

CITY OF PATTISON, TEXAS

Financial Statements

with

Report of Independent Auditor

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Pattison, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Pattison, Texas, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City'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. 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.

Serving Central Texas Since 1967

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Pattison, Texas, as of December 31, 2018, and the respective changes in financial position and, the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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.

Sidd Smeets

Brenham, Texas
August 5, 2019

CITY OF PATTISON
P.O. Box 223
Pattison, Texas 77466

Management's Discussion and Analysis

The following discussion and analysis provides an overview of the financial activities of the City of Pattison for the year ended December 31, 2018. The information presented herein should be considered in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This report has been prepared under the reporting guidelines mandated by the Governmental Accounting Standards Board Statement 34 and consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are statements required under GASB 34 and provide information about the activities of the City as a whole and present a longer-term view of the city's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements report the City's operations in more detail than the government wide statements by providing information about the City's most significant funds.

Financial Highlights

- The assets of the City at the close of the most recent fiscal were \$1,189,920.
- The City's total net position increased by \$14,939.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$780,523.

Overview of the Financial Statements

The annual report consists of four parts – Independent Auditors Report, Management Discussion and Analysis, Basic Financial Statements and Fund Financial Statements.

- The first two statements are Statements of Net Position and Statements of Activities.
- The remaining statements are fund financial statements that include governmental funds.
- The governmental funds statements tell how general government services were funded and what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more details.

Reporting the City as a Whole

The accompanying **Government Wide Financial Statements** include two statements that present financial data for the city as a whole. The Statement of Activities reports information about the City as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting. All the current years' revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and liabilities and changes in them. The difference between the City's assets and liabilities are one way to measure the City's financial position. Other indicators need to be taken into account such as the sales tax base, to assess the overall health of the city.

Since the City has only governmental activities, the Statement of Net Position and the Statement of Activities only report these activities:

- Governmental Activities – All of the City's basic services such as streets and roads and parks, are reported here. Sales tax, franchise fees and investment income finance these activities.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information about the City's individual funds-not the City as a whole. Some funds are required to be established by State Law. However, City Council can establish other funds to help control and manage money for particular purposes. The City has one kind of fund – governmental.

- Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short term view of the City's general government operations and the basic services it provides.

Government-Wide Financial Statements

| | <u>2018</u> | <u>2017</u> |
|----------------------------------|---------------------|---------------------|
| Current & Other Assets | \$785,964 | \$1,043,574 |
| Capital Assets | 403,956 | 150,838 |
| Total Assets | <u>1,189,920</u> | <u>1,194,412</u> |
| | | |
| Current liabilities | 5,441 | 24,872 |
| Total Liabilities | <u>5,441</u> | <u>24,872</u> |
| | | |
| Net investment in Capital Assets | 403,956 | 150,838 |
| Unrestricted Net Position | 780,523 | 1,018,702 |
| Total Net Position | <u>\$1,184,479</u> | <u>\$1,169,540</u> |
| | | |
| Revenue: | | |
| Program Revenues: | | |
| Charges for services | \$ 8,346 | \$ 3,521 |
| General revenues: | | |
| Sales and use taxes | 94,133 | 92,855 |
| Franchise tax | 46,243 | 39,508 |
| Investment income | 10,431 | 8,603 |
| Total revenues | <u>159,153</u> | <u>144,487</u> |
| Expenses: | | |
| General government | 88,711 | 62,593 |
| Highways and streets | 52,373 | 3,177 |
| Culture and recreation | 1,700 | 3,694 |
| Public safety | 1,430 | 2,494 |
| Total expenses | <u>144,214</u> | <u>71,958</u> |
| Change in net position | 14,939 | 72,529 |
| Net position, beginning | 1,169,540 | 1,097,011 |
| Net position, ending | <u>\$ 1,184,479</u> | <u>\$ 1,169,540</u> |

The significant variances between 2018 and 2017 are as follows:.

- Current and other assets decreased by \$257,610 primarily due to the use of the City's funds for paving and road improvement project.
- Capital assets increased by \$253,118 due to ongoing paving and road improvement project.
- Current liabilities decreased by \$19,431 as there were open invoices in the prior year related to the City's capital projects. As capital projects were wrapping up during the current year, there were not as many open invoices at the close of 2018.

- Revenue increased by \$14,666 primarily driven by greater collections of franchise tax revenues. The City also had increased collections of permit revenues and sales taxes due to the opening of a new business during 2018.
- Expenses increased by \$72,256 due to increased road repairs, engineering costs for an official city map, and tax consulting fees for assessing collections of franchise and sales taxes.

Major Funds

The City uses fund accounting to provide proper financial management of the city's resources and to demonstrate compliance with finance related legal requirements.

Major Governmental Funds. The **General fund** is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$780,523.

General Fund Budget

Significant variations between budget and actual for 2018 are summarized as follows:

- Total general fund revenues were \$19,153 more than budgeted primarily due to additional sales tax collections from a new business that opened during the year.
- Total general government expenditures were \$22,489 less than budgeted.
 - Other expenses were under budget by \$16,401 as the amounts for city hall, local emergency management, and law and code enforcement were unused, and the amount spent on community events was approximately half of what was budgeted.
 - Professional fees were \$5,684 more than budget primarily due to engineering costs incurred for the official city map.
 - Office expenses were under budget by \$5,507 due to less actual office supplies purchases than what was originally budgeted.
 - Salaries and benefits were under budget by \$2,364 as the City had budgeted to add an additional employee during 2018, which did not occur during the year.
 - City maintenance expenses were under budget by \$3,064. Only half of the amount budgeted for contract labor for repairs and maintenance was utilized during the year.
- Total highways and streets expenditures were \$31,300 more than budgeted primarily due to street repairs, which were budgeted for within the amount budgeted for infrastructure capital outlays.
- Capital outlays for infrastructure were \$65,809 less than budgeted. Of this amount, \$31,300 was utilized to repair potholes throughout the City; this amount has been presented as highways and streets expenditures. The remaining amount was budgeted more than the actual expenses incurred during the year.

Capital Assets, net

| | Governmental Activities | |
|--------------------------|-------------------------|-------------------|
| | 2018 | 2017 |
| Land | \$ 26,985 | \$ 26,985 |
| Construction in progress | - | 69,672 |
| Infrastructure | 376,971 | 54,181 |
| Total | <u>\$ 403,956</u> | <u>\$ 150,838</u> |

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have a question about this report or need additional information, contact City of Pattison, P.O. Box 223, Pattison, Texas 77466.

CITY OF PATTISON, TEXAS
Statement of Net Position
December 31, 2018

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 566,958 |
| Certificates of deposit | 199,518 |
| Sales tax receivable | 18,186 |
| Accrued interest receivable | 1,302 |
| Capital assets not being depreciated | 26,985 |
| Capital assets net of accumulated depreciation | 376,971 |
| Total assets | 1,189,920 |
| LIABILITIES | |
| Accounts payable | \$ 5,441 |
| NET POSITION | |
| Net investment in capital assets | 403,956 |
| Unrestricted | 780,523 |
| Total net position | \$ 1,184,479 |

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

CITY OF PATTISON, TEXAS
Statement of Activities
For the Year Ended December 31, 2018

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) |
|-------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| | | | | | Governmental Activities |
| General government | \$ 88,711 | \$ 8,346 | \$ - | \$ - | \$ (80,365) |
| Highways and streets | 52,373 | - | - | - | (52,373) |
| Culture and recreation | 1,700 | - | - | - | (1,700) |
| Public safety | 1,430 | - | - | - | (1,430) |
| Total governmental activities | <u>\$ 144,214</u> | <u>\$ 8,346</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (135,868)</u> |
| General revenues | | | | | |
| Taxes | | | | | |
| Sales tax | | | | | |
| Franchise tax | | | | | |
| Investment income (loss) | | | | | |
| Total general revenue | | | | | |
| Change in net position | | | | | |
| Net position, beginning | | | | | |
| Net position, ending | | | | | |

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

CITY OF PATTISON, TEXAS
 Governmental Funds
 Balance Sheet
 December 31, 2018

| | | General Fund |
|---|----------|-----------------|
| ASSETS | | |
| Cash and cash equivalents | \$ | 566,958 |
| Certificates of deposit | | 199,518 |
| Sales tax receivable | | 18,186 |
| Accrued interest receivable | | 1,302 |
| Total assets | \$ | 785,964 |
| LIABILITIES | | |
| Accounts payable | \$ | 5,441 |
| Fund balance | | |
| Unassigned | | 780,523 |
| Total liabilities and fund balances | \$ | 785,964 |
| Reconciliation of the balance sheet to the statement of net position: | | |
| Fund balances of governmental funds | \$ | 780,523 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds: | | |
| Governmental capital assets | 429,034 | |
| Less accumulated depreciation | (25,078) | 403,956 |
| Net Position of Governmental Activities | \$ | 1,184,479 |

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

CITY OF PATTISON, TEXAS
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2018

| | <u>General Fund</u> |
|-----------------------------|-------------------------|
| Revenues | |
| Taxes | |
| Sales tax | \$ 94,133 |
| Franchise tax | 46,243 |
| Permits | 8,346 |
| Investment income | 10,431 |
| Total revenues | <u>159,153</u> |
| Expenditures | |
| Current: | |
| General government | |
| Salaries and benefits | 15,636 |
| City maintenance | 6,436 |
| Professional fees | 43,684 |
| Utilities and telephone | 7,312 |
| Office expenses | 5,493 |
| Education | 2,769 |
| Insurance | 1,234 |
| Dues and subscriptions | 1,048 |
| Other expenses | 5,099 |
| Total general government | <u>88,711</u> |
| Highways and streets | 31,300 |
| Culture and recreation | 1,700 |
| Public safety | 1,430 |
| Capital outlay: | |
| Infrastructure | 274,191 |
| Total expenditures | <u>397,332</u> |
| Net change in fund balances | (238,179) |
| Fund Balance, Beginning | <u>1,018,702</u> |
| Fund Balance, Ending | <u>\$ 780,523</u> |

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

CITY OF PATTISON, TEXAS
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended December 31, 2018

Reconciliation of the statement of revenues, expenditures and changes in fund balances of the governmental funds to the statement of changes in net position:

| | | |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (238,179) |
|--|----|-----------|

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated over their estimated useful lives:

| | | | | |
|---|----|-----------------|--|-------------------------|
| Expenditures for capital assets | \$ | 274,191 | | |
| Depreciation of capital assets | | <u>(21,073)</u> | | 253,118 |
| Change in net position, governmental activities | | | | <u><u>\$ 14,939</u></u> |

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

CITY OF PATTISON, TEXAS
 General Fund
 Statements of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Year Ended December 31, 2018

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|----------------------------|--------------------|-------------------|-------------------|---|
| Revenues | | | | |
| Sales tax | \$ 75,000 | \$ 75,000 | \$ 94,133 | \$ 19,133 |
| Franchise tax | 50,000 | 50,000 | 46,243 | (3,757) |
| Permit | 6,000 | 6,000 | 8,346 | 2,346 |
| Investment income | 9,000 | 9,000 | 10,431 | 1,431 |
| Total revenues | <u>140,000</u> | <u>140,000</u> | <u>159,153</u> | <u>19,153</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | | | | |
| Salaries and benefits | 18,000 | 18,000 | 15,636 | (2,364) |
| City maintenance | 11,900 | 9,500 | 6,436 | (3,064) |
| Professional fees | 31,500 | 38,000 | 43,684 | 5,684 |
| Utilities and phone | 6,500 | 7,500 | 7,312 | (188) |
| Office expenses | 21,000 | 11,000 | 5,493 | (5,507) |
| Education | 3,000 | 3,000 | 2,769 | (231) |
| Insurance | 1,500 | 1,500 | 1,234 | (266) |
| Dues and subscriptions | 1,200 | 1,200 | 1,048 | (152) |
| Other expenses | 19,000 | 21,500 | 5,099 | (16,401) |
| Total general government | <u>113,600</u> | <u>111,200</u> | <u>88,711</u> | <u>(22,489)</u> |
| Highways and streets | - | - | 31,300 | 31,300 |
| Culture and recreation | 13,000 | 2,000 | 1,700 | (300) |
| Public safety | 2,000 | 2,000 | 1,430 | (570) |
| Capital outlay: | | | | |
| Infrastructure | <u>326,600</u> | <u>340,000</u> | <u>274,191</u> | <u>(65,809)</u> |
| Total expenditures | <u>455,200</u> | <u>455,200</u> | <u>397,332</u> | <u>(57,868)</u> |
| Net change in fund balance | (315,200) | (315,200) | (238,179) | 77,021 |
| Fund Balance, Beginning | <u>1,018,702</u> | <u>1,018,702</u> | <u>1,018,702</u> | <u>-</u> |
| Fund Balance, Ending | <u>\$ 703,502</u> | <u>\$ 703,502</u> | <u>\$ 780,523</u> | <u>\$ 77,021</u> |

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

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

1. Summary of significant accounting policies

The accompanying financial statements include all funds of the City of Pattison, Texas. The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

The City was incorporated under the laws of the State of Texas in 1972. The City is a general law city governed by an elected five-member council and mayor. As required by generally accepted accounting principles, these financial statements present the City of Pattison (the primary government).

B. Basis of Presentation

Government-wide financial statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services or privileges provided by a given program.

Fund financial statements

Fund financial statements of the reporting entity 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, fund equity, revenues, and expenditures, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

1. Summary of significant accounting policies – cont.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the “current financial resources” measurement focus is used. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as its measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. The effect of interfund activity has been eliminated from the government-wide financial statements.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

1. Summary of significant accounting policies – cont.

D. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus.

Government-wide statements

In the government-wide financial statements, capital assets are accounted for as assets and valued at historical cost, except for donated capital assets which are recorded at their estimated fair value at the time of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|----------------------------|-------------|
| Buildings and improvements | 10-50 years |
| Infrastructure | 10-50 years |

When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and the appropriate gain or loss is recognized.

Fund financial statements

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

E. Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of cash on hand, amounts in demand deposits and amounts held in an active assets government trust account. The State of Texas restricts municipalities to invest in time deposits, U.S. Government Securities, and investment pools managed by the State. Investments consist of brokered certificates of deposit at Morgan Stanley. Investments are stated at fair value with unrealized gains and losses included in investment income. Fair value is based on a pricing matrix (Level 2 in the fair value hierarchy).

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

1. Summary of significant accounting policies – cont.

F. Fund Equity

Government-wide statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – all other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and/or unassigned.

Classification of fund balances

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term receivable net of deferred interest revenue, and nonfinancial assets held for resale.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

1. Summary of significant accounting policies – cont.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

Spending Prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

2. Legal Compliance - Budgets

Annually, a budget is adopted for the general fund. The legal level of budgetary control is specific line item groupings. Therefore, a budget amendment is required to increase the appropriations for any line item grouping. All appropriations lapse at fiscal year-end.

Encumbrance accounting is a system under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City does not employ encumbrance accounting as it feels its current system is adequate to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

Expenditures exceeded the budget at the legal level for the general fund by \$36,984 for the year ended December 31, 2018.

3. Capital Assets

Capital asset activity for the year ended December 31, 2018 is as follows:

| | Balance at December 31, 2017 | Additions | Deletions | Balance at December 31, 2018 |
|-------------------------------|---------------------------------|------------|-----------|---------------------------------|
| Non-depreciable: | | | | |
| Land | \$ 26,985 | \$ - | \$ - | \$ 26,985 |
| Construction in progress | 69,672 | - | 69,672 | - |
| Total non-depreciable | 96,657 | - | 69,672 | 26,985 |
| Depreciable: | | | | |
| Infrastructure | 58,186 | 343,863 | - | 402,049 |
| Total depreciable | 58,186 | 343,863 | - | 402,049 |
| Total Capital Assets | 154,843 | 343,863 | 69,672 | 429,034 |
| Less accumulated depreciation | | | | |
| Infrastructure | 4,005 | 21,073 | - | 25,078 |
| Total | 4,005 | 21,073 | - | 25,078 |
| Capital assets, net | \$ 150,838 | \$ 322,790 | \$ 69,672 | \$ 403,956 |

Depreciation expense charged to highways and streets in 2018 was \$21,073.

4. Assessments

During 1973, the City entered into an agreement with CenterPoint Energy Houston Electric, LLC whereby the City grants CenterPoint Energy Houston Electric, LLC. the right to conduct business within City limits. In exchange, the City receives franchise fees of \$500 plus 4% of gross receipts for each calendar year through the year 2023.

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
December 31, 2018

5. 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; injuries to employees; and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool for worker's compensation insurance as well as commercial insurance. The City pays a quarterly premium to the Pool. The Pool is intended to be self-sustaining through member premiums. Claims have not exceeded insurance coverage in any of the past three years.

6. Deposits with Financial Institutions

The City adopted investment policies related to interest rate risk, credit risk, or concentration of credit risk. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposits with financial institutions total \$305,922 as of December 31, 2018 and are covered by the Federal Deposit Insurance Corporation (FDIC). The cash and cash equivalents reported on the balance sheet also includes \$460,554 held in an active assets government trust account at Morgan Stanley. This account is not covered by the FDIC.

August 5, 2019

To the City Council
City of Pattison, Texas

We have audited the financial statements of the governmental activities, and each major fund, of City of Pattison (the City) for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 14, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of accumulated depreciation is based on management's estimate of useful lives of capital assets. We evaluated the key factors and assumptions used to develop accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following misstatements detected as a result of audit procedures were corrected by management:

| | |
|-------------------------------------|----------------------------|
| Change in fund balance, per books | \$ (259,322) |
| Adjustments: | |
| Sales tax receivable | (2,192) |
| Interest income | 10,431 |
| Accounts payable | <u>12,904</u> |
| Net effect of audit adjustments | 21,143 |
| Change in fund balance, as adjusted | <u><u>\$ (238,179)</u></u> |

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 5, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of City Council and management of City of Pattison, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Seidel Schroeder".

Seidel Schroeder

CITY OF PATTISON
Schedule of Unadusted Audit Differences
December 31, 2018

| Description of Audit Difference | Total Assets | Total Deferred Outflows of Resources | Total Liabilities | Total Deferred Inflows of Resources | Net Position/ Fund Balance | Change in Net Position/ Fund Balance |
|---------------------------------------|-----------------|--|----------------------|---|-------------------------------|--|
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Prior year accounts payable | \$ - | \$ - | \$ - | \$ - | \$ (1,156) | \$ 1,156 |
| Prior year franchise revenue | - | - | - | - | 7,999 | (7,999) |
| Accounts payable | - | - | 1,203 | - | - | (1,203) |
| Franchise revenue | 8,607 | - | - | - | - | 8,607 |
| Total unadjusted caption totals | <u>\$ 8,607</u> | <u>\$ -</u> | <u>\$ 1,203</u> | <u>\$ -</u> | <u>\$ 6,843</u> | <u>\$ 562</u> |
| Financial statement caption totals | \$ 1,189,920 | \$ - | \$ 5,441 | \$ - | \$ 1,184,479 | \$ 14,939 |
| Net audit differences as a percentage | 0.72% | 0.00% | 22.10% | 0.00% | 0.58% | 3.76% |
| GENERAL FUND | | | | | | |
| Prior year accounts payable | \$ - | \$ - | \$ - | \$ - | \$ (1,156) | \$ 1,156 |
| Prior year franchise revenue | - | - | - | - | 7,999 | (7,999) |
| Accounts payable | - | - | 1,203 | - | - | (1,203) |
| Franchise revenue | 8,607 | - | - | - | - | 8,607 |
| Total unadjusted caption totals | <u>\$ 8,607</u> | <u>\$ -</u> | <u>\$ 1,203</u> | <u>\$ -</u> | <u>\$ 6,843</u> | <u>\$ 562</u> |
| Financial statement caption totals | \$ 785,964 | \$ - | \$ 5,441 | \$ - | \$ 780,523 | \$ (238,179) |
| Net audit differences as a percentage | 1.10% | 0.00% | 22.10% | 0.00% | 0.88% | -0.24% |

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

In planning and performing our audit of the financial statements of the governmental activities and each major fund of City of Pattison, Texas (the "City") as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered City of Pattison, Texas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

Segregation of duties

The City's transactional operations, reconciliations and financial statement preparation are concentrated on one employee which presents the potential for misstatements or misappropriation. To compensate for this control, the City involves the council in approval of invoices, requires dual signatures on checks, and also has established a finance committee for review of financial information. We recommend continued use of the council and finance committee for detailed review of transactional operations. Furthermore, we recommend the Mayor perform a monthly review of the monthly bank statements as an added control.

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This communication is intended solely for the information and use of the City Council, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 5, 2019

Sindee S. Moore