

OFFICE OF THE STATE AUDITOR REPORT NOTE:

Section 7-7-211, Mississippi Code Annotated (1972) gives the Office of the State Auditor the authority to audit, with the exception of municipalities, any governmental entity in the state. In the case of municipalities, *Section 21-35-31, Mississippi Code Annotated (1972)* requires municipalities to obtain an annual audit performed by a private CPA firm and submit that audit report to the Office of the State Auditor. The Office of the State Auditor files these audit reports for review in case questions arise related to the municipality.

As a result, the following document was not prepared by the Office of the State Auditor. Instead, it was prepared by a private CPA firm and submitted to the Office of the State Auditor. The document was placed on this web page as it was submitted and no review of the report was performed by the Office of the State Auditor prior to finalization of the report. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**CITY OF HOUSTON, MISSISSIPPI
HOUSTON, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022**

CITY OF HOUSTON, MISSISSIPPI
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Independent Auditors' Report

Honorable Mayor and Board of Aldermen
City of Houston, Mississippi

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Houston, Mississippi, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Houston, Mississippi 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.

Correction of Error

As discussed in Note 2 and Note 3 to financial statements, for the year ended September 30, 2021 the City erroneously recorded grant funds in the general fund instead of a separate special revenue fund. These funds were unexpended at the end of the year and should have been reported as unearned revenue and reported as a liability instead of revenue. The error was corrected during the year ended September 30, 2022, and fund balances restated.

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 of Houston, Mississippi's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards 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 of Houston, Mississippi'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 of Houston, Mississippi'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 Budgetary Comparison Schedules (page 41-43), the Schedule of the City's Proportionate Share of the Net Pension Liability (page 44), the Schedule of City Contributions (page 45), and the Notes to Required Supplementary Information (pages 46-48) 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.

Omission of Required Supplementary Information

The City of Houston, Mississippi has omitted the Management's Discussions and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Houston, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for the purpose of additional analysis and is 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 accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of Surety Bonds for City Officials (page 53) and the Reconciliation of Original Ad Valorem Rolls to Fund Collections (page 54) but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2023, on our consideration of the City of Houston, Mississippi'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 the City of Houston, Mississippi'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 of Houston, Mississippi's internal control over financial reporting and compliance.

Houston, Mississippi
September 19, 2023

Watkins Ward and Stafford, PLLC

BASIC FINANCIAL STATEMENTS

CITY OF HOUSTON, MISSISSIPPI
Statement of Net Position
September 30, 2022

	Primary Government		
	Governmental	Business-type	Totals
	Activities	Activities	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,805,723	801,945	\$ 5,607,668
Property tax receivable	880,050	-	880,050
Accounts receivable, net	-	118,700	118,700
Fines receivable, net of allowance for uncollectibles of \$1,307,975	243,752	-	243,752
Intergovernmental receivables	142,914	-	142,914
Other receivables, net	25,502	-	25,502
Lease receivable	817,789	-	817,789
Inventory	-	12,016	12,016
Internal balances	5,420	-	5,420
Capital assets, non-depreciable			
Land	597,739	137,099	734,838
Construction in progress	2,185,858	-	2,185,858
Capital assets, net of accumulated depreciation			
Buildings	793,841	12,360	806,201
Building improvements	421,207	-	421,207
Infrastructure	6,254,636	6,684,627	12,939,263
Furniture and equipment	230,493	476,597	707,090
Vehicles	250,177	27,987	278,164
Total assets	<u>17,655,101</u>	<u>8,271,331</u>	<u>25,926,432</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred outflows related to pensions	359,443	101,381	460,824
Total deferred outflows of resources	<u>359,443</u>	<u>101,381</u>	<u>460,824</u>
<u>LIABILITIES</u>			
Accounts payable	61,064	4,216	65,280
Accrued liabilities	8,729	2,031	10,760
Interest payable on long-term liabilities	2,215	28,665	30,880
Internal balances	-	5,420	5,420
Retainage payable	12,816	-	12,816
Unearned Revenue	842,511	-	842,511
Customer deposits	-	138,113	138,113
Long-term liabilities, due within one year:			
Capital related liabilities	250,026	264,669	514,695
Long-term liabilities, due beyond one year:			
Capital related liabilities	1,216,865	2,443,714	3,660,579
Non-capital related liabilities	35,275	9,384	44,659
Net pension liability	2,793,611	787,942	3,581,553
Total liabilities	<u>5,223,112</u>	<u>3,684,154</u>	<u>8,907,266</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred inflows related to pensions	23,852	6,728	30,580
Property tax for future reporting period	880,050	-	880,050
Deferred inflows - lease receivable	812,988	-	812,988
Total deferred inflows of resources	<u>1,716,890</u>	<u>6,728</u>	<u>1,723,618</u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Net Position (Continued)
September 30, 2022

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Totals
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	9,267,060	4,630,287	13,897,347
Restricted for:			
Expendable:			
Fire protection	82,167	-	82,167
Debt service	445,804	-	445,804
Capital improvements	112,054	-	112,054
Culture and recreation	875,067	-	875,067
Other	693,603	-	693,603
Unrestricted	(401,213)	51,543	(349,670)
Total Net Position	\$ 11,074,542	4,681,830	\$ 15,756,372

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental Activities							
General government	\$ 1,225,077	55,127	-	1,040,436	\$ (129,514)		(129,514)
Public safety	1,174,850	238,677	105,620	-	(830,553)		(830,553)
Public works	509,524	243,598	-	-	(265,926)		(265,926)
Culture and recreation	128,976	59,660	-	-	(69,316)		(69,316)
Pension expense	325,740	-	-	-	(325,740)		(325,740)
Interest on long-term debt	54,058	-	-	-	(54,058)		(54,058)
Total governmental activities	<u>3,418,225</u>	<u>597,062</u>	<u>105,620</u>	<u>1,040,436</u>	<u>(1,675,107)</u>		<u>(1,675,107)</u>
Business-type Activities							
Water and sewer department	1,344,263	1,212,838	-	-	-	(131,425)	(131,425)
Pension expense	(91,876)	-	-	-	-	91,876	91,876
Interest on long-term debt	84,350	-	-	-	-	(84,350)	(84,350)
Total business-type activities	<u>1,336,737</u>	<u>1,212,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,899)</u>	<u>(123,899)</u>
Total primary government	<u>\$ 4,754,962</u>	<u>1,809,900</u>	<u>105,620</u>	<u>1,040,436</u>	<u>\$ (1,675,107)</u>	<u>(123,899)</u>	<u>(1,799,006)</u>
General revenues							
Taxes							
Property taxes					1,248,517	-	1,248,517
Sales and use taxes					1,536,475	-	1,536,475
Franchise					253,941	-	253,941
Interest income					22,215	3	22,218
Unrestricted grants and contributions					1,804	-	1,804
Other					374,580	-	374,580
Total general revenues and transfers					<u>3,437,532</u>	<u>3</u>	<u>3,437,535</u>
Changes in net position					<u>1,762,425</u>	<u>(123,896)</u>	<u>1,638,529</u>
Net Position - Beginning					9,733,373	4,805,726	14,539,099
Prior Period Adjustment					<u>(421,256)</u>	<u>-</u>	<u>(421,256)</u>
Net Position, Ending					<u>\$ 11,074,542</u>	<u>4,681,830</u>	<u>\$ 15,756,372</u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Balance Sheet – Governmental Funds
September 30, 2022

	General Fund	ARPA Fund	1st Ave Industrial Property Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 1,793,224	843,433	687,691	1,481,375	\$ 4,805,723
Property tax receivable	590,000	-	-	290,050	880,050
Fines receivable, net of allowance for uncollectibles of \$1,307,975	243,752	-	-	-	243,752
Intergovernmental receivable	115,194	-	-	27,720	142,914
Other receivables, net	25,502	-	-	-	25,502
Lease receivable	-	-	817,789	-	817,789
Due from other funds	5,420	-	-	11,071	16,491
Total assets	\$ 2,773,092	843,433	1,505,480	1,810,216	\$ 6,932,221
Liabilities:					
Claims payable	\$ 58,497	-	-	2,567	\$ 61,064
Accrued payroll	8,306	-	-	423	8,729
Retainage payable	-	-	12,816	-	12,816
Unearned revenue	-	842,511	-	-	842,511
Due to other funds	11,071	-	-	-	11,071
Total Liabilities	77,874	842,511	12,816	2,990	936,191
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	590,000	-	-	290,050	880,050
Unavailable revenue - fines	243,752	-	-	-	243,752
Unavailable revenue - lease receivable	-	-	812,988	-	812,988
Total Deferred Inflows of Resources	833,752	-	812,988	290,050	1,936,790
Fund Balances:					
Restricted:					
Debt service	-	-	-	448,019	448,019
Capital projects	-	922	-	111,132	112,054
Assigned:					
Fire protection	-	-	-	82,167	82,167
Culture and recreation	-	-	-	875,067	875,067
Other	-	-	679,676	13,927	693,603
Unassigned	1,861,466	-	-	(13,136)	1,848,330
Total Fund Balances	1,861,466	922	679,676	1,517,176	4,059,240
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,773,092	843,433	1,505,480	1,810,216	\$ 6,932,221

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2022

Total Fund Balances for Governmental Funds	\$	4,059,240
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	597,739	
Construction in progress		2,185,858	
Buildings		1,648,700	
Building improvements		716,460	
Infrastructure		11,819,111	
Furniture and equipment		771,856	
Vehicles		1,338,011	
Accumulated depreciation		<u>(8,343,784)</u>	10,733,951

Some of the city's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Fines receivable		<u>243,752</u>	243,752
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Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(2,793,611)		
Deferred outflows of resources related to pensions		359,443	
Deferred inflows of resources related to pensions		<u>(23,852)</u>	(2,458,020)

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(385,000)		
Notes payable		(1,081,891)	
Compensated absences		(35,275)	
Accrued interest payable		<u>(2,215)</u>	<u>(1,504,381)</u>

Net Position of Governmental Activities	\$	<u><u>11,074,542</u></u>
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The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2022

	General Fund	ARPA Fund	1st Ave Industrial Property Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 888,867	-	-	357,701	\$ 1,246,568
Penalties and interest	1,949	-	-	-	1,949
License, commissions, and other revenue	54,747	-	-	380	55,127
Fines and forfeitures	150,331	-	-	-	150,331
Intergovernmental revenues	2,618,661	-	-	319,615	2,938,276
Charges for services	243,598	-	-	59,660	303,258
Interest income	9,068	922	11,173	1,053	22,216
Miscellaneous revenues	34,499	-	285,655	54,427	374,581
Total Revenues	<u>4,001,720</u>	<u>922</u>	<u>296,828</u>	<u>792,836</u>	<u>5,092,306</u>
Expenditures:					
General government	1,668,665	-	221,242	263,446	2,153,353
Public safety	1,370,666	-	-	-	1,370,666
Public works	805,740	-	-	750	806,490
Culture and recreation	-	-	-	318,728	318,728
Debt service:					
Principal	36,543	-	20,783	189,203	246,529
Interest	9,226	-	6,133	39,360	54,719
Total Expenditures	<u>3,890,840</u>	<u>-</u>	<u>248,158</u>	<u>811,487</u>	<u>4,950,485</u>
Excess of Revenues					
Over (Under) Expenditures	<u>110,880</u>	<u>922</u>	<u>48,670</u>	<u>(18,651)</u>	<u>141,821</u>
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	42,000	42,000
Operating transfers out	(42,000)	-	-	-	(42,000)
Total Other Financing Sources (Uses)	<u>(42,000)</u>	<u>-</u>	<u>-</u>	<u>42,000</u>	<u>-</u>
Net Change in Fund Balances	<u>68,880</u>	<u>922</u>	<u>48,670</u>	<u>23,349</u>	<u>141,821</u>
Fund Balance - Beginning (before restatement)	<u>2,213,842</u>	<u>-</u>	<u>631,006</u>	<u>1,493,827</u>	<u>4,338,675</u>
Fund equity reclassification	<u>(421,256)</u>	<u>421,256</u>	<u>-</u>	<u>-</u>	<u>-</u>
Prior period adjustment	<u>-</u>	<u>(421,256)</u>	<u>-</u>	<u>-</u>	<u>(421,256)</u>
Fund Balance - Beginning (as restated)	<u>1,792,586</u>	<u>-</u>	<u>631,006</u>	<u>1,493,827</u>	<u>4,338,675</u>
Fund Balance - Ending	<u>\$ 1,861,466</u>	<u>922</u>	<u>679,676</u>	<u>1,517,176</u>	<u>\$ 4,059,240</u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2022

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 141,821
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. Thus, the change in net position differs from the change in fund balances by the amount that capital outlays of \$1,899,178 exceeded depreciation of \$453,358 in the current period.	1,445,820
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	88,345
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount of debt repayments of \$246,529.	246,529
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by the following:	
Increase in compensated absences	(7,689)
Decrease in accrued interest payable	662
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:	
Recording of pension expense for the current year	(325,740)
Recording of contributions made for the current fiscal year	<u>172,677</u>
Change in Net Position of Governmental Activities	<u>\$ 1,762,425</u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Net Position – Proprietary Fund
September 30, 2022

	<u>Water & Sewer</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 801,945
Accounts receivables	118,700
Inventory	12,016
Total current assets	<u>932,661</u>
Non-current assets:	
Capital assets:	
Non-depreciable capital assets	137,099
Depreciable assets, net of depreciation	7,201,571
Total non-current assets	<u>7,338,670</u>
Total Assets	<u>8,271,331</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	101,381
Total deferred outflows of resources	<u>101,381</u>
<u>Total Assets and Deferred Outflows of Resources</u>	<u>\$ 8,372,712</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 4,216
Accrued payroll	2,031
Accrued interest - long-term debt	28,665
Internal balances	5,420
Capital related debt, current	264,669
Total current liabilities	<u>305,001</u>
Non-current liabilities:	
Customer deposits	138,113
Capital related debt, non-current	2,443,714
Noncapital related debt, non-current	9,384
Net pension liability	787,942
Total non-current liabilities	<u>3,379,153</u>
Total Liabilities	<u>3,684,154</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows related to pensions	6,728
Total deferred inflows of resources	<u>6,728</u>
<u>NET POSITION</u>	
Invested in capital assets, net of related debt	4,630,287
Unrestricted	51,543
Total Net Position	<u>4,681,830</u>
<u>Total Liabilities, Deferred Inflows of Resources, and Net Position</u>	<u>\$ 8,372,712</u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund
For the Year Ended September 30, 2022

	<u>Water & Sewer</u>
<u>OPERATING REVENUES</u>	
Charges for services	\$ 1,202,498
Miscellaneous	<u>10,340</u>
Total operating revenues	<u>1,212,838</u>
 <u>OPERATING EXPENSES</u>	
Operating and maintenance	965,186
Depreciation	379,077
Pension Expense	<u>(91,876)</u>
Total operating expenses	<u>1,252,387</u>
 Operating income	 <u>(39,549)</u>
 <u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest income	3
Interest and fiscal charges	<u>(84,350)</u>
Total non-operating revenues (expenses)	<u>(84,347)</u>
 Net income before transfers	 <u>(123,896)</u>
 Change in net position	 (123,896)
 Net Position - Beginning	 <u>4,805,726</u>
 Net Position - Ending	 \$ <u><u>4,681,830</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2022

	<u>Water & Sewer</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,205,276
Cash paid to suppliers	(487,241)
Cash paid to employees	(346,207)
Other receipts	20,040
Net Cash Flows Provided By Operating Activities	<u>391,868</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payment of debt	(261,082)
Payment of interest	(84,507)
Purchase of capital assets	(80,652)
Net Cash Flows Used In Capital and Related Financing Activities	<u>(426,241)</u>
<u>Cash Flows from Investing Activities</u>	
Receipt of interest	<u>3</u>
Net Cash Flows Provided By Investing Activities	<u>3</u>
Net Decrease in Cash	(34,370)
Cash and Cash Equivalents, September 30, 2021	<u>836,315</u>
Cash and Cash Equivalents, September 30, 2022	<u>\$ 801,945</u>
<u>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</u>	
Operating Income	\$ (39,549)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	379,077
Pension expense adjustment	43,173
Changes in operating assets and liabilities:	
Increase in receivables	2,779
Decrease in accounts payable	2,421
Increase in accrued liabilities	(9,079)
Increase in accrued compensated absences	3,346
Increase in customer deposits	9,700
Total adjustments	<u>431,417</u>
Net Cash Flows Provided By Operating Activities	<u>\$ 391,868</u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Fiduciary Net Position – Fiduciary Funds
September 30, 2022

	Private-Purpose Trust Funds
Assets	
Cash and cash equivalents - restricted	\$ 5,855
Total Assets	<u>5,855</u>
Net Position	
Restricted for endowments	5,855
Total Net Position	\$ <u><u>5,855</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
For the Year Ended September 30, 2022

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ 11
Total Additions	<u>11</u>
Change in Net Position	11
Net Position	
Net Position - Beginning	5,844
Net Position - Ending	<u><u>\$ 5,855</u></u>

The accompanying notes to financial statements are an integral part of these financial statements.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The accompanying financial statements of the City of Houston, Mississippi have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the City's accounting policies are described below:

a. Financial Reporting Entity

The City of Houston was incorporated in 1837 under the laws of the State of Mississippi and operates under a Mayor-Board of Aldermen form of government and provides public safety, streets and sidewalks, water and sewerage, sanitation, health and social services, culture, recreation, education, public improvements, planning and zoning and general administrative services.

As defined by accounting principles generally accepted in the United States of America, the City is considered a "stand-alone government."

For financial reporting purposes, the City of Houston has included all funds and organizations. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

b. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and Statement of Activities report information on all non-fiduciary activities of the City. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the City's non-fiduciary assets and liabilities, with the difference reported as net position. The net position is reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental and a fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

General Fund – This is the City's primary operating fund. The General Fund is used to account for all activities of the general government for which a separate fund has not be established.

1st Avenue Industry Property Fund – This fund is made up of revenue and expenses associated with a building that the City leases to a manufacturer.

ARPA Fund – This is a fund set up by the City when they received an American Rescue Plan Act grant. This fund is designated for the City's Wastewater Treatment Facility Rehabilitation project which has not been started at September 30, 2022. The purpose of this project is to make a necessary investment in an upgrade to the City's existing sewage facility. The project is not for research and development.

All other governmental funds not meeting the criteria established for major funds are presented in the non-major governmental column of the fund financial statements.

The City also reports fiduciary funds (private-purpose trust fund) which focus on assets and changes in net position. The City's fiduciary fund includes no major funds.

Additionally, the City reports the following fund types:

Governmental Funds

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Funds – Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Debt Service Funds – Debt Service Funds account for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the city other than debt service payments made by enterprise funds. Ad valorem taxes are used for the payment of principal and interest on the City's judgment.

Proprietary Fund

Enterprise Fund – Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City's only enterprise fund consists of the Water and Sewer Fund. This fund is used to account for all operations of the water and sewer system of the City.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. All other revenues and expenses are reported as non-operating.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Private-purpose Trust Fund (Not included in government-wide statements)

Private-purpose Trust Fund – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments. The trust fund is used to account for funds that are to be used for book purchases by the City.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the city. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

d. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

e. Assets, Liabilities, and Net Position / Fund Balances

1. Cash and Cash Equivalents

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. The City deposits excess funds in the financial institutions selected by the board of aldermen. State statutes specify how these depositories are to be selected.

Investments

The City can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest bearing deposits or other obligations of the types described in in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Receivables are reported net of allowances for uncollectible accounts, where applicable. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the city as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisitions and construction are reflected as expenditures in the governmental fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statement.

The following schedule details the capitalization thresholds.

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) Leased property capitalization policy will correspond with the amounts for the asset classifications, as listed above.

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows related to pensions – This amount represents the City's proportionate share of the deferred outflows of resources reported by the pension plan in which the City participates. See Note 13 for further detail.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting purposes/Unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed non-exchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Deferred inflows related to pensions – This amount represents the City's proportionate share of the deferred inflows of resources reported by the pension plan in which the City participates. See Note 13 for further detail.

Deferred inflows related to leases – This amount represents an acquisition of net position in regards to the initial value of a lease receivable that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

8. Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee benefits. The liability for these compensated absences is recorded as current debt in the government-wide statements. The debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

9. Leases

The Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases* (GASB 87) to establish a single leasing model for accounting and reporting purposes. This guidance is intended to enhance the accountability, consistency and comparability of lease activities reported by governments. GASB 87 was implemented during fiscal year 2022.

The City uses the federal prime rate to calculate the present value of lease payments when the rate implicit in the lease is not known. The federal prime rate is the rate the City would expect to obtain for a similar financed purchase at the date of lease inception.

10. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Net Position

GASB 63 requires the classification of net position into three components – Invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- a) Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- c) Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Net Position Flow Assumption: When an expense is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

13. Fund Balances

GASB 54 requires the classification of fund balance into five components – nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

- a) *Nonspendable fund balance* includes amounts that cannot be spent due to form, (such as inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- b) *Restricted fund balance* includes amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation. The City has the following restricted fund balances: restricted for debt service and restricted for capital projects.
- c) *Committed fund balance* includes amounts constrained for a specific purpose by an entity using its highest level of decision-making authority. It would require the same group to remove or change the constraints placed on the resources. The City does not have any committed fund balances.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

- d) *Assigned fund balance*, for all funds other than the general fund, includes any remaining positive amounts not classified as nonspendable, restricted, or committed. Assignments of fund balance are created by the board of aldermen pursuant to authorization established by the City's fund balance policy. The City has the following assigned fund balances: assigned for fire protection, assigned for culture and recreation, and assigned for other.
- e) *Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

f. Use of 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 and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are determination of useful lives of capital assets when calculating depreciation and estimation of allowance for bad debts related to police fines receivable. Actual results could differ from those estimates.

g. Environmental Risk for Possible Clean-up from City-owned Facilities

As a distributor of water and sewer services, there is a possibility that environmental conditions may arise which would require the City to incur clean-up costs. The likelihood of such an event or the amount of such costs, if any, cannot be determined at this time. However, management does not believe such costs, if any, would materially affect the City's financial position or future cash flows.

h. Economic Dependency

The City depends on financial resources flowing from, or associated with, the State of Mississippi and the collection of local property taxes. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to State laws and appropriations, and the City is reliant on the continuing existence of an adequate local tax base to fund the City's operations.

i. Changes in Accounting Standards

GASB 87, *Leases*, was implemented during fiscal year 2022. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This guidance is intended to enhance the accountability, consistency and comparability of lease activities reported by governments.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 2: Fund Equity Reclassification

A summary of the significant fund equity reclassification is as follows:

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

<u>Explanation</u>	<u>Amount</u>
ARPA Grant funds were recorded in the general fund in error.	
Equity - General Fund	\$ (421,256)
Equity - ARPA Fund	<u>421,256</u>
	<u>\$ -</u>

The effects of the error were General Fund equity being overstated by \$421,256 and ARPA Fund equity being understated by \$421,256 in the prior year.

Note 3: Prior period Adjustment

A summary of the significant net position/fund balance adjustments are as follows:

Statement of Activities – Governmental Activities.

<u>Explanation</u>	<u>Amount</u>
Represents unexpended ARPA grant revenue from previous year.	\$ 421,256

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

<u>Explanation</u>	<u>Amount</u>
Represents unexpended ARPA grant revenue from previous year.	\$ 421,256

The effects of the error were Revenues being overstated by \$421,256 and Unearned revenues being understated by \$421,256.

Note 4: Cash and Cash Equivalents and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The City must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the City's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. All of the City's funds eligible to be included in the state's collateral pool program were not properly included and fully collateralized as of September 30, 2022.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 4: Cash and Cash Equivalents and Investments (Continued)

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the City to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (3), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations; not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects) bond sinking funds (Debt Service Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the City's deposits with financial institutions at September 30, 2022, reported in the governmental funds, enterprise fund, and fiduciary fund was \$4,805,723, \$801,945, and \$5,855, respectively.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of September 30, 2022, \$1,072,237 of the City's bank balance of \$5,979,279 was not included in the state's collateral pool, and consequently exposed to custodial credit risk.

Investments

As of September 30, 2022, the City of Houston had no investments.

Note 5: Inter-fund Transactions and Balances

The following is a summary of inter-fund balances at September 30, 2022:

a. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
City General Fund	\$ 5,420	11,071
Non-major Governmental Funds:		
Fire Protection	3,258	-
Airport Fund	175	-
HWY 389 Relocation	7,638	-
Enterprise Funds:		
Water & Sewer Fund	-	5,420
	<u>\$ 16,491</u>	<u>16,491</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 5: Inter-fund Transactions and Balances (Continued)

The amounts due to or due from other funds primarily represent amounts loaned between funds for timing differences between revenues and expenditures and cash balances.

b. Inter-fund Transfers

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
City General Fund	\$ -	42,000
Non-Major Funds:		
Library Fund	42,000	-
	<u>\$ 42,000</u>	<u>42,000</u>

All inter-fund transfers were routine and consistent with the activities of the fund making the transfer.

Note 6: Intergovernmental Receivables

The following is a summary of intergovernmental receivables at September 30, 2022:

<u>Governmental Funds:</u>		
Chickasaw County - Fire Protection Millage and Rebate	\$	3,300
Chickasaw County - Motor Vehicle Privilege Tax		2,037
Chickasaw County - Tax Collections		9,865
State of MS - ABC Privilege Licenses		450
State of MS - Sales Tax		105,835
State of MS - Tourism Tax		21,427
	<u>\$</u>	<u>142,914</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 7: Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2022:

<u>Governmental Activities:</u>	<u>Balance 09/30/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance 09/30/2022</u>
Non-depreciable capital assets:					
Land	\$ 597,739	-	-	-	\$ 597,739
Construction in progress	1,714,099	1,512,195	-	(1,040,436)	2,185,858
Total non-depreciable capital assets	<u>2,311,838</u>	<u>1,512,195</u>	<u>-</u>	<u>(1,040,436)</u>	<u>2,783,597</u>
Depreciable capital assets:					
Buildings	1,648,700	-	-	-	1,648,700
Improvements	495,462	220,998	-	-	716,460
Infrastructure	10,777,655	1,020	-	1,040,436	11,819,111
Furniture and equipment	743,085	28,771	-	-	771,856
Vehicles	1,201,817	136,194	-	-	1,338,011
Total depreciable capital assets	<u>14,866,719</u>	<u>386,983</u>	<u>-</u>	<u>1,040,436</u>	<u>16,294,138</u>
Less accumulated depreciation for:					
Buildings	(828,779)	(26,080)	-	-	(854,859)
Improvements	(275,107)	(20,146)	-	-	(295,253)
Infrastructure	(5,240,725)	(323,750)	-	-	(5,564,475)
Furniture and equipment	(500,619)	(40,744)	-	-	(541,363)
Vehicles	(1,045,196)	(42,638)	-	-	(1,087,834)
Total accumulated depreciation	<u>(7,890,426)</u>	<u>(453,358)</u>	<u>-</u>	<u>-</u>	<u>(8,343,784)</u>
Total depreciable capital assets, net	<u>6,976,293</u>	<u>(66,375)</u>	<u>-</u>	<u>1,040,436</u>	<u>7,950,354</u>
Governmental activities capital assets, net	<u>\$ 9,288,131</u>	<u>1,445,820</u>	<u>-</u>	<u>-</u>	<u>\$ 10,733,951</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 7: Capital Assets (Continued)

	Balance 09/30/2021	Additions	Deletions	Adjustments	Balance 09/30/2022
<u>Business-type Activities:</u>					
Non-depreciable capital assets:					
Land	\$ 137,099	-	-	-	\$ 137,099
Total non-depreciable capital assets	137,099	-	-	-	137,099
Depreciable capital assets:					
Buildings	61,800	-	-	-	61,800
Infrastructure	13,353,405	32,243	-	-	13,385,648
Machinery and equipment	920,949	23,408	-	-	944,357
Vehicles	74,870	25,000	-	-	99,870
Total depreciable capital assets	14,411,024	80,651	-	-	14,491,675
Less accumulated depreciation for:					
Buildings	(49,440)	-	-	-	(49,440)
Infrastructure	(6,403,707)	(297,314)	-	-	(6,701,021)
Machinery and equipment	(393,181)	(74,579)	-	-	(467,760)
Vehicles	(64,699)	(7,184)	-	-	(71,883)
Total accumulated depreciation	(6,911,027)	(379,077)	-	-	(7,290,104)
Total depreciable capital assets, net	7,499,997	(298,426)	-	-	7,201,571
Business-type activities capital assets, net	\$ 7,637,096	(298,426)	-	-	\$ 7,338,670

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 157,869
Public safety	44,297
Public works	218,117
Culture and recreation	33,075
Total governmental activities depreciation expense	\$ 453,358
Business-type Activities:	
Water and Sewer	\$ 379,077

Commitments with respect to unfinished capital projects at September 30, 2022, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Sidewalk Improvements	8,963	10/2022
City Street Overlay	67,397	6/2023
Legion Lake	90,093	6/2023
Shannon Building	9,725	6/2023

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 8: Leases

The City uses a rate of 3.25%, which is the federal prime rate, to calculate the present value of warehouse lease rental payments since a rate implicit in the warehouse lease is not a part of the contract. The City's financial statements have not been restated nor has a cumulative effect been reflected for the restatement of the beginning net position of the City.

The City, acting as lessor, has entered into a lease involving the leasing of the right to use a warehouse building. Such leases are let for a term that corresponds with state law in accordance with the type of lease executed. The City's financial statements have not been restated nor has a cumulative effect been reflected for the restatement of the beginning net position of the City as part of the implementation of ASB Statement No. 87. The City has, however, included in its financial statements at year end the net present value of future lease payments of \$817,789 as a lease receivable and \$812,988 as deferred inflows of resources. The deferred inflows of resources for leases are being amortized using the straight-line method of amortization.

For the year ending September 30, 2022, the City recognized \$150,500 in revenue related to its warehouse lease receivables.

The leased warehouse constitutes property held for the benefit of the City. The Board of Aldermen has control and jurisdiction of said building and of all funds arising from any disposition thereof. It is the duty of the Board of Aldermen to manage the building and all funds arising therefrom. Accordingly, the board shall assure that adequate compensation is received for all uses of the building, except for uses by the City. The following are the future rental payments to be made to the City for the use of the building.

Year Ending September 30	Principal	Interest	Total
2023	\$ 163,585	\$ 26,015	\$ 189,600
2024	169,403	20,197	189,600
2025	175,428	14,172	189,600
2026	181,668	7,932	189,600
2027	127,705	1,712	129,417
Total	<u>\$ 817,789</u>	<u>\$ 70,028</u>	<u>\$ 887,817</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 9: Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended September 30, 2022:

	Balance 09/30/2021	Additions	Adjustments	Deductions	Balance 09/30/2022	Amounts Due Within One Year
Governmental Activities						
General Obligation Bonds Payable \$	500,000	-	-	115,000	\$ 385,000	\$ 120,000
Loans Payable	1,213,420	-	-	131,529	1,081,891	130,026
Compensated Absences	27,587	7,688	-	-	35,275	-
Total Governmental Activities	<u>\$ 1,741,007</u>	<u>7,688</u>	<u>-</u>	<u>246,529</u>	<u>\$ 1,502,166</u>	<u>\$ 250,026</u>
Business-Type Activities						
Revenue Bonds	\$ 2,338,840	-	-	209,663	\$ 2,129,177	\$ 214,797
Loans Payable	627,085	-	-	48,662	578,423	49,872
Compensated Absences	6,038	3,346	-	-	9,384	-
Revenue Bond Premium	939	-	-	156	783	-
Total Business-Type Activities	<u>\$ 2,972,902</u>	<u>3,346</u>	<u>-</u>	<u>258,481</u>	<u>\$ 2,717,767</u>	<u>\$ 264,669</u>

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Position are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2023	250,026	45,709	264,669	80,059
2024	261,977	36,913	275,948	72,454
2025	271,299	27,493	282,256	64,097
2026	140,601	17,790	288,591	55,561
2027	145,644	13,346	298,886	49,841
2028-2032	328,176	18,672	652,782	172,215
2033-2037	42,168	4,918	440,584	128,755
2038-2042	27,000	853	76,942	31,163
2043-2047	-	-	91,255	16,850
2048-Thereafter	-	-	35,687	2,152
Total	<u>\$ 1,466,891</u>	<u>\$ 165,694</u>	<u>\$ 2,707,600</u>	<u>\$ 673,147</u>

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Compensated absences will be paid from the fund from which the employees' salaries were paid.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 9: Long-term Liabilities (Continued)

Governmental Activities

As of September 30, 2022, the governmental long-term debt of the financial reporting entity consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<u>A. General Obligation Bonds</u>			
\$1,500,000 Public Improvements Bonds, Series 2010, due in annual installments of \$75,000 to \$135,000 with interest paid semi-annually	\$ 385,000	2.80–4.00%	8/1/2025
Total General Obligation Bonds	<u>\$ 385,000</u>		
<u>B. Loans Payable</u>			
\$250,000 Note Payable issued May 21, 2013, due in monthly installments of \$1,849 (Industrial Building Construction)	115,810	4.00%	6/30/2028
\$53,240 Note Payable issued May 21, 2013, due in monthly installments of \$394 (Industrial Building Construction)	24,663	4.00%	6/30/2028
\$1,000,000 Note Payable issued January 10, 2020, due in monthly installments of (Sidewalk Improvement)	759,131	3.00%	12/10/2029
\$155,124 Capital Improvement Loan issued October 1, 2020, due in monthly installments of \$785 (Trailhead)	142,452	2.00%	9/1/2040
\$71,164 Capital Improvement Loan issued May 28, 2012, due in monthly installments of \$655 (Fire Truck)	1,830	2.00%	1/30/2023
\$80,100 Capital Improvement Loan issued July 23, 2012, due in monthly installments of \$515 (Fire Station)	38,005	2.00%	5/1/2029
Total Loans Payable	<u>\$ 1,081,891</u>		
Total Governmental Activities Debt	<u>\$ 1,466,891</u>		

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 9: Long-term Liabilities (Continued)

Business-type Activities

As of September 30, 2022, the long-term debt payable from proprietary fund resources consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<u>A. Revenue Bonds</u>			
\$2,100,000, 2012 Series, combined water and sewer system refunding bonds, due in annual installments of \$105,000 to \$160,000 with interest paid semi-annually	\$ 795,000	2.50–3.125%	4/1/2027
\$1,300,000, 2015 Series, combined water and sewer system refunding bonds, due in annual installments of \$130,000 to \$170,000 with interest paid semi-annually	960,000	4.00–4.25%	9/30/2035
\$448,000, 2015 Series, combined water and sewer system bonds, due in monthly installments of \$1,675 (Purchase of water meters)	374,177	2.75%	7/13/2049
Total Revenue Bonds	<u>\$ 2,129,177</u>		
<u>B. Loans Payable</u>			
\$519,832 Capital Improvement Loan, due in monthly installments of \$2,643 (Sewer Improvements)	\$ 235,076	2.00%	9/1/2030
\$482,248 Capital Improvement Loan, due in monthly installments of \$2,640 (Water and Sewer Improvements)	343,347	2.00%	3/1/2036
Total Loans Payable	<u>\$ 578,423</u>		
Total Business-type Activities Debt	<u>\$ 2,707,600</u>		

Legal Debt Margin – The amount of debt, excluding specific exempted debt that can be incurred by the City, is limited by the state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a city issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2022, the amount of outstanding debt was equal to 5.78% of the latest property assessments.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 10: Contingencies and Uncertainties

Federal Grants – The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation – The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the City.

Note 11: Defined Benefit Pension Plan

Plan Description. The City contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report is available at www.pers.ms.gov.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the City is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2022 was 17.40% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2022, 2021, and 2020 were \$221,380, \$198,043, and \$200,136, respectively, which equaled the required contributions for each year.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 11: Defined Benefit Pension Plan (Continued)

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

At September 30, 2022, the City reported a liability of \$3,581,553 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The City's proportionate share used to calculate the September 30, 2022 net pension liability was .0174 percent, which was based on a measurement date of June 30, 2022. This was an increase of .00030 percent from its proportionate share used to calculate the September 30, 2021 net pension liability, which was based on a measurement date of June 30, 2021.

For the year ended September 30, 2022, the City recognized pension expense of \$417,616. See the following schedule for a reconciliation of actual pension expense to pension expense per GASB 68 for the year ended September 30, 2022.

	2022	2021
Pension Expense - prior to GASB 68 adjustments	\$ 221,380	\$ 198,043
Current year pension expense includes deferred outflows and deferred inflows	498,541	(2,225)
Contributions made subsequent to the measurement date of June 30, 2022	(58,954)	(46,003)
Amortize change in proportional share	(11,201)	15,129
Reverse contributions from beginning of fiscal year through June 30, 2022	(162,426)	(152,040)
Amortize prior year deferred outflows	170,057	98,105
Amortize prior year deferred inflows	(239,781)	(67,545)
Pension Expense - after GASB 68 adjustments	<u>\$ 417,616</u>	<u>\$ 43,464</u>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,446	\$ -
Net difference between projected and actual earnings on pension plan investments	200,021	-
Changes of assumptions	121,737	-
Changes in proportion and differences between the entity's contributions and proportionate share of overall contributions	29,666	(30,580)
Entity's contributions subsequent to the measurement date	58,954	-
Total	<u>\$ 460,824</u>	<u>\$ (30,580)</u>

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 11: Defined Benefit Pension Plan (Continued)

\$58,954 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2023.

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

<u>Year Ending September 30,</u>	
2023	\$ 121,400
2024	88,609
2025	(33,063)
2026	194,344
Thereafter	-
Total	<u>\$ 371,290</u>

Actuarial assumptions. The collective total pension liability was determined by an actuarial valuation prepared as of June 30, 2021, and by the investment experience for the fiscal year ending June 30, 2022. The following actuarial assumptions are applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	2.65-17.90%, including inflation
Investment rate of return	7.55%, net of pension plan investment expense, including inflation

Mortality rates for service retirees were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females, 84% of female rates up to age 72 and 100% for ages above 76. Mortality rates for disability retirees were based on the PubG.H-2010 Disabled Table adjusted 134% for males and 121% for females. Mortality rates for Contingent Annuitants were based on the PubS.H-2010(B) Contingent Annuitant Table, adjusted 97% for males and 110% for females. Mortality rates will be projected generationally using the MP-2020 projection scales to account for future improvements in life expectancy.

The actuarial assumptions used for the purposes of determining the TPL were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2020. The experience report is dated April 20, 2021.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of 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 most recent target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 11: Defined Benefit Pension Plan (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	25.00 %	4.60 %
International Equity	20.00	4.50
Global Equity	12.00	4.85
Fixed Income	18.00	1.40
Real Estate	10.00	3.65
Private Equity	10.00	6.00
Private Infrastructure	2.00	4.00
Private Credit	2.00	4.00
Cash Equivalents	1.00	(0.10)
	<u>100.00 %</u>	

Discount Rate. The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be at the current employer contribution rate (17.40%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.55 percent) or 1-percentage-point higher (8.55 percent) than the current rate:

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
City's proportionate share of the net pension liability	\$ 4,674,293	\$ 3,581,553	\$ 2,680,645

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 12: Risk Management

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement personnel and \$350,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability; however, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 12: Risk Management (Continued)

National Casualty Corporation. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three years.

Under GASB Statement No. 10, *Accounting and Financial Reporting for Risks Financing and Related Issues*, a liability for claims must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. As of the date of this audit report, there were no known claims above the amount of coverage purchased for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters at September 30, 2022; therefore, no liability has been accrued at this time.

Note 13: Effect of Deferred Amounts on Net Position

The governmental activities' unrestricted net position amount of (\$388,077) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$45,984 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023. The \$313,459 balance of the deferred outflow of resources related to pensions at September 30, 2022, will be recognized in pension expense over the next three years. The \$23,852 of the deferred inflow of resources related to pension at September 30, 2022, will be recognized in pension expense over the next four years.

The governmental activities' net position amount includes the effect of recognition of deferring the recognition of revenue resulting from property tax receivable. The \$880,050 balance of deferred inflows of resources from property tax for future reporting period at September 30, 2022, will be recognized as revenue in the next fiscal year. This amount also includes the effect of deferring the recognition of revenue resulting from a deferred inflow from leases. The \$812,988 balance of deferred inflow of resources related to leases, at September 30, 2022 will be recognized as revenue and will increase the governmental activities' net position over the next 5 years.

The business-type activities' unrestricted net position amount of \$51,543 includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$12,970 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023. The \$88,411 balance of the deferred outflow of resources related to pensions at September 30, 2022, will be recognized in pension expense over the next three years. The \$6,728 balance of the deferred inflow of resources related to pension at September 30, 2022, will be recognized in pension expense over the next four years.

CITY OF HOUSTON, MISSISSIPPI
Notes to Financial Statements

Note 14: Tax Abatements

The City of Houston enters into property tax abatement agreements with local businesses under the Miss. Code Ann. Sec. 17-21-5 (1). Under the Code, the City has the authority in their discretion to exempt from any or all municipal ad valorem taxes, excluding ad valorem taxes for school districts, for a period of not more than seven years for the purpose of attracting or retaining businesses within their jurisdictions. A detailed listing of the property tax abatement agreements the City has entered into for the fiscal year ended September 30, 2022 is listed in the table below:

	<u>Assessed Value</u>	<u>Tax Abatement</u>
Real Property		
Franklin Corporation	\$ 324,317	\$ 12,376
Personal Property		
Crest-Foam	256,608	9,792
Franklin Corporation	221,306	8,445
Franklin Dev Co, LLC	64,635	2,466
International Paper	426,207	16,264
Trace Industries	6,216	237
Ware Milling	224,064	8,550
	<u>\$ 1,523,353</u>	<u>\$ 58,130</u>

Note 15: Deficit Fund Balances of Individual Funds

The following funds reported deficits in fund balances at September 30, 2022:

<u>Fund</u>	<u>Deficit Amount</u>
030 - Airport Multimodal	\$ (11,396)
246 - General OB 94 Bond	(1,740)
	<u>(13,136)</u>

Note 16: Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Houston evaluated the activity of the City through September 19, 2023, (the date the financial statements were available to be issued), and determined that no subsequent events occurred that would require disclosure in the notes to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOUSTON, MISSISSIPPI
 Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2022

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 850,900	871,200	888,867	17,667
Penalties and interest	11,000	11,000	1,949	(9,051)
Licenses, commissions and other revenue	27,100	27,600	54,747	27,147
Fines and forfeitures	119,360	174,140	150,331	(23,809)
Intergovernmental revenues	1,608,765	2,855,865	2,618,661	(237,204)
Charges for services	230,000	240,000	243,598	3,598
Interest income	33,000	9,000	9,068	68
Miscellaneous	78,600	68,300	34,499	(33,801)
Total Revenues	<u>2,958,725</u>	<u>4,257,105</u>	<u>4,001,720</u>	<u>(255,385)</u>
Expenditures:				
General government	711,605	1,755,213	1,668,665	86,548
Public safety	1,089,800	1,376,175	1,370,666	5,509
Public works	1,146,198	844,874	805,739	39,135
Debt service			45,770	(45,770)
Total Expenditures	<u>2,947,603</u>	<u>3,976,262</u>	<u>3,890,840</u>	<u>85,422</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>11,122</u>	<u>280,843</u>	<u>110,880</u>	<u>(169,963)</u>
Other Financing Sources (Uses):				
Operating transfers out	(42,000)	(42,000)	(42,000)	-
Total Other Financing Sources (Uses)	<u>(42,000)</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>-</u>
Net Change in Fund Balance	<u>(30,878)</u>	<u>238,843</u>	<u>68,880</u>	<u>(169,963)</u>
Fund Balance:				
October 1, 2021	<u>1,371,331</u>	<u>1,371,331</u>	<u>1,792,586</u>	<u>(421,255)</u>
September 30, 2022	<u>\$ 1,340,453</u>	<u>1,610,174</u>	<u>1,861,466</u>	<u>(251,292)</u>

The notes to required supplementary information are an integral part of this schedule.

CITY OF HOUSTON, MISSISSIPPI
 Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
 ARPA Fund
 For the Year Ended September 30, 2022

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Interest income	800	800	922	122
Miscellaneous	842,511	842,511	-	(842,511)
Total Revenues	843,311	843,311	922	(842,389)
Expenditures:				
General government	-	-	-	-
Total Expenditures	-	-	-	-
Net Change in Fund Balance	843,311	843,311	922	(842,389)
Fund Balance:				
October 1, 2021	421,256	421,256	-	(421,256)
September 30, 2022	\$ 1,264,567	1,264,567	922	1,263,645

The notes to required supplementary information are an integral part of this schedule.

CITY OF HOUSTON, MISSISSIPPI
 Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
 1st Ave Industrial Property Fund
 For the Year Ended September 30, 2022

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues:				
Interest income	-	-	11,173	11,173
Miscellaneous	336,255	336,255	285,655	(50,600)
Total Revenues	<u>336,255</u>	<u>336,255</u>	<u>296,828</u>	<u>(39,427)</u>
Expenditures:				
General government	211,161	211,161	221,241	(10,080)
Debt service	27,300	27,300	26,917	383
Total Expenditures	<u>238,461</u>	<u>238,461</u>	<u>248,158</u>	<u>(9,697)</u>
Net Change in Fund Balance	<u>97,794</u>	<u>97,794</u>	<u>48,670</u>	<u>(29,730)</u>
Fund Balance:				
October 1, 2021	<u>631,006</u>	<u>631,006</u>	<u>631,006</u>	<u>-</u>
Increase (Decrease) in reserve for inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
September 30, 2022	<u>\$ 728,800</u>	<u>728,800</u>	<u>679,676</u>	<u>49,124</u>

The notes to required supplementary information are an integral part of this schedule.

CITY OF HOUSTON, MISSISSIPPI
Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.017400%	0.017100%	0.017390%	0.017414%	0.017325%	0.017000%	0.019000%	0.019000%
City's proportionate share of the net pension liability	\$ 3,581,553	2,527,456	3,366,502	3,063,466	2,881,662	2,825,977	3,090,212	2,937,026
City's covered payroll	\$ 1,197,865	1,136,996	1,157,984	1,134,151	1,069,225	1,055,898	1,084,707	1,206,369
City's proportionate share of the net pension liability as a percentage of its covered payroll	298.99%	222.29%	290.72%	270.11%	269.51%	267.64%	284.89%	243.46%
Plan fiduciary net position as a percentage of the total pension liability	59.93%	70.44%	58.97%	61.59%	62.54%	61.28%	61.70%	67.21%

*The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 09/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

The notes to required supplementary information are an integral part of this schedule.

CITY OF HOUSTON, MISSISSIPPI
Schedule of City Contributions
Last 10 Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 221,380	198,043	200,136	184,490	174,448	168,403	166,304	187,958
Contribution in relation to the contractually required contribution	(221,380)	(198,043)	(200,136)	(184,490)	(174,448)	(168,403)	(166,304)	(187,958)
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	1,245,956	1,104,370	1,133,183	1,135,837	1,107,606	1,069,225	1,055,898	1,193,384
Contributions as a percentage of its covered payroll	17.40%	17.40%	17.40%	**16.24%	15.75%	15.75%	15.75%	15.75%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 09/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

**Effective July 1, 2019, the employer contribution rate increased from 15.75% of covered payroll to 17.40%. The City paid all required contributions at the legal rate.

The notes to required supplementary information are an integral part of this schedule.

CITY OF HOUSTON, MISSISSIPPI
Notes to Required Supplementary Information

Budgetary Comparison Schedule

a. Budgetary Information

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data and proposed budget submitted by the various departments, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the encumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that the budgetary estimates will not be met, it may make revisions to the budget.

The City's budget is prepared principally on the modified accrual basis of accounting. All appropriations lapse at year end.

b. Basis of Presentation

The Budgetary Comparison Schedule – Budget and Actual presents the original legally adopted budget, the final legally adopted budget, actual amounts and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule – Budget and Actual is a part of required supplemental information.

Pension Schedules

A. *Changes of assumptions.*

2015

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawals rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

2016

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

CITY OF HOUSTON, MISSISSIPPI
Notes to Required Supplementary Information

Pension Schedules (Continued)

2017

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2019

The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.

For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.

Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:

For males, 137% of male rates at all ages.

For females, 115% of female rates at all ages.

Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%. The wage inflation assumption was reduced from 3.25% to 3.00%.

Withdrawal rates, pre-retirement mortality rates, and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 7% to 9%.

2021

The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

For males, 95% of male rates up to age 60, 110% for ages 61 to 75, and 101% for ages above 77.

For females, 84% of female rates up to age 72, 100% for ages above 76.

Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubG.H-2010 Disabled Table for disabled retirees with the following adjustments:

For males, 134% of male rates at all ages.

For females, 121% of female rates at all ages.

Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

CITY OF HOUSTON, MISSISSIPPI
Notes to Required Supplementary Information

Pension Schedules (Continued)

The expectation of contingent annuitant mortality was based on the PubS.H-2010(B) Contingent Annuitant Table with the following adjustments:

For males, 97% of male rates at all ages.

For females, 110% of female rates at all ages.

Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 2.75% to 2.40%.

The wage inflation assumption was reduced from 3.00% to 2.65%

The investment rate of return assumption was changed from 7.75% to 7.55%.

The assumed load for administrative expenses was increased from 0.25% to 0.28% of payroll.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to reflect actual experience more closely.

The percentage of active member disabilities assumed to be in the line of duty was increased from 9% to 12%.

The percentage of active member deaths assumed to be in the line of duty was decrease from 6% to 4%.

B. Changes in benefit provisions.

2016

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

C. Method and assumptions used in calculations of actuarially determined contributions.

The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	27.7 years
Asset valuation method	5-year smoothed market
Price Inflation	2.75 percent
Salary Increase	3.00 percent to 18.25 percent, including inflation
Investment rate of return	7.55 percent, net of pension plan investment expense, including inflation

SUPPLEMENTARY INFORMATION

CITY OF HOUSTON, MISSISSIPPI
Schedule of Expenditures of Federal Awards
September 30, 2022

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Provided to Subrecipient	Federal Expenditures
U.S. Department of Transportation				
Direct Program				
FAA Airport Improvement Program (AIP)	20.106	21952841	\$ -	\$ 1,040,436
Total Expenditures of Federal Awards			<u>-</u>	<u>1,040,436</u>

The notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF HOUSTON, MISSISSIPPI
Notes to Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the City of Houston, Mississippi under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented with the requirements of Title 2 U.S. *Code of Federal regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Houston, Mississippi, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Houston, Mississippi.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Note 3: Indirect Cost Rate

The City of Houston, Mississippi has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER INFORMATION

CITY OF HOUSTON, MISSISSIPPI
Schedule of Surety Bonds for City Officials
September 30, 2022

EMPLOYEE	POSITION	SURETY	AMOUNT OF BOND
Stacey W. Parker	Mayor	Western Surety Company	\$ 100,000
Matthew Callahan	Alderman	Western Surety Company	\$ 100,000
Barry Springer	Alderman	Western Surety Company	100,000
Willie Mae McKinney	Alderwoman	Western Surety Company	100,000
Shenia Jones	Alderwoman	Western Surety Company	100,000
John Fred Lancaster	Alderman	Western Surety Company	100,000
Lisa Easley	City Clerk	Brierfield Ins.	50,000
Barbara Buggs	Deputy Clerk	Brierfield Ins.	50,000
Shequala Jones	Deputy Clerk	Brierfield Ins.	50,000
Cindy Gore	Court Clerk	Brierfield Ins.	50,000
Adam Harmon	Police Chief	Brierfield Ins.	50,000
Lisa Mims	Librarian	Brierfield Ins.	50,000

CITY OF HOUSTON, MISSISSIPPI
Reconciliation of Original Ad Valorem Tax Rolls to Fund Collections
For the Year Ended September 30, 2022

<u>Assessed Valuation and Millage:</u>	<u>Assessed Values</u>	<u>Mills</u>	<u>Amount</u>
Real	\$ 17,036,970	38.16	650,131
Personal	9,219,339	38.16	351,810
Utility	585,368	38.16	<u>22,338</u>
Total Assessment			\$ 1,024,279
<u>Adjustments:</u>			
Less: Homestead Exemption		\$ (77,652)
Industrial Realty Exemption		(12,376)
Industrial Personal Realty Exemption		(37,205)
Homestead Adjustments		(1,281)
Add: Homestead Reimbursement			58,145
Prior Year Tax Collections			14,672
Privilege Licenses			12,994
Interest Charges			<u>-</u>
Net Adjustment			(42,703)
Total To Account For			\$ <u>981,576</u>

Collection Credit to Funds:

General Fund	\$ 637,124
Library Fund	46,047
Park Fund	107,056
School Maintenance	-
School 20 Year Note	-
2018 & 2019 Redemption Del Tax	2,573
School Shortfall Note 2020	-
GO Bond 2010	154,580
Interest and Penalty	-
Privilege License	12,994
Rails to Trails	<u>6,134</u>
Total	\$ 966,508

Balance Represented By:

Unpaid Realty Taxes	9,040
Unpaid Personal Taxes	8,355
Unaccounted for (overage)	<u>(2,327)</u>
Total Accounted For	\$ <u>981,576</u>

SPECIAL REPORTS



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA	John N. Russell, CPA
Harry W. Stevens, CPA	Anita L. Goodrum, CPA
S. Keith Winfield, CPA	Ricky D. Allen, CPA
William B. Staggers, CPA	Jason D. Brooks, CPA
Michael W. McCully, CPA	Robert E. Cordle, Jr., CPA
R. Steve Sinclair, CPA	Perry C. Rackley, Jr., CPA
Marsha L. McDonald, CPA	Jerry L. Gammel, CPA
Wanda S. Holley, CPA	Michael C. Knox, CPA
Robin Y. McCormick, CPA/PFS	Clifford P. Stewart, CPA
J. Randy Scrivner, CPA	Edward A. Maxwell, CPA
Kimberly S. Caskey, CPA	Bradley L. Harrison, CPA
Susan M. Lummus, CPA	Justin H. Keller, CPA
Stephen D. Flake, CPA	

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and Board of Aldermen
City of Houston
Houston, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Houston, Mississippi, as of and for the year ended September 30, 2022, and the related notes to financial statements, which collectively comprise the City of Houston, Mississippi's basic financial statements, and have issued our report thereon dated September 19, 2023.

Report On Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Houston, Mississippi's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Houston, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Houston, Mississippi's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Houston, Mississippi's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Houston, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Houston, Mississippi's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Houston, Mississippi's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Houston, Mississippi
September 19, 2023

Watkins Ward and Stafford, P.C.



WATKINS, WARD and STAFFORD
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Certified Public Accountants

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**Independent Auditors' Report on Compliance for the Major Federal Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Honorable Mayor and Board of Aldermen
City of Houston
Houston, Mississippi

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Houston, Mississippi's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City of Houston, Mississippi's major federal program for the year ended September 30, 2022. The City of Houston, Mississippi's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Houston, Mississippi complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Houston, Mississippi and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for major federal programs. Our audit does not provide a legal determination of the City of Houston, Mississippi's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Houston, Mississippi's federal program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Houston, Mississippi's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would

influence the judgment made by a reasonable user of the report on compliance about the City of Houston, Mississippi's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Houston, Mississippi's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Houston, Mississippi's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Houston, Mississippi's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance Section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Watkins, Ward and Stafford, PLLC

Houston, Mississippi
September 19, 2023

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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Michael C. Knox, CPA
Clifford P. Stewart, CPA
Edward A. Maxwell, CPA
Bradley L. Harrison, CPA
Justin H. Keller, CPA

**Independent Auditors' Report on Compliance
With State Laws and Regulations**

Honorable Mayor and Board of Aldermen
City of Houston
Houston, Mississippi

We have audited the basic financial statements of the City of Houston, Mississippi as of and for the year ended September 30, 2022 and have issued our report thereon dated September 19, 2023. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statements disclosed the following immaterial instance of noncompliance with state laws and regulations. Our finding and recommendation and your response is as follows:

1. Collateralization of Public Funds

Finding

Section 27-105-5, Miss Code Ann. (1972) requires local governments to collateralize all public funds that exceed the threshold of protection provided by the FDIC.

During our testing of compliance with Section 27-105-5, Miss Code Ann. (1972) we noted that the required amount of collateralization for the City was not met.

Recommendation

We recommend the City comply with Section 27-105-5, Miss Code Ann. (1972) in collateralizing public funds held by banks.

Response

We will comply with Section 27-105-5, Miss Code Ann. (1972) and collateralize all public funds held by the City.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the finding in this report to ensure that corrective action has been taken.

This report is intended for the information of the City of Houston, Mississippi's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Houston, Mississippi
September 19, 2023

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Houston, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section 1: Summary of Auditors' Results

Financial Statement

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued on the Financial statements: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | | | | | |
|--|--|--|---|--------|---------------------------------|--|
| 4. | Internal control over major programs: | | | | | |
| | a. Material weakness(es) identified? | No | | | | |
| | b. Significant deficiency(ies) identified? | None reported | | | | |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified | | | | |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No | | | | |
| 7. | Identification of major programs: | | | | | |
| | <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><u>Federal Assistance Listing Number</u></td> <td style="width: 50%;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td>20.106</td> <td>FAA Airport Improvement Program</td> </tr> </table> | <u>Federal Assistance Listing Number</u> | <u>Name of Federal Program or Cluster</u> | 20.106 | FAA Airport Improvement Program | |
| <u>Federal Assistance Listing Number</u> | <u>Name of Federal Program or Cluster</u> | | | | | |
| 20.106 | FAA Airport Improvement Program | | | | | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 | | | | |
| 9. | Auditee qualified as low-risk auditee? | No | | | | |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal Awards which would require the auditee to prepare a summary schedule Or prior audit findings in accordance with CFR (b). | No | | | | |

Section II: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported under Government Auditing Standards.

Section III: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.