

CITY OF PATTISON, TEXAS

Financial Statements

with

Report of Independent Auditor

December 31, 2019

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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, 2019, 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.

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, 2019, 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.



Brenham, Texas
June 1, 2020

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, 2019. 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 \$1,211,157.
- The City's total net position increased by \$15,015.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$785,811.

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>2019</u>	<u>2018</u>
Current & Other Assets	\$797,474	\$785,964
Capital Assets	<u>413,683</u>	<u>403,956</u>
Total Assets	<u>1,211,157</u>	<u>1,189,920</u>
Current liabilities	<u>11,663</u>	<u>5,441</u>
Total Liabilities	<u>11,663</u>	<u>5,441</u>
Net investment in Capital Assets	413,683	403,956
Unrestricted Net Position	<u>785,811</u>	<u>780,523</u>
Total Net Position	<u>\$1,199,494</u>	<u>\$1,184,479</u>
Revenue:		
Program Revenues:		
Charges for services	\$ 9,264	\$ 8,346
General revenues:		
Sales and use taxes	114,208	94,133
Franchise tax	45,748	46,243
Investment income	<u>5,718</u>	<u>10,431</u>
Total revenues	<u>174,938</u>	<u>159,153</u>
Expenses:		
General government	98,463	88,711
Highways and streets	57,674	52,373
Culture and recreation	1,400	1,700
Public safety	<u>2,386</u>	<u>1,430</u>
Total expenses	<u>159,923</u>	<u>144,214</u>
Change in net position	15,015	14,939
Net position, beginning	<u>1,184,479</u>	<u>1,169,540</u>
Net position, ending	<u>\$ 1,199,494</u>	<u>\$ 1,184,479</u>

The significant variances between 2019 and 2018 are as follows:

- Current and other assets increased by \$11,510 primarily due to increases in cash related to excess of revenues over expenses and greater sales tax receivable.
- Capital assets increased by \$9,727 due to ongoing drainage improvement projects.
- Current liabilities increased by \$6,222 due to ongoing capital projects that were in progress at the end of the year.

- Revenue increased by \$15,785 primarily driven by increased collections of sales tax revenues related to a full year of operations for a new business that had started operations during 2018.
- Expenses increased by \$15,709 due to continued road repairs, ongoing engineering costs for an official city map, and engineering costs related to platting of a subdivision.

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 \$785,811.

General Fund Budget

Significant variations between budget and actual for 2019 are summarized as follows:

- Total general fund revenues were \$10,062 less than budgeted primarily due to lower sales and franchise tax collections than anticipated and less investment income as the City's certificate of deposit matured during the year.
- Total general government expenditures were \$48,237 less than budgeted.
 - Other expenses were under budget by \$8,165 as the amount for local emergency management was unused, and the amount spent on community events was approximately half of what was budgeted.
 - Professional fees were \$21,370 less than budget as the town site drainage improvement project was not completed before the end of the year.
 - Office expenses were under budget by \$3,201 due to less actual office supplies purchased than what was originally budgeted.
 - Salaries and benefits were under budget by \$2,254 as the City had budgeted to have two employees during 2019.
 - City maintenance expenses were under budget by \$9,542. A minimal amount of the amount budgeted for contract labor for repairs and maintenance was utilized during the year, and only half of the mowing allowance was utilized.
 - Capital outlays were under budget by \$51,635 as the townsite drainage project was not completed prior to the end of the year and the road construction project through an interlocal agreement with Waller County did not begin during 2019.

Capital Assets, net

	Governmental Activities	
	2019	2018
Land	\$ 26,985	\$ 26,985
Construction in progress	40,906	-
Infrastructure	345,793	376,971
Total	<u>\$ 413,683</u>	<u>\$ 403,956</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, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 776,946
Sales tax receivable	20,528
Capital assets not being depreciated	67,891
Capital assets net of accumulated depreciation	<u>345,793</u>
Total assets	1,211,157
LIABILITIES	
Accounts payable	\$ 9,079
Retainage payable	<u>2,584</u>
Total liabilities	11,663
NET POSITION	
Net investment in capital assets	413,683
Unrestricted	<u>785,811</u>
Total net position	<u><u>\$ 1,199,494</u></u>

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, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
				Governmental Activities	
General government	\$ 98,463	\$ 9,264	\$ -	\$ -	\$ (89,199)
Highways and streets	57,674	-	-	-	(57,674)
Culture and recreation	1,400	-	-	-	(1,400)
Public safety	2,386	-	-	-	(2,386)
Total governmental activities	<u>\$ 159,923</u>	<u>\$ 9,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (150,659)</u>
General revenues					
Taxes					
Sales tax					114,208
Franchise tax					45,748
Investment income (loss)					5,718
Total general revenue					<u>165,674</u>
Change in net position					15,015
Net position, beginning					<u>1,184,479</u>
Net position, ending					<u>\$ 1,199,494</u>

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

CITY OF PATTISON, TEXAS
 Governmental Funds
 Balance Sheet
 December 31, 2019

		<u>General Fund</u>
ASSETS		
Cash and cash equivalents	\$	776,946
Sales tax receivable		20,528
		<hr/>
Total assets	\$	<u>797,474</u>
LIABILITIES		
Accounts payable	\$	9,079
Retainage payable		2,584
		<hr/>
Total liabilities		11,663
Fund balance		
Unassigned		785,811
		<hr/>
Total fund balances		<u>785,811</u>
Total liabilities and fund balances	\$	<u>797,474</u>
 Reconciliation of the balance sheet to the statement of net position:		
Fund balances of governmental funds	\$	785,811
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Governmental capital assets	477,400	
Less accumulated depreciation	<u>(63,716)</u>	<u>413,683</u>
Net Position of Governmental Activities	\$	<u>1,199,494</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, 2019

	General Fund
Revenues	
Taxes	
Sales tax	\$ 114,208
Franchise tax	45,748
Permits	9,264
Investment income	5,718
Total revenues	174,938
Expenditures	
Current:	
General government	
Salaries and benefits	17,746
City maintenance	9,708
Professional fees	47,380
Utilities and telephone	6,805
Office expenses	7,299
Education	2,021
Insurance	1,189
Dues and subscriptions	1,480
Other expenses	4,835
Total general government	98,463
Highways and streets	19,036
Culture and recreation	1,400
Public safety	2,386
Total current expenditures	121,285
Capital outlay:	
Infrastructure	48,366
Total capital outlay	48,366
Total expenditures	169,651
Net change in fund balances	5,288
Fund Balance, Beginning	780,523
Fund Balance, Ending	\$ 785,811

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, 2019

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	\$	5,288
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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	\$	48,366	
Depreciation of capital assets		(38,638)	<u>9,727</u>
Change in net position, governmental activities	\$		<u><u>15,015</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, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues				
Sales tax	\$ 120,000	\$ 120,000	\$ 114,208	\$ (5,792)
Franchise tax	50,000	50,000	45,748	(4,252)
Permit	6,000	6,000	9,264	3,264
Investment income	9,000	9,000	5,718	(3,282)
Total revenues	<u>185,000</u>	<u>185,000</u>	<u>174,938</u>	<u>(10,062)</u>
Expenditures				
Current:				
General government				
Salaries and benefits	20,000	20,000	17,746	(2,254)
City maintenance	18,500	19,250	9,708	(9,542)
Professional fees	40,500	68,750	47,380	(21,370)
Utilities and phone	7,500	7,500	6,805	(695)
Office expenses	18,500	10,500	7,299	(3,201)
Education	4,000	4,000	2,021	(1,979)
Insurance	2,000	2,000	1,189	(811)
Dues and subscriptions	1,700	1,700	1,480	(220)
Other expenses	34,500	13,000	4,835	(8,165)
Total general government	<u>147,200</u>	<u>146,700</u>	<u>98,463</u>	<u>(48,237)</u>
Highways and streets	10,000	17,700	19,036	1,336
Culture and recreation	3,000	3,000	1,400	(1,600)
Public safety	3,000	2,400	2,386	(14)
Capital outlay:				
Infrastructure	131,600	125,000	48,366	(76,635)
Total expenditures	<u>294,800</u>	<u>294,800</u>	<u>169,651</u>	<u>(125,150)</u>
Net change in fund balance	(109,800)	(109,800)	5,288	115,088
Fund Balance, Beginning	780,523	780,523	780,523	-
Fund Balance, Ending	<u>\$ 670,723</u>	<u>\$ 670,723</u>	<u>\$ 785,811</u>	<u>\$ 115,088</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, 2019

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, 2019

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, 2019

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 for the City's infrastructure assets is 10 to 15 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, 2019

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, 2019

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, 2019

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 \$1,336 for the year ended December 31, 2019.

3. Capital Assets

Capital asset activity for the year ended December 31, 2019 is as follows:

	Balance at December 31, 2018	Additions	Deletions	Balance at December 31, 2019
Non-depreciable:				
Land	\$ 26,985	\$ -	\$ -	\$ 26,985
Construction in progress	-	40,906	-	40,906
Total non-depreciable	26,985	40,906	-	67,891
Depreciable:				
Infrastructure	402,049	7,460	-	409,509
Total depreciable	402,049	7,460	-	409,509
Total Capital Assets	429,034	48,366	-	477,400
Less accumulated depreciation				
Infrastructure	25,078	38,638	-	63,716
Total	25,078	38,638	-	63,716
Capital assets, net	\$ 403,956	\$ 9,727	\$ -	\$ 413,683

Depreciation expense charged to highways and streets in 2019 was \$38,638.

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, 2019

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 \$675,593 as of December 31, 2019. Of the City's deposit balances, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$426,664 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. The cash and cash equivalents reported on the balance sheet also includes \$101,353 held in an active assets government trust account at Morgan Stanley. This account is not covered by the FDIC.

7. Interlocal Agreement with Waller County

On November 15, 2017, the City entered into an interlocal agreement with Waller County for drainage work and asphalt overlay on approximately 4,170 foot of Durkin Road. The cost associated with the agreement was approximately \$46,737 and paid to Waller County in January 2020. The project is slated to begin in Summer 2020.

8. Subsequent Events

Subsequent to year-end, the Coronavirus (COVID-19) pandemic impacted the nation as a whole, leading to consumer uncertainties and financial setbacks for many businesses and individuals. COVID-19 may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. Management continues to monitor and evaluate the continually evolving environment associated with the virus. While it is not possible at this time to estimate the impact that COVID-19 will have on the City's operations, the pandemic could adversely affect the City's financial position and activities.