FINANCIAL STATEMENTS – MODIFIED CASH BASIS

of the

City of Humble, Texas

For the Year Ended
September 30, 2025

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City of Humble, Texas

FINANCIAL STATEMENTS – MODIFIED CASH BASIS

TABLE OF CONTENTS

For the Fiscal Year Ended September 30, 2025

FINANCIAL SECTION

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the modified cash basis financial statements of the major funds and the aggregate remaining fund information of the City of Humble, Texas (the "City") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's modified cash basis financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the City of Humble, Texas. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinions

During the year the City implemented a new financial accounting system. As a result of the conversion, the City experienced significant difficulties in maintaining complete and accurate accounting records and supporting documentation for certain account balances and transactions. These matters affected, among other things, cash, receivables, accounts payable, interfund balances and activity, and other related accounts and disclosures within the governmental and proprietary major funds and the aggregate remaining fund information.

Because of the significance of these matters, we were unable to obtain sufficient appropriate audit evidence regarding the amounts and disclosures reported in the financial statements. Accordingly, we were unable to determine whether any adjustments might have been necessary in respect of assets, liabilities, net assets revenues, expenditures, or other disclosures comprising the City's modified cash basis financial statements.

Emphasis of Matter – Basis of Accounting and Limited Footnotes

We draw your attention to Note I.D. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("US GAAP"). Further, US GAAP financial statements, includes footnotes over capital assets, debt, OPEB liability, and the net pension liability. These items have been omitted from these financial statements that are presented on a modified cash basis. Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with Note I.D.; 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of City of Humble, Texas's financial statements in accordance with auditing standards generally accepted in the United States of America. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of City of Humble, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Other Matters

Required Supplementary Information

Management has omitted the required supplementary information, which includes the management's discussion and analysis, budgetary comparison information for the general and major special revenue funds, the schedule of changes in net pension liabilities and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liability and related ratios, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

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

BrooksWatson & Co.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
March 30, 2026

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FINANCIAL STATEMENTS
(MODIFIED CASH BASIS)

City of Humble, Texas

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

September 30, 2025

	General	Capital Projects	Red Light Camera
Assets			
Cash and cash equivalents	$ 46,104,847	$ 4,454,510	$ 9,005,757
Investments	3,000,600	-	-
Accounts receivable, net	9,469,999	7,391	717,880
Due from other funds	11,311,196	-	-
Total Assets	$ 69,886,642	$ 4,461,901	$ 9,723,637
Liabilities			
Accounts payable	$ 3,447,399	$ 164,559	$ -
Due to other funds	-	1,301,998	3,547,343
Unearned revenue	-	3,682,037	-
Total Liabilities	3,447,399	5,148,594	3,547,343
Net Assets			
Total Net Assets	$ 66,439,243	$ (686,693)	$ 6,176,294

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
$ 2,384,650	$ 61,949,764
-	3,000,600
167,362	10,362,632
1,080	11,312,276
$ 2,553,092	$ 86,625,272
$ 676,898	$ 4,288,856
431,765	5,281,106
-	3,682,037
1,108,663	13,251,999
$ 1,444,429	$ 73,373,273

City of Humble, Texas

STATEMENT OF CHANGES TO NET ASSETS - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2025

	General	Capital Projects	Red Light Camera
Revenues			
Property tax	$ 7,292,839	$ -	$ -
Sales tax	18,843,742	-	-
Franchise and local taxes	1,213,538	-	-
Fines and forfeitures	1,615,943	-	15,145
License and permits	954,501	-	-
Charges for services	3,043,634	-	-
Intergovernmental	11,218,907	148,160	-
Investment income	1,814,655	77	399,690
Other revenue	225,942	-	-
Total Revenues	46,223,701	148,237	414,835
Expenditures			
General government	7,342,424	-	-
Public safety	27,648,747	-	482,294
Public works	4,923,319	-	-
Community services	5,342,377	-	-
Debt Service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay	-	819,904	-
Total Expenditures	45,256,867	819,904	482,294
Revenues Over (Under) Expenditures	966,834	(671,667)	(67,459)
Other Financing Sources (Uses)			
Sale of assets	13,782	-	-
Transfers in	-	-	-
Total Other Financing Sources (Uses)	13,782	-	-
Change in Net Assets	980,616	(671,667)	(67,459)
Beginning net assets	65,458,627	(15,026)	6,243,753
Ending Net Assets	$ 66,439,243	$ (686,693)	$ 6,176,294

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
$ 366	$ 7,293,205
-	18,843,742
729,258	1,942,796
-	1,631,088
-	954,501
58,516	3,102,150
-	11,367,067
92,343	2,306,765
788	226,730
881,271	47,668,044
-	7,342,424
-	28,131,041
-	4,923,319
385,123	5,727,500
625,000	625,000
12,815	12,815
-	819,904
1,022,938	47,582,003
(141,667)	86,041
-	13,782
6,425	6,425
6,425	20,207
(135,242)	106,248
1,579,671	73,267,025
$ 1,444,429	$ 73,373,273

City of Humble, Texas

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

PROPRIETARY FUNDS

September 30, 2025

		Water & Sewer
Assets		
Cash and cash equivalents		$ 36,479,966
Investments		1,251,068
Accounts receivable, net		2,326,114
	Total Assets	40,057,148
Liabilities		
Accounts payable and accrued liabilities		$ 1,684,125
Due to other funds		6,031,170
	Total Liabilities	7,715,295
Net Assets		
	Net Assets	$ 32,341,853

See Notes to Financial Statements.

City of Humble, Texas

STATEMENT OF CHANGES TO NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended September 30, 2025

		Water & Sewer
Revenues		
Water and sewer services		$ 11,644,314
Investment earnings		1,457,812
Other revenue		74,963
	Total Revenues	13,177,089
Expenditures		
Personnel services		2,249,145
Water operations		642,226
Sewer operations		665,672
Material and maintenance		3,206,478
	Total Expenditures	6,763,521
	Revenues Over (Under) Expenditures	6,413,568
Other Financing Sources (Uses)		
Transfers (out)		(6,425)
	Total Other Financing Sources (Uses)	(6,425)
	Change in Net Assets	6,407,143
	Beginning net assets	25,934,710
	Ending Net Assets	$ 32,341,853

See Notes to Financial Statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Humble, Texas (the "City") is an independent political subdivision operating under a home rule charter as authorized in Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Mayor-Council-Manager form of government in which all powers of the City are vested in an elective council. The City Council consists of the mayor and five council members. The City provides services related to the following: public safety to include fire and emergency medical services, public works, sanitation, water and sewer services, public improvements, planning and zoning, and administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council which is comprised of a Mayor and five Council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

B. Financial Statement Presentation

These financial statements – include all funds of the City according to the modified cash basis of accounting as described within note I.D. This presentation and its contents are fully covered within the table of contents within this report.

C. Fund Financial Statements

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

<u>Governmental Funds</u>

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

The government reports the following major governmental funds:

General Fund

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

Capital Projects Fund

The capital projects fund is used to account for resources obtained for the acquisition and/or construction of capital facilities by the City, except those financed by proprietary funds.

Red Light Camera Fund

The Red Light camera fund is used to account for red light fine receipts that are legally restricted to expenditures for specific purposes as defined by the State. Such expenditures include the cost of leasing the red light camera equipment, operating the system, which includes the costs of creating, reviewing, distributing, and delivering violation notices, and to fund traffic safety programs.

The government reports the following nonmajor governmental funds, which are combined into one aggregate nonmajor fund for reporting purposes. Those funds included within that aggregation are the following funds: debt service, hotel/motel, and beautification funds.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, net assets, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The proprietary funds have been presented according to the modified cash basis. Revenues include charges for services and other supplementary types of revenues. Expenditures include costs of materials, contracts, personnel, debt service, and capital outlay.

The government reports the following major enterprise fund:

Water and Sewer Fund

This fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, and the water collection and treatment systems. All costs are financed through charges to utility customers.

D. Measurement Focus and Basis of Accounting

This report uses the modified cash basis of accounting for all funds of the City. This basis of accounting is different than generally accepted accounting principles within the U.S ("US GAAP"). Under the modified cash basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and earned or legally owed to the City). Measurable means the amount of the transaction can be reasonably determined. Revenues susceptible to accrual include charges for services and interest on temporary investments.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds within this report are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the statement of net assets. Statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net assets.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues in the current period. Other receipts become measurable when earned or when a legal claim is obtained by the City, and are recognized as revenue at that time.

Under the modified cash basis of accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Further, under this basis of accounting, no long-term assets or liabilities are recorded. Income and expenditures for long-term assets acquired and long-term liabilities including debt and pensions are recognized as expenditures when paid. For example, payments for debt principal and capital asset additions are expended when due and payable under the modified cash basis of accounting.

Further, related disclosures over long-term assets and long-term liabilities that would be included for accrual financial statements according to US GAAP, are excluded within this report, as they are not relevant to these financial statements that are presented on the modified cash basis of accounting.

E. Assets, Liabilities, and Net Assets

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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements.
All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the City. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Program Revenues

Amounts reported as *program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided or fines imposed by a given function or segment, and (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

6. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

7. Net Assets Balance

These financial statements present the net assets balance, which is the difference between assets and liabilities. This balance does not reflect any potential restrictions or other categorizations that may be required under US GAAP reporting.

8. Estimates

The preparation of financial statements, in conformity with the modified cash basis of accounting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2025, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity Years
TexPool investment pool	$ 5,108	0.12
Certificate of deposits	4,251,668	1.81
Total fair value	$ 4,256,776	
Portfolio weighted average maturity		1.78

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed one year; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2025, the City's investments in TexStar was rated AAAm by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of the deposits. As of September 30, 2025, the fair values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexSTAR

TexSTAR has been established for governmental entities pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR's governing body is a five-member Board consisting of three representatives of participants and one member designated by each of the co-administrators. The Board holds legal title to all money, investments, and assets and has the authority to employ personnel, contract for services, and engage in other administrative activities necessary or convenient to accomplish the objectives of TexSTAR. Board oversight of TexSTAR is maintained through daily, weekly, and monthly reporting requirements. TexSTAR is rated AAAm by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	Governmental Funds				
	General	Capital Projects	Red Light Camera	Nonmajor Governmental	Total
Property taxes	$ 372,925	$ -	$ -	$ 6,803	$ 379,728
Sales and other taxes	3,162,718	-	-	160,559	3,323,277
Franchise taxes	218,998	-	-	-	218,998
Metro mitigation	1,423,799	-	-	-	1,423,799
Fines	11,726,161	-	42,930,454	-	54,656,615
Accounts	7,299,729	-	-	-	7,299,729
Assessments	-	57,940	-	-	57,940
Other	167,662	-	-	-	167,662
Allowance	(14,901,993)	(50,549)	(42,212,574)	-	(57,165,116)
Total	$ 9,469,999	$ 7,391	$ 717,880	$ 167,362	$ 10,362,632

	Water & Sewer
Accounts	$ 2,975,042
Allowance	(648,928)
Total	$ 2,326,114

III. 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 participates along with over 2,700 other Texas governments & political subdivisions in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past four years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts 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.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Arbitrage

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

D. Deficit Net Assets

As of year end, the capital projects fund had a deficit net asset balance of $686,693. This deficit will be replenished through transfers from other funds.

E. Subsequent Events

There were no material subsequent events through March 30, 2026, the date the financial statements were available to be issued.