

CITY OF POST OAK BEND, TEXAS
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019

MURREY PASCHALL & CAPERTON, P.C.
Certified Public Accountants

CITY OF POST OAK BEND, TEXAS
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CITY OF POST OAK BEND, TEXAS
ELECTED OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2019

CITY COUNCIL

Hank Warden	Mayor
Dr. Stephen McMahon	Council Member
Ronnie Sherrard	Council Member
Joey Wages	Council Member
Alison Novak	Council Member
Mike Parker	Council Member

CITY SECRETARY

Barbara Bedrick

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Post Oak Bend, Texas

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Post Oak Bend, Texas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Post Oak Bend, Texas, as of December 31, 2019, 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.

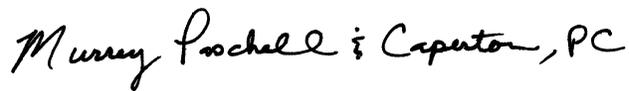
OTHER MATTERS

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 5–10 and page 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2020, on our consideration of the City of Post Oak Bend, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Post Oak Bend, Texas' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Murrey Paschall & Caperton, PC". The signature is written in a cursive, flowing style.

Murrey Paschall & Caperton, P.C.
Forney, Texas
August 17, 2020

CITY OF POST OAK BEND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Within this section of the City of Post Oak Bend, Texas' annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended December 31, 2019. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government.

FINANCIAL HIGHLIGHTS

- For the year reported, December 31, 2019, the City's assets exceeded its liabilities (net assets) by \$101,453.
- Total net assets are comprised of the following:
 - 1) Capital assets of \$12,095, include building, equipment, and improvements, net of accumulated depreciation.
 - 2) Unrestricted net assets of \$89,358, represent the portion available to maintain the City's continuing obligations to citizens.
- The City successfully negotiated a settlement with Atmos for road repairs caused by their pipeline construction and installation. This allowed the City to receive \$60,000 to improve roads and drainage in 2019.
- The City's liabilities consist of accounts payable.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the financial statements.

Government-Wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the City's net assets changed during the current fiscal year. All current year revenue and expenses are included

CITY OF POST OAK BEND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's various sources of income (primarily sales tax, franchise fees, and various other fees and reimbursements).

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and fees and on occasion, grants from state and federal sources. (Noted in FY2019, this was also supported by a mayor-led negotiation with Atmos for \$60,000 road repair settlement). Governmental activities include general government administration, public safety, public services, and culture and recreation. Business-type activities include airports, water utilities, solid waste management, storm water drainage, golf courses, fairgrounds and stadium, ground transportation, and parking. Fiduciary activities such as employee pension plans are not included in government-wide statements since these assets are not available to fund City programs. The City currently has no business-type or fiduciary activities.

The City's financial reporting includes the funds of the City (primary government). The governmental activities include the City's basic services such as general government administration and overall city development services. Sales tax and Franchise fees finance most of these activities. Additionally, the city also manages various permits and ordinances and related fees to help offset the cost of outsourcing most of these activities to third party contractors. This includes contractor registrations, road impact fees, culvert fees, building permit fees and re-inspection fees.. There are currently no component units.

The government-wide financial statements are presented on pages 11-12 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. A City uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The City of Post Oak Bend, Texas has only one fund, the General Fund.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of expendable resources during the year and balances of expendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of the spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to the government-wide statements to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 13-14 of this report.

CITY OF POST OAK BEND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

A budgetary comparison statement is included in the basic financial statements for the general fund. This statement demonstrates compliance with the City's adopted and final revised budget. The budgetary comparison statement can be found on page 22 of this report.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements on page 16 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

The following table provides a summary of the City's net assets:

SUMMARY OF NET ASSETS

	December 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash in Bank - Checking	\$ 31,831	\$ 41,586
Investments – MM (and CDs in 2018)	25,319	103,964
Franchise Fees Receivable	25,209	25,921
Sales Tax Receivable	10,306	3,546
Total Current Assets	92,665	175,017
Capital Assets		
Capital Assets (net of accumulated depreciation)	12,095	13,677
TOTAL ASSETS	104,760	188,694
LIABILITIES		
Current Liabilities		
Accounts Payable	3,307	2,298
TOTAL LIABILITIES	3,307	2,298
NET ASSETS		
Investment in Capital Assets	12,095	13,677
Unrestricted	89,358	172,719
TOTAL NET ASSETS	\$ 101,453	\$ 186,396

The City reported a positive balance in net assets for governmental activities. Net assets decreased by \$84,943. At the end of the year, the City is able to report positive balances in each category of net assets.

CITY OF POST OAK BEND, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Expenditures did exceed budgeted projections for 2019 primarily due to major road repairs totaling \$157,587 (partially paid by the \$60,000 Atmos Settlement) and council approved increased responsibilities for the City Secretary/Administrator. The 2019 budget was amended in the current year to increase road repairs from \$15,000 to \$152,887, to increase election expenditures from \$2,000 up to \$3,432 and to increase professional CPA fees from \$1,600 to \$7,500. Council approved using prior year’s excess reserve funds to pay for the increased expenditures.

Investment income in the form of interest earned on bank and money market accounts is also a component of the resources funding the City’s continuing operations and service levels. Earnings performance on certificates of deposit is carefully monitored and remains stable. Certificate of deposit investments are administered internally. (See Note C)

The following table provides a summary of the City’s changes in net assets:

SUMMARY OF CHANGES IN NET ASSETS

	<u>2019</u>	<u>%</u>	<u>2018</u>	<u>%</u>
REVENUES				
Franchise Fees	\$ 28,073	21.44	\$ 28,796	47.14
Sales Taxes	30,036	22.67	17,390	28.47
Interest Income	218	0.16	948	1.55
Permits and Fees	13,453	10.15	13,412	21.96
Other Misc. Income	378	0.29	536	0.88
Pipeline Settlement	<u>60,000</u>	<u>45.29</u>	<u>-</u>	<u>-</u>
Total Revenue	132,493	100.00	61,082	100.00
EXPENSES				
Contract Labor	28,408	12.91	9,179	6.33
Inspections and Reviews	5,726	2.63	8,492	5.86
Legal and Professional	10,303	4.74	1,978	1.37
Dues and Memberships	631	0.29	563	0.39
Insurance	1,231	0.57	1,650	1.14
Maintenance and Repairs	2,515	1.16	696	0.48
Utilities	2,888	1.33	2,806	1.94
Office and Administrative	6,900	3.17	886	0.61
Road Repairs	157,587	72.48	117,073	80.79
Depreciation	<u>1,582</u>	<u>0.73</u>	<u>1,582</u>	<u>1.09</u>
Total Expenses	<u>214,236</u>	100.00	<u>144,905</u>	100.00
CHANGE IN NET ASSETS	(84,943)		(83,823)	
Net Assets: Beginning	<u>186,396</u>		<u>270,219</u>	
NET ASSETS: ENDING	<u>\$ 101,453</u>		<u>\$ 186,396</u>	

CITY OF POST OAK BEND, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

Financial Analysis of the City’s Fund

Governmental Fund

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of expendable resources. For the City of Post Oak Bend, Texas, the entire amount is unassigned indicating availability for continuing City service requirements.

Major Governmental Funds

The General Fund is the City’s operating fund and the largest source of day-to-day service delivery. It is the City’s only Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund amended budget for the 2019 year was \$189,087. The general fund budget complied with financial policies approved by the City Council and maintained core services. Budgetary comparisons are found on page 22 of this report.

CAPITAL ASSETS

The City’s investment in capital assets for its governmental activities, net of depreciation, as of December 31, 2019, amounted to \$12,095. This investment in capital assets includes: Building, Furniture, Office Equipment and Leasehold Improvements. There were no major capital asset additions during the current year.

CAPITAL ASSETS

	<u>2019</u>
Building	\$ 46,039
Computers/Equipment	3,568
Less: Accumulated Depreciation	<u>(37,512)</u>
Total Capital Assets	<u>\$ 12,095</u>

Additional information regarding the City of Post Oak Bend’s capital assets can be found in Note D on page 20.

CITY OF POST OAK BEND, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET CONSIDERATIONS

The City of Post Oak Bend believes it will continue to experience growth with the addition of residential developments and will continue to provide the services necessary to citizens. Other local cities are experiencing large growth and in 2019, Kaufman County was reported as the 5th fastest growing county in the nation.

General fund revenues for the upcoming fiscal year are budgeted to increase with the growing needs and demands of the city. Franchise fees are estimated to make up about 45.94% of 2020 general fund revenues.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances, comply with finance related laws and regulations, and demonstrates the City's commitment to public accountability. If you have questions regarding this report or would like to request additional information, you may submit a request to the City Secretary by mail at P.O. Box 746, Kaufman, Tx. 75142.

CITY OF POST OAK BEND, TEXAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2019

	PRIMARY GOVERNMENT
	GOVERNMENT ACTIVITIES
	December 31, 2019
ASSETS	
Current Assets	
Cash in Bank - Checking	\$ 31,831
Cash in Bank - Money Market	25,319
Franchise Fees Receivable	25,209
Sales Tax Receivable	10,306
Total Current Assets	92,665
Capital Assets	
Capital Assets (net of accumulated depreciation)	12,095
Total Capital Assets	12,095
TOTAL ASSETS	104,760
LIABILITIES	
Current Liabilities	
Accounts Payable	3,307
TOTAL LIABILITIES	3,307
NET ASSETS	
Investment in Capital Assets	12,095
Unrestricted	89,358
TOTAL NET ASSETS	\$ 101,453

See accompanying notes are an integral part of the financial statements.

CITY OF POST OAK BEND, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	PROGRAM REVENUE		
PRIMARY GOVERNMENT:	Expenses	Charges for Services	Net Revenue (Expense)
Governmental Activities:			
Contract Labor	\$ 28,073	\$ -	\$ (28,073)
Inspections and Review	5,726	-	(5,726)
Legal and Professional	10,303	-	(10,303)
Dues and Memberships	631	-	(631)
Insurance	1,231	-	(1,231)
Maintenance and Repairs	2,515	-	(2,515)
Utilities	2,888	-	(2,888)
Office and Administrative	6,900	-	(6,900)
Road Repairs	157,587	-	(157,587)
Depreciation	1,582	-	(1,582)
	\$ 217,436	\$ -	\$ (217,436)
GENERAL REVENUE			
Franchise Fees			28,408
Sales Taxes			30,036
Interest Income			218
Permits and Fees			13,453
Other Misc Income			378
Pipeline Settlement			60,000
Total General Revenue			132,493
CHANGE IN NET ASSETS			(84,943)
NET ASSETS: BEGINNING			186,396
NET ASSETS: ENDING			\$ 101,453

See accompanying notes are an integral part of the financial statements.

CITY OF POST OAK BEND, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	General Fund
	December 31, 2019
ASSETS	
Cash in Bank - Checking	\$ 31,831
Cash in Bank - Money Market	25,319
Franchise Fees Receivable	25,209
Sales Tax Receivable	10,306
Total Current Assets	92,665
Total Assets	\$ 92,665
 LIABILITIES	
Accounts Payable	\$ 3,307
Total Current Liabilities	3,307
 FUND BALANCE	
Unassigned	89,358
Total Liabilities and Fund Balance	\$ 92,665

RECONCILIATION TO THE STATEMENT OF NET ASSETS

Fund Balance Unassigned	\$ 89,358
Capital Assets net of Depreciation are not financial resources and, therefore are not reported in the funds. See notes for additional detail.	12,095
TOTAL NET ASSETS	\$ 101,453

See accompanying notes are an integral part of the financial statements.

CITY OF POST OAK BEND, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund
	December 31, 2019
REVENUES	
Franchise Fees	\$ 28,408
Sales Taxes	30,036
Interest Income	218
Permits and Fees	13,453
Other Misc Income	378
Pipeline Settlement	60,000
Total Revenues	132,493
 EXPENDITURES	
Contract Labor	28,073
Inspections and Review	5,726
Legal and Professional	10,303
Dues and Memberships	631
Insurance	1,231
Maintenance and Repairs	2,515
Utilities	2,888
Office and Administrative	6,902
Road Repairs	157,587
Total Expenditures	215,856
Net Change in Fund Balance	(83,363)
Fund Balance: Beginning	172,719
Fund Balance: Ending	\$ 89,358

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Net Change in Fund Balance - Total Governmental Funds	\$ (83,363)
<p>Governmental funds report capital outlays as expenditures. However, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeds depreciation in the current period is:</p>	
	(1,580)
TOTAL NET ASSETS	\$ (84,943)

See accompanying notes are an integral part of the financial statements.

CITY OF POST OAK BEND, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Post Oak Bend, Texas (City) are discussed in subsequent sections of this Note. The remaining notes are organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended December 31, 2019.

Reporting Entity

The City of Post Oak Bend, Texas is a Type A General Law city, in which citizens elect the mayor at large and five aldermen at large. The financial statements of the City of Post Oak Bend, Texas have been prepared in conformity with accounting principles applicable to governmental units, which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accompanying financial statements present the City's primary government. The city is small and has no reporting component units.

Government-Wide Financial Statements

The government-wide financial statements include the statements of net assets and the statement of activities. These statements report financial information of the City as a whole. The government has no funds other than the General Fund and no component units. Therefore, the statements do not distinguish governmental activities, generally supported by taxes and City general revenues, from activities generally financed with fees charged to external customers.

Fund Financial Statements

Fund financial statements are provided for governmental funds. The City currently has no proprietary or fiduciary funds. The general fund is reported individually and as a total under total governmental funds. It is currently the only governmental fund of the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting thus relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (the city has no internal activity). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is

CITY OF POST OAK BEND, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

incurred. However, expenditures related to claims and judgments are recorded only when payment is due and payable shortly after year end as required by GASB Interpretations No. 6.

Program revenues as reported in the Statement of Activities include charges to customers for goods, services, or privileges provided. Other revenues received by the City that are internally dedicated by their purpose are reported as general revenues rather than program revenues. In this respect, all tax revenues are included in general revenues.

Major revenue sources susceptible to accrual include: franchise fees, sales and use taxes and investment income. In general, other revenues are recognized when cash is received.

Allocation of indirect expenses: The City currently has no indirect expenses.

Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

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 needed.

Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental fund:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The City does not currently have other funds. Other funds typically would be used to account for debt service, grants management, general obligation bonds, internal service fund, pension trust fund, etc. Currently there is no activity that would require such funds.

Other Significant Accounting Policies

Cash and Equivalents – The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables – Account receivables are shown gross with no calculation for an allowance for uncollectible accounts. All receivables are due from the State of Texas and will be direct deposited into the City's account. Currently the City does not collect property taxes.

Deposits and Investments – Investments of the City of Post Oak Bend, Texas consist of money market accounts and, in 2018, certificates of deposit that were recorded at their fair value at year end.

Capital Assets – The City's capital assets, which include a building and office equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City generally capitalizes assets with a cost of \$500 or more as purchase

CITY OF POST OAK BEND, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019

outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets held by the City are depreciated using the straight-line method for a period of 5 to 39 years. Depreciation for the years ended December 31, 2019 and 2018 was \$1,582 and \$1,952, respectively.

Fund Equity – 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:

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or enabling legislation.

Unassigned fund balance – amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Currently, the City’s governmental funds are all unassigned.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned, in order as needed.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and 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

Deficit Fund Balance or Fund Net Position of Individual Funds

- Following are funds having deficit fund balances or net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None Reported	Not applicable

CITY OF POST OAK BEND, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

Budgets and Budgetary Accounting

- The budget is formally adopted by ordinance by the Mayor and Council members before December 20 of each fiscal year.
- Noted the City council voted to approve a change in fiscal year end for 2020. Going forward the City's fiscal year will run October 1 thru September 30. This will move up the approved budget timeline to August/September.

The Mayor, with the assistance of the City Secretary, serves as the budget officer for the aldermen of the city. The budget officer prepares each year a city budget to cover the proposed expenditures of the municipal government for the succeeding year. In preparing the budget, the budget officer may require any municipal officer or council member to furnish information necessary for the budget officer to properly prepare the budget. The budget officer files the proposed budget with the municipal clerk (city secretary). The proposed budget is available for inspection by any taxpayer. A public hearing on the proposed budget is held. Public notice of the hearing is provided for according to Texas Statute. At the conclusion of the public hearing, the governing body of the City takes action on the proposed budget. The governing body may make any changes it considers warranted by law or in the best interest of the municipal taxpayers. On final approval of the budget by the council, the council files the budget with the municipal clerk (city secretary). The budget of the general fund is prepared on the cash and expenditures/encumbrances basis.

The appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are also budgeted by detailed line item basis. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer minor appropriations without Council approval.

For 2019, original budget projections were exceeded and council approved budget amendments. See pg. 22.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At December 31, 2019 and 2018, the City's deposits are at a federally insured institution and the balances amounted to \$57,150 and \$145,550, respectively. The entire amount is covered by federal depository insurance.

The City maintains and controls one major cash category in which the primary government has sole use. Cash is non-pooled, meaning it is not shared among funds or component units as no other funds or component units currently exist in the City. Legal restrictions and the City's policies governing deposits and investments are discussed in Note A. Currently, all investments are cash equivalents in interest bearing accounts and are recorded at current cash value.

Investments – The City's investments consist solely of certificates of deposit. Investments are recorded at fair value. It is the practice of the City of Post Oak Bend, Texas to only invest in FDIC insured certificates of deposit. The City has adopted deposit and investment policies that limit the government's

CITY OF POST OAK BEND, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

allowable deposits or investments and address the specific types of risk to which the government is exposed.

NOTE D – CAPITAL ASSETS

Changes in Capital Assets

The following table provides a summary of changes in capital assets:

FY 2019	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
Balances as of December 31, 2018	\$ 46,049	\$ 3,558	\$ 49,607
Increases (Decreases)	<u>-</u>	<u>-</u>	<u>-</u>
Balances as of December 31, 2019	46,049	3,558	49,607
Accumulated Depreciation:			
Balances as of December 31, 2018	32,372	3,558	35,930
Increases (Decreases)	<u>1,582</u>	<u>-</u>	<u>1,582</u>
Balances as of December 31, 2019	<u>33,954</u>	<u>3,558</u>	<u>37,512</u>
Net Capital Assets	<u>\$ 12,095</u>	<u>\$ -</u>	<u>\$ 12,095</u>

Depreciation Expense

Depreciation expense is charged to the General Government.

NOTE E – LITIGATION

Currently management is unaware of significant pending litigation against the City.

NOTE F – SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after December 31, 2019 up through August 17, 2020, the date the financial statements were available to be issued. In early 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. As a result, events have occurred domestically in the United States and globally, including mandates from federal, state and local authorities, leading to an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the City cannot be reasonable estimated at this time.

CITY OF POST OAK BEND, TEXAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE G – OTHER INFORMATION

1. 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 contractors and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims, if any, have not exceeded this commercial coverage in any of the past three fiscal years.

2. Commitments

Public Safety

- Fire: Provided by the City of Kaufman Fire Department.
- Police: Provided by Kaufman County Sheriff's Department.
- Emergency: Kaufman County EMS provides ambulance service to Kaufman County residents, which includes the residents of the City of Post Oak Bend.

Infrastructure

The City does not have a road maintenance department, so it seeks its own estimates for road repairs and road estimates, and oversees its construction projects. In past years this was primarily contracted with Kaufman County. At times, other 3rd party contractors are hired for engineering services, tree services and road ditch work. It is noted that in 2019, \$146,000 of road repairs were performed by outside contractor, Lone Wolf Construction, a Dallas-area company. Also noted, so far in 2020, the City has expended over \$40,000 with outside third-party road construction repair companies, i.e. FDC Construction (Athens) and Vrzalik Sand and Gravel, Terrell, Texas.

The State of Texas maintains the Farm to Market Roads within the City. Private roads are maintained by the residents of those roads. Repairs are open to outside bids and paid directly by the residents.

Utilities

- Sewer is not provided by the City. Septic systems are individually owned by residents.
- Water is provided by Rose Hill Special Utility District, a company not affiliated with the City.
- Electric service is provided by Trinity Valley Electric Cooperative, a company not affiliated with the City.
- Gas service is provided by Atmos Energy. Residents may privately own propane tanks for their personal use.
- Trash collection is not provided by the City. However, residents can contract with a provider of their choice.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF POST OAK BEND, TEXAS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

Non-GAAP Budgetary Basis

	Budget Original	Revisions	Budget Final	Actual	Variance
REVENUES					
Franchise Fees	\$ 27,500	\$ -	\$ 27,500	\$ 28,408	\$ 908
Sales Taxes	17,600	-	17,600	30,036	12,436
Interest Income	400	-	400	218	(182)
Permits and Fees	5,410	-	5,410	13,453	8,043
Other Misc Income	290	-	290	378	88
Pipeline Settlement	-	-	-	60,000	60,000
	<u>51,200</u>	<u>-</u>	<u>51,200</u>	<u>132,493</u>	<u>81,293</u>
EXPENDITURES					
Contract Labor and Review	16,000	-	16,000	28,073	12,073
Inspections	1,000	-	1,000	5,726	4,726
Legal and Professional	6,100	5,900	12,000	10,303	(1,697)
Dues and Memberships	675	-	675	631	(44)
Insurance	1,600	-	1,600	1,231	(369)
Maintenance and Repairs	1,800	-	1,800	2,515	715
Utilities	3,400	-	3,400	2,888	(512)
Office and Administrative	5,625	1,432	7,057	6,902	(155)
Road Repairs	15,000	137,887	152,887	157,587	4,700
	<u>51,200</u>	<u>145,219</u>	<u>196,419</u>	<u>215,856</u>	<u>19,437</u>
NET CHANGE IN FUND BALANCE	-	(145,219)	(145,219)	(83,363)	<u>\$ 61,856</u>
FUND BALANCE: BEGINNING	<u>172,719</u>		<u>172,719</u>	<u>172,719</u>	
FUND BALANCE: ENDING	<u>\$ 172,719</u>		<u>\$ 27,500</u>	<u>\$ 89,358</u>	

***Note the amended budget for road repairs primarily includes the \$146,000 paid to Lone Wolf Construction in June of 2019 to repair and chip seal CR279 for \$134,000 and another \$12,000 for work on CR 277. Also the overages for contract labor are attributed to the increased responsibilities required by the City Secretary/Administrator on direction from Council to research and prepare for a change in fiscal year-end, tax planning, and various meetings with contractors, engineers and developers.*

See independent auditor's report.

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Post Oak Bend, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the City of Post Oak Bend, Texas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Post Oak Bend, Texas' basic financial statements, and have issued our report thereon dated August 17, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City of Post Oak Bend, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Post Oak Bend, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Post Oak Bend, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Post Oak Bend, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Murray Paschall & Caperton, PC

Murray Paschall & Caperton, P.C.
Forney, Texas
August 17, 2020

M **Murrey Paschall & Caperton PC**
Certified Public Accountants

August 17, 2020

To the Honorable Mayor and City Council
City of Post Oak Bend, Texas

We have audited the financial statements of the governmental activities and the general fund of the City of Post Oak Bend, Texas for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2020. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Post Oak Bend, Texas are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the depreciation of the City's fixed assets is based upon management's estimate of the specific asset's useful life and the cost of the assets is depreciated accordingly. We evaluated the key factors and assumptions used to develop the depreciation estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the franchise fees and sales tax revenues receivable is based on their franchise fee agreements and information provided by payers. We evaluated the key factors and assumptions used to develop the franchise fee and sales tax revenue receivable estimates in determining that it is reasonable in relation to the financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the City's policies regarding its investments described in Note C to the financial statements is significant to users because it informs users of the nature of the City's investment activities and the authorized investments of the City.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

- Adjustment needed to record current year depreciation expense.
- Adjustment needed to correctly state the CD balances.
- Based on collections during the first 60 days of 2020, an adjustment was made to correctly state the year end receivable balances for Franchise Fees and Sales Taxes.
- Adjustment needed to record accounts payable at year end for invoices paid in early 2020 (similar to the 2018 audit).

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 17, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those

statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

- With only 1 part-time employee we realize separation of duties and internal controls can be difficult, and the council being actively involved is essential. This includes review of monthly bank statements, bank account reconciliations, invoices to be paid, and deposits received.
- We discussed the large increase in City Secretary – Contract Labor expense with the City Secretary and also obtained an approval letter from the Mayor. We noted a significant increase in responsibilities and required meetings and research in 2019. However, this large of an increase should have resulted in a budget amendment with clear approval by council in the minutes.
 - 2018 expense - \$9,179 versus
 - 2019 expense - \$28,073.
 - It should be noted that the City Secretary's invoices for contract labor need to be done timelier and more consistent. Invoices were included in the first few months of 2019 that actually related to 2018 time/projects. Similarly, the first few months of 2020 included invoices for 2019 time/projects. For our audit, we have included the first 2 invoices of 2019 and 2020 as accounts payable at year end.

Other Matters

We applied certain limited procedures to the MD&A, Budget and Actual schedules by fund type, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

RESTRICTION ON USE

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

Very truly yours,



Murrey Paschall & Caperton, P.C.