

CITY OF PORT NECHES, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Prepared by Finance Department

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March 31, 2020

To the Honorable Mayor, Members of the City Council,
And the Citizens of Port Neches, Texas

It is our pleasure to submit for your information the Comprehensive Annual Financial Report (CAFR) of the City of Port Neches (City) for the fiscal year ended September 30, 2019. This report was prepared by City management and staff, in accordance with the City Charter, and in compliance with State law, to provide citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City.

The CAFR consists of representations by City management concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of the information presented in this report, based upon a comprehensive internal control framework that is established for the purpose of providing accurate data in all material respects. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements.

The City's financial statements have been audited by Mitchell T. Fontenote, Certified Public Accountant, Inc. which is a firm of licensed certified public accountants. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended September 30, 2019, and that they are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

The report from the CPA firm Mitchell T. Fontenote, Certified Public Accountant, Inc. is presented as the first component of the financial section of this document. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). Finally, the statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Port Neches, incorporated in 1927, is located in the southeast corner of the state in Jefferson County. With a population of 13,040 the City occupies a land area of 8.99 square miles. The City is served by a regional airport, has ready rail access to all parts of the country, and is located on the Neches River. Although empowered to levy a property tax on both real and personal properties located within its boundaries, the City collects no personal or corporate taxes from residents, nor is a State income tax assessed.

The City is a Council-Manager form of government. It is governed by an elected City Council composed of a Mayor and five (5) Council members, who each serve three (3) year staggered terms. The City Council is charged with formulating public policy, enacting local legislation, adopting budgets, and appointing the City Manager, City Attorney, and Municipal Court Judge. The City Manager is the chief administrative and executive officer of the City, and implements Council directives and policies, administers the fiscal affairs, and is responsible for the administration of municipal operations. The City provides a full range of services including police and fire protection, the construction and maintenance of streets and other infrastructure, and recreational and cultural facilities. Additionally, water, sanitary sewer, and solid waste services are operated by the City.

The financial reporting entity includes all the funds of the primary government as well as its legally separate component unit, the Port Neches Economic Development Corporation.

Factors Affecting Financial Conditions

The City is located in a metropolitan area in Southeast Texas frequently referred to as the Golden Triangle and is a component of the Beaumont-Port Arthur-Orange MSA. Retail and service businesses, along with residential construction firms, continue to experience growth as the overall local economy remains strong. The regional economy is substantially based on petroleum refining and the production and processing of chemicals and petrochemicals. Area refineries are aggressively expanding their refining infrastructure, several Liquefied Natural Gas facilities are operational and/or under development, and significant construction activity remains in progress to support the personnel and corresponding service needs associated with the industrial projects. These improvements, totaling approximately \$20 billion, have provided massive economic stimulus to communities throughout our regional energy corridor. Local school entities have upgraded educational infrastructure, creating both an economic and quality of life impact for our citizens.

The City continues with its conservative approach to the expansion of various public services. The City continues to invest in quality of life improvements and basic infrastructure maintenance, and has not encountered any need to reduce the level of services to its citizens. While the economic environment and public expenditure policies are subject to change and reevaluation, it is anticipated that the City will experience manageable growth that will not be disruptive to the current financial position of the City.

Major Initiatives and Long Term Planning

The City continues to be the recipient of numerous Federal and State grants. These funds have been and continue to be utilized for the construction of municipal facilities, infrastructure improvements, and the purchase/acquisition of equipment.

In 2019, the City continued work on the remaining projects utilizing funds from Certificates of Obligation issued in 2016. Specifically, these projects include (1) improvements to the Wastewater Treatment Plant; and (2) erosion barrier construction. The City continues to work with potential developers as a means of transforming its 50 acres of riverfront property into an economically vibrant area. The City sold a portion of this area for the development of a subdivision consisting of approximately 100 homes priced, on average, in the \$300,000 range. Engineering for roadway and water/sewer improvements for the commercial component of this property has been initiated with construction scheduled to begin in the late Spring of 2020. Also, the City anticipates the approval of grant funding in

2020 which will allow for the replacement of an existing water tower and the construction of a three (3) mile water line which will then allow for a fully looped water distribution system.

In 2019, the City, conducted an election, with overwhelming voter approval, which allowed for the establishment of a dedicated street maintenance sales tax. The initial receipt of monthly sales tax collections for this purpose will occur in June 2020.

The regional area has benefited from the resurgence in U.S. energy production. As a result of numerous expansions in the industrial and commercial economic sectors, the City has experienced a boom in new housing construction. It is anticipated that the base taxable values of both industry and residential properties will expand over the next several years. The strong economy is expected to support an expansion in commercial ventures as well.

The Port Neches Economic Development Corporation (PNEDC) continues to collaborate with the private sector to provide funding mechanism that assist in the placement of new business in the community. With the aforementioned sale of that section of riverfront property for residential development, a portion of the sale proceeds was utilized to retire all of the outstanding debt of the corporation in January 2020. The PNEDC also continues to facilitate the retention and expansion of existing businesses.

Relevant Financial Policies – Budgetary Control, Risk Management and Pension Obligations

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager by mid-May. A proposed budget is then prepared which is presented to the City Council for review by August 15. In accordance with the City Charter and State statutes, public hearings on the proposed budget and corresponding tax rate are then conducted. The budget and tax rate must be approved and adopted by the City Council no later than September 30.

The appropriated budget is prepared by fund and department. Transfers of appropriations between funds require the approval of the City Council, with certain adjustments within departments can be authorized by the City Manager. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

The primary objective of the City's investment policy is safety of principal in order to minimize credit and market risks, while maintaining a competitive yield on its portfolio.

The City is exposed to a variety of accidental losses and has initiated a risk management strategy that attempts to minimize both losses and the cost of insurance. Risk control methods have been established to reduce possible losses to property owned or under the control of the City and to assure that the City's employees are aware of their duties and responsibilities. The primary method used for risk financing and control is participation in the Texas Municipal League Intergovernmental Risk Pool.

The City provides pension benefits for all full-time employees, through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement

System (TMRS), an agent multiple-employer public employee retirement system. As a matter of policy, the City fully funds the annual required contribution to the pension plan as determined by the TMRS actuary. The City provides additional post employment benefits in the form of medical, dental, and life insurance.

Single Audit

OMB Uniform Guidance (2.CFR.200) requirements were utilized to review the funding of State and Federal Awards for the fiscal year ended September 30, 2019. The City did not meet the threshold for Single Audit in this period. The City does, however, anticipate the receipt of approximately \$3 million in disaster recovery funds in the next fiscal year such that this threshold will be met.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2018. This is the thirty third year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one (1) year only. The City believes that the current comprehensive annual financial report continues to meet the requirement of the Certificate of Achievement Program and, as such, the City will submit this document to the GFOA to determine its eligibility for another certificate.

I very much appreciate the Mayor and the members of the City Council for their continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. I also wish to express my gratitude to all employees of the City for their contributions in the preparation of this financial report as well as their ongoing commitment to serving the citizens of Port Neches.

Respectively submitted,



Andre' Wimer
City Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Port Neches
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2018

Christopher P. Morrill

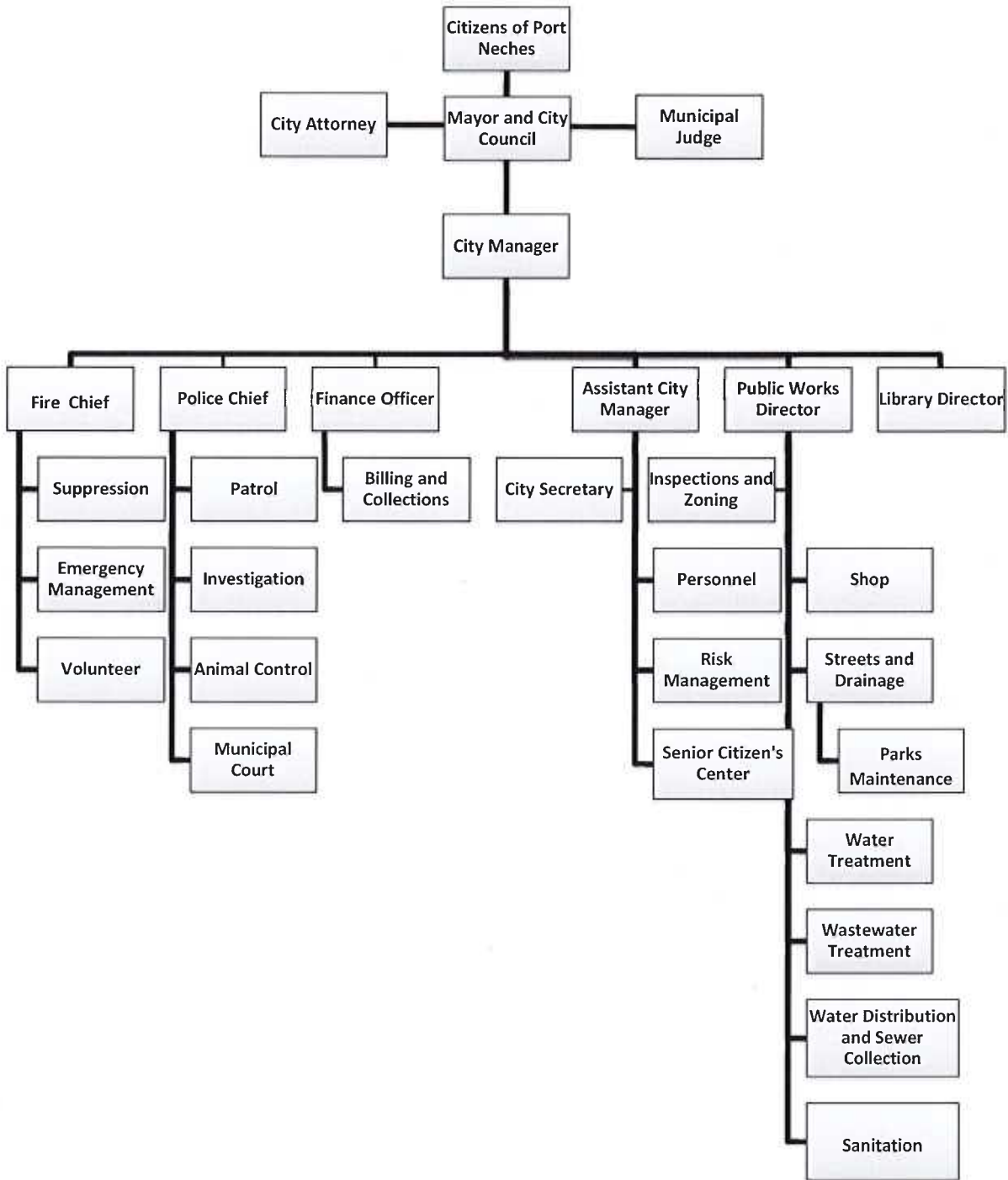
Executive Director/CEO

CITY OF PORT NECHES, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
September 30, 2019

CITY OFFICIALS	ELECTED POSITIONS
Glenn Johnson	Mayor
Chris McMahon	Council Member - Place 1
Adam Anders	Council Member - Place 2
John Davenport	Council Member - Place 3
Robert Arnold	Council Member - Place 4
Julie Gauthier	Council Member - Place 5

KEY STAFF	POSITION
Andre' Wimer	City Manager
David Miller	Assistant City Manager
Amy Guidroz	Finance Officer
Jamie Mendoza	City Secretary
Taylor Shelton	Public Works Director
Paul Lemoine	Police Chief
Paul Nelson	Fire Chief / Emergency Management Coordinator
Mark Durham	Library Director

CITY OF PORT NECHES ORGANIZATIONAL CHART



FINANCIAL SECTION

MITCHELL T. FONTENOTE

CERTIFIED PUBLIC ACCOUNTANT, INC.

March 31, 2020

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Port Neches, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Neches, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Port Neches, Texas's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Neches, Texas, as of September 30, 2019, 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.

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PHONE (409) 722-6300 • FAX (409) 722-6301
MITCHELL@MTFCPAS.COM

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8, the schedule of changes in net pension liability and related ratios on page 42, the schedule of employer contributions – pension plan on page 43, and the schedule changes in other postemployment benefits liability on page 44, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Port Neches, Texas's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020, on our consideration of the City of Port Neches, Texas'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 Port Neches, Texas'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 the City of Port Neches, Texas's internal control over financial reporting and compliance.

Mitchell T Fontenote CPA, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Port Neches (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

The net position of the City exceeded its liabilities at the close of 2019 by \$51,660,166,. Of this amount, (\$7,439,500) is considered unrestricted. The unrestricted net position of the City's governmental activities is (\$3,135,763.) The unrestricted net position of the City's business-type activities is (\$4,303,737). The total net position of the City decreased by \$1,732,139 from current year operations.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$12,150,953 which is an increase of \$413,381. Approximately 63% of this total amount, \$7,595,283, is unassigned at September 30, 2019 and is considered available for spending.

The General Fund reported a fund balance of \$7,649,244 at the end of the current fiscal year. The unassigned fund balance for the General Fund was \$7,595,283 or 72% of total General Fund expenditures (excluding transfers out net of debt issuance).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements which are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private sector businesses.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items may result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public works, public safety, and community enrichment. The business-type activities of the City include the water/wastewater system and a solid waste collection system.

A component unit is included in the City's basic financial statements. The Port Neches Economic Development Corporation (PNEDC), a legally separate entity, is comprised of a board appointed by the City Council and derives funding from sales tax revenue. Financial information for this component unit is reported separately from the financial information presented for the primary government. Separately published financial statements for the PNEDC are not available. The government-wide financial statements can be found in Exhibits A and B of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Improvement Fund, and Debt Service Fund. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Port Neches adopts an annual appropriated budget for its General Fund. A budgetary comparison is provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found in Exhibits C and D of this report.

Proprietary Funds are maintained by two different types. Enterprise funds are used to report the same functions presented as business-type activities in the government wide financial statements. The City uses enterprise funds to account for its water distribution/wastewater treatment systems and the solid waste operation. The Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the City's various functions for the payment of compensated absences at termination, including unused sick leave. The basic proprietary fund financial statements can be found in Exhibits F, G, and H of this report. The Internal Service Fund financial statement is also included in Exhibit H.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds as noted in Exhibit I.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 41 of this report.

Required Supplementary Information is presented in addition to the basic financial statements and accompanying notes. This report provides certain required supplementary information concerning the City's pension liability and other post-employment benefits. Required supplementary information can be found in Exhibit J-1 through Exhibit J-3 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and the internal service fund follow the required supplementary information on pensions. Combining and individual fund statements and schedules can be found in Exhibits K through N of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$51,660,166 at the close of the most recent fiscal year. The portion of the City's net position, \$58,072,502, reflects its investment in capital assets (e.g. land, buildings, improvements, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

The City's deferred outflows and inflow of resources changed significantly from the prior year mainly due to investment experience as well as changes in assumptions related to pensions and other post-employment benefits.

Net Position

September 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$ 13,508,631	\$ 12,953,731	\$ 3,286,761	\$ 3,198,014	\$ 16,795,392	\$ 16,151,745
Capital Assets	38,675,382	40,114,675	32,922,120	33,867,134	71,597,502	73,981,809
Total Assets	52,184,013	53,068,406	36,208,881	37,065,148	88,392,894	90,133,554
Deferred Outflows	2,460,769	1,718,253	1,212,020	846,563	3,672,789	2,564,816
Current Liabilities	644,297	717,665	735,973	993,166	1,380,270	1,710,831
Long-term Liabilities						
Outstanding	30,958,702	28,442,081	8,066,545	6,192,637	39,025,247	34,634,718
Total Liabilities	31,602,999	29,159,746	8,802,518	7,185,803	40,405,517	36,345,549
Deferred Inflows	-	2,074,673	-	976,495	-	3,051,168
Net Position						
Net Investment in						
Capital Assets	25,150,382	25,044,675	32,922,120	33,867,134	58,072,502	58,911,809
Restricted	1,027,164	1,015,798	-	-	1,027,164	1,015,798
Unrestricted	(3,135,763)	(2,508,233)	(4,303,737)	(4,117,721)	(7,439,500)	(6,625,954)
Total Net Position	\$ 23,041,783	\$ 23,552,240	\$ 28,618,383	\$ 29,749,413	\$ 51,660,166	\$ 53,301,653

The City's net position reflects a current year decrease of \$1,732,139 as of the fiscal year end. The City's net position of governmental activities decreased by \$601,109 in the current year. The net position of the business activities decreased by \$1,131,030 in the current year.

Changes in Net Position

For the fiscal years ended September 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Charges for Services	\$ 387,040	\$ 288,920	\$ 4,847,405	\$ 4,897,522	\$ 5,234,445	\$ 5,186,442
Capital Grants and Contributions	184,424	133,441	-	-	184,424	133,441
General Revenues					-	-
Property Taxes	6,704,371	6,568,214	-	-	6,704,371	6,568,214
Sales Tax	1,120,965	1,159,192	-	-	1,120,965	1,159,192
In Lieu of Tax Payments	3,280,077	2,692,809	-	-	3,280,077	2,692,809
Gross Receipts Tax	746,479	742,476	-	-	746,479	742,476
Miscellaneous	603,401	705,561	31,316	84,393	634,717	789,954
Investment Earnings	199,717	197,096	87,694	99,376	287,411	296,472
Total Revenues	13,226,474	12,487,709	4,966,415	5,081,291	18,192,889	17,569,000
Expenses						
General Government	3,070,576	2,762,191	-	-	3,070,576	2,762,191
Public Safety	6,313,651	5,912,107	-	-	6,313,651	5,912,107
Public Works	1,836,131	1,768,054	-	-	1,836,131	1,768,054
Community Enrichment	1,009,362	885,855	-	-	1,009,362	885,855
Contingent	1,880,658	1,344,876	-	-	1,880,658	1,344,876
Interest on Long Term Debt	403,402	432,506	-	-	403,402	432,506
Water	-	-	4,921,381	4,556,214	4,921,381	4,556,214
Sanitation	-	-	1,212,994	1,227,937	1,212,994	1,227,937
Total Expenses	14,513,780	13,105,589	6,134,375	5,784,151	20,648,155	18,889,740
Increase (Decrease) in Net Assets before Transfers	(1,287,306)	(617,880)	(1,167,960)	(702,860)	(2,455,266)	(1,320,740)
Special item - source	-	-	449,930	-	449,930	-
Transfers	686,197	413,000	(413,000)	(413,000)	273,197	-
Increase (Decrease) in Net Assets	(601,109)	(204,880)	(1,131,030)	(1,115,860)	(1,732,139)	(1,320,740)
Net Position at Beginning of Year	23,552,240	29,242,981	29,749,413	33,567,265	53,301,653	62,810,246
Prior Period Adjustment	90,652	(5,485,861)	-	(2,701,992)	90,652	(8,187,853)
Net Position at End of Year	\$ 23,041,783	\$ 23,552,240	\$ 28,618,383	\$ 29,749,413	\$ 51,660,166	\$ 53,301,653

Financial Analysis of the City's Funds

As noted earlier, the City utilizes fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental Funds are depicted to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is beneficial in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2019, the City's government funds reported combined ending fund balances of \$12,150,953. Approximately 63.0% of this amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is assigned or restricted to indicate that it is not available for new spending because it has previously been committed to inventories, capital projects, and/or debt service.

The General Fund is the chief operating fund of the City. At September 30, 2019, unassigned fund balance of the General Fund was \$7,595,283, while total fund balance was \$7,649,244. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (including transfers out). Unassigned fund balance represents 72% of total General Fund expenditures (including transfers out), while total fund balance represents 73% of the same amount.

Financial Analysis of the City's Funds (Continued)

The fund balance of the City's General Fund increased in 2019 by \$753,246. Overall, revenues were collected in line with budgeted amounts as amended. The expenditures in total did not exceed budgeted amounts as amended.

The fund balance of the Capital Improvement Fund decreased by \$425,499. The majority of this decrease is due to projects that were completed and contributed to the Water and Sewer funds.

The Debt Service Fund has a total fund balance of \$1,027,164. The net increase in fund balance during 2019 in this fund was \$11,366. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements.

General Fund Budgetary Highlights

During the fiscal year, the City delivered quality service levels within a moderately higher operating budget. As the fiscal year progressed, retail sales tax collections exceeded budgeted amounts. Increase in expenditure levels were authorized by budget amendment for wage scale increases and special programs related to Emergency Management.

Proprietary Funds. The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year amounted to \$(4,608,940) for the Water and Sewer Fund. The net position of this fund decreased by \$1,244,174 for the year. The decrease was due primarily to the adjustment to the net pension liability required for financial statement reporting by the GASB 68 pronouncement. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2019, amounts to \$71,597,502 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, streets, and drainage systems.

	Balance September 30, 2019	Balance September 30, 2018
<u>Governmental Activities</u>		
Land	\$ 9,308,420	\$ 9,308,420
Construction in Progress	975,146	975,146
Buildings and Improvements	19,015,998	19,015,998
Infrastructure	16,412,829	16,412,829
Machinery and Equipment	10,132,073	10,079,601
Vehicles	1,979,853	1,966,108
	57,824,319	57,758,102
Less: Accumulated Depreciation	(19,148,937)	(17,643,427)
Total Governmental Activities	<u>\$ 38,675,382</u>	<u>\$ 40,114,675</u>
<u>Business-Type Activities</u>		
Buildings and System	\$ 45,385,919	\$ 44,935,989
Machinery and Equipment	13,817,080	13,800,940
	59,202,999	58,736,929
Less: Accumulated Depreciation	(26,280,879)	(24,869,795)
Total Business Activities	<u>\$ 32,922,120</u>	<u>\$ 33,867,134</u>

Additional information of the City's capital assets can be found in Note 1 and Note 3.

Long-Term Debt

At September 30, 2019, the City had \$13,525,000 outstanding in long-term debt. All debt is backed by the full faith and credit of the City.

The City's bond ratings by Standard & Poor's Corporation and Moody's Investor Services, Inc. are A+ and A1, respectively.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Bonds Payable	\$ 13,525,000	\$ 15,070,000	\$ -	\$ -	\$ 13,525,000	\$ 15,070,000
Net Pension Obligation	6,543,475	3,399,442	3,222,906	1,674,352	9,766,381	5,073,794
OPEB Liability	9,029,593	8,407,822	4,447,414	4,141,168	13,477,007	12,548,990
Compensated Absences	1,849,565	1,542,677	396,225	377,117	2,245,790	1,919,794
Unamortized Bond Premium	11,069	22,140	-	-	11,069	22,140
	<u>\$ 30,958,702</u>	<u>\$ 28,442,081</u>	<u>\$ 8,066,545</u>	<u>\$ 6,192,637</u>	<u>\$ 39,025,247</u>	<u>\$ 34,634,718</u>

More detailed information about the City's debt is presented in the Notes to the Financial Statements, Note 3: E, page 33.

Economic Factors and Next Year's Budgets and Rates

Jefferson County Appraisal District's certified tax roll indicates the 2019 property tax levy has increased by \$375,467 to \$7,078,376.

The property tax rate for the 2020 fiscal year is \$0.72799 per \$100 assessed valuation. Overall property values remained at a stable level throughout the City.

For FY 2019, Industrial District values have increased by \$12,028,721. Industrial contracts will produce approximately \$3,318,471 in revenue, which is an increase of \$27,525. These items were considered in preparing the City of Port Neches budget for the 2020 fiscal year.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report may be addressed to the Municipal Administration Department, P.O. Box 758, Port Neches, Texas 77651. General information on the City of Port Neches, Texas is available at <http://www.ci.port-neches.tx.us>.

BASIC FINANCIAL STATEMENTS

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 12,780,938	\$ 2,453,666	\$ 15,234,604	\$ 2,087,793
Receivables (net of allowance)	170,336	425,388	595,724	118,364
Other Receivable	503,396	-	503,396	-
Inventories	53,961	210,131	264,092	-
Restricted Cash	-	197,576	197,576	66,917
Capital Assets:				
Land	9,308,420	-	9,308,420	-
Infrastructure, net	8,936,330	-	8,936,330	-
Buildings, net	13,441,504	-	13,441,504	-
Machinery and Equipment, net	5,395,366	-	5,395,366	-
Vehicles, net	618,616	-	618,616	-
Capital Assets, net	-	32,922,120	32,922,120	-
Construction in Progress	975,146	-	975,146	-
Total assets	52,184,013	36,208,881	88,392,894	2,273,074
DEFERRED INFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	2,283,939	1,124,925	3,408,864	-
Deferred Outflow Related to OPEB	176,830	87,095	263,925	-
Total Deferred Inflows of Resources	2,460,769	1,212,020	3,672,789	-
LIABILITIES				
Accounts Payable	383,968	714,031	1,097,999	6,916
Other Current Liabilities	260,329	21,942	282,271	-
Noncurrent Liabilities				
Due Within One Year	1,980,983	79,245	2,060,228	110,000
Due in More Than One Year	28,977,719	7,987,300	36,965,019	1,120,000
Total liabilities	31,602,999	8,802,518	40,405,517	1,236,916
NET POSITION				
Net Investment in Capital Assets	25,150,382	32,922,120	58,072,502	-
Restricted for Debt Service	1,027,164	-	1,027,164	-
Unrestricted Net Position	(3,135,763)	(4,303,737)	(7,439,500)	1,036,158
Total Net Position	\$ 23,041,783	\$ 28,618,383	\$ 51,660,166	\$ 1,036,158

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 3,070,576	\$ -	\$ -	\$ -
Public Safety	6,313,651	169,811	-	184,424
Public Works	1,836,131	217,229	-	-
Community Enrichment	1,009,362	-	-	-
Contingent	1,880,658	-	-	-
Bond Interest	403,402	-	-	-
Total Governmental Activities	<u>14,513,780</u>	<u>387,040</u>	<u>-</u>	<u>184,424</u>
Business-type Activities				
Water and Sewer Fund	4,921,381	3,407,713	-	-
Sanitation	1,212,994	1,439,692	-	-
Total Business-type Activities	<u>6,134,375</u>	<u>4,847,405</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 20,648,155</u>	<u>\$ 5,234,445</u>	<u>\$ -</u>	<u>\$ 184,424</u>
Component Unit:				
Nonmajor Component Unit	522,211	-	-	-
TOTAL COMPONENT UNITS	<u>\$ 522,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes

Property Taxes, Levied for General Purposes

Sales Taxes

InLieu of Tax Contracts

Gross Receipts Business Tax

Miscellaneous Revenue

Investment Earnings

Special Item - resource

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

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

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Nonmajor Component Unit
\$ (3,070,576)	\$ -	\$ (3,070,576)	\$ -
(5,959,416)	-	(5,959,416)	-
(1,618,902)	-	(1,618,902)	-
(1,009,362)	-	(1,009,362)	-
(1,880,658)	-	(1,880,658)	-
(403,402)	-	(403,402)	-
<u>(13,942,316)</u>	<u>-</u>	<u>(13,942,316)</u>	<u>-</u>
-	(1,513,668)	(1,513,668)	-
-	226,698	226,698	-
-	<u>(1,286,970)</u>	<u>(1,286,970)</u>	<u>-</u>
<u>\$ (13,942,316)</u>	<u>\$ (1,286,970)</u>	<u>\$ (15,229,286)</u>	<u>\$ -</u>
-	-	-	(522,211)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (522,211)</u>
6,704,371	-	6,704,371	-
1,120,965	-	1,120,965	548,325
3,280,077	-	3,280,077	-
746,479	-	746,479	-
603,401	31,316	634,717	35,000
199,717	87,694	287,411	1,581
-	449,930	449,930	-
686,197	<u>(413,000)</u>	<u>273,197</u>	<u>-</u>
13,341,207	155,940	13,497,147	584,906
(601,109)	(1,131,030)	(1,732,139)	62,695
<u>23,552,240</u>	<u>29,749,413</u>	<u>53,301,653</u>	<u>973,463</u>
90,652	-	90,652	-
<u>\$ 23,041,783</u>	<u>\$ 28,618,383</u>	<u>\$ 51,660,166</u>	<u>\$ 1,036,158</u>

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

BALANCE SHEET
SEPTEMBER 30, 2019

	General Fund	Debt Service	Capital Improvement	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 7,705,296	\$ 1,027,164	\$ 2,788,270	\$ 717,163	\$ 12,237,893
Taxes Receivable	200,932	103,240	-	-	304,172
Allowance for Uncollectible Taxes	(88,410)	(45,426)	-	-	(133,836)
Other Receivable	442,331	-	-	61,065	503,396
Inverntory	53,961	-	-	-	53,961
Total assets	<u>8,314,110</u>	<u>1,084,978</u>	<u>2,788,270</u>	<u>778,228</u>	<u>12,965,586</u>
LIABILITIES					
Accounts Payable	292,015	-	9,741	82,212	383,968
Other Current Liabilities	260,329	-	-	-	260,329
Total liabilities	<u>552,344</u>	<u>-</u>	<u>9,741</u>	<u>82,212</u>	<u>644,297</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property Taxes	112,522	57,814	-	-	170,336
Total Deferred Inflows of Resources	<u>112,522</u>	<u>57,814</u>	<u>-</u>	<u>-</u>	<u>170,336</u>
FUND BALANCE					
Non-spendable					
Inventories	53,961	-	-	-	53,961
Restricted					
Public Safety	-	-	-	70,108	70,108
Community Enrichment	-	-	-	50,799	50,799
Retirement of Long-term Debt	-	1,027,164	-	-	1,027,164
Assigned					
Other Assigned	-	-	2,778,529	575,109	3,353,638
Unassigned fund balance	7,595,283	-	-	-	7,595,283
Total fund balance	<u>\$ 7,649,244</u>	<u>\$ 1,027,164</u>	<u>\$ 2,778,529</u>	<u>\$ 696,016</u>	<u>\$ 12,150,953</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 8,314,110</u>	<u>\$ 1,084,978</u>	<u>\$ 2,788,270</u>	<u>\$ 778,228</u>	<u>\$ 12,965,586</u>

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Total Fund Balance - Governmental Funds Balance Sheet		\$	12,150,953
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			
	Total Capital Assets	57,824,319	
	Accumulated Depreciation	(19,148,937)	38,675,382
Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds			
			170,336
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.			
	Bonds outstanding	13,525,000	
	Bond premium outstanding	11,069	(13,536,069)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.			
	Deferred outflows	3,585,452	
	Deferred inflows	(1,301,513)	
	Net pension obligation	(6,543,475)	(4,259,536)
Other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.			
	Deferred outflows	331,398	
	Deferred inflows	(154,568)	
	Net OPEB obligation	(9,029,593)	(8,852,763)
The internal service fund is used by the City to charge compensated absences to the individual funds. The assets and liabilities of the internal service fund related to the governmental funds that are included in the Statement of Net Position.			
			(1,306,520)
Net Position of Governmental Activities - Statement of Net Position		\$	<u>23,041,783</u>

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	General Fund	Debt Service	Capital Improvement	Other Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property Tax	\$ 4,737,578	\$ 1,951,210	\$ -	\$ -	\$ 6,688,788
Sales Tax	1,120,965	-	-	-	1,120,965
In Lieu of Tax Contracts	3,280,077	-	-	-	3,280,077
Gross Receipts Business Tax	746,479	-	-	-	746,479
Licenses and Permits	217,229	-	-	-	217,229
Grants, Contributions, and Other Governments	88,654	-	-	95,770	184,424
Fines	169,811	-	-	-	169,811
Interest	163,050	19,629	17,038	-	199,717
Other Revenue	325,363	-	280,000	-	605,363
Total revenues	<u>10,849,206</u>	<u>1,970,839</u>	<u>297,038</u>	<u>95,770</u>	<u>13,212,853</u>
EXPENDITURES					
General Government	1,058,278	-	-	-	1,058,278
Public Safety	5,461,871	-	5,149	2,250	5,469,270
Public Works	1,590,569	-	-	-	1,590,569
Community Enrichment	855,119	-	-	19,252	874,371
Contingent	1,416,320	-	12,821	-	1,429,141
Debt Service:					
Debt Principal - Bonded Debt	-	1,545,000	-	-	1,545,000
Debt Interest - Bonded Debt	-	413,048	-	-	413,048
Fiscal Agent's Fees	-	1,425	-	-	1,425
Capital Outlay	-	-	704,567	-	704,567
Total operations	<u>10,382,157</u>	<u>1,959,473</u>	<u>722,537</u>	<u>21,502</u>	<u>13,085,669</u>
Excess of revenues over (under) expenditures	467,049	11,366	(425,499)	74,268	127,184
OTHER FINANCING SOURCES (USES)					
Transfers In	486,197	-	-	-	486,197
Transfers Out	(200,000)	-	-	-	(200,000)
Total Other Financing Sources (Uses)	<u>286,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>286,197</u>
Net Changes in Fund Balances	753,246	11,366	(425,499)	74,268	413,381
Fund Balance - October 1	6,895,998	1,015,798	3,204,028	621,748	11,737,572
	-	-	-	-	-
Fund Balance - September 30	<u>\$ 7,649,244</u>	<u>\$ 1,027,164</u>	<u>\$ 2,778,529</u>	<u>\$ 696,016</u>	<u>\$ 12,150,953</u>

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

**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, 2019**

Net Change in Fund Balances - Total Governmental Funds		\$	413,381
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds			15,583
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			
	Capital outlay	202,504	202,504
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resource of governmental funds; however, neither transaction has an effect on net position			
	Principal payments	1,545,000	
	Bond amortization	11,071	1,556,071
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Conversely, certain items reported as expenditures in the governmental funds are considered assets in the government-wide statements.			
	Loss on Sale of Asset	(1,961)	
	Depreciation	(1,639,835)	
	Pension expense	(813,338)	
	OPEB expense	(225,929)	(2,681,063)
The net revenues of certain activities of internal service funds are reported with governmental activities.			(107,585)
Change in Net Position of Governmental Activities - Statement of Activities		\$	<u>(601,109)</u>

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

**FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property Tax	\$ 4,795,000	\$ 4,795,000	\$ 4,737,578	\$ (57,422)
Sales Tax	930,000	930,000	1,120,965	190,965
In Lieu of Tax Contracts	3,300,000	3,300,000	3,280,077	(19,923)
Gross Receipts Business Tax	732,000	732,000	746,479	14,479
Licenses and Permits	107,400	177,400	217,229	39,829
Grants, Contributions, and Other Governments	15,000	100,000	88,654	(11,346)
Fines	195,100	175,100	169,811	(5,289)
Interest	35,000	135,000	163,050	28,050
Other Revenue	308,500	308,500	325,363	16,863
Total revenues	10,418,000	10,653,000	10,849,206	196,206
EXPENDITURES				
General Government	1,062,800	1,062,800	1,058,278	4,522
Public Safety	5,556,500	5,629,600	5,461,871	167,729
Public Works	1,570,600	1,606,400	1,590,569	15,831
Community Enrichment	1,023,800	1,023,800	855,119	168,681
Contingent	1,617,300	1,762,300	1,416,320	345,980
Capital Outlay	-	-	-	-
Total operations	10,831,000	11,084,900	10,382,157	702,743
Excess of revenues over (under) expenditures	(413,000)	(431,900)	467,049	898,949
OTHER FINANCING SOURCES (USES)				
Transfers In	413,000	413,000	486,197	(73,197)
Transfers Out	-	-	(200,000)	-
Total Other Financing Sources (Uses)	413,000	413,000	286,197	(73,197)
Net Changes in Fund Balances	-	(18,900)	753,246	825,752
Fund Balance - October 1	6,895,998	6,895,998	6,895,998	-
	-	-	-	-
Fund Balance - September 30	\$ 6,895,998	\$ 6,877,098	\$ 7,649,244	\$ 825,752

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

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019**

	Business-Type Activities - Enterprise Funds			Governmental
	Water and		Total	Activities
	Sewer	Sanitation	Enterprise	Internal
	Fund	Fund	Funds	Service Fund
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,877,664	\$ 650,927	\$ 2,528,591	\$ 468,121
Accounts Receivable - Net of Uncollectible Allowance	241,578	183,810	425,388	-
Inventories	183,275	26,856	210,131	-
Restricted Cash	197,576	-	197,576	-
Total assets	<u>2,500,093</u>	<u>861,593</u>	<u>3,361,686</u>	<u>468,121</u>
Noncurrent Assets:				
Capital Assets:				
Capital Assets	57,615,660	1,587,339	59,202,999	-
Accumulated Depreciation	<u>(25,265,660)</u>	<u>(1,015,219)</u>	<u>(26,280,879)</u>	<u>-</u>
Total Noncurrent Assets	<u>32,350,000</u>	<u>572,120</u>	<u>32,922,120</u>	<u>-</u>
Total Assets	<u>34,850,093</u>	<u>1,433,713</u>	<u>36,283,806</u>	<u>468,121</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	1,124,925	-	1,124,925	-
Deferred Outflow Related to OPEB	87,095	-	87,095	-
Total Deferred Outflows of Resources	<u>1,212,020</u>	<u>-</u>	<u>1,212,020</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	628,791	85,240	714,031	-
Compensated Absences Payable	-	-	-	449,158
Refundable Customer Credits	21,942	-	21,942	-
Total liabilities	<u>650,733</u>	<u>85,240</u>	<u>735,973</u>	<u>449,158</u>
NonCurrent Liabilities:				
Compensated Absences Payable	-	-	-	1,796,632
Net Pension Liability	3,222,906	-	3,222,906	-
Other Post Employment Benefits Liability	4,447,414	-	4,447,414	-
Total Noncurrent Liabilities	<u>7,670,320</u>	<u>-</u>	<u>7,670,320</u>	<u>1,796,632</u>
Total Liabilities	<u>8,321,053</u>	<u>85,240</u>	<u>8,406,293</u>	<u>2,245,790</u>
NET POSITION				
Net Investment in Capital Assets	32,350,000	572,120	32,922,120	-
Unrestricted Net Position	<u>(4,608,940)</u>	<u>776,353</u>	<u>(3,832,587)</u>	<u>(1,777,669)</u>
Total Net Position	<u>\$ 27,741,060</u>	<u>\$ 1,348,473</u>	<u>\$ 29,089,533</u>	<u>\$ (1,777,669)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>(471,150)</u>	
Net Position of Business Type Activities			<u>\$ 28,618,383</u>	

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Sanitation Fund	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES				
Water Service	\$ 1,940,154	\$ -	\$ 1,940,154	\$ -
Sewer Service	1,411,519	-	1,411,519	-
Sanitation Service	-	1,439,692	1,439,692	-
Tap fees	56,040	-	56,040	-
Penalties and Other	66,182	21,512	87,694	-
Miscellaneous Income	22,274	9,042	31,316	-
Total Operating Revenues	<u>3,496,169</u>	<u>1,470,246</u>	<u>4,966,415</u>	<u>-</u>
OPERATING EXPENSES				
Proprietary Expenses				
Supplies and Purification	1,626,979	-	1,626,979	-
Water and Sewer Maintenance	828,243	-	828,243	-
Billing and Collection	239,905	-	239,905	-
Waste Water Plant	953,458	-	953,458	-
Sanitation	-	1,055,598	1,055,598	-
Sick Leave Charges	-	-	-	326,693
Total Proprietary Expenses	<u>3,648,585</u>	<u>1,055,598</u>	<u>4,704,183</u>	<u>326,693</u>
Depreciation	<u>1,253,688</u>	<u>157,396</u>	<u>1,411,084</u>	
Total Operating Expenses	<u>4,902,273</u>	<u>1,212,994</u>	<u>6,115,267</u>	<u>326,693</u>
Operating Income (Loss)	<u>(1,406,104)</u>	<u>257,252</u>	<u>(1,148,852)</u>	<u>(326,693)</u>
Income (Loss) Before Contributions & Transfers	(1,406,104)	257,252	(1,148,852)	(326,693)
Capital Contributions	449,930	-	449,930	-
Transfer In	-	-	-	249,000
Tranfers Out	<u>(288,000)</u>	<u>(174,000)</u>	<u>(462,000)</u>	<u>-</u>
Change in Net Position	(1,244,174)	83,252	(1,160,922)	(77,693)
Total Net Position - October 1	<u>28,985,234</u>	<u>1,265,221</u>	<u>30,250,455</u>	<u>(1,699,976)</u>
Total Net Position - September 30	<u>\$ 27,741,060</u>	<u>\$ 1,348,473</u>	<u>\$ 29,089,533</u>	<u>\$ (1,777,669)</u>
Adjustment to reflect the consolidatong of internal service fund activities related to enterprise funds			29,892	
Change in net position of business type activities on Exhibit B-1			<u>\$ (1,131,030)</u>	

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

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Sanitation Fund	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 3,496,169	\$ 1,470,246	\$ 4,966,415	\$ -
Cash Payments to Employees for Services	(1,815,004)	(707,251)	(2,522,255)	-
Cash Payments for Goods and Services	(1,344,853)	(548,805)	(1,893,658)	(697)
Net Cash Provided by (Used for) Operating Activities	<u>336,312</u>	<u>214,190</u>	<u>550,502</u>	<u>(697)</u>
<u>Cash Flows from Non-Capital Financing Activities</u>				
Operating Transfer (Out) In	(288,000)	(174,000)	(462,000)	249,000
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(288,000)</u>	<u>(174,000)</u>	<u>(462,000)</u>	<u>249,000</u>
<u>Cash Flows from Capital & Related Financing Activities</u>				
Acquisition of Capital Assets	(16,140)	-	(16,140)	-
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(16,140)</u>	<u>-</u>	<u>(16,140)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	32,172	40,190	72,362	248,303
Cash and Cash Equivalents at Beginning of the Year	<u>2,043,068</u>	<u>610,737</u>	<u>2,653,805</u>	<u>219,818</u>
Cash and Cash Equivalents at End of the Year	2,075,240	650,927	2,726,167	468,121
Restricted Cash - Customer Deposits	<u>(197,576)</u>	<u>-</u>	<u>(197,576)</u>	<u>-</u>
Cash on Balance Sheet:	<u>\$ 1,877,664</u>	<u>\$ 650,927</u>	<u>\$ 2,528,591</u>	<u>\$ 468,121</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</u>				
Operating Income (Loss)	\$ (1,406,104)	\$ 257,252	\$ (1,148,852)	\$ (326,693)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	1,253,688	157,396	1,411,084	-
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in receivables	9,956	(3,761)	6,195	-
Decrease (increase) in inventories	32,865	(6,445)	26,420	-
Increase (decrease) in accounts payable	360,702	(190,252)	170,450	-
Increase (decrease) in customer deposits	(427,643)	-	(427,643)	-
Increase (decrease) related to pension liability	401,569	-	401,569	-
Increase (decrease) related to OPEB	(194,967)	-	(194,967)	-
Increase (decrease) in noncurrent liabilities	306,246	-	306,246	325,996
Net Cash Provided by (Used for) Operating Activities	<u>\$ 336,312</u>	<u>\$ 214,190</u>	<u>\$ 550,502</u>	<u>\$ (697)</u>

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

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2019**

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ -
Total assets	<u>\$ -</u>
LIABILITIES	
Due to Employee Groups	\$ -
Total liabilities	<u>\$ -</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Port Neches, Texas (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies and practices used by the City.

A. Reporting Entity

The City of Port Neches, Texas was incorporated in October of 1927, and was chartered as a Home Rule City on April 16, 1955. The City operates under a Council-Manager form of government and is governed by an elected body comprised of a Mayor and five (5) Council members. The City provides the following services: Police, Fire, Streets, Water and Sewer, Sanitation, Parks, Library, Planning and Zoning, and General Administrative Services.

As required by GAAP, these statements present the financial activities of the City of Port Neches, Texas (the primary government) and its component unit. The component unit is a legally separate entity that is included in the reporting entity because of the significance of the operational or financial relationship with the City. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

The Port Neches Economic Development Corporation (PNEDC) was created under Section 4B of the Development Corporation Act of 1979. As an entity legally separate from the City, the PNEDC is governed by a board of directors appointed by the City Council. The PNEDC is comprised of a single fund that is reported as a governmental fund type. Separately issued financial statements for the PNEDC are not available. The specific purpose of the PNEDC is to promote community and economic vitality in Port Neches.

The PNEDC's governing body is not substantively the same as that of the City and does not provide services entirely or almost entirely to the City. The PNEDC is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the appropriate utilization of 4b sales tax proceeds through the appointment of the PNEDC Board and the ability of the City to approve the PNEDC operating budget. Directors serve at the will of the City Council and may be appointed/removed at any time, thereby reflecting the City Councils' ability to impose their will upon the entity.

The notes to the financial statements include disclosures pertaining to the City as the primary government and also the PNEDC as a component unit.

Joint Venture

The City participates in a joint venture, as follows:

Mid-County Dispatch

The City of Port Neches and two neighboring cities, Nederland and Groves, have a contractual agreement to pool resources and share the costs, risks, and rewards of providing a central radio dispatching service for the participating cities in compliance with the "Interlocal Cooperation Act". Each of the participating cities has an ongoing financial interest in, and responsibility for the Mid-County Dispatch. Costs of operations are shared based on each City's percentage of combined population of the three cities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

The Mid-County Dispatch facility is located at the City of Nederland's police station. The City of Nederland has both a responsibility for the daily supervision of the facility as well as a financial responsibility to account for the financial operations of the Mid-County Dispatch. Separately issued financial statements are not available for this joint venture.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and service charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when the payment is due.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, sales tax, industrial payments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Improvement Fund* accounts for the financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary funds or trust funds).

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the water and sewer utility operations of the City. This fund includes water treatment and distribution, wastewater collection and treatment, and the related revenue collection activity.

The *Sanitation Fund* accounts for solid waste disposal services for residents and commercial businesses.

Additionally, the City reports the following fund types:

An *Internal Service Fund* accounts for the liability associated with accrued compensated absences for eligible employees that retire and/or separate from service. Funds are transferred on an annual basis as available from the General Fund, the Water and Sewer Fund, and the Sanitation Fund to provide resources for the liability.

Fiduciary Funds account for amounts employees have placed in a trustee or agency capacity for certain activities and therefore cannot be used to support the general programs of the government. The City has established *The Employee Benefits Trust* to record contributions and related premium costs for medical, dental, and life insurance coverage for active employees and retirees.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenue and expense 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. The principal operating revenue of the Water and Sewer Fund, and the Sanitation Fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses. When both restricted and unrestricted resources are available for use, it is the City's intent to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Statutes of the State of Texas and policies adopted by City Council authorize the City to invest in obligations of the U.S. Treasury, securities issued by U.S. government agencies, certificates of deposit, and local government investment pools.

2. Property Taxes

Property appraisal within the City is the responsibility of the Jefferson County Appraisal District. The Appraisal district is required under the Property Tax Code to appraise all property within the county on the basis of 100% of its market value.

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Taxes are applicable to the fiscal year in which they are levied. They become delinquent, with an enforceable lien on property, on February 1 of the subsequent calendar year. The City has contracted with the Jefferson County Tax Assessor-Collector for property tax billing and collection.

3. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated revenues from the Water and Sewer Fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type are reported in the government-wide financial statements as "internal balances".

4. Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets

The refundable customer advance payments account is used to account for customer meter deposits held on behalf of water customers and recorded as a liability of the Water and Sewer Fund.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

6. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. streets, water lines, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value rather than fair value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed. Property, plant, and equipment of the City are depreciated using the straight-line method over estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20-80
System Improvements	40-80
Vehicles	5-10
Operating Equipment	5-10
Computer Equipment	3-5

7. Compensated Absences

It is the policy of the City to permit employees to accumulate earned but unused sick pay benefits. No liability is reported for unpaid accumulated sick leave in the governmental or enterprise funds.

The City has established an internal service fund to account for the liability related to compensated absences. The assets reserved for the payment of this benefit total \$468,121. Eligible employees may be compensated for accrued sick leave in an amount which is dependent on City policy at the time of a qualified retirement from service. Civil Service employees that separate from service for non-retirement reasons may be eligible to receive accumulated sick leave compensation in accordance with Civil Service statutes unless governed by collective bargaining stipulations. Additionally, a limited number of employees may be eligible for payment of deferred vacation pay and other accrued leave types associated with comp time accrued during a disaster. As of September 30, 2019, the liability for accumulated sick leave was approximately \$2,245,790 as indicated in the Internal Service Fund. The amount expected to be paid from current resources was \$449,158. Prior to a policy change occurring in December of 2003, employees were allowed to accumulate vacation time and carry the time forward to the subsequent years. The employees were eligible to defer the accrued vacation time until their retirement and receive compensation at the time of retirement for all unused vacation days. As of September 30, 2019, the liability for deferred vacation compensation was approximately \$2,149. The City has reviewed the policy related to Accrued Leave compensation for retirees and attempted to minimize the challenge of funding this liability in the context of the overall increase in benefit costs by implementing policy modifications on a periodic basis.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

8. Deferred Outflows and Inflows of Resources

The City records deferred outflows or inflows of resources in its governmental, proprietary, fiduciary, and government-wide financial statements for consumption or acquisition of net position that is applicable to a future reporting period. These financial statement elements are distinct from assets and liabilities.

In governmental fund statements, deferred inflows of resources consist of revenues not collected within the availability period after fiscal year-end. The City has only one item that qualifies for this category, which arises only under the modified accrual basis of accounting, unavailable property tax revenue. These amounts are recognized as an inflow of resources in the period that the amounts become available.

In government-wide and proprietary financial statements, deferred outflows and inflows of resources are recorded for deferred outflows and inflows of resources related to pensions.

9. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Position. When significant, bond premiums, discounts, and amounts deferred on refunding, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

Beginning with fiscal year 2011, the City of Port Neches implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory, and prepaid items have been properly classified in the Governmental Funds Balance Sheet. At September 30, 2019 the City had a nonspendable fund balance of \$53,961.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. At September 30, 2019 the City had a restricted fund balance of \$1,148,071.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision –making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. At September 30, 2019 the City had a committed fund balance of \$0.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

10. Fund Equity (Continued)

Assigned fund balance – The City Council has retained the rights to assign portion of Fund Balance and has designated the City Manager or Finance Officer as individuals with the right to assign portions of fund balance. With the exception of Capital Improvement Funds, the City has traditionally not utilized the assignment of fund balance. At September 30, 2019 the City had an assigned fund balance of \$3,353,638.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund. At September 30, 2019 the City had an assigned fund balance of \$7,595,283.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City has not adopted a policy stating which fund balance category is spent first when committed, assigned, or unassigned fund balances are available. By default, the City will consider amounts to have been spent first out of committed funds, then assigned and finally unassigned funds.

11. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category represents net position that has external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and the restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the City not restricted for any project or other purpose.

12. Date of Management’s Review

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 31, 2020, the date that the financial statements were available to be issued. See Note 8 for additional details on items identified during review.

13. Pensions

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

14. Use of Estimates

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

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with GAAP for all governmental fund types of the primary government except special revenue and capital project funds, which are unbudgeted. All annual appropriations lapse at fiscal year-end. The City also budgets the Water and Sewer Fund and the Sanitation Fund for fiscal control.

On or before August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayers' comments. Prior to October 1, the budget is legally enacted through passage of an ordinance at the fund level.

Transfers of appropriations between funds require the approval of the City Council, although certain budgetary adjustments between departments may be authorized by the City Manager. Formal integration is employed as a management control device during the year for the General Fund and Debt Service Fund. Any amendments are submitted by the City Manager to the City Council for appropriate action. All budgets are adopted on a basis consistent with GAAP except that depreciation is not budgeted in the enterprise funds and capital outlay is recorded at cost in the year of acquisition. All budgeted appropriations lapse at fiscal year-end and may not be carried over to the following year. All budgets are as originally adopted and as amended by the City Council.

Encumbrance accounting is employed in governmental funds. Outstanding encumbrances (e.g. purchase orders and contracts) lapse at fiscal year-end. Encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2019

B. Deficit Fund Equity

The Compensated Absences (Sick Leave) Fund had a deficit in net position of \$(1,777,669) at September 30, 2019. The Fund is an internal service fund established to account for the liability for employees' accrued compensated absences.

The City transfers funds from the General, Water and Sewer, and Sanitation funds to the Internal Service Fund for the liability related to accrued compensated absences (Sick Leave Fund). At fiscal year end, the cash balance in the fund was \$468,121.

NOTE 3: DETAILED NOTE ON ALL FUNDS

A. Deposits and Investments

Cash Deposits

At September 30, 2019, the City's carrying amount of deposits (including PNEDC) was \$17,586,890. The City held no outside investments in Government Investment Pools or Certificates of Deposit. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was collateralized with letters of credit and securities held by the pledging financial institution's agent in the City's name. State statutes require that all deposits in financial institution be fully collateralized by U.S. Government obligations or those of its agencies and instrumentalities. Direct obligations of the State of Texas or its agencies and instrumentalities are also acceptable as collateral. Evidence of collateral is maintained and reviewed by the City to assure that the market value of pledged securities exceeds 102% of deposits.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 3: DETAILED NOTE ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. It is the policy of the City to require that all deposits not covered by FDIC insurance be fully collateralized with securities held by the bank's agent in the City's name.

Interest rate risk: In accordance with the investment policy, the City manages exposure to declines in fair value by investing in interest bearing demand deposits.

Restricted Assets

Funds set aside for payment of enterprise fund customer deposits and reserve fund requirements for the Economic Development Corporation sales tax revenue bonds are classified as restricted assets since their use is limited by applicable bond indentures or by City Council policy. Components of restricted assets are as follows:

	Customer Deposits	Economic Development Corporation	Total
Cash	\$ 197,576	\$ 66,917	\$ 264,493
Totals	\$ 197,576	\$ 66,917	\$ 264,493

B. Receivables

In the fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter) are recognized as revenue in the year of levy. Receivables as of September 30, 2019, for the government's individual major funds and nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service	Water and Sewer	Sanitation	Other Funds	Total
Taxes	\$ 200,932	\$ 103,240	\$ -	\$ -	\$ -	\$ 304,172
Grant Receivables	-	-	-	-	61,065	61,065
Other Receivables	442,331	-	248,195	186,748	-	877,274
Gross Receivables	643,263	103,240	248,195	186,748	61,065	1,242,511
Less: Allowance for Uncollectibles	(88,410)	(45,426)	(6,617)	(2,938)	-	(143,391)
Net Total Receivables	\$ 554,853	\$ 57,814	\$ 241,578	\$ 183,810	\$ 61,065	\$ 1,099,120

Accounts receivable utility service charges are recognized when earned with no allowance for uncollectible amounts since customer deposits are held against uncollectible amounts. An estimated amount has been recorded for services rendered, but not yet billed at the close of the years involved.

Governmental funds report *deferred inflows* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows and unearned revenue reported in the governmental funds included \$112,522 for the general fund and \$57,814 for the debt service fund.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 3: DETAILED NOTE ON ALL FUNDS (CONTINUED)

C. Capital Assets

Capital asset activity for the governmental activities for the year ended September 30, 2019 was as follows:

	Balance 9/30/2018	Additions	Deletions	Balance 9/30/2019
<u>Capital Assets, Not Being Depreciated:</u>				
Land	\$ 9,308,420	\$ -	\$ -	\$ 9,308,420
Construction in Progress	975,146	-	-	975,146
Total Capital Assets, Not Being Depreciated	<u>10,283,566</u>	<u>-</u>	<u>-</u>	<u>10,283,566</u>
<u>Capital Assets, Being Depreciated:</u>				
Building & Improvements	19,015,998	-	-	19,015,998
Infrastructure	16,412,829	-	-	16,412,829
Machinery & Equipments	10,079,601	52,472	-	10,132,073
Vehicles	1,966,108	150,032	136,287	1,979,853
Total Capital Assets, Being Depreciated	<u>47,474,536</u>	<u>202,504</u>	<u>136,287</u>	<u>47,540,753</u>
<u>Less Accumulated Depreciation:</u>				
Building & Improvements	(5,099,114)	(475,380)	-	(5,574,494)
Infrastructure	(7,012,089)	(464,410)	-	(7,476,499)
Machinery & Equipments	(4,196,948)	(539,759)	-	(4,736,707)
Vehicles	(1,335,276)	(160,286)	134,325	(1,361,237)
Total Accumulated Depreciation	<u>(17,643,427)</u>	<u>(1,639,835)</u>	<u>134,325</u>	<u>(19,148,937)</u>
Total Capital Assets, Being Depreciated, Net	<u>29,831,109</u>	<u>(1,437,331)</u>	<u>270,612</u>	<u>28,391,816</u>
Governmental Activities Capital Assets, Net	<u>\$ 40,114,675</u>	<u>\$ (1,437,331)</u>	<u>\$ 270,612</u>	<u>\$ 38,675,382</u>

Depreciation expense of the governmental activities was charged to functions/programs as follows:

General Government	\$ 163,384
Public Safety	844,381
Public Works	245,562
Community Enrichment	134,991
Contingent	<u>251,517</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,639,835</u>

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 3: DETAILED NOTE ON ALL FUNDS (CONTINUED)

C. Capital Assets (Continued)

	Balance 9/30/2018	Additions	Deletions	Balance 9/30/2019
<u>Capital Assets, Not Being Depreciated:</u>				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets, Not Being Depreciated	-	-	-	-
<u>Capital Assets, Being Depreciated:</u>				
Building & Improvements	44,935,989	449,930	-	45,385,919
Machinery & Equipments	13,800,940	16,140	-	13,817,080
Total Capital Assets, Being Depreciated	58,736,929	466,070	-	59,202,999
<u>Less Accumulated Depreciation:</u>				
Building & Improvements	(17,804,064)	(907,278)	-	(18,711,342)
Machinery & Equipments	(7,065,731)	(503,806)	-	(7,569,537)
Total Accumulated Depreciation	(24,869,795)	(1,411,084)	-	(26,280,879)
Total Capital Assets, Being Depreciated, Net	33,867,134	(945,014)	-	32,922,120
Business-Type Activities Capital Assets, Net	<u>\$ 33,867,134</u>	<u>\$ (945,014)</u>	<u>\$ -</u>	<u>\$ 32,922,120</u>

Depreciation expense of the business-type activities was charged to functions/programs as follows:

Water and Sewer	\$ 1,253,688
Sanitation	<u>157,396</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,411,084</u>

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 3: DETAILED NOTE ON ALL FUNDS (CONTINUED)

D. Interfund Transfers

Interfund transfers are budgeted cost allocations between funds for items such as administrative and insurance expenses. Certain transfers also fund cash matches as required by grant agreements. Interfund transfers at September 30, 2019 consisted of the following:

	Fund Financial Statements		Government-Wide Statements	
	Transfers In	Transfers Out	Transfers In	Transfers Out
Governmental Funds				
General	486,197	(200,000)	486,197	-
Total Governmental Funds	486,197	(200,000)	486,197	-
Enterprise Funds				
Water and Sewer	-	(288,000)	-	(239,000)
Sanitation	-	(174,000)	-	(174,000)
Total Governmental Funds	-	(462,000)	-	(413,000)
Internal Service Funds	249,000	-	-	-
Total Internal Service Funds	249,000	-	-	-
Total Transfers	<u>\$ 735,197</u>	<u>\$ (662,000)</u>		
Total Transfer (Exhibit B)			<u>\$ 486,197</u>	<u>\$ (413,000)</u>

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 3: DETAILED NOTE ON ALL FUNDS (CONTINUED)

E. Long-Term Debt

The City issues General Obligation bonds and Certificates of Obligation to provide funds for the acquisition and construction of major capital facilities. General Obligation bonds and Certificates of Obligation are direct obligations and pledge the full faith and credit of the government.

General Obligation bonds and Certificates of Obligation payable at September 30, 2019, are summarized as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2011	4,300,000	2021	\$0 to \$1,395,000	3.00% - 3.25%	\$ 2,740,000
2013	4,300,000	2033	\$0 to \$340,000	2.25% - 3.0%	3,735,000
2016	7,250,000	2028	\$50,000 to \$1,150,000	2.11%	7,050,000
					<u>\$ 13,525,000</u>

Annual debt service requirements to maturity for the bonds are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	1,600,000	365,668	1,965,668
2021	1,655,000	8,166,800	9,821,800
2022	1,280,000	268,645	1,548,645
2023-2027	6,890,000	889,546	7,779,546
2028-2033	2,100,000	272,675	2,372,675
Total	<u>\$ 13,525,000</u>	<u>\$ 9,963,334</u>	<u>\$ 23,488,334</u>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Obligation	15,070,000	-	(1,545,000)	13,525,000	1,600,000
Total Bonds Payable	15,070,000	-	(1,545,000)	13,525,000	1,600,000
Net Pension Obligation	3,399,442	6,090,989	(2,946,956)	6,543,475	-
OPEB Liability	8,407,822	952,293	(330,522)	9,029,593	-
Unamortized Bond Premium	22,140	-	(11,071)	11,069	11,070
Compensated Absences	1,542,677	312,807	(5,919)	1,849,565	369,913
Governmental Activities					
Long-Term Liabilities	<u>\$ 28,442,081</u>	<u>\$ 7,356,089</u>	<u>\$ (4,839,468)</u>	<u>\$ 30,958,702</u>	<u>\$ 1,980,983</u>
Business-Type Activities:					
Net Pension Obligation	1,674,352	3,000,040	(1,451,486)	3,222,906	-
OPEB Liability	4,141,168	469,040	(162,794)	4,447,414	-
Compensated Absences	377,117	19,108	-	396,225	79,245
Governmental Activities					
Long-Term Liabilities	<u>\$ 6,192,637</u>	<u>\$ 3,488,188</u>	<u>\$ (1,614,280)</u>	<u>\$ 8,066,545</u>	<u>\$ 79,245</u>

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 3: DETAILED NOTE ON ALL FUNDS (CONTINUED)

E. Long-Term Debt (Continued)

For the governmental activities, compensated absences are generally liquidated by the Internal Service Fund.

Arbitrage Rebate Liability

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The City had no arbitrage liability as of September 30, 2019.

Port Neches Economic Development Corporation Sales Tax Revenue Bond

The Port Neches Economic Development (PNEDC) issued Certificates of Obligation, Series 2007 to provide funds for the acquisition of land for parks and park facilities, open space improvements, and related store, restaurant, concession, and automobile parking facilities within the City or any other use of the Corporation permitted by law and to pay the cost of the issuance of the bonds. This issue, \$2.9 million, pledged the sales tax revenue of the PNEDC. The issue is payable at \$50,000 to \$160,000, 3.65% to 4.25% to 2028, the balance outstanding at September 30, 2019 is \$1,230,000 with \$110,000 due within one (1) year.

NOTE 4: OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City obtains insurance coverage through commercial insurance carriers. The City obtained general liability coverage by joining with other governmental entities in the Texas Municipal League Intergovernmental Risk Pool (TML-IRP). Worker's compensation, property, and auto liability insurance are also covered through participation in this public entity risk pool, where risk is transferred to the pool within policy limits purchased. There were no significant reductions in commercial insurance coverage and the amount of settled claims did not exceed insurance coverage in any of the past three years.

Contingent Liabilities

The City is defendant in various lawsuits arising in the ordinary course of its municipal and enterprise activities. In the opinion of City management, the outcome of all pending litigation will not materially affect the financial position of the City. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 5: DEFFERED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the International City Management Association Retirement Corporation (ICMARC). All assets and income are held in trust for the exclusive benefit of participants and their beneficiaries; therefore, the plan activities are not reported in the financial statements of the City. Assets and liabilities are not included in the City's basic financial statements.

The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City provides a 50% match to this elective deferral not to exceed 4% of total gross wages.

NOTE 6: PENSION PLAN

Texas Municipal Retirement System (TMRS)

A. Plan Description

The City of Port Neches participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained from TMRS' website at www.TMRS.com.

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

B. Benefits Provided

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

Upon retirement, benefits depend on the sum of the employee's contributions, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven options: retiree life only, one of three survivor lifetime options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year.

Employees covered by benefit terms.

At December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	85
Inactive employees entitled to but not yet receiving benefits	27
Active Employees	95
Total	<u>207</u>

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 6: PENSION PLAN (CONTINUED)

C. Contributions

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

Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. Funds are budgeted in the General Fund, Water/Sewer Fund and the Sanitation Fund to provide funding for the pension obligation on an annual basis.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.60% and 12.13% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$837,930, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2018, valuation was based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 6: PENSION PLAN (CONTINUED)

D. Net Pension Liability (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core-Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

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

	Trust Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/17	\$ 50,332,735	\$ 45,258,941	\$ 5,073,794
Changes for the year:			
Service Cost	1,184,133	-	1,184,133
Interest	3,333,960	-	3,333,960
Change of benefit terms	-	-	-
Difference between expected and actual experience	124,690	-	124,690
Changes of assumptions	-	-	-
Contributions - employer	-	844,113	(844,113)
Contributions - employee	-	488,734	(488,734)
Net investment income	-	(1,355,081)	1,355,081
Benefit payments, including refunds of employee contributions	(3,065,595)	(3,065,595)	-
Administrative expense	-	(26,202)	26,202
Other Changes	-	(1,368)	1,368
Net changes	1,577,188	(3,115,399)	4,692,587
Balance at 12/31/18	\$ 51,909,923	\$ 42,143,542	\$ 9,766,381

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 6: PENSION PLAN (CONTINUED)

D. Net Pension Liability (Continued)

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

	1% Decrease 5.75%	Current Rate 6.75%	1% Increase 7.75%
City's net pension liability	\$ 16,565,494	\$ 9,766,381	\$ 4,146,993

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2019, the City recognized pension expense of \$1,327,845.

At September 30, 2019, the City reported deferred outflow of resources and deferred inflow of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences in expected and actual economic expense	\$ 207,425	\$ -
Changes in actuarial assumptions	225,908	-
Differences in expected and actual investment earnings	2,341,054	-
Contributions subsequent to the measurement date	634,477	-
	<u>\$ 3,408,864</u>	<u>\$ -</u>

An amount of \$634,477 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of the net pension liability but before the end of the City's fiscal year will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than the current fiscal period. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2019	1,011,081
2020	425,013
2021	397,550
2022	935,259
2023	5,483
Thereafter	-
	<u>\$ 2,774,386</u>

NOTE 7: OTHER POST EMPLOYMENT BENEFITS

Program Description

In addition to the pension benefits described in this note, the City provides for payment of premiums for health, life, and dental insurance coverage in accordance with City policies. The definition of a retiree in the policy reads: “Any employee who withdraws from service and 1) has completed a minimum of five years of service with the City, and 2) is eligible for retirement under the provisions of the City’s retirement plan.” On October 6, 2011, the City Council amended the policy related to retiree insurance benefits to exclude the payments for these insurance premiums for all employees with a hire date of October 10, 2011 or later. For financial reporting purposes, the Retiree Health Program costs are accounted for in the Employee Benefit Trust.

Plan Description. The City provides post-retirement medical insurance, dental insurance, and life insurance benefits for retirees who have completed a minimum of five years of service with the City and who are eligible to retire under the provisions of the Texas Municipal Retirement System (TMRS). TMRS requires (1) ten years of service and an attained age of 60 or above at retirement or (2) twenty years of service at any age. Dependent family members are eligible to remain in the medical and dental plans, if at the time of the employee’s retirement they were covered by the City’s health plan. As of September 30, 2019, there were 91 active employees and 63 retirees and their dependents receiving the benefits.

All of the plans are fully insured with insurance companies. The plans provide for separate rate schedules for active employees and retirees. The City contributes 100% of the retiree premiums for retirees under age 65 choosing the Standard medical plan. Retirees choosing the Premium medical plan are expected to pay the difference in premiums between the two plans. Retirees age 65 and older are provided with a choice of Medicare Supplement policies for which the City’s maximum monthly contribution was \$211.25 at the time of the most recent actuarial valuation. The City contributes 100% of the dental premiums and life insurance premiums for retirees. Retirees are expected to pay 100% of the premiums for dependents remaining in the medical and dental plans. The contribution requirements of the City are established by and may be amended by the City Council. For the fiscal year ending September 30, 2019, the City contributed \$499,064 toward the cost of retiree insurance premiums.

Funding Policy

The plan’s premium rates are determined annually by City management and approved by the City Council. For the 2019 fiscal year, members receiving medical benefits contribute \$0 per month for retiree-only health coverage. The City employs a pay-as-you go method and ensures that the annual employer contributions are equal to the benefits paid on behalf of the retirees. The City currently pays for post-employment health care benefits on a pay-as-you-go basis and these financial statements assume that this funding method will continue for the near future. The General Fund is used to provide the funding for liabilities that are liquidated on an annual basis.

Total OPEB Liability

The City’s total OPEB liability of \$13,477,007 was measured as of September 30, 2019 for the measurement period October 1, 2018 through September 30, 2019 and was determined by an actuarial valuation as of September 30, 2019.

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 7: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Valuation Date	7/1/2018
Measurement Date	7/1/2019
Actuarial Cost Method	Entry Age Normal
Inflation	2.30%
Salary Increases	3.0% including inflation
Discount Rate	3.50%
Discount Rate Basis	Bond Buyer 20-Bond GO Index

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75.

Changes in OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Service Cost	\$	293,614
Interest on the total OPEB liability		487,554
Changes of assumptions		640,165
Benefit Payments		(493,316)
Net change in total OPEB liability		928,017
Total OPEB liability - beginning		<u>12,548,990</u>
Total OPEB liability - ending	\$	<u>13,477,007</u>

Presented in Exhibit A as follows:

Governmental Activities	9,029,593
Business-Type Activities	<u>4,447,414</u>
Total OPEB liability	<u>\$ 13,477,007</u>

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

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Rate	1% Increase
City's OPEB Liability	<u>2.50%</u>	<u>3.50%</u>	<u>4.50%</u>
	\$ 15,477,434	\$ 13,477,007	\$ 11,851,290

CITY OF PORT NECHES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

NOTE 7: OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Total OPEB Liability to the Healthcare Cost Trend Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates, the following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Rate	1% Increase
City's OPEB Liability	<u>2.50%</u>	<u>3.50%</u>	<u>4.50%</u>
	\$ 11,773,149	\$ 13,477,007	\$ 15,609,561

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the fiscal year ended September 30, 2019, the City recognized OPEB expense of \$830,524. At September 30, 2019, the City's deferred inflows and outflows of resources related to OPEB are as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences in expected and actual economic expense	\$ -	\$ -
Changes in actuarial assumptions	263,925	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 263,925</u>	<u>\$ -</u>
Presented in Exhibit A as follows:		
Governmental Activities	\$ 176,830	\$ -
Business-Type Activities	87,095	-
Total OPEB liability	<u>\$ 263,925</u>	<u>\$ -</u>

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

Fiscal year ending September 30,	
2020	49,356
2021	49,356
2022	107,212
2023	58,001
	<u>\$ 263,925</u>

NOTE 8: SUBSEQUENT EVENTS

The dates as of and periods for which information is provided occurred before the worldwide COVID-19 pandemic and the measures instituted to slow it. The pandemic has adversely affected travel, commerce, and financial markets globally and is expected to adversely affect economic output worldwide and in Texas, including within the city. These affects may slow the growth of or reduce future property values and the collection of sales and other excise taxes, charges, and fees within the city, as well as the assets of pension funds, and increase city expenses, to an extent that cannot currently be predicted, but could be material. Accordingly, the historical information set forth in this unaudited financial statement is not indicative of future results or performance due to these and other factors.

REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Pension Liability					
Service cost	\$ 1,184,133	\$ 1,126,503	\$ 1,095,238	\$ 1,087,175	\$ 885,371
Interest on total pension liability	3,333,960	3,187,853	3,084,774	3,018,432	2,889,986
Change of benefit terms	-	-	-	-	-
Difference in expected and actual experience	124,690	503,684	(331,636)	(146,949)	(145,737)
Changes of assumptions	-	-	-	816,516	-
Benefit payments/refunds or contributions	(3,065,595)	(2,299,015)	(2,374,807)	(2,023,800)	(1,767,363)
Net change in total pension liability	1,577,188	2,519,025	1,473,569	2,751,374	1,862,257
Total pension liability, beginning	50,332,735	47,813,710	46,340,141	43,588,767	41,726,510
Total pension liability, ending (a)	\$ 51,909,923	\$ 50,332,735	\$ 47,813,710	\$ 46,340,141	\$ 43,588,767
Fiduciary Net Position					
Contributions - Employer	844,113	813,361	755,336	769,087	699,240
Contributions - Employee	488,734	469,376	455,807	451,645	401,203
Net investment income	(1,355,081)	5,635,399	2,649,764	59,016	2,201,443
Benefit payments/refunds of contributions	(3,065,595)	(2,299,015)	(2,374,807)	(2,023,800)	(1,767,363)
Administrative expenses	(26,202)	(29,212)	(29,932)	(35,949)	(22,987)
Other	(1,369)	(1,481)	(1,613)	(1,774)	(1,890)
Net change in fiduciary net position	(3,115,400)	4,588,428	1,454,555	(781,775)	1,509,646
Fiduciary net position, beginning	45,258,941	40,670,513	39,215,958	39,997,733	34,488,087
Fiduciary net position, ending (b)	\$ 42,143,541	\$ 45,258,941	\$ 40,670,513	\$ 39,215,958	\$ 39,997,733
Net pension liability/(asset), ending = (a) - (b)	\$ 9,766,382	\$ 5,073,794	\$ 7,143,197	\$ 7,124,183	\$ 3,591,034
Fiduciary net position as a % of total pension liability	81.19%	89.92%	85.06%	84.63%	91.76%
Covered payroll	\$ 6,981,915	\$ 6,705,369	\$ 6,511,515	\$ 6,452,074	\$ 5,726,888
Net pension liability as a % of covered payroll	139.88%	75.67%	109.70%	110.42%	62.70%

**These schedules are intended to show information for ten years. Additional years' information will be displayed as it becomes available.

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

SCHEDULE OF CONTRIBUTIONS – PENSION PLAN

	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Actuarially Determined Contribution	\$ 863,791	\$ 837,930	\$ 755,336	\$ 758,935	\$ 725,619
Contributions in relation to the actuarly determined contribution	863,791	837,930	755,336	758,935	730,209
Contribution deficiency (excess)	-	-	-	-	(4,590)
Covered Payroll	\$ 6,904,430	\$ 6,924,680	\$ 6,664,519	\$ 6,493,423	\$ 6,092,535
Contributions as a percentage of covered payroll	12.51%	12.10%	11.33%	11.69%	11.99%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date	Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Notes	Granted 30% ad hoc COLA

**These schedules are intended to show information for ten years. Additional years' information will be displayed as it becomes available.

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	9/30/2019	9/30/2018
Total Other Post Employment Benefits Liability		
Service cost	\$ 293,614	\$ 305,892
Interest on total OPEB liability	487,554	457,049
Change of benefit terms	-	-
Difference in expected and actual experience	-	-
Changes of assumptions	640,165	(423,069)
Benefit payments/refunds or contributions	(493,316)	(499,064)
Net change in total OPEB liability	928,017	(159,192)
Total OPEB liability, beginning	12,548,990	12,708,182
Total OPEB liability, ending	<u>\$ 13,477,007</u>	<u>\$ 12,548,990</u>
Fiduciary Net Position		
Service Cost	-	-
Employer contributions	-	-
Benefit payments including refunds	-	-
Net change in plan fiduciary net position	-	-
Net change in fiduciary net position	-	-
Fiduciary net position, beginning	-	-
Fiduciary net position, ending (b)	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability/(asset), ending = (a) - (b)	<u>\$ 13,477,007</u>	<u>\$ 12,548,990</u>
Pensionable covered payroll	\$ 6,904,430	\$ 6,924,680
Net pension liability as a % of covered payroll	195.19%	181.22%

This schedule is intended to show information for ten years. The additional years' information will be displayed as it becomes available.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF PORT NECHES, TEXAS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources other than expendable trust, or major capital projects that are for specific purposes. Included in this heading are the following individual funds:

Library Improvement Fund

This fund is used to account for the improvements of the Hebert Municipal Library. A grant from the Hebert Foundation is used to finance these projects.

Hazard Mitigation Fund

This fund accounts for insurance proceeds and grants for the purpose of removing debris and replacing and/or repairing items damaged or destroyed during hurricanes and to provide for mitigation improvements to protect and preserve the assets of the City from future natural disasters of this type.

Asset Forfeiture Funds

These funds are used to account for the City's share of proceeds from assets seized in drug-related actions by the Police Department. These funds are legally restricted to expenses for the purchase of assets by the Police Department related to drug enforcement activities.

Senior Citizens Association

The Association provides funding for expenditures that support the Senior Citizens Center programs.

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	Library Improvement Fund	Hazard Mitigation Fund	State Forfeiture Fund	Federal Forfeiture Fund	Senior Citizens Association	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 29,007	\$ 594,044	\$ 62,051	\$ 8,057	\$ 24,004	\$ 717,163	\$ 717,163
Other Receivable	-	61,065	-	-	-	61,065	61,065
Total assets	<u>29,007</u>	<u>655,109</u>	<u>62,051</u>	<u>8,057</u>	<u>24,004</u>	<u>778,228</u>	<u>778,228</u>
LIABILITIES							
Accounts Payable	2,212	80,000	-	-	-	82,212	82,212
Total liabilities	<u>2,212</u>	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,212</u>	<u>82,212</u>
FUND BALANCE							
Restricted							
Public Safety	-	-	62,051	8,057	-	70,108	70,108
Community Enrichment	26,795	-	-	-	24,004	50,799	50,799
Assigned							
Other Assigned	-	575,109	-	-	-	575,109	575,109
Unassigned fund balance							
Total fund balance	<u>26,795</u>	<u>575,109</u>	<u>62,051</u>	<u>8,057</u>	<u>24,004</u>	<u>696,016</u>	<u>696,016</u>
Total liabilities and fund balance	<u>\$ 29,007</u>	<u>\$ 655,109</u>	<u>\$ 62,051</u>	<u>\$ 8,057</u>	<u>\$ 24,004</u>	<u>\$ 778,228</u>	<u>\$ 778,228</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Library Improvement Fund	Hazard Mitigation Fund	State Forfeiture Fund	Federal Forfeiture Fund	Senior Citizens Association	Total Nonmajor Governmental Funds
REVENUES						
Grants, Contributions, and Other Governments	\$ -	\$ 89,066	\$ -	\$ 6,704	\$ -	\$ 95,770
Total revenues	-	89,066	-	6,704	-	95,770
EXPENDITURES						
Public Safety	-	-	2,250	-	-	2,250
Community Enrichment	16,942	-	-	-	2,310	19,252
Total operations	16,942	-	2,250	-	2,310	21,502
Excess of revenues over (under) expenditures	(16,942)	89,066	(2,250)	6,704	(2,310)	74,268
Net Changes in Fund Balances	(16,942)	89,066	(2,250)	6,704	(2,310)	74,268
Fund Balance - October 1	43,737	486,043	64,301	1,353	26,314	621,748
	-	-	-	-	-	-
Fund Balance - September 30	\$ 26,795	\$ 575,109	\$ 62,051	\$ 8,057	\$ 24,004	\$ 696,016

CITY OF PORT NECHES, TEXAS

FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the City as a trustee or agent for individuals. Included in this heading is the following individual fund:

Employee Benefit Trust Fund This fund is used to account for amounts withheld from employee pay checks to pay employee health insurance premiums and, therefore, cannot be used to support the City's own programs.

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019**

	Employee Benefit Trust Fund	Total
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES		
Due to Employee Groups	\$ -	\$ -
Total liabilities	<u>\$ -</u>	<u>\$ -</u>

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Balance October 1, 2018	Additions	Deductions	Balance September 30, 2019
FIDUCIARY				
Assets:				
Cash and Cash Equivalents	\$ 64,001	\$ 1,575,463	\$ 1,639,464	\$ -
Liabilities:				
Due to Employee Groups	\$ 64,001	\$ 1,575,463	\$ 1,639,464	\$ -
TOTAL AGENCY FUNDS				
Assets:				
Cash and Cash Equivalents	\$ 64,001	\$ 1,575,463	\$ 1,639,464	\$ -
Liabilities:				
Due to Employee Groups	\$ 64,001	\$ 1,575,463	\$ 1,639,464	\$ -

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property Tax	\$ 1,956,700	\$ 1,956,700	\$ 1,951,210	\$ (5,490)
Interest	4,300	4,300	19,629	15,329
Total revenues	<u>1,961,000</u>	<u>1,961,000</u>	<u>1,970,839</u>	<u>9,839</u>
EXPENDITURES				
Debt Service:				
Debt Principal - Bonded Debt	1,545,000	1,545,000	1,545,000	-
Debt Interest - Bonded Debt	412,900	412,900	413,048	(148)
Fiscal Agent's Fees	3,100	3,100	1,425	1,675
Total operations	<u>1,961,000</u>	<u>1,961,000</u>	<u>1,959,473</u>	<u>1,527</u>
Excess of revenues over (under) expenditures	-	-	11,366	11,366
Net Changes in Fund Balances	-	-	11,366	11,366
Fund Balance - October 1	1,015,798	1,015,798	1,015,798	-
	-	-	-	-
Fund Balance - September 30	<u>\$ 1,015,798</u>	<u>\$ 1,015,798</u>	<u>\$ 1,027,164</u>	<u>\$ 11,366</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Port Neches, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information states about the government's overall financial condition.

Contents	Page
Financial Trends	53
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	57
<i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	
Debt Capacity	61
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	67
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information	69
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	

NET POSITION BY COMPONENT
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities										
Invested in capital assets, net of related debt	\$ 16,750,017	\$ 10,410,363	\$ 18,745,470	\$ 23,455,477	\$ 25,017,840	\$ 26,780,838	\$ 28,572,151	\$ 21,767,601	\$ 25,044,575	25,150,382
Restricted	3,957,542	11,199,503	4,117,039	2,949,653	1,907,366	1,443,433	1,077,141	1,038,193	1,015,798	1,027,164
Unrestricted	2,997,408	2,974,337	3,884,433	2,255,383	2,054,999	965,736	319,689	6,437,187	(2,508,233)	(3,135,763)
Total governmental activities net position	\$ 23,704,967	\$ 24,584,203	\$ 26,746,942	\$ 28,660,513	\$ 28,980,205	\$ 29,190,007	\$ 29,968,981	\$ 29,242,981	\$ 23,552,140	\$ 23,041,783
Business-Type Activities										
Invested in capital assets, net of related debt	\$ 37,103,176	\$ 36,849,011	\$ 37,502,254	\$ 36,420,288	\$ 37,457,481	\$ 36,388,841	\$ 35,940,340	\$ 34,971,920	\$ 33,867,134	32,922,120
Restricted	771,483	227,416	-	-	-	-	-	-	-	-
Unrestricted	1,224,796	1,566,187	822,710	338,364	(65,412)	(691,215)	(837,462)	(1,404,655)	(4,117,720)	(4,303,737)
Total Business-Type activities net position	\$ 39,099,455	\$ 38,642,614	\$ 38,324,964	\$ 36,758,652	\$ 37,392,069	\$ 35,697,626	\$ 35,102,878	\$ 33,567,265	\$ 29,749,414	\$ 28,618,383
Primary Government										
Net investment in capital assets	\$ 53,853,193	\$ 47,259,374	\$ 56,247,724	\$ 59,875,765	\$ 62,475,321	\$ 63,169,679	\$ 64,512,491	\$ 56,739,521	\$ 58,911,709	\$ 58,072,502
Restricted	4,729,025	11,426,919	4,117,039	2,949,653	1,907,366	1,443,433	1,077,141	1,038,193	1,015,798	1,027,164
Unrestricted	4,222,204	4,540,524	4,707,143	2,593,747	1,989,587	274,521	(517,773)	5,032,532	(6,625,953)	(7,439,500)
Total primary government net position	\$ 62,804,422	\$ 63,226,817	\$ 65,071,906	\$ 65,419,165	\$ 66,372,274	\$ 64,887,633	\$ 65,071,859	\$ 62,810,246	\$ 53,301,554	\$ 51,660,166

CITY OF PORT NECHES, TEXAS

SCHEDULE II

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

(ACCRUAL BASIS OF ACCOUNTING)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental activities										
General government	\$ 3,040,706	\$ 2,874,580	\$ 2,453,950	\$ 1,520,748	\$ 1,981,365	\$ 2,052,064	\$ 2,145,283	\$ 2,894,365	\$ 2,762,191	\$ 3,070,576
Public safety	5,587,503	4,447,628	4,550,839	4,447,626	4,672,996	4,878,058	5,171,748	5,592,646	5,912,107	6,313,651
Public works	1,762,783	1,491,390	1,524,926	1,941,432	1,978,676	1,902,831	1,194,321	1,708,675	1,768,054	1,836,131
Community enrichment	864,082	913,181	865,604	912,008	868,606	887,927	848,890	782,868	885,855	1,009,362
Contingent	-	-	-	1,373,985	1,611,930	1,210,884	1,502,093	1,438,099	1,344,876	1,880,658
Miscellaneous	-	-	-	55,060	-	-	-	-	-	-
Interest on long-term debt	580,756	567,518	572,575	500,275	452,366	354,477	344,019	461,025	432,506	403,402
Total governmental activities	<u>11,835,830</u>	<u>10,294,297</u>	<u>9,967,894</u>	<u>10,751,134</u>	<u>11,565,939</u>	<u>11,286,241</u>	<u>11,206,354</u>	<u>12,877,678</u>	<u>13,105,589</u>	<u>14,513,780</u>
Business-type activities										
Water and sewer	4,124,445	3,852,855	4,214,345	3,959,295	4,256,651	4,547,064	4,841,234	3,979,632	4,556,214	4,921,381
Sanitation	1,057,741	1,110,099	1,158,265	1,188,839	1,257,330	1,164,471	1,171,180	1,934,125	1,227,937	1,212,994
Leased building	15,850	46,951	166,482	-	-	-	-	-	-	-
Total business-type activities	<u>\$ 5,198,036</u>	<u>\$ 5,009,905</u>	<u>\$ 5,539,092</u>	<u>\$ 5,148,134</u>	<u>\$ 5,513,981</u>	<u>\$ 5,711,535</u>	<u>\$ 6,012,414</u>	<u>\$ 5,913,757</u>	<u>\$ 5,784,151</u>	<u>\$ 6,134,375</u>
Program Revenues										
Governmental activities										
Charges for services										
Public safety	\$ 658,093	\$ 496,171	\$ 141,724	\$ 152,343	\$ 154,385	\$ 190,497	\$ 152,647	\$ 142,660	\$ 167,268	\$ 169,811
Community enrichment/general government	274,271	40,593	18,517	37,500	28,791	-	9,752	16,917	-	-
Public works	99,479	276,774	113,565	99,451	105,758	107,145	101,584	173,382	121,652	217,229
Capital Grants and Contributions	-	-	2,673,435	1,583,324	2,087,261	617,651	342,273	301,241	133,441	184,424
Total governmental activities	<u>\$ 1,031,843</u>	<u>\$ 813,538</u>	<u>\$ 2,947,241</u>	<u>\$ 1,872,618</u>	<u>\$ 2,376,195</u>	<u>\$ 915,293</u>	<u>\$ 606,256</u>	<u>\$ 634,200</u>	<u>\$ 422,361</u>	<u>\$ 571,464</u>
Business activities										
Charges for services										
Water and sewer	\$ 3,038,863	\$ 3,172,147	\$ 2,918,993	\$ 3,135,207	\$ 3,303,623	\$ 3,161,004	\$ 3,187,710	\$ 3,209,824	\$ 3,535,917	\$ 3,407,713
Sanitation	1,262,304	1,264,725	1,271,883	1,338,454	1,402,127	1,380,327	1,375,299	1,352,781	1,361,605	1,439,692
Leased building	114,492	102,950	-	-	-	-	-	-	-	-
Capital Grants and Contributions	-	246,800	-	-	-	-	208,717	-	-	-
Total business-type activities	<u>\$ 4,415,659</u>	<u>\$ 4,786,622</u>	<u>\$ 4,190,876</u>	<u>\$ 4,473,661</u>	<u>\$ 4,705,750</u>	<u>\$ 4,541,331</u>	<u>\$ 4,771,726</u>	<u>\$ 4,562,605</u>	<u>\$ 4,897,522</u>	<u>\$ 4,847,405</u>
Total program revenues	5,447,502	5,600,160	7,138,117	6,346,279	7,081,945	5,456,624	5,377,982	5,196,805	5,319,883	5,418,869
Net (expense) revenue										
Governmental activities	\$ (10,803,987)	\$ (9,480,759)	\$ (7,020,653)	\$ (8,878,516)	\$ (9,189,744)	\$ (10,370,948)	\$ (10,600,098)	\$ (12,243,478)	\$ (12,683,228)	\$ (13,942,316)
Business-type activities	(782,377)	(223,283)	(1,348,216)	(674,473)	(808,231)	(1,170,204)	(1,240,688)	(1,351,152)	(886,629)	(1,286,970)
Total net expense	<u>\$ (11,586,364)</u>	<u>\$ (9,704,042)</u>	<u>\$ (8,368,869)</u>	<u>\$ (9,552,989)</u>	<u>\$ (9,997,975)</u>	<u>\$ (11,541,152)</u>	<u>\$ (11,840,786)</u>	<u>\$ (13,594,630)</u>	<u>\$ (13,569,857)</u>	<u>\$ (15,229,286)</u>
General Revenues										
Governmental Activities										
Property taxes, penalties and interest	\$ 5,529,448	\$ 5,603,574	\$ 5,766,604	\$ 5,897,654	\$ 5,974,272	\$ 5,957,457	\$ 6,169,180	\$ 6,284,273	\$ 6,568,215	\$ 6,704,371
In lieu of tax contracts	2,250,790	2,454,178	2,431,656	2,314,665	2,786,202	3,102,815	3,444,217	2,590,503	2,692,809	3,280,077
Sales tax	794,369	839,205	873,808	850,551	1,023,058	1,050,724	1,025,774	1,038,840	1,159,192	1,120,965
Gross receipts tax	815,179	834,901	773,545	766,777	777,635	729,162	699,852	724,889	742,476	746,479
Interest	24,653	37,085	22,781	17,201	74,932	13,293	36,170	133,288	197,096	199,717
Other governmental agencies - unrestricted	-	-	-	-	(201,563)	-	-	-	-	-
Other miscellaneous/ Loss on Sales of Asset	198,443	329,099	324,246	273,114	580,855	836,222	158,879	382,685	705,561	603,401
Transfers	348,500	261,953	(1,009,248)	850,738	(1,446,215)	(11,744)	(155,000)	363,000	413,000	686,197
Total general revenues, transfers, and special	<u>\$ 9,961,382</u>	<u>\$ 10,359,995</u>	<u>\$ 9,183,392</u>	<u>\$ 10,970,700</u>	<u>\$ 9,569,176</u>	<u>\$ 11,677,929</u>	<u>\$ 11,379,072</u>	<u>\$ 11,517,478</u>	<u>\$ 12,478,349</u>	<u>\$ 13,341,207</u>
Business-type activities										
Interest	\$ 9,473	\$ 1,832	\$ 1,835	\$ 2,729	\$ 1,059	\$ -	\$ 4,940	\$ 79,250	\$ 99,376	\$ 31,316
Capital Contribution /Other	9,199	26,564	19,483	-	-	-	486,000	99,289	84,393	537,624
Transfers	(348,500)	(261,953)	1,009,248	(850,738)	1,446,215	11,744	155,000	(363,000)	(413,000)	(413,000)
Total business-type activities	<u>\$ (329,828)</u>	<u>\$ (233,557)</u>	<u>\$ 1,030,566</u>	<u>\$ (848,009)</u>	<u>\$ 1,447,274</u>	<u>\$ 11,744</u>	<u>\$ 645,940</u>	<u>\$ (184,461)</u>	<u>\$ (229,231)</u>	<u>\$ 155,940</u>
Total primary government	<u>\$ 9,631,554</u>	<u>\$ 10,126,438</u>	<u>\$ 10,213,958</u>	<u>\$ 10,122,691</u>	<u>\$ 11,016,450</u>	<u>\$ 11,689,673</u>	<u>\$ 12,025,012</u>	<u>\$ 11,333,017</u>	<u>\$ 12,249,118</u>	<u>\$ 13,497,147</u>
Change in Net Position										
Governmental activities	\$ (842,605)	\$ 879,236	\$ 2,162,739	\$ 2,092,184	\$ 379,432	\$ 1,306,981	\$ 778,974	\$ (726,000)	\$ (204,879)	\$ (601,109)
Business-type activities	(1,112,205)	(456,840)	(317,650)	(1,522,482)	639,043	(1,158,460)	(594,748)	(1,535,613)	(1,115,860)	(1,131,030)
Total Change in Net Position	<u>\$ (1,954,810)</u>	<u>\$ 422,396</u>	<u>\$ 1,845,089</u>	<u>\$ 569,702</u>	<u>\$ 1,018,475</u>	<u>\$ 148,521</u>	<u>\$ 184,226</u>	<u>\$ (2,261,613)</u>	<u>\$ (1,320,739)</u>	<u>\$ (1,732,139)</u>

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Fund										
Reserved	\$ 52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	4,102	-	-	-	-	-	-	-	-	-
Nonspendable	-	26	83	49	43	45	81	77	54	54
Unassigned	-	4,346	4,624	4,874	5,240	6,236	6,136	6,165	6,842	7,595
Total general fund	<u>\$ 4,154</u>	<u>\$ 4,372</u>	<u>\$ 4,707</u>	<u>\$ 4,923</u>	<u>\$ 5,283</u>	<u>\$ 6,281</u>	<u>\$ 6,217</u>	<u>\$ 6,242</u>	<u>\$ 6,896</u>	<u>7,649</u>
All other governmental funds										
Reserved	1,648	-	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	458	-	-	-	-	-	-	-	-	-
Capital projects funds	2,461	-	-	-	-	-	-	-	-	-
Restricted										
Debt Service	-	1,588	1,597	1,437	1,362	1,283	1,017	1,038	1,016	1,027
Grants and Other	-	(18)	-	184	164	232	132	169	133	120
Assigned	-	5,469	2,711	5,670	2,603	2,236	9,113	7,240	3,690	3,354
Unassigned	-	-	-	95	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 4,567</u>	<u>\$ 7,039</u>	<u>\$ 4,308</u>	<u>\$ 7,386</u>	<u>\$ 4,129</u>	<u>\$ 3,751</u>	<u>\$ 10,262</u>	<u>\$ 8,447</u>	<u>\$ 4,839</u>	<u>\$ 4,501</u>

(1) The City implemented GASB Statement No. 54 in fiscal year 2011.

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues										
Property taxes	\$ 5,528,119	\$ 5,616,912	\$ 5,786,571	\$ 5,883,619	\$ 6,001,891	\$ 5,923,310	\$ 6,172,284	\$ 6,273,437	\$ 6,575,651	\$ 6,688,788
In lieu of tax contracts	2,250,790	2,454,178	2,431,656	2,314,665	2,786,202	3,102,815	3,444,217	2,590,503	2,692,809	3,280,077
Sales tax	794,369	839,205	873,808	850,551	1,023,058	1,050,724	1,025,774	1,038,840	1,159,192	1,120,965
Gross receipts tax	815,179	834,861	773,545	766,777	777,635	729,162	699,852	724,889	742,476	746,479
Permits, licenses and fees	99,479	82,683	113,565	99,452	105,758	107,146	101,584	173,382	121,652	217,229
Fines	120,563	125,002	141,724	152,343	154,385	190,496	152,646	142,660	167,268	169,811
Insurance	-	-	-	-	-	-	-	-	-	-
Interest	24,653	37,085	11,114	17,201	74,932	13,293	36,170	133,288	197,096	199,717
Other governmental agencies	-	23,674	15,735	-	-	-	-	-	-	-
Grants and private contributions	811,801	605,853	1,725,251	1,620,824	2,116,052	617,651	352,025	318,158	133,441	184,424
Other miscellaneous	204,724	305,425	320,178	300,474	580,855	836,222	259,661	382,685	705,561	605,363
Total Revenues	10,649,677	10,924,878	12,193,147	12,005,906	13,620,768	12,570,819	12,244,213	11,777,842	12,495,146	13,212,853
Expenditures										
Current										
General government	721,093	1,181,550	874,549	938,405	1,039,096	994,318	1,045,880	1,035,449	1,033,517	1,058,278
Public safety	5,833,159	3,809,916	4,579,805	3,843,133	4,068,698	4,367,165	4,598,833	4,966,980	5,214,844	5,469,270
Public works	1,642,736	1,526,286	1,355,199	1,786,893	1,376,300	1,287,093	1,380,331	1,478,268	1,532,035	1,765,723
Community enrichment	805,237	825,218	769,261	789,944	818,538	837,860	966,904	958,686	768,457	699,217
Contingent	863,872	834,227	1,073,603	1,258,035	1,622,690	1,185,700	1,477,704	1,171,896	1,138,649	1,429,141
Capital Outlay	671,929	2,083,498	2,442,188	2,750,268	4,918,490	1,199,450	665,739	2,266,626	4,059,125	704,567
Debt Service:										
Principal retirement	1,840,000	1,925,000	1,805,000	1,700,000	1,800,000	1,810,000	1,890,000	1,430,000	1,470,000	1,545,000
Interest and fiscal charges	573,863	567,517	572,575	502,600	469,993	421,879	402,123	472,096	443,578	414,473
Issuance costs	-	-	-	71,018	-	-	65,050	-	-	-
Total Expenditures	12,951,889	12,753,212	13,472,180	13,640,296	16,113,805	12,103,465	12,492,564	13,780,001	15,660,205	13,085,669
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(2,302,212)	(1,828,334)	(1,279,033)	(1,634,390)	(2,493,037)	467,354	(248,351)	(2,002,159)	(3,165,059)	127,184
Other Financing Sources (Uses)										
Bonds issued	-	4,303,747	-	4,300,000	-	-	7,250,000	-	-	-
Payment of bond issuance costs	-	-	-	-	-	-	-	-	-	-
Transfers in	306,000	419,369	1,490,898	1,463,410	642,998	257,645	300,000	763,000	413,000	486,197
Transfers out	(50,000)	(132,950)	(2,680,146)	(782,672)	(1,047,983)	(281,645)	(855,000)	(550,000)	(200,000)	(200,000)
Total Other Financing Sources and Uses	256,000	4,590,166	(1,189,248)	4,980,738	(404,985)	(24,000)	6,695,000	213,000	213,000	286,197
Net Change in Fund Balance	\$ (2,046,212)	\$ 2,761,832	\$ (2,468,281)	\$ 3,346,348	\$ (2,898,022)	\$ 443,354	\$ 6,446,649	\$ (1,789,159)	\$ (2,952,059)	\$ 413,381
Debt service as a % of noncapital expenditures	19.7%	23.4%	21.6%	18.3%	16.2%	18.0%	18.7%	14.0%	12.4%	15.2%

ASSESED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN YEARS
UNAUDITED

TAX YEAR	ESTIMATED MARKET VALUE		LESS EXEMPTIONS	TAXABLE VALUE	INDUSTRIAL CONTRACTS (a)	ALL TAXABLE PROPERTY	TOTAL DIRECT TAX RATE
	REAL PROPERTY	PERSONAL PROPERTY					
2010-11	964,152,940	59,944,330	244,390,822	779,706,448	341,095,125	1,120,801,573	.0719500
2011-12	1,013,823,036	58,209,560	215,503,676	856,528,920	361,608,699	1,218,137,619	0.672455
2012-13	987,035,260	67,516,150	189,278,135	865,273,275	341,361,429	1,206,634,704	0.678066
2013-14	995,920,698	64,447,330	205,287,533	855,080,495	400,616,770	1,255,697,265	0.695478
2014-15	986,561,998	70,430,780	206,468,807	850,523,971	446,252,981	1,296,776,952	0.695478
2015-16	995,708,816	87,254,530	195,332,110	887,631,236	358,890,157	1,246,521,393	0.695000
2016-17	999,757,130	81,754,360	195,174,472	886,337,018	367,447,180	1,253,784,198	0.705000
2017-18	1,040,536,977	64,419,780	199,772,709	905,184,048	371,395,988	1,276,580,036	0.725000
2018-19	1,036,813,908	79,167,430	202,060,123	913,921,215	447,747,699	1,361,668,914	0.735000
2019-20	1,094,330,670	90,522,210	212,539,115	972,313,765	455,879,590	1,428,193,355	0.727993

Exemptions are primarily on homestead property and for disabled persons or persons 65 years of age or older. The homestead exemptions is 20% of appraised value and the exemption for disabled persons or for those 65 years of age or older is \$16,600.

Source: Jefferson County Tax Reports

(a) Taxable Valuation of Industrial Property - In Lieu of Tax Agreements 75% of Assessed Value

PROPERTY TAX RATES- DIRECT AND OVERLAPPING GOVERNMENTS (Per \$100 Assessed Value)
 LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates			Total
	General Fund	Debt Service Fund	Total City Tax Rate	Jefferson County	Drainage District No. 7	PNGISD	
2011	0.383801	0.315699	0.6995	0.3650	0.1389	1.45495	2.6584
2012	0.413855	0.305645	0.7195	0.3650	0.1389	1.43650	2.6599
2013	0.400000	0.272455	0.672455	0.3650	0.1409	1.43650	2.6149
2014	0.422774	0.255292	0.678066	0.3650	0.1409	1.38807	2.5721
2015	0.443000	0.252478	0.695478	0.3650	0.1499	1.43400	2.6444
2016	0.443000	0.252478	0.695478	0.3650	0.1499	1.44441	2.6548
2017	0.491259	0.213741	0.705000	0.3650	0.1605	1.44410	2.6746
2018	0.518937	0.206063	0.725000	0.364977	0.199875	1.44441	2.734262
2019	0.520774	0.214226	0.735000	0.364977	0.239850	1.44441	2.784237
2020	0.525753	0.202240	0.727993	0.364977	0.311805	1.34275	2.747525

Source:Jefferson County

PRINCIPAL TAXPAYERS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

TAXPAYER	NATURE OF PROPERTY	TAX YEAR 2009			TAX YEAR 2019 (a)		
		Assessed Valuation	Rank	Percent of Estimated Actual Value	Taxable Assessed Valuation	Rank	Percent of Estimated Actual Value
Huntsman Corporation	Chemical Plant	\$ 167,201,850	1	13.40%	\$ 177,619,298	1	18.27%
RBF Port Neches	BioFuel	6,021,000	3	0.48%	42,722,360	2	4.39%
Flint Hills Resources	Industrial	-			10,098,270	3	1.04%
Calabrian Corporation	Chemical Plant	6,450,030	2	0.52%	9,296,050	4	0.96%
Entergy Gulf States	Utilities	5,285,990	4	0.42%	8,603,480	5	0.88%
Aron Housing Group LLC	Apartments	2,480,460	10	0.20%	6,822,930	6	0.70%
M&E Food Mart, Inc. #2	Grocery Store	3,407,130	5	0.27%	3,594,800	7	0.37%
Neches Federal Credit Union	Bank	3,101,090	6	0.25%	-		
Salanor Investments Inc	Commercial	2,716,200	7	0.22%	3,266,760	9	0.34%
Time Warner Cable Texas	Utilities	2,673,040	8	0.21%	3,941,160	8	0.41%
Phelan , AM and Harry	Commercial	2,581,050	9	0.21%	2,731,130	10	0.28%
Total		<u>\$ 201,917,840</u>		<u>16.18%</u>	<u>\$ 268,696,238</u>		<u>27.63%</u>
Total Assessed Property Values		<u>\$1,248,234,762</u>		<u>100.0%</u>	<u>\$ 972,313,765</u>		<u>100.0%</u>

Source: Jefferson County Appraisal District: (a) represents 2019 Taxable Values for FY19 Financial Cycle

City of Port Neches, Financial Data

CITY OF PORT NECHES, TEXAS

SCHEDULE VIII

PROPERTY TAX LEVIES AND COLLECTIONS
 LAST TEN YEARS
 UNAUDITED

TAX YEAR	TAX LEVY WITHIN THE FISCAL YEAR OF THE LEVY	TOTAL LEVY YEAR COLLECTIONS		SUBSEQUENT DELINQUENT TAX COLLECTIONS	TOTAL COLLECTIONS @9.30.19 BY LEVY YEAR	PERCENT OF TOTAL TAX COLLECTIONS AT TOTAL TAX LEVY	OUTSTANDING TAX LEVY @9.30.19
		\$ AMOUNT COLLECTED	% OF LEVY				
2009-2010	5,515,195	5,425,275	98.37%	81,094	5,506,369	99.84%	8,826
2010-2011	5,596,014	5,509,480	98.45%	77,265	5,586,745	99.83%	9,269
2011-2012	5,818,573	5,679,728	97.61%	129,287	5,809,015	99.84%	9,558
2012-2013	5,858,386	5,772,220	98.53%	75,111	5,847,331	99.81%	11,055
2013-2014	5,928,013	5,850,581	98.69%	65,421	5,916,002	99.80%	12,011
2014-2015	5,899,599	5,808,822	98.46%	73,737	5,882,559	99.71%	17,040
2015-2016	6,129,729	6,045,593	98.63%	57,814	6,103,407	99.57%	26,322
2016-2017	6,241,155	6,143,009	98.43%	61,764	6,204,773	99.42%	36,382
2017-2018	6,541,446	6,457,479	98.72%	33,600	6,491,079	99.23%	50,367
2018-2019	6,684,524	6,590,156	98.59%				94,368

(1) Source: City's detailed accounting records - based on original levy

Does not include penalties and interest.

RATIOS FOR OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds (1)	Special Assesment Bonds	Capital Leases	Sewer Bonds	General Obligation Bonds			
2009-10	12,965,000	-	-	-	-	12,965,000	n/a	953
2010-11	15,340,000	-	-	-	-	15,340,000	n/a	1,176
2011-12	13,535,000	-	-	-	-	13,535,000	n/a	1,038
2012-13	16,135,000	-	-	-	-	16,135,000	n/a	1,237
2013-14	14,420,000	-	-	-	-	14,420,000	n/a	1,106
2014-15	12,610,000	-	-	-	-	12,610,000	n/a	967
2015-16	17,970,000	-	-	-	-	17,970,000	n/a	1,378
2016-17	16,540,000	-	-	-	-	16,540,000	n/a	1,291
2017-18	15,070,000	-	-	-	-	15,070,000	n/a	1,177
2018-19	13,525,000	-	-	-	-	13,525,000	n/a	1,056

(1) Includes Certificates of Obligation

RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS - UNAUDITED

Fiscal Year	General Obligation Bonds (1)	Less: Amounts Available in Debt Service Fund (2)	Total	Percentage of Estimated Actual Taxable Value of Property (3)	Per Capita (4)
2009-10	12,965,000	1,496,662	11,468,338	1.47%	843
2010-11	15,340,000	1,430,132	13,909,868	1.62%	1,067
2011-12	13,535,000	1,406,173	12,128,827	1.40%	930
2012-13	16,135,000	1,436,968	14,698,032	1.70%	1,127
2013-14	14,420,000	1,362,167	13,057,833	1.53%	1,001
2014-15	12,610,000	1,283,070	11,326,930	1.33%	869
2015-16	17,970,000	1,016,743	16,953,257	1.91%	1,300
2016-17	16,540,000	1,204,520	15,335,480	1.73%	1,291
2017-18	15,070,000	1,015,798	14,054,202	1.55%	1,177
2018-19	13,525,000	1,027,164	12,497,836	1.37%	1,056

(1) Includes Certificates of Obligation

(2) Amount restricted for debt service payments

(3) See Schedule V for property value data - excluding industrial values

(4) See Schedule XV for population data

Direct and Overlapping Governmental Activities Debt
 As of September 30, 2019
 UNAUDITED

Jurisdiction	Reference	Bonded Debt Outstanding	Estimated (a) Percentage Applicable to City of Port Neches	Amount Applicable to City of Port Neches
Overlapping				
Jefferson County, Texas	(1)	\$ 43,388,860	3.42%	\$ 1,483,899
Jefferson County - Drainage District #7	(1)	16,180,000	6.26%	1,012,868
Nederland Independent School District	(1)	94,491,667	3.39%	3,203,268
Port Neches-Groves				
Independent School District	(1)	84,720,000	27.28%	<u>23,111,616</u>
Total Overlapping				<u>28,811,651</u>
City of Port Neches	(2)	13,525,000	100.00%	<u>13,525,000</u>
Total				<u>\$ 42,336,651</u>

(1) Jefferson County Texas Auditor

(2) City of Port Neches

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayer of the City of Port Neches. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(a) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of taxing entity that is within the City's boundaries and dividing it by the taxing entity's total taxable assessed value.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2019

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes; City	\$ 13,525,000	100%	\$ 13,525,000

LEGAL DEBT MARGIN INFORMATION
 LAST TEN YEARS
 (AMOUNTS EXPRESSED IN THOUSANDS)
 UNAUDITED

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Debt limit	\$ 104,331	\$ 106,482	\$ 102,410	\$ 107,203	\$ 105,455	\$ 106,037	\$ 105,699	\$ 108,296	\$ 108,151	\$ 111,598	\$ 111,598
Total net debt applicable to limit	11,555	11,468	13,910	12,105	14,698	13,058	11,328	16,953	17,744	16,086	14,552
Legal debt margin	<u>\$ 92,776</u>	<u>\$ 95,014</u>	<u>\$ 88,500</u>	<u>\$ 95,098</u>	<u>\$ 90,757</u>	<u>\$ 92,979</u>	<u>\$ 94,371</u>	<u>\$ 91,343</u>	<u>\$ 90,407</u>	<u>\$ 95,512</u>	<u>\$ 97,046</u>
Total net debt applicable to the limit as a percentage of debt limit	11.1%	10.8%	13.6%	11.3%	13.9%	12.3%	10.7%	15.7%	16.4%	14.4%	13.0%

Legal Debt Margin Calculation for Fiscal Year 2019:

Total assessed value	\$ 1,115,981
Debt limit (10% of total assessed value)	111,598
Debt applicable to limit:	
Outstanding Debt (CO's)	13,525
Less: Amount set aside for repayment of debt	<u>1,027</u>
Total net debt applicable to limit	14,552
Legal debt margin	<u>\$ 97,046</u>

Note: Considering guidelines set forth by the Attorney General of Texas, this presentation applies a measurement tool whereby outstanding debt should not exceed 10% of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

The City of Port Neches has no GO Debt outstanding, and has elected to use Certificates of Obligation for this presentation.

CITY OF PORT NECHES, TEXAS
 PLEDGED-REVENUE COVERAGE
 LAST TEN YEARS

SCHEDULE XIV

TAX YEAR	GROSS REVENUE (1)	EXPENSES EXCLUDING DEPRECIATION (1)	NET REVENUE AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENTS			COVERAGE
				PRINCIPAL	INTEREST	TOTAL	
2009-10	3,051,327	2,865,931	185,396	-	-	-	-
2010-11	3,172,148	2,948,778	223,370	-	-	-	-
2011-12	2,918,993	3,037,239	(118,246)	-	-	-	-
2012-13	3,135,207	2,784,383	350,824	-	-	-	-
2013-14	3,303,623	2,985,721	317,902	-	-	-	-
2014-15	3,161,004	3,228,395	(67,391)	-	-	-	-
2015-16	3,396,427	3,621,376	(224,949)	-	-	-	-
2016-17	3,353,875	3,414,568	(60,693)	-	-	-	-
2017-18	3,645,431	3,226,112	419,319	-	-	-	-
2018-19	3,496,169	3,648,585	(152,416)	-	-	-	-

SOURCE: (1) Statement of Revenue, Expenditures and Changes in Fund Net Position, Water and Sewer Fund. Includes interest income and other nonoperating revenue, but excludes tax revenue and industrial contracts dedicated to sewer renovations.

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

UNAUDITED

Fiscal Year	Population	Personal Income (amounts expressed in thousands \$)	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate (1)
2010	13,040	293,506	26,284	34	14.5	4,677	11.00%
2011	13,040	293,506	26,284	34	14.5	4,720	11.10%
2012	13,040	293,506	26,284	34	14.5	4,807	9.00%
2013	13,040	293,506	26,284	34	14.5	4,850	7.50%
2014	13,040	293,506	26,284	34	14.5	4,900	6.50%
2015	13,040	295,000	26,284	36	14.5	4,950	6.00%
2016	13,040	295,000	26,284	36	14.5	4,950	5.25%
2017	12,809	303,000	26,284	36	14.5	4,950	5.25%
2018	12,809	303,000	26,284	36	14.5	4,950	5.25%
2019	12,809	303,000	26,284	36	14.5	4,950	5.25%

(1) Represents regional data; Port Neches unemployment is estimated at 6% or less

Data Sources: Southeast Texas Workforce Development Board...LMI Report
Bureau of Census, Port Neches Groves ISD

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS PRIOR

EMPLOYER	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Rank	% of Total City Employment
PNGISD	655	655	652	652	680	655	712	712	712	712	1	16.4%
Huntsman Petrochemical Corp.	525	525	580	596	610	610	625	625	625	625	2	14.4%
Lion Elastomers (Ashland/ISP)	238	238	238	240	240	201	199	199	199	199	3	4.6%
Texas Petrochemical	n/a	n/a	n/a	n/a	n/a	n/a	168	168	168	168	4	3.9%
City of Port Neches	95	95	90	90	92	94	93	93	93	93	5	2.1%
Neches FCU	85	85	85	85	85	85	90	90	90	90	6	2.1%
M&E Food Mart (Market Basket)	76	76	76	76	75	72	80	80	80	80	7	1.8%
Calabrian Corp.	57	57	64	64	72	75	65	65	65	65	8	1.5%
Dunn Pallet (Groves Pallet)	46	46	51	50	70	35	43	43	43	43	9	1.0%

Source: Port Neches Economic Development Corporation Estimates

(1) The requirement for statistical data is ten years; only seven years are available at this time.

Operating Indicators by Function/Program,
Last Ten Calendar Years

Function/Program	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public Safety										
Police										
Traffic citations	1,227	1,305	1,487	1,867	2,000	1,776	1,538	1,384	1,340	1,877
Dispatch calls for service (Central Dispatch)	6,087	9,264	10,341	12,301	12,746	12,148	11,128	11,063	10,869	11,072
Fire										
Total runs	1,378	1,323	1,220	1,126	1,185	1,310	1,338	1,446	1,400	1,387
Library										
Circulation recorded	63,387	60,607	68,361	61,930	63,140	60,734	62,403	62,663	57,671	51,109
Visiting patrons recorded	77,941	94,189	88,690	93,498	104,925	100,903	118,358	96,530	136,471	107,030
Utilities										
Gallons purchased (in millions)	604	651	628	565	575	599	569	588	663	597
Gallons sold (in millions)	526	555	494	491	477	455	454	457	505	463
Number of connections	5,310	5,335	5,341	5,353	5,353	5,352	5,385	5,441	5,472	5,533
Solid waste										
City disposal (in cubic yards)	25,449	26,033	25,204	25,834	25,961	25,923	26,716	30,626	31,086	30,735
Green waste disposal (cubic yards)	14,140	9,225	12,913	14,546	13,796	15,194	16,362	19,402	17,835	20,390
Inspections										
Total value of permits issued	\$7,310,000	\$5,866,460	\$18,920,000	\$12,588,000	\$10,347,000	\$9,776,000	\$9,409,660	\$8,096,000	\$ 9,563,000	\$ 39,788,000

 FULL-TIME CITY GOVERNMENT EMPLOYEES BY DEPARTMENT
 SELECTED FISCAL YEARS 2009-

Department	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Municipal Administration	7	6	6	6	6	6	6	6	6	6
Library	5	5	5	5	5	5	5	5	5	5
Police	21	21	21	21	23	23	23	23	23	24
Fire/Emergency Management	13	13	13	13	13	15	15	15	15	15
Inspections	1	1	1	1	1	1	1	1	1	1
Garage and Warehouse	3	2	2	2	2	2	2	2	2	2
Streets/Drainage	9	10	10	10	10	10	10	10	10	10
Solid Waste	9	10	10	10	10	10	10	10	10	11
Water Plant	4.5	4.5	4.5	4.5	5	5	5	5	5	5
Waste Water Plant	4	4	4	4	4	4	4	4	4	4
Customer Svc/Billing & Coll.	3	2	2	2	2	2	2	2	2	2
Water Dist/Water Coll.	8	8	8	8	8	8	8	8	8	8
Parks	2.5	2.5	2.5	2.5	2	2	2	2	2	2
Other Recreation	1	1	1	1	1	1	1	1	1	1
	91	90	90	90	92	94	94	94	94	96

CAPITAL ASSET STATISTICS BY FUNCTION

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public Safety											
Police Station	1	1	1	1	1	1	1	1	1	1	1
Fire Station	1	1	1	1	1	1	1	1	1	1	1
Public Works											
Streets-Paved (miles)	56	56	56	56	56	56	56	57	57	57	57
Roads (miles)	7	7	7	7	7	7	7	7	7	7	7
Cultural & Recreation											
Parks (acres)	50	50	50	50	50	50	50	50	50	50	50
Swimming Pools	0	0	0	0	0	0	0	0	0	0	0
Library	1	1	1	1	1	1	1	1	1	1	1
Splash Park	1	1	1	1	1	1	1	1	1	1	1
Water & Sewer											
Water Main (miles)	84	84	84	84	84	84	84	85	85	85	85
Sanitary Sewer (miles)	84	84	84	84	84	84	84	84	84	84	84

Source: City Departments

CITY OF PORT NECHES, TEXAS
INDUSTRIAL CONTRACT REVENUE
UNAUDITED

SCHEDULE XX

	2019 Adjusted Assessed Valuation (a)	2019 Assessed Discounts	of Tax Contract Valuation	Payments
Huntsman Petrochemical Corp.	\$ 226,556,619	25%	\$ 169,917,464	\$ 1,236,987
MOTIVA Refinery	123,028,155	25%	92,271,116	\$ 671,727
Texas PetroChemical LP	60,233,726	25%	45,175,295	\$ 328,873
Air Liquide Large Industries	130,919,859	25%	98,189,894	\$ 714,816
Lion Elastomers	39,389,224	25%	29,541,918	\$ 215,063
Huntsman Propylene Oxide Ltd.	10,311,200	25%	7,733,400	\$ 56,299
ExxonMobil Corp.	4,195,913	25%	3,146,935	\$ 22,909
Flint Hills Resources	7,683,668	25%	5,762,751	\$ 41,952
Ashland/ISP Waste Management	2,219,713	25%	1,664,785	\$ 12,120
Entergy Gulf States, Inc.	2,149,657	25%	1,612,243	\$ 11,737
Ameripol Synpol Company	97,530	25%	73,148	\$ 533
Centana	7,094	25%	5,321	\$ 39
DirectTV Inc.	137,911	25%	103,433	\$ 753
Zydeco Pipeline Company LLC	909,184	25%	681,888	\$ 4,964
Total	<u>\$ 607,839,453</u>		<u>\$ 455,879,590</u>	<u>\$ 3,318,772</u>

	2018 Adjusted Assessed Valuation (a)	2018 Assessed Discounts	of Tax Contract Valuation	Payments
Huntsman Petrochemical Corp.	\$ 213,975,136	25%	\$ 160,481,352	\$ 1,179,538
MOTIVA Refinery	149,026,813	25%	111,770,110	\$ 821,510
Texas PetroChemical LP	57,474,828	25%	43,106,121	\$ 316,830
Air Liquide Large Industries	101,225,516	25%	75,919,137	\$ 558,006
Lion Elastomers	38,449,823	25%	28,837,367	\$ 211,955
Huntsman Propylene Oxide Ltd.	10,894,100	25%	8,170,575	\$ 60,054
ExxonMobil Corp.	4,191,749	25%	3,143,812	\$ 23,107
Flint Hills Resources	16,224,895	25%	12,168,671	\$ 89,440
Ashland/ISP Waste Management	2,224,215	25%	1,668,161	\$ 12,261
Entergy Gulf States, Inc.	2,144,291	25%	1,608,218	\$ 11,820
Ameripol Synpol Company	97,535	25%	73,151	\$ 538
Centana	12,030	25%	9,023	\$ 66
DirectTV Inc.	146,288	25%	109,716	\$ 806
Zydeco Pipeline Company LLC	909,713	25%	682,285	\$ 5,015
Total	<u>\$ 596,996,932</u>		<u>\$ 447,747,699</u>	<u>\$ 3,290,946</u>