

CITY OF PATTISON, TEXAS
Financial Statements
with
Report of Independent Auditor
September 30, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the financial statements of the governmental activities and each major fund of the City of Pattison, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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 September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Pattison, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

City of Pattison, Texas's 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Pattison, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Pattison, Texas' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 8 be presented to supplement the basic financial statements. Such information is the

responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Seidel Schuster

Brenham, Texas
March 1, 2023

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 September 30, 2022. 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 year were \$1,521,792.
- The City's total net position increased by \$64,102.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$755,821.

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>9/30/2022</u>	<u>9/30/2021</u>
Current & Other Assets	\$994,494	\$850,081
Capital Assets	527,298	451,852
Total Assets	<u>1,521,792</u>	<u>1,301,933</u>
Current liabilities	22,291	17,661
Unearned revenues	216,382	65,255
Total Liabilities	<u>238,672</u>	<u>82,916</u>
Net investment in Capital Assets	527,298	451,852
Unrestricted Net Position	755,821	767,165
Total Net Position	<u>\$ 1,283,119</u>	<u>\$1,219,017</u>
	<u>9/30/2022</u>	<u>9/30/2021</u>
Revenue:		
Program Revenues:		
Charges for services	\$ 17,763	\$ 15,220
Operating grants and contributions	43,324	41,145
General revenues:		
Sales tax	233,534	161,627
Franchise tax	44,713	40,058
Investment income	3,601	2,825
Other income	11,739	3,001
Total revenues	<u>354,674</u>	<u>263,876</u>
Expenses:		
General government	241,077	187,676
Highways and streets	48,961	54,082
Culture and recreation	533	533
Total expenses	<u>290,572</u>	<u>242,291</u>
Change in net position	64,102	21,584
Net position, beginning	1,219,017	1,197,433
Net position, ending	<u>\$ 1,283,119</u>	<u>\$ 1,219,017</u>

The significant variances between 2022 and 2021 are as follows:

- Current assets increased by \$144,413 primarily due to an increase in cash from higher sales tax revenues and additional grant funding received during 2022 compared to 2021.
- Capital assets increased by \$75,446 related to the purchase and renovation of the new City Hall.
- Total liabilities increased by \$155,756 due to the deferral of revenues related to the Covid Relief Funds and development fees received in 2022 which are considered unearned as of September 30, 2022.
- Revenue increased by \$90,798 primarily driven by an increase in sales tax revenues related to inflation of prices and increased business in the area.
- Expenses increased by \$48,281 due to an increase in general government expenditures. Salaries and benefits increased by approximately \$6,750 as a result of creating a full-time position for the City Secretary. Repairs and maintenance increased by approximately \$16,500 related to more tree trimming services in the City. Office expenses increased by approximately \$11,200 due to expenses incurred for the elections and additional expenses to purchase supplies for the new city hall building.

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 \$755,821.

General Fund Budget

Significant variations between budget and actual for 2022 are summarized as follows:

- Total general fund revenues were \$146,235 less than budgeted.
 - Sales tax was \$33,534 more than budgeted due to inflation of prices and increased spending as the community recovers from COVID-19.
 - Grants and contributions were under budget due to timing of recognition of amounts related to the expenditures incurred.
- Total expenditures were \$309,771 less than budgeted.
 - Professional fees were \$48,498 less than budget, as the City budgeted for the full amount of the professional fees related to developer contributions. Some of the work is carried over to the next year.
 - Other expenses were \$57,325 less than budget as the City did not utilize the full budgeted grant for the Hazardous Waste Collection day, the remaining unused grant funds awarded will carry forward for future use. Additionally less grant match was incurred than what was budgeted for, related to the waterline improvement project grant.
 - Public Safety was \$38,500 less than budget, as the City did not continue the interlocal agreement with Waller County.

- o Infrastructure was \$130,388 less than budgeted as there was delays in the renovation of the building purchased for City Hall.

Capital Assets, net

	Governmental Activities	
	2022	2021
Land	\$ 59,322	\$ 26,985
Construction in progress	12,127	-
Building and improvements	45,485	-
Infrastructure	410,365	424,867
Total	<u>\$ 527,299</u>	<u>\$ 451,852</u>

The City's capital assets are primarily comprised of the City Hall and infrastructure.

This year's major additions, acquired using general funds, included:

- Purchase City Hall \$67,890
- Improvements to City Hall 11,645
- Street improvement project 35,840

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
September 30, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 910,211
Sales tax receivable	40,250
Grant receivable	44,033
Capital assets not being depreciated	71,449
Capital assets net of accumulated depreciation	455,849
Total assets	<u>1,521,792</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 22,291
Unearned revenues	216,382
Total liabilities	<u>238,673</u>
NET POSITION	
Net investment in capital assets	527,298
Unrestricted	755,821
Total net position	<u><u>\$ 1,283,119</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 September 30, 2022

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	\$ 241,077	\$ 17,763	\$ 43,324	\$ -	\$ (179,990)
Highways and streets	48,961	-	-	-	(48,961)
Culture and recreation	533	-	-	-	(533)
Total governmental activities	<u>\$ 290,572</u>	<u>\$ 17,763</u>	<u>\$ 43,324</u>	<u>\$ -</u>	<u>\$ (229,485)</u>
General revenues					
Taxes					
Sales tax					233,534
Franchise tax					44,713
Investment income					3,601
Other income					11,739
Total general revenue					<u>293,587</u>
Change in net position					64,102
Net position, beginning					1,219,017
Net position, ending					<u>\$ 1,283,119</u>

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

CITY OF PATTISON, TEXAS
Governmental Funds
Balance Sheet
September 30, 2022

		General Fund
ASSETS		
Cash and cash equivalents	\$	910,211
Sales tax receivable		40,250
Grant receivable		44,033
Total assets	\$	994,494
 LIABILITIES		
Accounts payable and accrued expenses	\$	22,291
Unearned revenues		216,382
Total liabilities		238,673
Fund balance Unassigned		755,821
Total fund balances		755,821
 Total liabilities and fund balances	 \$	 994,494
 Reconciliation of the balance sheet to the statement of net position:		
Fund balances of governmental funds	\$	755,821
 Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Governmental capital assets	722,750	
Less accumulated depreciation	(195,452)	527,298
Net Position of Governmental Activities		\$ 1,283,119

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 September 30, 2022

	General Fund
Revenues	
Taxes	
Sales tax	\$ 233,534
Franchise tax	44,713
Permits	17,763
Investment income	3,601
Grants and contributions	43,324
Other income	11,740
Total revenues	354,675
Expenditures	
Current:	
General government	
Salaries and benefits	37,206
Repairs and maintenance	30,565
Professional fees	79,402
Utilities and telephone	8,458
Office expenses	18,474
Education	2,992
Insurance	1,708
Dues and subscriptions	4,038
Other expenses	55,674
Total general government	238,517
Total current expenditures	238,517
Capital outlay	127,502
Total expenditures	366,019
Net change in fund balances	(11,344)
Fund Balance, Beginning	767,165
Fund Balance, Ending	\$ 755,821

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 September 30, 2022

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	\$	(11,344)
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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	\$	127,502	
Depreciation of capital assets		<u>(52,056)</u>	<u>75,446</u>
Change in net position, governmental activities	\$		<u><u>64,102</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 September 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues				
Sales tax	\$ 150,000	\$ 200,000	\$ 233,534	\$ 33,534
Franchise tax	50,000	50,000	44,713	(5,287)
Permit	15,000	20,000	17,763	(2,237)
Investment income	2,800	2,800	3,601	801
Grants and contributions	72,610	228,110	43,324	(184,786)
Other income	-	-	11,740	11,740
Total revenues	<u>290,410</u>	<u>500,910</u>	<u>354,675</u>	<u>(146,235)</u>
Expenditures				
Current:				
General government				
Salaries and benefits	40,000	45,000	37,206	(7,794)
Repairs and maintenance	35,000	48,500	30,565	(17,935)
Professional fees	85,746	127,900	79,402	(48,498)
Utilities and phone	8,000	9,000	8,458	(542)
Office expenses	22,000	23,000	18,474	(4,526)
Education	3,000	4,000	2,992	(1,008)
Insurance	5,000	3,500	1,708	(1,792)
Dues and subscriptions	5,500	5,500	4,038	(1,462)
Other expenses	17,300	113,000	55,674	(57,326)
Total general government	<u>221,546</u>	<u>379,400</u>	<u>238,517</u>	<u>(140,883)</u>
Public safety	<u>6,000</u>	<u>38,500</u>	<u>-</u>	<u>(38,500)</u>
Total current expenditures	<u>227,546</u>	<u>417,900</u>	<u>238,517</u>	<u>(179,383)</u>
Capital outlay	<u>247,890</u>	<u>257,890</u>	<u>127,502</u>	<u>(130,388)</u>
Total expenditures	<u>475,436</u>	<u>675,790</u>	<u>366,019</u>	<u>(309,771)</u>
Net change in fund balance	(185,026)	(174,880)	(11,344)	163,536
Fund Balance, Beginning	<u>767,165</u>	<u>767,165</u>	<u>767,165</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 582,139</u>	<u>\$ 592,285</u>	<u>\$ 755,821</u>	<u>\$ 163,536</u>

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

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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
September 30, 2022

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.

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
September 30, 2022

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 assets is as follows:

Building and improvements	10 to 35 years
Infrastructure	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.

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
September 30, 2022

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
September 30, 2022

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
September 30, 2022

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.

3. Capital Assets

Capital asset activity for the year ended September 30, 2022 is as follows:

	Balance at September 30, 2021	Additions	Deletions	Balance at September 30, 2022
Non-depreciable:				
Land	\$ 26,985	\$ 32,337	\$ -	\$ 59,322
Construction in progress	-	12,127	-	12,127
Total non-depreciable	26,985	44,464	-	71,449
Depreciable:				
Building and improvements	-	47,198	-	47,198
Infrastructure	568,263	35,840	-	604,103
Total depreciable	568,263	83,038	-	651,301
Total Capital Assets	595,248	127,502	-	722,750
Less accumulated depreciation				
Building and improvements	-	1,713	-	1,713
Infrastructure	143,396	50,343	-	193,739
Total	143,396	52,056	-	195,452
Capital assets, net	\$ 451,852	\$ 75,447	\$ -	\$ 527,298

Depreciation expense was charged to governmental functions as follows:

Culture and recreation	\$ 533
General government	1,713
Highways and streets	49,809
Total Governmental Activities	\$ 52,056

CITY OF PATTISON, TEXAS
Notes to Basic Financial Statements
September 30, 2022

4. Receivables

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

<u>Components</u>	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Grant receipts	\$ -	\$ 115,220	\$ 115,220
Charges for services not yet earned	-	101,162	101,162
	<u>\$ -</u>	<u>\$ 216,382</u>	<u>\$ 216,382</u>

5. 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.

6. 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.

7. 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 \$910,211 as of September 30, 2022. Of the City's bank balance of \$929,936, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$679,936 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF PATTISON, TEXAS
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8. Commitments and Contingencies

In July 2022, the City entered into an agreement for on-call engineering services for up to \$10,000. As of September 30, 2022, the City had incurred expenses of \$1,068.

9. Related Party Transactions

During the year ended September 30, 2022, the City purchased supplies from a company owned by a member of City Council for approximately \$525.

10. Subsequent Events

The City was awarded a Community Development Block Grant to fund waterline improvements within its jurisdiction for a total anticipated cost of \$350,000. The project will enable the City to install fire hydrants and will improve water distribution provided by the local water supply corporation. The City and the water supply corporation will provide matching funds totaling \$17,500. In February 2023, the City awarded a contract for construction services for \$262,300.