

CITY OF PINE FOREST, TEXAS
Financial Statements
For the Year Ended September 30, 2020

**CITY OF PINE FOREST, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

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INTRODUCTORY SECTION

**CITY OF PINE FOREST, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

CITY COUNCIL

Wesley Brown
Cathy Nagel
Mike Lea
Jason Dunwoody
Janet Smith
Tim Townley

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

APPOINTED OFFICIALS

Michelle Josey
Rodney Price
Connie Stanton
Lacey Turner

City Secretary/Treasurer
Municipal Court Judge
Chief Financial Officer
Grant Administration

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, 2020, 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 of the City of Pine Forest, Texas, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof 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 the management's discussion and analysis and budgetary comparison information on pages 3-6 and 22 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.

Charles E. Reed & Associates, P.C.

Charles E. Reed & Associates, P.C.
Certified Public Accountants and Consultants
Port Arthur, Texas

October 25, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF PINE FOREST, TEXAS
MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended September 30, 2020**

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, 2020. 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 net position of the City at the close of the most recent fiscal year was \$1,989,347. Of this amount, \$203,199 is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position decreased by \$48,248 in the fiscal year 2020.
- As of the close of the current fiscal year, the City's governmental funds reported an ending fund balance of \$114,193. This is unassigned fund balance in the general fund and can be used for any lawful purpose.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis and budgetary information.

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 a 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 City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences). Both of the government-wide financial statements distinguish between 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 and charges (business-type activities). The governmental activities of the City include general government, public safety, road maintenance, disaster services and grant expenditures. The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A fund is a self-balancing set of 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.

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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long-term liabilities such as bonds payable and long-term liabilities that will not be paid with current assets are excluded. 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 one governmental fund. Information is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered a major fund.

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.

Other information- In addition to the basic financial statements and accompanying notes, this Report also presents certain required supplementary information concerning the City’s budgetary information.

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 net position was \$1,989,347 as of September 30, 2020.

NET POSITION

	2020	2019
	Governmental Activities	Governmental Activities
Current and other assets	\$ 127,548	\$ 258,707
Capital assets, net	1,885,544	1,747,024
Total assets	2,013,092	2,005,731
Current liabilities	9,347	7,260
Long-term liabilities outstanding	14,398	29,147
Other liabilities	-	-
Total liabilities	\$ 23,745	\$ 36,407
Net position:		
Net investment in capital assets	1,786,148	1,717,877
Restricted	-	-
Unrestricted	203,199	251,447
Total net position	\$ 1,989,347	\$ 1,969,324

The largest portion of the City's net position, (90%), 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; consequently, these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of \$203,199 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

The following table provides a summary of the City's operations for year ended September 30, 2020 with comparative totals for year ended September 30, 2019.

	CHANGES IN NET POSITION	
	2020	2019
	Governmental Activities	Governmental Activities
REVENUES:		
Program Revenues		
Grants	\$ 2,500	\$ 426,591
General revenues:		
Property Tax	9,737	16,492
Franchise fees	22,601	21,920
Fees & Permits	101,501	88,340
Sales Tax	148,334	135,414
Miscellaneous	33,806	12,729
Total revenues	<u>\$ 318,479</u>	<u>\$ 701,486</u>
EXPENSES:		
General government	\$ 245,866	\$ 334,084
Public safety	454	2,879
Road maintenance	18,112	2,545
Disaster services	34,024	115,086
Grant Expenditures	-	2,850
Total expenses	<u>\$ 298,456</u>	<u>\$ 457,444</u>
Increase (decrease) in net position	<u>\$ 20,023</u>	<u>\$ 244,042</u>
Net position, beginning of year	\$ 1,969,324	\$ 235,301
Prior Period Adjustment	-	1,489,981
Net position, beginning restated	<u>\$ 1,969,324</u>	<u>\$ 1,725,282</u>
Net position ending	<u>\$ 1,989,347</u>	<u>\$ 1,969,324</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, 2020, the City’s government funds reported an ending fund balance of \$114,193, all of which is unreserved and available for spending at the government’s discretion. This balance represents an decrease of \$133,191 in comparison with the prior year.

CAPITAL ASSETS

Capital Assets- The City’s investment in capital assets for governmental and business-type activities as of September 30, 2020, amounted to \$1,885,544 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements and equipment.

	Governmental Activities	
	2020	2019
Land	\$ 85,000	\$ 85,000
Construction in Progress	238,056	201,875
Land & Sewer Improvements	477,185	275,400
Infrastructure	2,973,361	2,973,361
Office furniture and equipment	46,095	46,095
Accumulated depreciation	(1,934,153)	(1,834,617)
	\$ 1,885,544	\$ 1,747,114

Major capital assets included streets, building, and construction in progress. The work in progress was completed in the next fiscal year.

DEBT ADMINISTRATION

Long term debt- As of September 30, 2020, the City had a note payable balance of \$14,833. This note is due August 2021.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

In the general fund, actual revenues exceeded budgeted revenues by \$79,875 (33%) and actual expenditures exceeded budgeted expenditures by \$257,532 (133%). These variances were due to disaster expenses and capital outlay which were not budgeted.

Requests 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 requests for additional financial information should be addressed to the City of Pine Forest, Mayor, 305 Nagel Street, Vidor, TX 77662.

BASIC FINANCIAL STATEMENTS

CITY OF PINE FOREST
STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2020

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	\$	46,752
Investments		76,788
Receivables- net allowances for uncollectibles		4,008
Capital Assets		
Land		85,000
Construction in Progress		238,056
Capital assets- net of depreciation		1,562,488
TOTAL ASSETS	\$	2,013,092
 LIABILITIES		
Accounts Payable	\$	2,695
Accrued expenses and other liabilities		6,652
Non-current liabilities:		
Due within one year		14,398
Due in more than one year		-
TOTAL LIABILITIES	\$	23,745
 NET POSITION		
Net investment in capital assets	\$	1,786,148
Unrestricted		203,199
TOTAL NET POSITION	\$	1,989,347

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

CITY OF PINE FOREST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Government Activities
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
General Government	\$ 245,866	\$ -	\$ -	\$ 2,500	\$ (243,366)
Public Safety	454	-	-	-	(454)
Road Maintenance and Drainage	18,112	-	-	-	(18,112)
Disaster Services	34,024	-	-	-	(34,024)
Administration		-	-		-
	<u>\$298,456</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ (295,956)</u>
General Revenues:					
Property Tax				\$ 9,737	
Franchise Fee Income				22,601	
Fees & Permits				101,501	
Sales tax				148,334	
Interest Income & Miscellaneous Income				33,806	
				<u>\$ 315,979</u>	
					<u>\$ 20,023</u>
					<u>\$ 1,969,324</u>
					<u><u>\$ 1,989,347</u></u>

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, 2020

ASSETS	General Fund
Cash & cash equivalents	\$ 46,752
Investments	76,788
Receivables- net of allowances for uncollectibles	\$ 4,008
TOTAL ASSETS	\$ 127,548
LIABILITIES	
Accounts Payable	\$ 2,695
Accrued expenses and other liabilities	6,652
TOTAL LIABILITIES	\$ 9,347
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue- Property Taxes	\$ 4,008
Total Deferred Inflows of Resources	\$ 4,008
FUND BALANCES	
Unassigned Fund Balance	\$ 114,193
Total Fund Balance	\$ 114,193
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	\$ 127,548

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, 2020

Governmental fund balance as reported on the balance sheet for governmental funds.	\$ 114,193
Property taxes receivable to pay for current period expenditures are deferred in the funds.	4,008
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Cost of capital assets, net of accumulated depreciation	1,885,544
Notes payable which are not due in the current period are not reported in the funds.	(14,398)
Total net position as reported on the Statement of Net Position for Governmental Activities.	<u>\$ 1,989,347</u>

CITY OF PINE FOREST
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund
REVENUES:	
Property Tax	\$ 9,792
Franchise Fees Income	22,601
Fees & Permits	101,501
Sales tax	148,334
Grant income	2,500
Interest Income and miscellaneous income	33,806
Total Revenues	\$ 318,534
EXPENDITURES:	
Current:	
General Government	\$ 144,846
Public Safety	454
Road Maintenance and Drainage	18,112
Disaster Services	34,027
Capital Outlay	238,056
Debt Service	
Principal payments on debt	14,749
Interest	1,481
Total Expenditures	\$ 451,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (133,191)
OTHER FINANCING SOURCES (USES)	
Issuance of debt	_____
Total other financing sources and uses	_____
NET CHANGE IN FUND BALANCES	\$ (133,191)
FUND BALANCE, BEGINNING	\$ 247,384
FUND BALANCES- RESTATED	\$ 247,384
FUND BALANCE, ENDING	\$ 114,193

The accompanying notes are an integral part of this financial statement.

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, 2020

Net change in fund balances- total governmental funds (Exhibit D) \$ (133,191)

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	\$ 238,056	
Depreciation	<u>\$ (99,536)</u>	<u>\$ 138,520</u>

Certain property tax revenues are deferred in the funds.
 This is the change in these amounts this year. (55)

The Issuance of debt is recognized as an other financing source in the funds but not in the Statement of Activities.

Repayment of loan principal is an expenditure in the funds but is not an expense in the Statement of Activities. 14,749

Change in net position of governmental activities (Exhibit B). \$ 20,023

CITY OF PINE FOREST, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies used by the City.

A. Reporting Entity

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 City Council, is made up of five council member and a mayor. The Council has governance responsibilities over all activities related to city services within the jurisdiction of the City.

The City has adopted Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”. In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. There are no component units included in the reporting entity’s financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities generally are financed by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given structure or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Measurement 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 or accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when the payment is due.

Franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

D. Budgetary Data

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements.

1. On an annual basis, the Mayor and the City Secretary submit to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. The budget is legally adopted by the City Council.
4. Appropriations lapse at the end of each fiscal year.
5. The City Council may authorize supplemental appropriations during the year.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Interfund Transactions

Interfund transactions that would be treated as revenues, expenditures, or expenses if they involved organizations external to the City are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Nonrecurring or non-routine transfers between funds are reported as additions to or reductions of the fund balance of governmental funds. Transfers of equity to proprietary funds are reported as reductions of retained earnings or contributed capital as is appropriate in the circumstances. All other legally authorized transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

F. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30th, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. At the present time, encumbrance accounting is not employed by the City because it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

G. Cash & Investments

Cash includes amounts in demand and time deposit accounts. Investments are reported at fair value. Short-term investments, such as certificates of deposit and debt securities with a maturity date of less than one year, are reported at cost, which approximates fair value. Cash and time deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 or collateralized by bank pledged securities.

For the purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. All certificates of deposits and investments in other securities and instruments are considered to be investments.

H. Capital Assets

Capital assets which include property, plant, equipment and infrastructure assets (e.g., streets and waterlines, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to record infrastructure assets prospectively.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Office Equipment	5
Equipment	10-15

I. Fund Equity

The City of Pine Forest, Texas has implemented 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 balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable Fund Balance- includes the portion of net resources that cannot be spent because of their form or because they must remain in-tact.

Restricted Fund Balance- includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e., externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation.

Committed Fund Balance- includes the portion of net resources upon which the City has imposed limitations on use. Amounts that can be used only for specific purposes determined by a formal action of the City Council, commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements. The amount subject to the constraint may be determined in the subsequent period (i.e., the Council may approve the calculation or formula for determining the amount to be committed). The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.

Assigned Fund Balance- includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council.

Unassigned fund balance- includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund can include all amounts not contained in other classifications.

Order of Expenditure of Funds- When multiple categories of fund balance are available for expenditure, it is the City’s policy to use restricted fund balance first, then committed fund balance, then assigned fund balance, and finally unassigned fund balance. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution or ordinance and formal action of Council. This is also done through adoption and amendment of the budget.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Date of Management's Review

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through October 25, 2021 the date that the financial statements were available to be issued.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: CASH & INVESTMENTS

Cash Deposits

At year-end, the City's carrying amount of deposits was \$46,752 and the bank balance was \$62,563. The City's balances were fully collateralized by FDIC insurance and pledged securities.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- | | |
|------------|--|
| Category 1 | Deposits which are insured or collateralized with securities held by the entity or by its agent in the City's name. |
| Category 2 | Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. |
| Category 3 | Deposits which are not collateralized or insured. |

Based on these three levels of risk, the City's cash deposits are classified as Category 1 deposits as of September 30, 2020.

The City's investment policy allows for the investment of City assets in certificates of deposit, governmental investment pools, and other cash investments. At year-end, the City had investments in TexPool. TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company to provide a safe environment for the placement of local government funds. The State Comptroller of Texas administers TexPool. Lehman Brothers and Federated Investors manage the daily operations of the pool under a contract with the Comptroller. TexPool operated in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. TexPool is rated as AAA money market fund by Standard & Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

NOTE 2: CASH & INVESTMENTS, Continued

Investments can also be categorized according to three categories of credit risk:

- Category 1 Investments which are insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 Investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

Based on these three levels of risk, the City's investments are classified as Category 1 as of September 30, 2020.

The City's investments at September 30, 2020 are shown below:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Weighted Average</u>
Investments not subject to categorizations			
TexPool	\$ 76,788	\$ 76,788	20 days
Certificates of Deposit	-	-	
Total Investments	<u>\$ 76,788</u>	<u>\$ 76,788</u>	

NOTE 3: RECEIVABLES

Receivables as of September 30, 2020 for the City are as follows:

	<u>Governmental Type Activities</u>
Property Taxes	<u>\$ 4,008</u>
	<u>\$ 4,008</u>

Property appraisal within the City is the responsibility of the Orange County Appraisal District (Appraisal District). The Appraisal District is required under the Property Tax Code to appraise all property within the City on the basis of 100% of market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised value established by the Appraisal District through various appeals and legal action. Under the Property Tax Code legislation, the City establishes the tax rates for property within the City's corporate limits. However, if the new tax rate exceeds the effective rate after certain adjustments for the previous year by more than eight percent (8%), qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent (8%) above the effective tax rate.

CITY OF PINE FOREST
Notes to the Financial Statements
September 30, 2020

NOTE 3: **RECEIVABLES, Continued**

Property Tax Calendar - Below is an analysis of dates and their relationship to the property tax revenues:

City Calendar	September 30
Tax Calendar	As of January 1
Levy Date	October 1
Due Date	On or before January 31
Delinquent Date	February 1
Lien Date	July 1 of each year

Valuation of Delinquent Property Taxes Receivables - The State of Texas prohibits the City from forgiving an Ad Valorem property tax debt. Adjustments to delinquent taxes receivable are made only on discovery of errors or omissions, judgment orders of a court of law, or upon specific acts of the State Legislature.

The accompanying financial statements include the City's estimate of delinquent taxes that may have doubtful collectibility. This estimate is included in this report for "best knowledge" valuation purposes only and does not in any way indicate a write-off of delinquent taxes.

In the fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as deferred revenues in the year of levy. Such deferred revenues are recognized as revenue in the fiscal year in which they become available.

Property Tax Levy - the City's 2020 tax rate was \$0.05 per \$100.00 valuation assessed at 100% of market value. The 2020 tax rate is set at \$0.05 per \$100 valuation.

CITY OF PINE FOREST
Notes to the Financial Statements
September 30, 2020

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 for the governmental activities was as follows:

Governmental Activities	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital Assets Not Being Depreciated				
Land	\$ 85,000		\$ -	\$ 85,000
Construction in Progress	\$ 201,785	\$ 238,056	\$ 201,785	\$ 238,056
Total Capital Assets not being depreciated:	\$ 286,785	\$ 238,056	\$ 201,785	\$ 323,056
Capital Assets Being Depreciated:				
Equipment	\$ 31,047		\$ -	\$ 31,047
Infrastructure	2,973,361			\$ 2,973,361
Sewer Improvements		135,059		\$ 135,059
Land Improvement	275,400	66,726	-	\$ 342,126
Office furniture & equipment	15,049	-	-	\$ 15,049
Total Capital Assets Being Depreciated	\$ 3,294,857	\$ 201,785	\$ -	\$ 3,496,642
Less Accumulated Depreciation:				
Equipment	(517)	(3,105)	-	(3,622)
Sewer and Land Improvement	(44,064)	(19,087)	-	(63,151)
Infrastructure	(1,784,017)	(74,334)	-	(1,858,351)
Office furniture & equipment	(6,020)	(3,010)	-	(9,030)
Total Accumulated Depreciation	\$ (1,834,618)	\$ (99,536)	\$ -	\$ (1,934,154)
Total Capital Assets being depreciated, net	\$ 1,460,239	\$ 102,249	\$ -	\$ 1,562,488
Total Governmental Activities Capital Assets, Net	\$ 1,747,024	\$ 340,305	\$ 201,785	\$ 1,885,544

Depreciation expense of the governmental activities charged to General Government was \$99,536.

NOTE 5: LONG TERM DEBT

During the year ended September 30, 2019, The City obtained financing from a local bank to provide fund to purchase an excavator. The \$30,330 promissory note is due in monthly installments of \$1,353, including interest at 6.5%. Annual debt service requirements to maturity are as follows:

Year Ending September 30,	Principal	Interest	Total
2021	\$ 14,398	\$ 485	\$ 14,883
	\$ 14,398	\$ 485	\$ 14,883

NOTE 6: COMPENSATED ABSENCES

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

NOTE 7: OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City continues to carry commercial insurance for the risks of loss.

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any to be immaterial.

From time to time the City is a defendant in legal proceedings relating to its operations. There is no known litigation or contingent liability affecting the City of Pine Forest, Texas at September 30, 2020.

NOTE 8: SUBSEQUENT EVENTS

During the year, many countries around the world, including the United States of America, were impacted by the COVID-19 outbreak. While the virus is continuing to evolve, its implications could involve interruptions to production and supply chains, unavailability of personnel, and reduction in sales. At this time, the City is not aware of any material risks to the financial statements caused by this event.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF PINE FOREST, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive</u> <u>(Negative)</u>
REVENUES				
Property taxes	\$ 20,000	\$ 20,000	\$ 9,792	\$ (10,208)
Franchise fee income	13,000	13,000	22,601	9,601
Fees & Permits	70,250	70,250	101,501	31,251
Sales Tax	140,000	140,000	148,334	8,334
Grant Income	-	-	2,500	2,500
Interest income & miscellaneous income	800	800	33,806	33,006
Total Revenues	<u>\$244,050</u>	<u>\$244,050</u>	<u>\$ 318,534</u>	<u>\$ 74,484</u>
EXPENDITURES				
Current:				
General Government	\$ 182,793	\$ 182,793	\$ 144,849	\$ 37,944
Public Safety	4,400	4,400	454	3,946
Road Maintenance & Drainage	7,000	7,000	18,112	(11,112)
Disaster Services	-	-	34,024	(34,024)
Capital Outlay	-	-	238,056	(238,056)
Debt Service	-	-	16,230	(16,230)
Grant Expenditures	-	-	-	-
Total Expenditures	<u>\$ 194,193</u>	<u>\$ 194,193</u>	<u>\$ 451,725</u>	<u>\$ (257,532)</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER (UNDER)				
EXPENDITURES	<u>\$ 49,857</u>	<u>\$ 49,857</u>	<u>\$(133,191)</u>	<u>\$ (183,048)</u>
OTHER FINANCING SOURSES(USES)				
Issuance of debt	<u>\$ -</u>	<u>\$ -</u>	<u> </u>	<u> </u>
Total other financing sources & uses	<u>\$ -</u>	<u>\$ -</u>	<u> </u>	<u>\$ -</u>
NET CHANGE IN				
FUND BALANCES	\$ 49,857	\$ 49,857	\$(133,191)	\$ (183,048)
FUND BALANCE AT BEGINNING OF YEAR			<u>247,384</u>	
FUND BALANCE AT END OF YEAR			<u>114,193</u>	