

CITY OF PINE FOREST
PINE FOREST, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
September 30, 2017

**CITY OF PINE FOREST, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

TABLE OF CONTENTS

Introductory Section	i
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets for Governmental Activities	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
 Notes to the Financial Statements	 15

INTRODUCTORY SECTION

CITY OF PINE FOREST
PINE FOREST, TEXAS

For the Year Ended September 30, 2017

CITY COUNCIL

Cathy Nagel
Robert Kreamer
Kevin Singleton
Mike Lea
Jason Dunwoody

Mayor
Council Member
Council Member/Mayor Pro-Tem
Council Member
Council Member

APPOINTED OFFICIALS

Kimberly Craig
Rodney Price

City Secretary/Treasurer
Municipal Court Judge



INDEPENDENT AUDITOR’S REPORT

To the honorable Mayor and
Members of the City Council
City of Pine Forest, Texas

We have audited the accompanying financial statements of the governmental activities of the City of Pine Forest, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements. These financial statements 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. Because of the matters described in the “Basis for Disclaimer of Opinion” paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

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.

Basis for Disclaimer of Opinion on the Financials Statements

The City was unable to provide support for certain balances, including capital assets, that was destroyed or incomplete due to Tropical Storm Harvey.

Disclaimer of Opinion

Because of the significance of the matters described in the “Basis for Disclaimer of Opinion on the Financial Statements” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the City of Pine Forest, Texas. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Management has omitted budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Yours very truly,

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.
Certified Public Accountants

March 29, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

CITY OF PINE FOREST, TEXAS

MANAGEMENT DISCUSSION & ANALYSIS For the Year Ended September 30, 2017

As management of the City of Pine Forest (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

- The assets of the city exceeded its liabilities at the close of fiscal year 2017 by \$324,375. Of this amount, \$239,375 is considered unrestricted. The City only has governmental activities.
- The City's total net position increased by \$68,582 in fiscal year 2017.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$239,375, an increase of \$68,582. Approximately 100% of this total amount, \$239,375, is considered unrestricted at September 30, 2017 and is considered available for spending.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, road maintenance, public safety and citizen's services. The City has no business-type activities.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental funds. The City has no proprietary or fiduciary funds.

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

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

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and special revenue funds.

The City of Pine Forest adopts an annual appropriated budget for its general fund. Management has omitted budgetary comparison information due to Hurricane Harvey.

The basic governmental fund financial statements can be found on pages 11 and 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 15 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$324,375 at the close of the most recent fiscal year.

A large portion of the City's net position, \$85,000 (26%), reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. The City has no debt related to its capital assets.

An additional portion of the City's net position \$85,000 (26%) represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net position of \$239,375 may be used to meet the government's on-going obligations to citizens and creditors.

The government's net position increased by \$68,582 during the current fiscal year, and the City continued to report positive balances of net position at the end of the fiscal year.

	<u>2017</u>	<u>2016</u>
	Governmental Activities	Governmental Activities
Current and other assets	\$ 310,813	\$ 170,793
Capital assets, net	85,000	85,000
Total assets	<u>395,813</u>	<u>255,793</u>
Total assets	<u>\$ 395,813</u>	<u>\$ 255,793</u>
Current liabilities	71,438	-
Total liabilities	<u>71,438</u>	<u>-</u>
Total liabilities	<u>\$ 71,438</u>	<u>\$ -</u>
Net position:		
Invested in capital assets, net	85,000	85,000
Restricted	-	-
Unrestricted	<u>239,375</u>	<u>170,793</u>
Total net position	<u>\$ 324,375</u>	<u>\$ 255,793</u>

	<u>2017</u>	<u>2016</u>
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
REVENUES:		
General revenues:		
Property Tax	\$ 22,074	\$ 19,885
Sales taxes	95,824	64,782
Franchise fees	24,224	21,366
Permits	24,152	9,188
Interest	1,015	293
Insurance Proceeds	83,203	-
Grant revenue	306,900	-
Miscellaneous	3,241	264
Total revenues	<u>560,633</u>	<u>115,778</u>
EXPENSES:		
General government	168,020	75,301
Public safety	450	4,950
Road maintenance and drainage	4,937	7,627
City Services	306,900	-
Disaster services	11,744	-
Total expenses	<u>492,051</u>	<u>87,878</u>
Increase (decrease) in net position	68,582	27,900
Net position, beginning of year	255,793	227,893
Net position, ending of year	<u>\$ 324,375</u>	<u>\$ 255,793</u>

Financial Analysis of the Government's Funds

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

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

As of September 30, 2017, the City’s government funds reported combined ending fund balances of \$239,375. Approximately 100% of this amount constitutes unreserved fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted or committed for specific purposes.

The general fund is the chief operating fund of the City. At September 30, 2017, unreserved fund balance of the general fund was \$239,375 and total fund balance was \$239,375. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers out).

The fund balance of the City’s general fund increased in 2017 by \$68,582.

Capital Assets and Debt Administration

Capital assets. The City’s investment in capital assets for governmental activities as of September 30, 2017, amounts to \$85,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, streets, and drainage systems.

	Governmental Activities	
	2017	2016
Land	\$ 85,000	\$ 85,000
Buildings	-	280,000
Vehicles	-	10,000
	<u>\$ 85,000</u>	<u>\$ 375,000</u>

Additional information on the City’s capital assets can be found in Note 5.

Long-term Debt. At September 30, 2017, the City of Pine Forest had no long-term debt related to capital asset acquisition.

Economic Factors and Next Year Budget

The financial growth for the City was driven by the addition of off premises alcohol sales. In May of 2016, the City voted for off premises alcohol sales, which increased the City's sales tax revenue. Due to the increase in revenue, the City began budgeting funds for a new municipal complex. In August 2017, Hurricane Harvey disrupted all City operations and the planning process for expansions. This also resulted in the loss of many of our residents, some of which have not moved back into their homes.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City of Pine Forest, Finance Department, 305 Nagel Street, Vidor, Texas 77662.

BASIC FINANCIAL STATEMENTS

CITY OF PINE FOREST
STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 133,043
Investments	73,324
Property Tax Receivable	
Net of Allowance for Uncollectibles	21,243
Insurance Receivable	83,203
Land	85,000
Depreciable Fixed Assets, Net of Accumulated Depreciation	-
TOTAL ASSETS	\$ 395,813
 LIABILITIES	
Accounts Payable	\$ 71,438
TOTAL LIABILITIES	\$ 71,438
 NET POSITION	
Invested in Capital Assets, net	\$ 85,000
Unrestricted	239,375
TOTAL NET POSITION	\$ 324,375

The accompanying notes are an integral part of these financial statements.

CITY OF PINE FOREST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Government Activities
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
General Government	\$ 168,020	\$ -	\$ -	\$ -	\$ (168,020)
Public Safety	450	-	-	-	(450)
Road Maintenance and Drainage	4,937	-	-	-	(4,937)
Disaster Services	11,744	-	-	-	(11,744)
Grant Expenditures	306,900	-	-	306,900	-
	\$492,051	\$ -	\$ -	\$ 306,900	\$ (185,151)
General Revenues:					
Property Tax					22,074
Sales Tax					95,824
Franchise Fees					24,224
Permits					24,152
Interest					1,015
Miscellaneous					3,241
Insurance Proceeds					83,203
			Total General Revenues		253,733
			Change in Net Position		68,582
			Net Position - Beginning		255,793
			Net Position - Ending		\$ 324,375

The accompanying notes are an integral part of these financial statements.

CITY OF PINE FOREST
BALANCE SHEET - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<u>ASSETS:</u>	General Fund
Cash on Hand and in Banks	\$ 133,043
Investments	73,324
Property Tax Receivable	
Net of Allowance for Uncollectibles	21,243
Insurance Receivable	83,203
	83,203
TOTAL ASSETS	\$ 310,813
<u>LIABILITIES:</u>	
Accounts Payable	\$ 71,438
TOTAL LIABILITIES	71,438
<u>FUND BALANCE:</u>	
Restricted	-
Unrestricted	239,375
	239,375
Total Fund Balance	239,375
TOTAL LIABILITIES AND FUND BALANCE	\$ 310,813

The accompanying notes are an integral part of these financial statements.

CITY OF PINE FOREST
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total governmental fund balances in the Balance Sheet	\$239,375
---	-----------

Certain assets are not current financial resources in governmental funds, but instead are reported in the Statement of Net Position.

Capital assets, net of depreciation	85,000
-------------------------------------	--------

Total net assets of governmental activities	<u>\$324,375</u>
---	------------------

The accompanying notes are an integral part of these financial statements.

CITY OF PINE FOREST
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES- ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General Fund</u>
REVENUES:	
Property Tax	\$ 22,074
Sales Tax Receipts	95,824
Franchise Fees	24,224
Permits	24,152
Interest Income	1,015
Insurance Proceeds	83,203
Grant Income	306,900
Miscellaneous	<u>3,241</u>
Total Revenues	<u>560,633</u>
EXPENDITURES:	
Current:	
General Government	168,020
Public Safety	450
Road Maintenance and Drainage	4,937
Grant Expenditures	306,900
Disaster Recovery	<u>11,744</u>
Total Expenditures	<u>492,051</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	68,582
OTHER FINANCING SOURCES & USES	
Transfers In (Out)	-
EXCESS (DEFICIENCY) OF REVENUES & OTHER FINANCING SOURCES OVER EXPENDITURES & OTHER FINANCING USES	68,582
FUND BALANCE, BEGINNING	170,793
FUND BALANCE, ENDING	<u>\$ 239,375</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PINE FOREST
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total government funds	\$68,582
--	----------

Government funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	-
Net depreciated value of disposed asset	-
Depreciation	-
	-

Change in net assets of governmental activities	<u>\$68,582</u>
---	-----------------

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pine Forest, Texas operates under a Type A General Law form of government as per The Local Government Code, Title 2, Section 6.011 which was approved and became effective as of December 4, 1995. The City provides the following services as authorized by this charter: Streets, Public Improvements, Planning and Zoning and General Administration Services.

The basic financial statements of the City of Pine Forest, Texas (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below:

A. Reporting Entity

The City Council, is made up of five council member and a mayor, has governance responsibilities over all activities related to city services within the jurisdiction of the City. The Council is elected by the public and has the exclusive power and duty to govern and oversee the management of the City. The City receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities. However, the City is not included in any other governmental “reporting entity” as defined by the GASB in its Statement No. 14, “The Financial Reporting Entity.”

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by GASB. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government’s reporting entity.

B. Excluded from the Reporting Entity:

Vidor Independent School District (VISD), and Orange County Water Control and Improvement District 1 (OCWCID No. 1). These potential component units have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the government. These are excluded from the reporting entity because the government does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

NOTE 2 - BASIS OF PRESENTATION, BASIS OF ACCOUNTING

A. Basis of Presentation

Government-wide Financial Statements: These are the statement of net assets and the statement of activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through sales taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expense and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include fees, fines, and charges paid by the recipients of goods and services offered by the City. Revenues that are classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The City reports the following major governmental funds:

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

B. Management Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes, grants, and donations. On an accrual basis, revenue from rental and other income is recognized in the fiscal year for which the amounts are earned. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property tax and sales tax. Sales Tax revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable

NOTE 2 - BASIS OF PRESENTATION, BASIS OF ACCOUNTING (CONTINUED)

and available. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

NOTE 3 - FINANCIAL STATEMENT AMOUNTS

A. Cash and Cash Equivalents

Highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

B. Receivables

Receivables as of year end, including the applicable allowances for uncollectible accounts for governmental activities are as follows:

	Governmental Type Activities
Property Tax	21,845
Allowance for Uncollectibles	(602)
Net Property Tax	21,243
Insurance Receivable	83,203
Total Receivables	<u>104,446</u>

C. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

D. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

NOTE 3 - FINANCIAL STATEMENT AMOUNTS (CONTINUED)

E. Property Taxes

The District’s annual ad valorem property tax is required to be levied by October 1st of each year on the assessed value determined by the Orange County Appraisal District for all real property. The tax rate established by the District for the 2017 tax year was \$.1379 per \$100 of assessed value, based on an assessment ratio of 100 percent of assessed value. Taxes assessed for the 2017 tax year and for subsequent years are due on January 31 of the year following the year of levy. The lien date is May 1. Amounts recognized as revenue from property taxes for the year ended September 30, 2017, represent collections during the period of taxes previously deferred. In accordance with generally accepted accounting principles, property taxes are recognized when they become measurable and available.

The gross assessed valuation totals \$20,773,234. This includes exemptions. The assessed valuation, net of exemptions is \$15,280,618. There is no maximum tax rate.

F. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management’s estimates. Actual results could differ from those estimates.

G. Compliance and Accountability

1. Finance-related Legal Contractual Provisions – In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not Applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds - Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None Reported	Not Applicable	Not Applicable

NOTE 4 - DEPOSITS, SECURITIES, AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the laws of the State of Texas. The depository bank deposits for safekeeping and trust with the City's agent bank, approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Interest income on time deposits is not recorded in the accounts until received, since time deposits are subject to withdrawal before maturity with a resulting forfeiture of accrued interest. This failure to accrue interest does not materially affect either the financial position or results of operations of funds having such deposits.

The City's cash deposits at September 30, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank. The deposits were collateralized in accord with Texas Law. The bank balances totaled \$136,407, and the carrying balances totaled \$133,043.

The City of Pine Forest's investment policy allows for the investment of City assets in certificates of deposits, governmental investment pools and other cash investments. The City's money market account is considered a cash equivalent. The City's cash investment balance in TexPool funds was \$73,324 at September 30, 2017.

NOTE 5 - CAPITAL ASSETS

Governmental Activities

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
	85,000	-	-	85,000
Capital Assets Being Depreciated				
Buildings & Improvements	280,000	-	280,000	-
Vehicles	10,000	-	10,000	-
Total Capital Assets Being Depreciated	290,000	-	290,000	-
Less Accumulated Depreciation				
Buildings & Improvements	280,000	-	280,000	-
Vehicles	10,000	-	10,000	-
	290,000	-	290,000	-
Total Capital Assets Being Depreciated, Net	-	-	-	-
Total Governmental Activities Capital Assets, Net	\$ 85,000	\$ -	\$ -	\$ 85,000

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation Expense was charged to functions/program as follows:

General Government	0%	\$ 0
		<u>\$ 0</u>

Assets are depreciated using the straight-line method over the following useful lives:

Buildings & Improvements	35 Years
Vehicles & Equipment	5-15 Years
Roads & Drainage	25 Years

NOTE 6 - COMPENSATED ABSENCES

The City provides compensated sick leave accumulated at the rate of 1.5 days per month during the fiscal year. In addition, vacation time is earned annually as follows: 1-5 years service – 10 days, 6 – 10 years service – 15 days, and 11 years service and over – 20 days. All earned vacation and accumulated sick leave must be used annually and cannot be carried into subsequent fiscal years.

NOTE 7 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosure, as part of the Combined Statements – Overview, of certain information concerning individual funds including:

- A. Segment information for certain individual Enterprise Funds. The City maintains no Enterprise Funds.
- B. Individual fund interfund receivable and payable balances. The City has no interfund receivables or payables at September 30, 2017.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Certain claims, suits and complaints arising in the ordinary course of operations have been filed or are pending against the City. In the opinion of legal counsel, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the City is disposed of unfavorably.

NOTE 9 – FUND BALANCES/NET ASSETS

As of these financial statements, the City has adopted GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance– amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or imposed by the laws or regulations of other governments.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (City Council). To be reported as committed amounts cannot be used for any other purpose unless the City takes the highest-level action to remove or change the constraint.

Assigned fund balance – the portion of fund balance that the City Council and management intends to use for specific purposes.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City’s policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution and formal action of the City Council. This is done through adoption and amendment of the budget.

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets are reduced by accumulated depreciation and by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on the use by the board of directors, designation, or through the enabling legislations adopted by the City or through external restriction imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 10 – TROPICAL STORM HARVEY

On August 29, 2017 the City was impacted by catastrophic flooding caused by Tropical Storm Harvey. 95% of all structures located within the City were flooded including City facilities. Shortly after the storm, City staff began implementing the City’s disaster recovery plan and began operating out of temporary facilities. It is anticipated that the City will recover to pre-storm operations as follows:

Property tax revenue – 3 to 5 years

Sales tax revenue – 3 to 5 years

City facilities and equipment were impaired and associated insurance claims filed. As of March 29, 2019, the date of this report, the City has received \$83,203 from insurance proceeds.

Although no agreement has been reached, the City anticipates to receive an additional undetermined amount of disaster mitigation funds from FEMA.

NOTE 11 - SUBSEQUENT EVENTS

Events occurring subsequent to September 30, 2017 were evaluated by management and reviewed through March 29, 2019, date of report issuance, with no significant items reported.