houston, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget to Actual (Nonmajor Governmental Funds) (Continued)
Year Ended September 30, 2022

Court Child Safety				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Fines and forfeitures	\$ 7,000	\$ 7,000	\$ 4,141	\$ (2,859)
Other	20,000	20,000	20,889	889
Total revenues	27,000	27,000	25,030	(1,970)
Expenditures				
Public safety	95,000	95,000	40,727	(54,273)
Total expenditures	95,000	95,000	40,727	(54,273)
Net Change in Fund Balance	\$ (68,000)	\$ (68,000)	(15,697)	\$ 52,303
Fund Balance, Beginning of Year			66,414	
Fund Balance, End of Year			\$ 50,717	

Court Technology				
	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Fines and forfeitures	\$ 8,000	\$ 8,000	\$ 5,597	\$ (2,403)
Total revenues	8,000	8,000	5,597	(2,403)
Expenditures				
Public safety	30,000	30,000	6,373	(23,627)
Total expenditures	30,000	30,000	6,373	(23,627)
Net Change in Fund Balance	\$ (22,000)	\$ (22,000)	(776)	\$ 21,224
Fund Balance, Beginning of Year			35,187	
Fund Balance, End of Year			\$ 34,411	

Court Security

	Original Budget	Final Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Fines and forfeitures	\$ 6,000	\$ 6,000	\$ 6,004	\$ 4
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>6,004</u>	<u>4</u>
Expenditures				
Public safety	<u>10,000</u>	<u>10,000</u>	<u>3,227</u>	<u>(6,773)</u>
Total expenditures	<u>10,000</u>	<u>10,000</u>	<u>3,227</u>	<u>(6,773)</u>
Net Change in Fund Balance	<u>\$ (4,000)</u>	<u>\$ (4,000)</u>	2,777	<u>\$ 6,777</u>
Fund Balance, Beginning of Year			<u>18,148</u>	
Fund Balance, End of Year			<u>\$ 20,925</u>	