

**CITY OF POTEET**

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**Annual Financial Report**

**September 30, 2019**

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## **Introductory Section**

**CITY OF POTEET**  
**City Officials**

Willie Leal Jr. .... Mayor  
Nicholas Sanchez ..... Council Member  
Denise Sanchez ..... Council Member  
Rick T. Flores ..... Council Member  
Rick Castillon..... Council Member  
Jesse M. Leal ..... Council Member

## **Financial Section**



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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Poteet

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Poteet (the City) as of and for the year ended September 30, 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 City'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 City'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, the business-type activities, each major fund, and aggregate remaining fund information of the City as of September 30, 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.

## **Restatement**

Management discovered certain errors in their accounting records (refer to Note 15). Accordingly, the financial statements have been restated in order to comply 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 on pages 5 through 14, budgetary comparison information on pages 60 through 63, the Schedule of Changes in Net Pension Liability and Related Ratios – Last 10 Years on page 64, and the Schedule of Changes in Postemployment Benefits Other than Pensions Liability and Related Ratios – Last 10 Years on page 65 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.

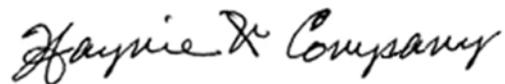
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information for the proprietary fund is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information for the proprietary fund is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information for the proprietary fund is fairly stated in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2020, on our consideration of the City's 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 the effectiveness of the City's 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's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Haynie & Company".

San Antonio, Texas  
July 14, 2020

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

This section of the City of Poteet (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2019. Please read it in conjunction with the City's financial statements, which follow this section.

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**FINANCIAL HIGHLIGHTS**

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- The City's total combined net position was \$4,895,166 at September 30, 2019.
- Revenues generated from taxes and other revenues for governmental activities was \$2,898,384 . The City's governmental fund expenses were \$1,986,475 . Revenues generate from charges for services and other revenues for business-type activities was \$1,130,292 . The City's business-type activities fund expenses were \$1,351,459 .
- The governmental funds reported net position of \$827,491 , an increase of \$746,438 compared to the prior year.
- The governmental funds report an unassigned fund balance of \$343,724 .Of this amount, \$57,318 is restricted for municipal court technology, municipal court security, police seizure, and debt service.
- The utility fund reported net position of \$4,067,675 , a decrease of \$55,696 compared to the prior year. Of this amount, \$3,580,048 is invested in capital assets, net of related debt and the remaining \$487,627 is unrestricted.

# CITY OF POTEET

## Management's Discussion and Analysis

### September 30, 2019

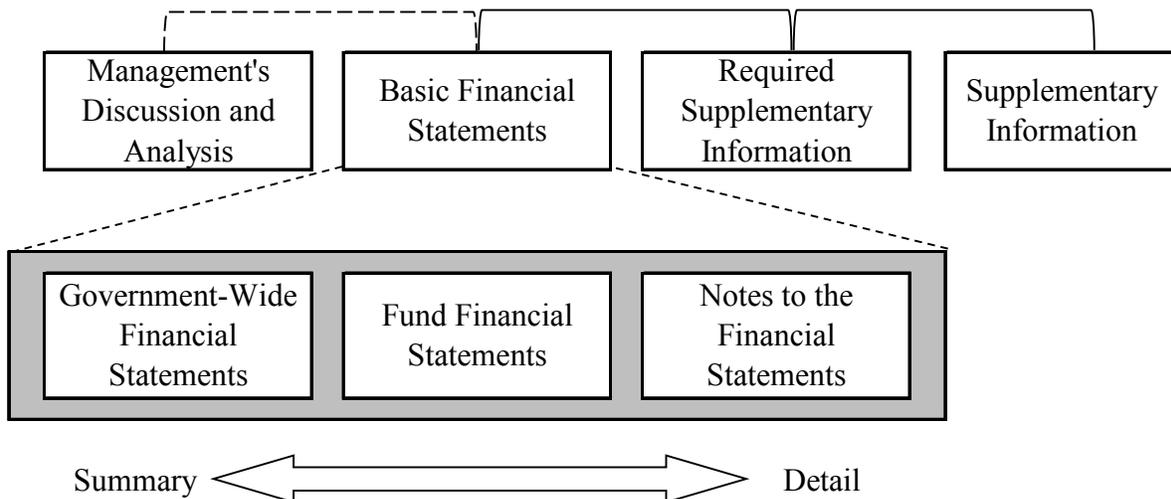
#### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—*management's discussion and analysis* (this section), the *basic financial statements, required supplementary information, and supplemental section (non-required)*. The basic financial statements include two kinds of statements that present different views of the City:

- The first statements are the *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as the utility services.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information and other supplemental information that further explain and support the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1: Components of the Financial Section**



**CITY OF POTEET**  
**Management’s Discussion and Analysis**  
**September 30, 2019**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements**

	<b>Fund Statements</b>		
	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<b>Scope</b>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: self insurance
<b>Required financial statements</b>	Statement of net position	Balance sheet	Statement of net position
	Statement of activities	Statement of revenues, expenditures & changes in fund balance	Statement of revenues, expenditures & changes in net position
<b>Accounting basis and measurement</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Types of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-Wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the City’s net position and how it has changed. Net position—the difference between the City’s assets and liabilities—is one way to measure the City’s financial health or position.

- Over time, increases or decreases in the City’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City’s tax base.

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

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**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

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The government-wide financial statements of the City include the *governmental activities* and *business-type activities*. Most of the City's basic services are included here, such as general government, municipal court, law enforcement, city services, grant and utility expenditures. Property taxes, fines, tickets, warrants, sales taxes, franchise taxes and utility revenues finance the majority of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following types of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

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**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

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**Statement of Net Position**

The following reflects a comparative condensed statement of net position:

	Governmental Activities		Business-Type Activities		Total	
	2018		2018		2018	
	2019	Restated	2019	Restated	2019	Restated
Current and Other Assets	\$ 741,522	\$ 220,203	\$ 460,523	\$ 685,587	\$ 1,202,045	\$ 905,790
Noncurrent Assets	154,034	245,892	270,307	308,825	424,341	554,717
Capital Assets, Net	2,255,866	2,307,280	6,906,924	6,948,224	9,162,790	9,255,504
Total Assets	<u>3,151,422</u>	<u>2,773,375</u>	<u>7,637,754</u>	<u>7,942,636</u>	<u>10,789,176</u>	<u>10,716,011</u>
Deferred Pension Related Outflows	69,639	-	58,893	-	128,532	-
Deferred OPEB Related Outflows	-	1,844	-	1,324	-	3,168
Total Deferred Outflows	<u>69,639</u>	<u>1,844</u>	<u>58,893</u>	<u>1,324</u>	<u>128,532</u>	<u>3,168</u>
Current Liabilities	336,991	218,365	372,303	266,889	709,294	485,254
Non-Current Liabilities	2,040,388	2,411,923	3,248,508	3,507,829	5,288,896	5,919,752
Total Liabilities	<u>2,377,379</u>	<u>2,630,288</u>	<u>3,620,811</u>	<u>3,774,718</u>	<u>5,998,190</u>	<u>6,405,006</u>
Deferred Pension Related Inflows	14,275	63,878	6,541	45,871	20,816	109,749
Deferred OPEB Related Inflows	1,916	-	1,620	-	3,536	-
Total Deferred Inflows	<u>16,191</u>	<u>63,878</u>	<u>8,161</u>	<u>45,871</u>	<u>24,352</u>	<u>109,749</u>
Net Position:						
Net Investment in Capital Assets	73,230	-	3,580,048	3,436,091	3,653,278	3,436,091
Restricted	57,318	65,529	-	-	57,318	65,529
Unrestricted	696,943	15,524	487,627	687,280	1,184,570	702,804
Total Net Position	<u>\$ 827,491</u>	<u>\$ 81,053</u>	<u>\$ 4,067,675</u>	<u>\$ 4,123,371</u>	<u>\$ 4,895,166</u>	<u>\$ 4,204,424</u>

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

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**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)**

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**Changes in Net Position**

The following reflects a comparative statement of changes in net position of the primary government:

	Governmental Activities		Business-Type Activities		Total	
	2018		2018			
	2019	Restated	2019	Restated	2019	2018
<b>Revenues:</b>						
Charges for Services	\$ 594,362	\$ 134,645	\$ 1,079,608	\$ 1,326,101	\$ 1,673,970	\$ 1,460,746
Operating Grants	416,352	243,588	-	392,131	416,352	635,719
Property Tax	844,473	655,598	-	-	844,473	655,598
Sales Tax	460,107	338,066	-	-	460,107	338,066
Franchise Fees	97,773	85,700	-	-	97,773	85,700
Permits and Fees	203,541	214,602	780	1,081	204,321	215,683
Fines and Tickets	-	-	42,282	42,638	42,282	42,638
Donations	212,933	62,667	-	-	212,933	62,667
Interest Revenue	1,366	806	-	-	1,366	806
Miscellaneous Revenue	67,477	88,798	7,622	99,656	75,099	188,454
<b>Total Revenues</b>	<b>2,898,384</b>	<b>1,824,470</b>	<b>1,130,292</b>	<b>1,861,607</b>	<b>4,028,676</b>	<b>3,686,077</b>
<b>Expenses:</b>						
Administrative	870,852	381,618	-	-	870,852	381,618
Municipal Court	31,766	72,238	-	-	31,766	72,238
Law Enforcement	720,274	648,380	-	-	720,274	648,380
Fire	87,500	25,948	-	-	87,500	25,948
Streets	50,135	292,667	-	-	50,135	292,667
Animal Control	5,839	-	-	-	5,839	-
Parks	23,852	22,139	-	-	23,852	22,139
Library	103,255	110,658	-	-	103,255	110,658
Miscellaneous	8,885	38,029	-	-	8,885	38,029
Interest on Long-Term Debt	84,117	86,259	-	-	84,117	86,259
Utilities	-	-	1,351,459	1,446,583	1,351,459	1,446,583
<b>Total Expenses</b>	<b>1,986,475</b>	<b>1,677,936</b>	<b>1,351,459</b>	<b>1,446,583</b>	<b>3,337,934</b>	<b>3,124,519</b>
<b>Increase (Decrease) in Net Position</b>						
Before Transfers	911,909	146,534	(221,167)	415,024	690,742	561,558
Transfers	(165,471)	(23,075)	165,471	23,075	-	-
<b>Change in Net Position</b>	<b>746,438</b>	<b>123,459</b>	<b>(55,696)</b>	<b>438,099</b>	<b>690,742</b>	<b>561,558</b>
Net Position - Beginning	(39,301)	(42,406)	4,037,313	3,685,272	3,998,012	3,642,866
Prior Period Adjustment**	120,354	-	86,058	-	206,412	-
Net Position - Beginning as Restated	81,053	(42,406)	4,123,371	3,685,272	4,204,424	3,642,866
<b>Net Position - Ending</b>	<b>\$ 827,491</b>	<b>\$ 81,053</b>	<b>\$ 4,067,675</b>	<b>\$ 4,123,371</b>	<b>\$ 4,895,166</b>	<b>\$ 4,204,424</b>

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

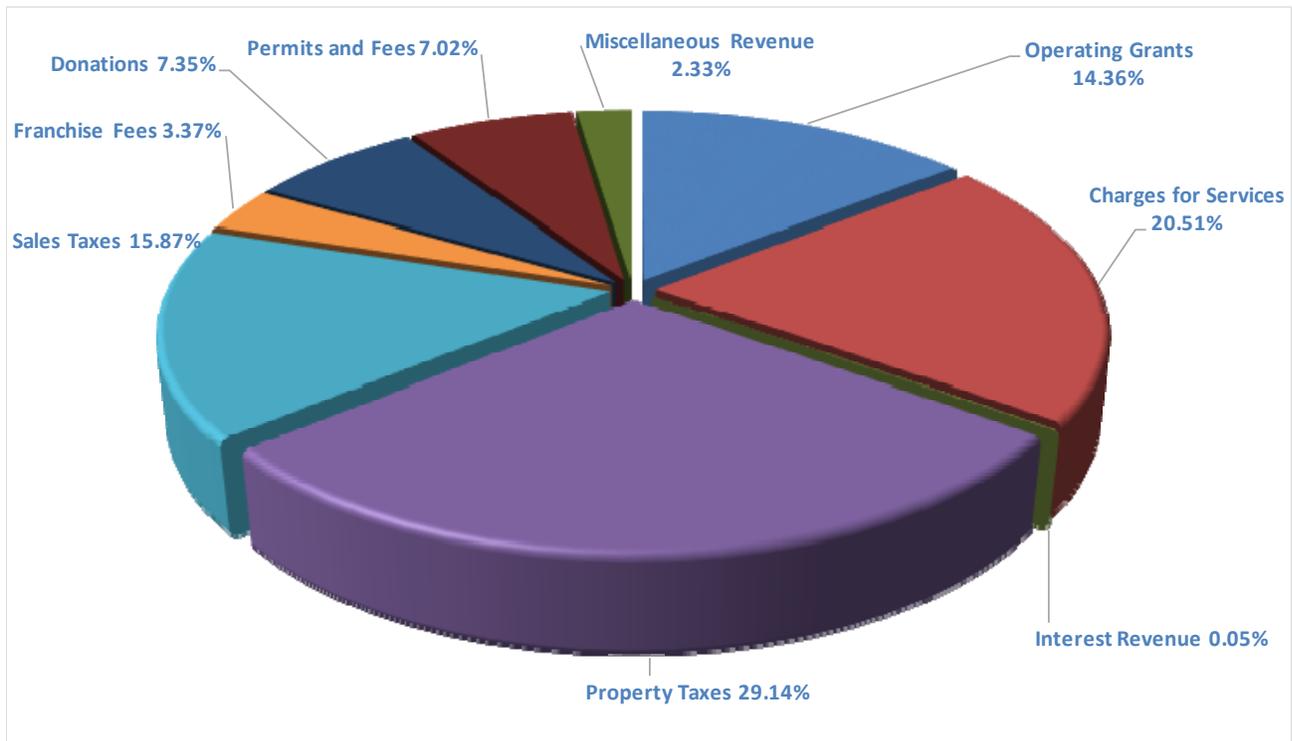
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**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (Continued)**

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**Governmental Activities**

The City's total governmental revenues were \$2,898,384 . A significant portion, \$844,473 (29.14%) of the City's governmental revenue comes from property taxes, \$594,362 (20.51%) from charges for services, \$460,107 (15.87%) from sales taxes, and \$416,352 (14.36%) from operating grants.



- Expenses for all governmental activities this year were \$1,986,475 , which is a \$308,539 or 18% increase as compared to the prior year.

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

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**FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)**

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**Business-Type Activities**

The business-type activities decreased the City's net position by \$55,696 .

Of the total business-type activities' net position, is invested in capital assets, net of related debt, and is unrestricted, that is having no legal commitment.

The business-type activities include utility services.

The cost of all business-type activities this year decreased by \$95,124 to \$1,351,459 . Due to varying weather conditions, consumption sales decreased from last year. In total, expenditures in excess of revenues for the year was \$221,167 .

**Budgetary Highlights**

The following funds had a budgetary surplus for the year ended September 30, 2019: General Fund \$423,355 , Debt Service Fund \$22,169 , and Aggregate Remaining Funds \$358,928 . The Utility Fund had a budget deficit of approximately \$149,777 for the year ended September 30, 2019.

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

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**FINANCIAL ANALYSIS OF THE CITY'S FUNDS (Continued)**

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**Capital Assets**

At September 30, 2019, the City had invested \$9,162,790 in capital assets, including land, buildings and improvements, infrastructure, furniture and equipment, vehicles and software. The following schedule summarizes the capital assets of the City:

	Governmental Activities		Business-Type Activities		Total	
	2018		2018		2018	
	2019	Restated	2019	Restated	2019	Restated
Land	\$ 81,917	\$ 81,917	\$ 8,958	\$ 8,958	\$ 90,875	\$ 90,875
Construction in Progress	373,521	289,776	243,549	54,948	617,070	344,724
Buildings and Improvements	1,600,698	1,502,458	-	-	1,600,698	1,502,458
Infrastructure	6,867,855	6,849,502	-	-	6,867,855	6,849,502
Machinery	1,055,537	1,125,751	233,329	201,486	1,288,866	1,327,237
Intangibles	65,933	65,933	-	-	65,933	65,933
Distribution System	-	-	10,882,822	10,831,780	10,882,822	10,831,780
Subtotal	10,045,461	9,915,337	11,368,658	11,097,172	21,414,119	21,012,509
Accumulated Depreciation	(7,789,595)	(7,608,057)	(4,461,734)	(4,148,948)	(12,251,329)	(11,757,005)
Net Capital Assets	\$ 2,255,866	\$ 2,307,280	\$ 6,906,924	\$ 6,948,224	\$ 9,162,790	\$ 9,255,504

**Long-Term Debt**

At September 30, 2019, the City had a long-term debt totaling \$5,509,512 . More detailed information about the City's long-term liabilities is presented in Note 10.

**CITY OF POTEET**  
**Management's Discussion and Analysis**  
**September 30, 2019**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATE**

With an unexpected public health crisis and an economic recession, the City of Poteet will have to make difficult decisions over the coming months regarding next year's budget. The COVID-19 pandemic has impacted the City of Poteet significantly. We play a significant role in the quality of life and emergency response for our community. Citizens benefit from services such as public safety, streets, parks, library, utilities, and other vital services. These services are funded by property taxes and other sources of revenue. With little financial assistance from the state or federal government we are tasked to manage growth or decline and rely on our own capacity to generate revenue. In planning our own revenue mix, we make decisions based upon any number of factors, such as the impact of COVID-19 on other sources of local revenue like sales taxes, the amount of city expenditures made in response to the emergency, as well as the ability and willingness of local taxpayers to potentially pay a given property tax rate. We anticipate a twenty percent drop in all revenue. We will increase users' fees, adopt a hiring freeze and suspend any employee performance pay increases to help with this pandemic shortfall in revenue. The City of Poteet will continue with its due diligence in providing the best services possible to its residents and commercial business owners.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Administrative Department at City of Poteet, P.O. Box 378, Poteet, Texas 78065, or by phone at 830-742-3574.

## **Financial Statements**

**CITY OF POTEET**  
**Statement of Net Position**  
**For the Year Ended September 30, 2019**

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 196,125	\$ 299,782	\$ 495,907
Investments	112,323	-	112,323
Accounts Receivable, Net	75,961	160,451	236,412
Taxes Receivable, Net	357,113	-	357,113
Prepaid and Other Assets	-	290	290
Total Current Assets	<u>741,522</u>	<u>460,523</u>	<u>1,202,045</u>
Non-Current Assets			
Restricted Cash and Cash Equivalents	57,318	188,516	245,834
Net Pension Receivable	96,716	81,791	178,507
Land	81,917	8,959	90,876
Construction in Progress	373,521	243,548	617,069
Buildings and Improvements	1,600,698	-	1,600,698
Infrastructure	6,867,855	-	6,867,855
Machinery	1,055,537	10,882,823	11,938,360
Distribution System	-	233,329	233,329
Software	65,933	-	65,933
Less: Accumulated Depreciation	(7,789,595)	(4,461,735)	(12,251,330)
Total Noncurrent Assets	<u>2,409,900</u>	<u>7,177,231</u>	<u>9,587,131</u>
Total Assets	<u>3,151,422</u>	<u>7,637,754</u>	<u>10,789,176</u>
<b>DEFERRED OUTFLOWS</b>			
Deferred Pension Related Outflows	69,639	58,893	128,532
Total Deferred Outflows	<u>69,639</u>	<u>58,893</u>	<u>128,532</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	88,115	50,799	138,914
Accrued Liabilities	43,012	14,918	57,930
Payroll Liabilities	29,734	17,278	47,012
Sales Tax Payables	7,366	-	7,366
Bonds, Notes, and Leases Payable	168,764	100,792	269,556
Customer Deposits	-	188,516	188,516
Total Current Liabilities	<u>336,991</u>	<u>372,303</u>	<u>709,294</u>
Non-Current Liabilities			
Bonds, Notes, and Leases Payable	2,013,872	3,226,084	5,239,956
Other Postemployment Benefit Liability	26,516	22,424	48,940
Total Non-Current Liabilities	<u>2,040,388</u>	<u>3,248,508</u>	<u>5,288,896</u>
Total Liabilities	<u>2,377,379</u>	<u>3,620,811</u>	<u>5,998,190</u>
<b>DEFERRED INFLOWS</b>			
Deferred Pension Related Inflows	14,275	6,541	20,816
Deferred Other Postemployment Benefit Related Inflows	1,916	1,620	3,536
Total Deferred Inflows	<u>16,191</u>	<u>8,161</u>	<u>24,352</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	73,230	3,580,048	3,653,278
Restricted	57,318	-	57,318
Unrestricted	696,943	487,627	1,184,570
Total Net Position	<u>\$ 827,491</u>	<u>\$ 4,067,675</u>	<u>\$ 4,895,166</u>

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

**CITY OF POTEET**  
**Statement of Activities**  
**Governmental Funds**  
**As of September 30, 2019**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
Administrative	\$ 870,852	\$ -	\$ -	\$ -	(870,852)	\$ -	(870,852)
Municipal Court	31,766	594,362	-	-	562,596	-	562,596
Law Enforcement	720,274	-	-	-	(720,274)	-	(720,274)
Fire	87,500	-	-	-	(87,500)	-	(87,500)
Streets	50,135	-	-	-	(50,135)	-	(50,135)
Animal Control	5,839	-	-	-	(5,839)	-	(5,839)
Parks	23,852	-	-	-	(23,852)	-	(23,852)
Library	103,255	-	-	-	(103,255)	-	(103,255)
Grants	-	-	416,352	-	416,352	-	416,352
Miscellaneous	8,885	-	-	-	(8,885)	-	(8,885)
Interest on Long-Term Debt	84,117	-	-	-	(84,117)	-	(84,117)
<b>Total Governmental Activities</b>	<b>1,986,475</b>	<b>594,362</b>	<b>416,352</b>	<b>-</b>	<b>(975,761)</b>	<b>-</b>	<b>(975,761)</b>
<b>Business-Type Activities</b>							
Utilities	1,351,459	1,079,608	-	-	-	(271,851)	(271,851)
<b>Total Business-Type Activities</b>	<b>1,351,459</b>	<b>1,079,608</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(271,851)</b>	<b>(271,851)</b>
<b>Total Government</b>	<b>\$ 3,337,934</b>	<b>\$ 1,673,970</b>	<b>\$ 416,352</b>	<b>\$ -</b>	<b>(975,761)</b>	<b>(271,851)</b>	<b>(1,247,612)</b>
<b>General Revenues</b>							
Property Taxes					844,473	-	844,473
Sales Taxes					460,107	-	460,107
Franchise Fees					97,773	-	97,773
Permits and Fees					203,541	780	204,321
Fines and Tickets					-	42,282	42,282
Donations					212,933	-	212,933
Interest Revenue					1,366	-	1,366
Miscellaneous Revenue					67,477	7,622	75,099
Transfers					(165,471)	165,471	-
<b>Total General Revenues, Special Items, and Transfers</b>					<b>1,722,199</b>	<b>216,155</b>	<b>1,938,354</b>
<b>Change in Net Position</b>					<b>746,438</b>	<b>(55,696)</b>	<b>690,742</b>
<b>Net Position - Beginning, As Previously Reported</b>					<b>(39,301)</b>	<b>4,037,313</b>	<b>3,998,012</b>
<b>Prior Period Adjustment</b>					<b>120,354</b>	<b>86,058</b>	<b>206,412</b>
<b>Net Position - Beginning</b>					<b>81,053</b>	<b>4,123,371</b>	<b>4,204,424</b>
<b>Net Position - Ending</b>					<b>\$ 827,491</b>	<b>\$ 4,067,675</b>	<b>\$ 4,895,166</b>

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

**CITY OF POTEET**  
**Balance Sheet**  
**Governmental Funds**  
**As of September 30, 2019**

	GENERAL FUND	DEBT SERVICE FUND	AGGREGATE REMAINING FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ -	\$ 53,147	\$ 200,296	\$ 253,443
Investments	112,323	-	-	112,323
Accounts Receivable, Net	65,166	-	10,795	75,961
Taxes Receivable, Net	259,817	97,296	-	357,113
Due from Other Funds	19,739	-	40	19,779
<b>TOTAL ASSETS</b>	<b>457,045</b>	<b>150,443</b>	<b>211,131</b>	<b>818,619</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 87,616	\$ -	\$ 499	\$ 88,115
Accrued Liabilities	43,012	-	-	43,012
Payroll Liabilities	12,966	-	-	12,966
Sales Tax Payable	7,366	-	-	7,366
Due to Other Funds	40	10,008	9,731	19,779
<b>Total Liabilities</b>	<b>151,000</b>	<b>10,008</b>	<b>10,230</b>	<b>171,238</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	178,379	67,960	-	246,339
<b>FUND BALANCES</b>				
Restricted	-	53,148	4,170	57,318
Unassigned	127,666	19,327	196,731	343,724
<b>Total Fund Balances</b>	<b>127,666</b>	<b>72,475</b>	<b>200,901</b>	<b>401,042</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 457,045</b>	<b>\$ 150,443</b>	<b>\$ 211,131</b>	

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

**CITY OF POTEET**  
**Balance Sheet**  
**Governmental Funds**  
**As of September 30, 2019**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$245,252	2,255,866
Some of the City's revenue will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental activities in the statement of net position.	246,339
Net pension assets (and related deferred inflows and outflows of resources) do not provide current financial resources and are not reported in the funds.	
Pension Related Deferred Outflows	69,639
Pension Related Deferred Inflows	(14,275)
OPEB Related Deferred Inflows	(1,916)
Net Pension Receivable	96,716
Other Postemployment Benefits Liability	(26,516)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bond and Lease payments	(2,182,636)
Accrued Compensated Absences	(16,768)
Net Position of Governmental Activities	<span style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 827,491</span>

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

**CITY OF POTEET**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2019**

	GENERAL FUND	DEBT SERVICE FUND	AGGREGATE REMAINING FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Property Taxes	\$ 524,621	\$ 307,578	\$ -	\$ 832,199
Sales Taxes	460,107	-	-	460,107
Franchise Taxes	97,773	-	-	97,773
Charges for Services	514,516	-	79,846	594,362
Permits and Fees	197,504	-	6,037	203,541
Grants	241,259	-	175,093	416,352
Interest	1,366	-	-	1,366
Donations	212,933	-	-	212,933
Miscellaneous	60,167	7,185	125	67,477
Total Revenues	<u>2,310,246</u>	<u>314,763</u>	<u>261,101</u>	<u>2,886,110</u>
<b>EXPENDITURES</b>				
Current				
Administrative	626,767	-	-	626,767
Municipal Court	88,881	-	7,793	96,674
Law Enforcement	732,291	-	-	732,291
Fire	17,286	-	-	17,286
Streets	42,869	-	7,266	50,135
Animal Control	5,592	-	-	5,592
Parks	23,852	-	-	23,852
Library	105,452	-	-	105,452
Miscellaneous	8,113	772	-	8,885
Capital Outlay	200,236	-	-	200,236
Debt Service				
Principal	-	200,253	-	200,253
Interest	-	84,117	-	84,117
Total Expenditures	<u>1,851,339</u>	<u>285,142</u>	<u>15,059</u>	<u>2,151,540</u>
Excess of Revenues Over (Under) Expenditures	458,907	29,621	246,042	734,570
<b>Other Financing Sources and (Uses)</b>				
Transfers In/Out	18,353	-	(183,824)	(165,471)
Total Other Financing Sources and Uses	<u>18,353</u>	<u>-</u>	<u>(183,824)</u>	<u>(165,471)</u>
Net Change in Fund Balance	477,260	29,621	62,218	569,099
Fund Balance - Beginning	<u>(411,098)</u>	<u>13,870</u>	<u>138,683</u>	<u>(258,545)</u>
Prior Period Adjustment	<u>61,504</u>	<u>28,984</u>	<u>-</u>	<u>90,488</u>
Fund Balance - Beginning as Restated	<u>(349,594)</u>	<u>42,854</u>	<u>138,683</u>	<u>(168,057)</u>
Fund Balance - End of Year	<u>\$ 127,666</u>	<u>\$ 72,475</u>	<u>\$ 200,901</u>	<u>\$ 401,042</u>

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

**CITY OF POTEET**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**Governmental Funds**  
**For the Year Ended September 30, 2019**

Reconciliation of the change in fund balances - total governmental funds to the change in net position of the governmental activities:

Net Change in Fund Balances - Total Governmental Funds	\$	569,099
<p>Governmental 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:</p>		
Capital Outlay		130,124
Depreciation Expense		(181,538)
<p>Lease and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued.</p>		
Bond and Lease payments		200,253
<p>The change in net pension liability, OPEB liability, deferred inflows, and deferred outflows related to the City's TMRS pension liability and other postemployment benefits.</p>		
		32,994
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Property Tax Revenue		12,274
Accrued Compensated Absences		(16,768)
Change in net position of governmental activities	\$	746,438

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

**CITY OF POTEET**  
**Statement of Net Position**  
**Proprietary Fund**  
**For the Year Ended September 30, 2019**

	<u>UTILITY FUND</u>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	\$ 299,782
Accounts Receivable, Net	160,451
Prepays	290
Total Current Assets	<u>460,523</u>
Non-Current Assets	
Restricted Cash and Cash Equivalents	188,516
Net Pension Receivable	81,791
Land	8,959
Construction in Progress	243,548
Machinery	10,882,823
Distribution System	233,329
Accumulated Depreciation	(4,461,735)
Total Non-Current Assets	<u>7,177,231</u>
Total Assets	<u><u>7,637,754</u></u>
<b>DEFERRED OUTFLOWS</b>	
Deferred Pensions Related Outflows	58,893
Total Deferred Outflows	<u><u>58,893</u></u>

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

**CITY OF POTEET**  
**Statement of Net Position**  
**Proprietary Fund**  
**For the Year Ended September 30, 2019**

**LIABILITIES**

Current Liabilities

Accounts Payable	50,799
Accrued Liabilities	14,918
Payroll Liabilities	17,278
Bonds, Notes, and Leases Payable	100,792
Customer Deposits	188,516
Total Current Liabilities	372,303

Noncurrent Liabilities

Bonds, Notes, and Leases Payable	3,226,084
Other Postemployment Benefit Liability	22,424
Total Current Liabilities	3,248,508

Total Liabilities

3,620,811

**DEFERRED INFLOWS**

Deferred Pensions Related Inflows	6,541
Deferred Other Postemployment Benefit Related Inflows	1,620
Total Deferred Inflows	8,161

**NET POSITION**

Net Investment in Capital Assets	3,580,048
Unrestricted	487,627
Total Net Position	4,067,675

**TOTAL NET POSITION**

\$ 7,696,647

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

**CITY OF POTEET**  
**Statement of Revenues, Expenditures, and Changes in Net Position**  
**Proprietary Fund**  
**For the Year Ended September 30, 2019**

	<u>UTILITY FUND</u>
<b>OPERATING REVENUES</b>	
Charges for Services	\$ 1,079,608
Permits and Fees	780
Fines and Tickets	42,282
Miscellaneous	7,622
Total Operating Revenues	<u>1,130,292</u>
<b>OPERATING EXPENSES</b>	
Administration	349,640
Water Department	371,938
Sewer Department	201,156
Depreciation	323,936
Interest	102,866
Miscellaneous	1,923
Total Operating Expenses	<u>1,351,459</u>
Operating (Loss)	(221,167)
<b>TRANSFERS</b>	<u>165,471</u>
Change in Net Position	(55,696)
Total Net Position - Beginning	4,037,313
Prior Period Adjustments	<u>86,058</u>
Total Net Position - Beginning as Restated	4,123,371
Total Net Position - Ending	<u>\$ 4,067,675</u>

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

**CITY OF POTEET**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended September 30, 2019**

	<u>UTILITY FUND</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 1,121,859
Payments to Suppliers	(438,385)
Payments for Employee Services	(555,321)
Payments for Employee Benefits	(44,155)
Miscellaneous Receipts	7,121
Net Cash (Used) By Operating Activities	<u>91,119</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from (to) Other Funds, Net	452,815
Net Cash (Used) By Noncapital Financing Activities	<u>452,815</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Purchases of Capital Assets and Construction in Progress	(282,636)
Principal Paid on Debt	(161,080)
Net Cash (Used) By Noncapital Financing Activities	<u>(443,716)</u>
Net Decrease In Cash and Cash Equivalents	100,218
Cash and Cash Equivalents - Beginning of the Year	<u>388,080</u>
Cash and Cash Equivalents - End of the Year	<u><u>\$ 488,298</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (221,167)
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	323,936
Decrease (Increase) Assets:	
Accounts Receivable	(10,523)
Prepays	69
Net Pension Receivable	(50,494)
Increase (Decrease) Liabilities:	
Accounts Payable	43,169
Payroll Liabilities	(8,577)
Other Postemployment Benefit Liability	5,495
Customer Deposits Payable	9,211
Net Cash (Used) By Operating Activities	<u><u>\$ 91,119</u></u>
Reconciliation to Statement of Net Position - Proprietary Funds:	
Cash and Cash Equivalents - Unrestricted	299,782
Cash and Cash Equivalents - Restricted	188,516
Total Cash and Cash Equivalents - Proprietary Funds	<u><u>\$ 488,298</u></u>

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

# CITY OF POTEET

## Notes to Financial Statements

### September 30, 2019

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#### **1. Nature of the Entity**

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The City of Poteet, Texas (the City) was established in the 1800s and operates under the laws of the State of Texas. The City Council is composed of a mayor and five members elected at large. The City provides what are considered general government services including public safety, streets, parks and recreation, permits and inspection, sanitation, general administration, and utility services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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#### **2. Summary of Significant Accounting Policies**

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##### **Financial Reporting Entity**

As required by GAAP, the financial statements of the reporting entity must include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, include the following:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by GASB Statement No. 14.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (Continued)**

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**Basis of Presentation**

*Government-Wide Financial Statements*

The Statement of Net Position and the Statement of Activities are the government-wide financial statements. They report information on all of the City of Poteet' non-fiduciary activities with most of the interfund activities removed and the discretely presented component unit. Governmental activities include programs supported by taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The City does not allocate indirect expenses in the Statement of Activities. Program revenues include fees, fines, and charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The government-wide financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

**CITY OF POTEET**  
**Notes to Financial Statements**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (Continued)**

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**Basis of Presentation (Continued)**

*Fund Accounting*

The City reports the following major governmental funds:

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

Debt Service Fund – This fund is used to service the City's debt obligations.

The following funds are comprised of the City's aggregate remaining funds:

Court Security – This fund is used to service anything pertaining to the security of the Municipal Court.

Court Technology - This fund is used to purchase certain technology for the Municipal Court.

Police Seizure – This fund is used when Police make a seizure, those funds must be separate from operating funds.

Capital Improvements - This fund is used for Capital Improvement projects.

2016 USDA – This fund is used as a reserve fund, as required by the 2016 Utility Revenue Bond Agreement.

The City reports the following major proprietary fund:

Utility Fund – This fund accounts for the activities of the City's utility operations.

*Government-Wide and Proprietary Fund Financial Statements*

The government-wide financial statements are reported using the economic measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (continued)**

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**Basis of Presentation (Continued)**

*Government-Wide and Proprietary Fund Financial Statements (Continued)*

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or drawing from the general revenues of the City.

*Governmental Fund Financial Statements*

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of court revenues and property taxes. Sales tax revenues and other revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**Cash, Cash Equivalents and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with initial maturities of three months or less.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (continued)**

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**Receivable and Payable Balances**

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

The City records an allowance for utility accounts it deems uncollectible. The allowance for uncollectible for utility accounts receivable was \$49,684 at September 30, 2019 and is reported in the Utility Fund. There are no significant receivables which are not scheduled for collection within one year of the year end.

**Capital Assets**

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with 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 market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The minimum capitalization threshold is any individual item with a total cost great than \$5,000.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 Years
Machinery	5 Years
Distribution System	5 Years
Software	7 Years
Infrastructure	50 Years

The City does not capitalize interest costs related to construction.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (continued)**

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**Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single “Transfers” line on the government-wide Statement of Activities. Similarly, interfund receivables and payables are netted and presented as a single “Internal Balances” line on the government-wide Statement of Net Position.

**Use of Estimates**

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Equity Classifications**

*Government-Wide Financial Statements*

Equity is classified as net position and displayed in three components:

- Net investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Government-Wide Financial Statements (Continued)*

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

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (continued)**

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**Equity Classifications (Continued)**

*Fund Financial Statements*

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires that fund balances for each of the City's governmental funds be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balance at September 30, 2019.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The City's highest level of decision-making authority is the City Council. All fund balance commitments are authorized by ordinances, typically during the budgeting process. The City did not have any assigned fund balances at September 30, 2019.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The City Council has authorized the City Administrator to assign, reassign, and unassign fund balances. The City did not have any assigned fund balances at September 30, 2019.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the City's General Fund. If a fund deficit exists in other funds, then that amount is reported as a negative unassigned fund balance.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**2. Summary of Significant Accounting Policies (continued)**

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**Pensions**

The net pension liability and deferred outflows of resources related to pensions, other postemployment benefits, and pension related expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from the TMRS's fiduciary net position have been determined on the same basis as they are reported by the TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. (Refer to Notes 11 through 12 for more details).

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**3. Deposits and Investments**

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**Deposits**

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

The bank balances were entirely insured by FDIC insurance during the year.

**Investments**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**3. Deposits and Investments (continued)**

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**Investments (continued)**

At September 30, 2019, the City had a certificate of deposit at Wells Fargo. The fair market value of the certificate of deposit at September 30, 2019 was \$112,323 for the governmental activities. The fair value of the Wells Fargo investments is recorded as investments on the financial statements.

**Policies Governing Deposits and Investments**

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The City's investment policy limits exposure to credit risk by limiting investments to those authorized by the Act. At September 30, 2019, the City was not significantly exposed to credit risk.

*Custodial Credit Risk*

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, or are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

The City's investment policy limits exposure to custodial credit risk by requiring all uninsured deposits and investments be covered by pledged collateral. At September 30, 2019, the City was not exposed to custodial credit risk.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**3. Deposits and Investments (continued)**

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**Policies Governing Deposits and Investments (continued)**

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy limits overconcentration of its assets in specific instruments except U.S. Treasury Securities and insured or collateralized certificates of deposit. At year-end, the City was not exposed to concentration of credit risk.

*Interest Rate Risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy limits exposure to interest rate risk by limiting average maturities of investments to one year or less. The City has one certificate of deposit with an eighteen-month maturity. At year-end, the City was not exposed to interest rate risk.

**Analysis of Specific Deposit and Investment Risks**

*Foreign Currency Risk*

This is the risk that exchange rates will adversely affect the fair value of an investment. The City does not have a policy related to foreign currency risk. At year-end, the City was not exposed to foreign currency risk.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**4. Interfund Transfers**

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During the course of normal operations, the City has transactions between funds. The governmental and proprietary fund financial statements generally reflect such transactions as transfers in and out of the respective fund. The following is a summary of transfers during the year ended September 30, 2019.

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers In/Out</u>
<b>Governmental Activities</b>			
General Fund	\$ (18,353)	\$ -	\$ (18,353)
Capital Improvements	-	208,824	208,824
USDA Reserve	(25,000)	-	(25,000)
<b>Business-Type Activities</b>			
Utility Fund	(190,471)	25,000	(165,471)
	<u>\$ (233,824)</u>	<u>\$ 233,824</u>	<u>\$ -</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**5. Capital Assets**

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Capital asset activity for the governmental activities for the year ended September 30, 2019 was as follows:

<b><u>Governmental Activities:</u></b>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 81,917	\$ -	\$ -	\$ 81,917
Construction in Progress	289,776	83,745	-	373,521
Total Capital Assets Not Being Depreciated	<u>371,693</u>	<u>83,745</u>	<u>-</u>	<u>455,438</u>
Assets Being Depreciated:				
Buildings and Improvements	1,502,458	98,240	-	1,600,698
Infrastructure	6,849,502	18,353	-	6,867,855
Machinery	1,125,751	-	(70,214)	1,055,537
Intangibles	65,933	-	-	65,933
Total Capital Assets Being Depreciated	<u>9,543,644</u>	<u>116,593</u>	<u>(70,214)</u>	<u>9,590,023</u>
Total Accumulated Depreciation	(7,608,057)	(245,252)	63,714	(7,789,595)
Capital Assets Being Depreciated, Net	<u>1,935,587</u>	<u>(128,659)</u>	<u>(6,500)</u>	<u>1,800,428</u>
Total Capital Assets, Net	<u>\$ 2,307,280</u>	<u>\$ (44,914)</u>	<u>\$ (6,500)</u>	<u>\$ 2,255,866</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**5. Capital Assets (Continued)**

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Capital asset activity for the business-type activities for the year ended September 30, 2019 was as follows:

	Beginning Balance (As Restated)	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 8,958	\$ -	\$ -	\$ 8,958
Construction in Progress	54,948	188,601	-	243,549
Total Capital Assets Not Being Depreciated	<u>63,906</u>	<u>188,601</u>	<u>-</u>	<u>252,507</u>
Assets Being Depreciated:				
Machinery	201,486	42,993	(11,150)	233,329
Distribution System	10,831,780	51,042	-	10,882,822
Total Capital Assets Being Depreciated	<u>11,033,266</u>	<u>94,035</u>	<u>(11,150)</u>	<u>11,116,151</u>
Total Accumulated Depreciation	(4,148,948)	(323,936)	11,150	(4,461,734)
Capital Assets Being Depreciated, Net	<u>6,884,318</u>	<u>(229,901)</u>	<u>-</u>	<u>6,654,417</u>
Total Capital Assets, Net	<u>\$ 6,948,224</u>	<u>\$ (41,300)</u>	<u>\$ -</u>	<u>\$ 6,906,924</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**6. Property Taxes**

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Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City's fiscal year.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the city is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for uncollectible taxes as of September 30, 2019 was \$39,186 .

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**7. Risk Management**

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**General Liability**

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2019, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operated as a common risk management and insurance program. The City pays annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance.

The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**7. Risk Management (Continued)**

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**Worker's Compensation**

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, in any, are recorded and accounted for by the TML pool.

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**8. Reclassifications**

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Certain reclassifications were made to the 2018 financial statements (as presented in the Management Discussion and Analysis) in order to conform to the 2019 financial statement presentation.

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**9. Operating Leases**

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The City leases equipment under a noncancelable operating lease. Total costs for such leases were \$4,704 for the year ended September 30, 2019. The future minimum lease payments for this lease is as follows:

Year ended September 30,	Governmental Activities
2020	\$ 4,704
2021	4,704
2022	1,960
Total	\$ <u>11,368</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**10. Long-Term Liabilities**

Long-term liability activity for the year ended year September 30, 2019 was as follows:

	Balance 10/1/2018 (As Restated)	Additions	Reductions	Balance 9/30/2019	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Refunding Bonds, Series 2015	\$ 1,914,000	\$ -	\$ (55,000)	\$ 1,859,000	\$ 55,000
Tax Note, Series 2017	134,000	-	(25,000)	109,000	26,000
Capital Lease - Pumpers	86,801	-	(16,228)	70,573	16,773
Capital Lease - Financial Software	20,190	-	(20,190)	-	-
Capital Lease - Fire Truck	18,218	-	(8,955)	9,263	9,263
Capital Lease - Equipment and Vehicles	39,741	-	(19,485)	20,256	4,904
Capital Lease - Computer and Equipment	14,540	-	(7,122)	7,418	7,418
Capital Lease - Playground Equipment	25,726	-	(6,207)	19,519	6,199
Capital Lease - Trucks	129,673	-	(42,066)	87,607	43,207
<b>Total Governmental Activities</b>	<b>\$ 2,382,889</b>	<b>\$ -</b>	<b>\$ (200,253)</b>	<b>\$ 2,182,636</b>	<b>\$ 168,764</b>

	Balance 10/1/2018 (As Restated)	Additions	Reductions	Balance 9/30/2019	Due Within One Year
<b>Business-Type Activities</b>					
Utility System Revenue Bonds, Series 2016	\$ 1,788,000	\$ -	\$ (31,000)	\$ 1,757,000	\$ 31,000
General Obligation Refunding Bonds, Series 2015	1,566,000	-	(45,000)	1,521,000	45,000
Capital Lease - Mowers	20,471	-	(4,647)	15,824	4,350
Capital Lease - Sewer Pumps	60,705	-	(60,705)	-	-
Capital Lease - Equipment and Vehicles	28,657	-	(14,110)	14,547	14,547
Capital Lease - Dewatering Unit	24,123	-	(5,618)	18,505	5,895
<b>Total Business-Type Activities</b>	<b>\$ 3,487,956</b>	<b>\$ -</b>	<b>\$ (161,080)</b>	<b>\$ 3,326,876</b>	<b>\$ 100,792</b>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**10. Long-Term Liabilities (Continued)**

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**Description of Debt and Maturity Schedules (Continued)**

*General Obligation Refunding Bonds, Series 2015*

In December 2015, the City issued the General Obligation Refunding Bonds, Series 2013, in the amount of \$3,680,000. These bonds were issued for the purpose of providing funds for the (1) discharge and final payment of the Refunded Obligations and (2) payment of the costs of issuance of the bonds. Principal amounts on these bonds are due and payable annually beginning February 1, 2016. Interest is due and payable annually beginning September 1, 2016 at rates ranging from 2% to 4%. The bonds mature on February 1, 2041. The principal amount outstanding at September 30, 2019 was \$3,380,000. The balance is allocated between the general fund and utility fund, which are \$1,859,000 and \$1,521,000 respectively.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 100,000	\$ 123,600	\$ 223,600
2021	105,000	121,288	226,288
2022	110,000	118,600	228,600
2023	110,000	115,025	225,025
2024	115,000	110,525	225,525
Thereafter	2,840,000	998,700	3,838,700
Total	\$ <u>3,380,000</u>	\$ <u>1,587,738</u>	\$ <u>4,967,738</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**10. Long-Term Liabilities (Continued)**

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**Description of Debt and Maturity Schedules (Continued)**

*Tax Note, Series 2017*

In February 2018, the City issued the Tax Note, Series 2017, in the amount of \$160,000. These bonds were issued for the purpose of (1) constructing a new public library; (2) furnishing and equipping the new public library; (3) demolishing the existing public library; and (4) the payment of certain professional services related to the financing of the aforementioned project. Principal amounts on these bonds are due and payable annually beginning February 1, 2019. Interest is due and payable semiannually beginning February 1, 2018 at 2.05% interest rate. The tax note matures on February 1, 2024. The principal amount outstanding at September 30, 2019 was \$109,000.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 26,000	\$ 2,500	\$ 28,500
2021	26,000	1,967	27,967
2022	27,000	1,424	28,424
2023	28,000	861	28,861
2024	2,000	287	2,287
Total	\$ <u>109,000</u>	\$ <u>7,039</u>	\$ <u>116,039</u>

*Government Capital*

On February 4, 2013, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of two pumper trucks. This lease is due and payable in 10 annual payments of \$19,165 beginning February 1, 2014. Payments include interest of 3.389%. The lease matures on February 1, 2023.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 16,773	\$ 2,392	\$ 19,165
2021	17,341	1,824	19,165
2022	17,929	1,236	19,165
2023	18,530	628	19,158
Total	\$ <u>70,573</u>	\$ <u>6,080</u>	\$ <u>76,653</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**10. Long-Term Liabilities (Continued)**

*Government Capital*

On November 12, 2012, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of financial software. This lease is due and payable in 6 annual payments of \$21,096 beginning November 1, 2013. Payments include interest of 4.464%. The lease was paid in full during fiscal year 2019.

*Government Capital*

On December 2, 2013, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of a fire truck and related equipment. This lease is due and payable in 7 annual payments of \$9,581 beginning April 15, 2014. Payments include interest of 3.439%. The lease matures on April 15, 2020.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 9,263	\$ 318	\$ 9,581
Total	\$ 9,263	\$ 318	\$ 9,581

*Government Capital*

On December 6, 2013, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of various equipment. This lease is due and payable in 7 annual payments of \$36,057 beginning April 1, 2014. Payments include interest of 3.56%. The lease matures on April 1, 2020. The balance is allocated between the general fund and utility fund, which are \$20,256 and \$14,547 respectively.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 34,803	\$ 1,253	\$ 36,056
Total	\$ 34,803	\$ 1,253	\$ 36,056

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**10. Long-Term Liabilities (Continued)**

**Description of Debt and Maturity Schedules (Continued)**

*Government Capital*

On April 6, 2015, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of computer equipment. This lease is due and payable in 5 annual payments of \$7,727 beginning November 30, 2015. Payments include interest of 4.161%. The lease matures on November 1, 2019.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 7,418	\$ 309	\$ 7,727
Total	\$ 7,418	\$ 309	\$ 7,727

*Government Capital*

On June 5, 2018, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of playground equipment. This lease is due and payable in 4 annual payments of \$7,164 beginning March 15, 2019. Payments include interest of 4.94%. The lease matures on March 15, 2022.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 6,199	\$ 965	\$ 7,164
2021	6,505	659	7,164
2022	6,815	337	7,152
Total	\$ 19,519	\$ 1,961	\$ 21,480

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**10. Long-Term Liabilities (Continued)**

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**Description of Debt and Maturity Schedules (Continued)**

*Government Capital*

On September 14, 2017, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of four trucks. This lease is due and payable in 4 annual payments of \$46,311 beginning September 8, 2018. Payments include interest of 3.53%. The lease matures on September 8, 2021.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 43,207	\$ 3,104	\$ 46,311
2021	44,400	1,579	45,979
Total	<u>\$ 87,607</u>	<u>\$ 4,683</u>	<u>\$ 92,290</u>

*Utility System Revenue Bonds, Series 2016*

On June 29, 2016, the City issued the Utility System Revenue Bonds, Series 2016, in the amount of \$1,825,000. These bonds were issued for the purpose of (1) acquiring, purchasing, constructing, improving, renovating, enlarging, or equipping the utility system and (2) pay the costs related to the issuance of the bonds. Principal amounts on these bonds are due and payable annually beginning September 30, 2017. Interest is due and payable annually beginning September 30, 2017 at 2.25% interest rate. The bonds mature on September 30, 2056.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 31,000	\$ 39,992	\$ 70,992
2021	32,000	39,175	71,175
2022	33,000	38,444	71,444
2023	34,000	37,691	71,691
2024	34,000	37,025	71,025
Thereafter	1,593,000	654,804	2,247,804
Total	<u>\$ 1,757,000</u>	<u>\$ 847,131</u>	<u>\$ 2,604,131</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**10. Long-Term Liabilities (Continued)**

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**Description of Debt and Maturity Schedules (Continued)**

*John Deere Financial*

On June 7, 2018, the City entered a capital lease agreement with John Deere Financial. This lease was for the purchase of two commercial mowers. This lease is due and payable in 60 monthly payments of \$425 beginning August 15, 2018. Payments include interest of 4.75%. The lease matures on July 15, 2023.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 4,350	\$ 754	\$ 5,104
2021	4,561	543	5,104
2022	4,783	321	5,104
2023	2,130	129	2,259
Total	\$ 15,824	\$ 1,747	\$ 17,571

*Government Capital*

On March 17, 2014, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of sewer pumps and related equipment. This lease is due and payable in 7 annual payments of \$21,780 beginning June 1, 2015. Payments include interest of 3.77%. The lease was paid in full during fiscal year 2019.

*Government Capital*

On March 6, 2015, the City entered a capital lease agreement with Government Capital. This lease was for the purchase of a dewatering unit. This lease is due and payable in 7 annual payments of \$6,714 beginning April 1, 2016. Payments include interest of 4.43%. The lease matures on April 1, 2022.

Year Ended September 30,	Principal	Interest	Total
2020	\$ 5,895	\$ 819	\$ 6,714
2021	6,156	558	6,714
2022	6,454	249	6,703
Total	\$ 18,505	\$ 1,626	\$ 20,131

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**11. Pension Plan**

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**Plan Description**

The City of Poteet participates as one of the 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under section 401(a) of the Internal Revenue Code. TMRS issues a publicity available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

All eligible employees of the city are required to participate in TMRS.

**Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**11. Pension Plan (Continued)**

**Benefits Provided (Continued)**

At December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

	2018
Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	41
Active employees	26
	79

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Poteet were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.05% and 2.37% in the calendar years 2018 and 2019, respectively. The city's contributions to TMRS for the year ended September 30, 2019, were \$23,407, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75% net pension plan investment expense, including inflation

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**11. Pension Plan (Continued)**

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**Net Pension Liability (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disable. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and the Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determine using a building-block method in which best estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**11. Pension Plan (Continued)**

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**Net Pension Liability (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10%	1.00%
Non-Core Fixed Income	20%	3.39%
Real Return	10%	3.78%
Real Estate	10%	4.44%
Absolute Return	10%	3.46%
Private Equity	5%	7.75%
Total	100%	

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employees and employer contributions will be made at the rates specified in statute. Based on the assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**11. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

*Changes in the Net Pension Liability*

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance at 12/31/2017	\$ 1,339,508	\$ 1,649,391	\$ (309,883)
Changes for the year:			-
Service cost	84,177	-	84,177
Interest	87,516	-	87,516
Change of benefit terms	-	-	-
Difference between expected and actual experience	(21,239)	-	(21,239)
Changes of assumptions	-	-	-
Contributions - employer	-	20,869	(20,869)
Contributions - employee	-	48,545	(48,545)
Net investment income	-	(49,331)	49,331
Benefit payments, including refunds of employee contributions	(170,127)	(170,127)	-
Administrative expense	-	(955)	955
Other changes	-	(50)	50
Net changes	(19,673)	(151,049)	131,376
<b>Balance at 12/31/2018</b>	<b>\$ 1,319,835</b>	<b>\$ 1,498,342</b>	<b>\$ (178,507)</b>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**11. Pension Plan (Continued)**

**Net Pension Liability (Continued)**

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net position liability would be if it were calculating using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ (2,417)	\$ (178,507)	\$ (323,295)

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2019, the city recognized pension expense of \$23,407.

At September 30, 2019, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between Expected and Actual Economic Experience	\$ -	\$ (14,275)
Differences Between Projected and Actual Investment Earnings	128,532	-
Contributions Subsequent to the Measurement Date	18,091	-
	<u>\$ 146,623</u>	<u>\$ (14,275)</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**11. Pension Plan (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

\$18,091 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Amount
2019	\$ 11,435
2020	1,696
2021	11,137
2022	32,133
Total	<u>\$ 56,401</u>

**12. Other Postemployment Benefits**

**Plan Description**

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of the employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during the employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 GASB No. 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contribution for retirees.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**12. Other Postemployment Benefits (Continued)**

**Benefits**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2018 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitle to, but not yet receiving, benefits	4
Active employees	26
Total	37

**Total OPEB Liability**

The City’s total OPEB liability of \$48,940 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Other Inputs**

The total OPEB liability in the December 31, 2018 actuarial valuation was determined by using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.71%
Retirees’ share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\*The discount rate is based on the Fidelity Index’s “20-Year Municipal GO AA Index” rates as of December 31, 2018.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**12. Other Postemployment Benefits (Continued)**

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
Changes for the year:	
Service cost	\$ 4,078
Interest	1,640
Differences between expected and actual experience	(680)
Changes in assumptions or other inputs	(3,549)
Benefit payments**	(98)
Net Changes	1,391
Beginning Balance	47,549
Ending Balance	\$ 48,940

\* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB No. 75.

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following present the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's Total OPEB Liability	\$ 58,614	\$ 48,940	\$ 41,502

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**12. Other Postemployment Benefits (Continued)**

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$	(569)
Changes in actuarial assumptions	-		(2,967)
Contributions Subsequent to the Measurement Date	1,450		-
Total	\$ 1,450	\$	(3,536)

\$1,450 reported as deferred outflows related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of total OPEB for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

		Net Deferred Outflows/ (Inflows) of Resources
For the Year Ended December 31,		
2019	\$	(72)
2020		(72)
2021		(72)
2022		(72)
2023		(630)
Thereafter		(71)
Total	\$	(989)

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**13. Fund Balances**

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The City reported the following fund balance designations at September 30, 2019:

Fund Balance Designations	Governmental Funds
Restricted for:	
Municipal Court Technology	\$ 856
Municipal Court Security	2,542
Police Seizure	772
Debt Service	53,148
Total Restricted	57,318
Unassigned	343,724
Total Fund Balances	\$ 401,042

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**14. Net Position**

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In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to the future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one type of item reported as deferred outflows of resources, in both the governmental and proprietary funds on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between projected and actual investment earnings on pension and contributions made to the pension plan to the measurement date of the actuarial valuation. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

**14. Net Position (Continued)**

The city has one type of item reported as deferred inflows of resources, in both the governmental and proprietary funds on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between expected and actual economic experience based on the actuarial valuation. At the governmental fund level only one type of item arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from uncollected property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**15. Restatement**

The following table reflects the net effect of the statement of prior year statement of net position:

	Government-Wide Statement of Net Position	
	Governmental Activities	Business-Type Activities
Net Position at September 30, 2018, As Previously Stated	\$ (39,301)	\$ 4,037,313
Prior Period Adjustments		
Sales Tax Revenue (based on third party confirmations)	(35,238)	-
Accrued Compensated Absences (convert to Modified Accrual Basis)	20,666	-
Bond Premium (Implementation of GASB No. 65)	(40,693)	47,665
Debt balances (based on third party confirmations)	133,123	24,177
Construction in Progress (based on physical observations)	-	41,040
Machinery and Equipment (correction of duplicate assets on records)	-	(5,736)
Pension Accrual (per GASB No. 68, in accordance with TMRS statement)	(34,803)	(19,883)
OPEB Accrual (per GASB No. 75, in accordance with TMRS statement)	(27,761)	(1,205)
Property Tax Receivable (based on third party confirmations)	105,060	-
Subtotal	<u>120,354</u>	<u>86,058</u>
Net Position at September 30, 2018, As Restated	<u>\$ 81,053</u>	<u>\$ 4,123,371</u>
Effect on changes in Net Position		
For the Year Ended September 30, 2018	<u>\$ 120,354</u>	<u>\$ 86,058</u>

**CITY OF POTEET**  
**Notes to Financial Statements (Continued)**  
**September 30, 2019**

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**16. Evaluation of Subsequent Events**

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Subsequent events have been evaluated through July 14, 2020, which is the date these financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the City operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the City, to date, the City is currently evaluating the effect they expect to experience. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

## **Required Supplemental Information**

**CITY OF POTEET**  
**Required Supplemental Information**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances –**  
**Budget and Actual (Budgetary Basis)**  
**General Fund**  
**For the Year Ended September 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 545,700	\$ 545,700	\$ 524,621	\$ (21,079)
Sales Taxes	365,000	365,000	460,107	95,107
Franchise Taxes	100,000	100,000	97,773	(2,227)
Charge for Services	432,500	432,500	514,516	82,016
Permits and Fees	152,300	152,300	197,504	45,204
Grant Revenue	-	-	241,259	241,259
Interest	400	400	1,366	966
Donations	-	-	212,933	212,933
Miscellaneous	43,500	43,500	60,167	16,667
Total Revenues	<u>1,639,400</u>	<u>1,639,400</u>	<u>2,310,246</u>	<u>670,846</u>
<b>EXPENDITURES</b>				
Current				
Administrative	527,896	527,896	626,767	(98,871)
Municipal Court	74,241	74,241	88,881	(14,640)
Law Enforcement	762,943	762,943	732,291	30,652
Fire	28,450	28,450	17,286	11,164
Streets	64,000	64,000	42,869	21,131
Animal Control	5,600	5,600	5,592	8
Parks	24,900	24,900	23,852	1,048
Library	107,468	107,468	105,452	2,016
Miscellaneous	8,350	8,350	8,113	237
Capital Outlay	-	-	200,236	(200,236)
Total Expenditures	<u>1,603,848</u>	<u>1,603,848</u>	<u>1,851,339</u>	<u>(247,491)</u>
Excess of Revenues Over (Under) Expenses and Other Uses	<u>35,552</u>	<u>35,552</u>	<u>458,907</u>	<u>423,355</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In/Out	-	-	18,353	(18,353)
Net Change in Fund Balance	35,552	35,552	477,260	441,708
Fund Balance - Beginning, Budgetary Basis	<u>(411,098)</u>	<u>(411,098)</u>	<u>(411,098)</u>	<u>-</u>
Prior Period Adjustment	-	-	90,488	(90,488)
Fund Balance - Beginning Restated	<u>(411,098)</u>	<u>(411,098)</u>	<u>(320,610)</u>	<u>(90,488)</u>
Fund Balance - Ending, Budgetary Basis	<u>\$ (375,546)</u>	<u>\$ (375,546)</u>	<u>\$ 156,650</u>	<u>\$ 351,220</u>

See Independent Auditor's Report

**CITY OF POTEET**  
**Required Supplemental Information**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances –**  
**Budget and Actual (Budgetary Basis)**  
**Debt Service Fund**  
**For the Year Ended September 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 283,343	\$ 283,343	\$ 307,578	\$ 24,235
Miscellaneous	-	-	7,185	7,185
Total Revenues	<u>283,343</u>	<u>283,343</u>	<u>314,763</u>	<u>31,420</u>
<b>EXPENDITURES</b>				
Miscellaneous	400	400	772	(372)
Debt Service				
Principal	199,905	199,905	200,253	(348)
Interest	82,771	82,771	84,117	(1,346)
Total Expenditures	<u>283,076</u>	<u>283,076</u>	<u>285,142</u>	<u>(2,066)</u>
Excess of Revenues Over (Under) Expenses and Other Uses	<u>267</u>	<u>267</u>	<u>29,621</u>	<u>29,354</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In/Out	<u>7,185</u>	<u>7,185</u>	-	<u>7,185</u>
Net Change in Fund Balance	7,452	7,452	29,621	22,169
Fund Balance - Beginning, Budgetary Basis	<u>13,870</u>	<u>13,870</u>	<u>13,870</u>	-
Fund Balance - Ending, Budgetary Basis	<u>\$ 21,322</u>	<u>\$ 21,322</u>	<u>\$ 43,491</u>	<u>\$ 22,169</u>

See Independent Auditor's Report

**CITY OF POTEET**  
**Required Supplemental Information**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances –**  
**Budget and Actual (Budgetary Basis)**  
**Aggregate Remaining Funds**  
**For the Year Ended September 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final budget Positive (Negative)
<b>REVENUES</b>				
Charges for Services	\$ 3,900	\$ 3,900	\$ 79,846	\$ 75,946
Permits and Fees	70,000	70,000	6,037	(63,963)
Grants	-	-	175,093	175,093
Miscellaneous	-	-	125	125
Total Revenues	<u>73,900</u>	<u>73,900</u>	<u>261,101</u>	<u>187,201</u>
<b>EXPENDITURES</b>				
Municipal Court	2,797	2,797	7,793	(4,996)
Streets	-	-	7,266	(7,266)
Miscellaneous	165	165	-	165
Total Expenditures	<u>2,962</u>	<u>2,962</u>	<u>15,059</u>	<u>(12,097)</u>
Excess of Revenues Over (Under) Expenses and Other Uses	<u>70,938</u>	<u>70,938</u>	<u>246,042</u>	<u>175,104</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In/Out	-	-	(183,824)	183,824
Net Change in Fund Balance	70,938	70,938	62,218	358,928
Fund Balance - Beginning, Budgetary Basis	<u>138,683</u>	<u>138,683</u>	<u>138,683</u>	-
Fund Balance - Ending, Budgetary Basis	<u>\$ 209,621</u>	<u>\$ 209,621</u>	<u>\$ 200,901</u>	<u>\$ 358,928</u>

See Independent Auditor's Report

**CITY OF POTEET**  
**Required Supplemental Information**  
**Notes to the Budgetary Comparison Schedules**  
**For the Year Ended September 30, 2019**

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**Budgetary Procedures**

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The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the City did not amend the budget as necessary. All budget appropriations lapse at year-end.

**CITY OF POTEET**  
**Required Supplemental Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios –**  
**Last 10 Years\***

	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>					
Service Cost	\$ 84,177	\$ 79,750	\$ 71,820	\$ 60,135	\$ 45,593
Interest (on the Total Pension Liability)	87,516	86,925	78,853	73,077	72,248
Changes of benefit terms	-	17,918	-	-	-
Difference between expected and actual experience	(21,239)	(39,333)	(733)	13,215	(51,216)
Change of assumptions	-	-	-	33,752	-
Benefit payments, including refunds of employee contributions	(170,127)	(71,459)	(33,028)	(90,542)	(33,575)
<b>Net Change in Total Pension Liability</b>	<u>(19,673)</u>	<u>73,801</u>	<u>116,912</u>	<u>89,637</u>	<u>33,050</u>
<b>Total Pension Liability - Beginning</b>	<u>1,339,508</u>	<u>1,265,707</u>	<u>1,148,795</u>	<u>1,059,158</u>	<u>1,026,108</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,319,835</u>	<u>\$ 1,339,508</u>	<u>\$ 1,265,707</u>	<u>\$ 1,148,795</u>	<u>\$ 1,059,158</u>
<b>Plan Fiduciary Net Position</b>					
Contributions - Employer	\$ 20,869	\$ 15,693	\$ 6,041	\$ 8,680	\$ 5,355
Contributions - Employee	48,545	48,100	42,148	37,631	38,487
Net Investment Income	(49,331)	201,561	91,321	2,058	74,961
Benefit payments, including refunds of employee contributions	(170,127)	(71,459)	(33,028)	(90,542)	(33,575)
Administrative Expense	(955)	(1,046)	(1,031)	(1,253)	(783)
Other	(50)	(52)	(56)	(63)	(64)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>(151,049)</u>	<u>192,797</u>	<u>105,395</u>	<u>(43,489)</u>	<u>84,381</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>1,649,391</u>	<u>1,456,594</u>	<u>1,351,199</u>	<u>1,394,688</u>	<u>1,310,307</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 1,498,342</u>	<u>\$ 1,649,391</u>	<u>\$ 1,456,594</u>	<u>\$ 1,351,199</u>	<u>\$ 1,394,688</u>
<b>Net Pension Liability(Asset) - Ending (a) - (b)</b>	<u>\$ (178,507)</u>	<u>\$ (309,883)</u>	<u>\$ (190,887)</u>	<u>\$ (202,404)</u>	<u>\$ (335,530)</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	113.52%	123.13%	115.08%	117.62%	131.68%
<b>Covered Employee Payroll</b>	970,898	962,001	842,961	752,625	769,743
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	-18.39%	-32.21%	-22.64%	-26.89%	-43.59%

\*Note: GASB No. 68 requires ten fiscal years of data to be provided in this schedule. Fiscal year ending 2015 was the first year of implementation. The City will develop the schedule prospectively.

See Independent Auditor's Report

**CITY OF POTEET**  
**Required Supplemental Information**  
**Schedule of Changes in Postemployment Benefits Other Than Pensions (OPEB)**  
**Liability and Related Ratios –**  
**Last 10 Years\***

	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>		
Service Cost	\$ 4,078	\$ 3,656
Interest (on the Total OPEB Liability)	1,640	1,531
Difference between expected and actual experience	(680)	-
Change of assumptions	(3,549)	3,789
Benefit payments, including refunds of employee contributions	(97)	(192)
<b>Net Change in Total OPEB Liability</b>	<u>1,392</u>	<u>8,784</u>
<b>Total OPEB Liability - Beginning</b>	<u>47,548</u>	<u>38,764</u>
<b>Total OPEB Liability - Ending</b>	<u><u>\$ 48,940</u></u>	<u><u>\$ 47,548</u></u>
<b>Covered Employee Payroll</b>	\$ 970,898	\$ 962,001
<b>OPEB Liability as a Percentage of Covered Employee Payroll</b>	5.04%	4.94%

\*Note: GASB No. 75 requires ten fiscal years of data to be provided in this schedule. Fiscal year ending 2017 was the first year of implementation. The City will develop the schedule prospectively.

See Independent Auditor's Report

## **Supplemental Information**

**CITY OF POTEET**  
**Supplemental Information**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual (Budgetary Basis)**  
**Utility Fund**  
**As of September 30, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for Services	\$ 1,147,400	\$ 1,147,400	\$ 1,079,608	\$ (67,792)
Permits and Fees	1,100	1,100	780	(320)
Fines and Tickets	34,000	34,000	42,282	8,282
Miscellaneous	500	500	7,622	7,122
Total Revenues	<u>1,183,000</u>	<u>1,183,000</u>	<u>1,130,292</u>	<u>(52,708)</u>
<b>EXPENSES</b>				
Administration	376,808	376,808	349,640	27,168
Water Department	546,994	546,994	371,938	175,056
Sewer Department	236,807	236,807	201,156	35,651
Depreciation	-	-	323,936	(323,936)
Miscellaneous	4,980	4,980	1,923	3,057
Debt Service				
Principal	119,917	119,917	-	119,917
Interest	102,967	102,967	102,866	101
Total Expenses	<u>1,388,473</u>	<u>1,388,473</u>	<u>1,351,459</u>	<u>37,014</u>
Excess of Revenues Over (Under) Expenses and Other Uses	<u>(205,473)</u>	<u>(205,473)</u>	<u>(221,167)</u>	<u>(15,694)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In/Out	-	-	165,471	(165,471)
Net Change in Fund Balance	(205,473)	(205,473)	(55,696)	(149,777)
Fund Balance - Beginning, GAAP Basis	<u>4,037,313</u>	<u>4,037,313</u>	<u>4,037,313</u>	<u>-</u>
Prior Period Adjustment	-	-	86,058	(86,058)
Fund Balance - Beginning Restated	<u>4,037,313</u>	<u>4,037,313</u>	<u>4,123,371</u>	<u>(86,058)</u>
Fund Balance - Ending, GAAP Basis	<u>\$ 3,831,840</u>	<u>\$ 3,831,840</u>	<u>\$ 4,067,675</u>	<u>\$ (149,777)</u>

See Independent Auditor's Report

**CITY OF POTEET**  
**Required Supplemental Information**  
**Notes to the Budgetary Comparison Schedules**  
**For the Year Ended September 30, 2019**

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**Budgetary Procedures**

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The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the City did not amend the budget as necessary. All budget appropriations lapse at year-end.

*Excess of Expenditure Over Appropriations*

In the Utility Fund, actual revenues received were less than anticipated by \$52,708, actual expenditures were less than anticipated by \$37,014, resulting in a budget deficit of approximately \$15,694 for the year ended September 30, 2019.



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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 City Council  
City of Poteet

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Poteet (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated July 14, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s 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’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal that might be material weaknesses or significant deficiencies and therefore, material weaknesses or deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we considered to be material weaknesses and significant deficiencies.

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 (CONTINUED)*

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. We considered the deficiencies described in the accompanying schedule of findings to be material weaknesses [2019-01, 2019-02 and 2019-03].

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. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies [2019-01, 2019-02 and 2019-03].

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items: 2019-01, 2019-02 and 2019-03.

#### **City of Poteet's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

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 (CONTINUED)*

**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.

*Haynie & Company*

San Antonio, Texas  
July 14, 2020

## **Schedule of Findings**

**CITY OF POTEET**  
**Schedule of Findings**  
**For the Year Ended September 30, 2019**

**Finding 2019-001—Inadequate Capital Asset Subsidiary Ledger**

*Criteria:* Under governmental accounting principles generally accepted in the United States of America (GAAP), the City is required to report its capital assets within the government-wide statement of net position and other required footnotes.

*Condition:* The City used a capital asset subsidiary ledger that contained errors and was not updated since the City's last audit. Consequently, the City did not have formal internal processes to determine the related annual depreciation expense and information required to compile the capital asset rollforward.

*Context:* During our testing of capital assets, we noted the following internal processes were not complete at year-end:

- A complete annual inventory to determine all capital assets listed on the subsidiary ledger are still in service;
- Calculation of annual depreciation, and;
- Compilation of annual capital asset rollforward.

*Cause and Effect:* In the absence of these internal controls, a material misstatement on the government-wide statement of net position and in the required capital asset footnotes is possible.

*Recommendation:* We recommend the City design and implement the following:

- Compilation and annual maintenance of a complete capital asset subsidiary ledger for all capital assets. This detailed subsidiary ledger should include all relevant information necessary to report and disclose capital assets (e.g., asset description, historical cost, accumulated depreciation, net book value, useful life and acquisition date). In addition, the City should consider better utilizing the Capital Outlay GL accounts on a more frequent basis rather than multiple GL accounts to record capital asset additions.
- Processes and procedures to ensure an annual inventory of capital assets is performed. Additionally, any items identified as missing or no longer in service should be reviewed by management to determine if they should be removed from the capital asset subsidiary ledger.

*Views of Responsible Official(s) and Planned Corrective Actions:* We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2019.

**CITY OF POTEET**  
**Schedule of Findings**  
**For the Year Ended September 30, 2019**

**Finding 2019-002—Year-End Close Process**

*Criteria:* Management of the City is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

*Condition:* We identified exceptions or missing elements to the City's year-end close process.

*Context:* During testing of year-end account balances, we noted the following audit areas where the City did not appear to have adequate procedures surrounding the year-end close process and periodic review of account balances:

- Interfund receivables and payables—In testing of these accounts, we noted interfund receivables and payables did not properly offset. Although corrected with an audit adjustment, there were no adequate procedures at the City to ensure all interfund transactions are properly recorded between these accounts.
- Sales Tax revenues – a portion of sales tax revenues were not recognized in the proper period. Although corrected with an audit adjustment, there was no adequate procedures at the City to ensure that all sales tax revenues were properly recorded in the correct period.
- Accounts payable —We noted instances where cash disbursements that were made at year end that were not properly applied to accounts payable. The resulting errors identified by the audit resulted in adjustments to correct accounts payable and expenses.

*Cause and Effect:* Without adequate procedures surrounding the City's year-end close and procedures for periodic review of account balances, material misstatement of the annual financial statements due to fraud or error could exist or not be detected timely by management.

*Recommendation:* Management of the City should implement an updated, formalized set of policies and procedures to ensure a detailed review of significant account balances is performed, at least quarterly. These procedures should include agreeing balances to subledgers or schedules/statements and ensuring adequate support exists to support the information reflected in the financial statements. Developing a process for this review will address the deficiencies in the accounts noted above.

*Views of Responsible Official(s) and Planned Corrective Actions:* We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2019.

**CITY OF POTEET**  
**Schedule of Findings**  
**For the Year Ended September 30, 2019**

**Finding 2019-003—Budgetary Process**

*Criteria:* In accordance with *Local Government Code, Title 4. Finances, Subtitle A. Municipal Finances, Chapter 102. Municipal Budget*, the City's management is required to prepare, fairly present and monitor the City's budget. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the budget, including budgetary amendments made during the fiscal year.

*Condition:* We observed the City did not make any budgetary amendments during the fiscal year. Certain revenues and expenditures were incurred during the fiscal year that were not anticipated when the original budget was presented and approved. No budgetary amendments were proposed during the fiscal year to recognize these unanticipated changes, resulting in a budgetary overage/shortage in select accounts.

*Context:* During our analysis of budget to actual activities, we noted certain accounts resulted in a significant budgetary overage/shortage that could have been corrected by budgetary amendment(s) during the fiscal year.

*Cause and Effect:* Without adequate procedures surrounding the City's budgetary process, differences between the budgeted and actual financial data will continue to occur.

*Recommendation:* City management should prepare and present budget amendments when circumstances require changes to the budget. This will help to ensure that the public, city council, and mayor are aware of potential budget shortfalls before they occur. Developing a process to address this issue will resolve the deficiencies noted above.

*Views of Responsible Official(s) and Planned Corrective Actions:* We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2019.