

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

At June 30, 2020, the City had no investments.

B. Property taxes

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 school fiscal year.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. The City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Delinquent taxes receivable balance at year-end was as follows:

Delinquent taxes receivable	\$	3,998
Less: allowance for uncollectible accounts		(1,102)
Estimated Collectible Balance	\$	<u>2,896</u>

D. Interfund balances and transfers

Interfund balances consisted of the following amounts:

Fund	Due From	Due To	Current?
General Fund	\$ 352		Yes
Water Fund		352	Yes
Total	\$ 352	\$ 352	

E. Disaggregation of receivables and payables

Receivables at June 30, 2020 were as follows:

	Accounts	Other Government	Taxes	Total Receivables
Governmental Activities:				
General Fund		\$ 1,494	\$ 2,896	\$ 4,390
Total Governmental Activities		\$ 1,494	\$ 2,896	\$ 4,390
Proprietary Activities:				
Water Fund	\$ 36,636			\$ 36,636
Total Proprietary Activities	\$ 36,636			\$ 36,636

Payables at June 30, 2020 were as follows:

	Accounts	Accrued Payroll	Accrued Interest	Total Payables
Governmental Activities:				
General Fund	\$ 271	\$ 95		\$ 366
Total Governmental Activities	\$ 271	\$ 95		\$ 366
Proprietary Activities:				
Water Fund	\$ 19,789	\$ 82	\$ 1,496	\$ 21,367
Total Proprietary Activities	\$ 19,789	\$ 82	\$ 1,496	\$ 21,367

F. Capital asset activity

Capital asset activity for the City for the year ended June 30, 2020, was as follows:

	Balance 06/30/19	Additions	Deletions	Balance 06/30/20
Governmental activities:				
Land	\$ 2,675			\$ 2,675
Infrastructure - roads	339,741			339,741
Buildings	16,018			16,018
Furniture and equipment	25,205			25,205
Totals	383,639			383,639
Less accum depreciation for:				
Infrastructure - roads	184,908	14,995		199,903
Buildings and improvements	10,005	400		10,405
Furniture and equipment	21,215	1,995		23,210
Total accum depreciation	216,128	17,390		233,518
Governmental activities capital assets, net	\$ 167,511	\$ (17,390)		\$ 150,121
Proprietary activities:				
Land	\$ 600			\$ 600
Infrastructure	1,258,853			1,258,853
Construction in progress	0	20,000		20,000
Furniture and equipment	23,907			23,907
Totals	1,283,360			1,303,360
Less accum depreciation for:				
Infrastructure	333,928	29,440		363,368
Furniture and equipment	16,583	977		17,560
Total accum depreciation	350,511	30,417		380,928
Proprietary activities capital assets, net	\$ 932,849	\$ (10,417)		\$ 922,432

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 2,395
Streets	14,995
Total depreciation expense - governmental activities	\$ 17,390

Proprietary activities:

Water and garbage	\$ 30,417
Total depreciation expense - proprietary activities	<u>\$ 30,417</u>

G. Accumulated unpaid vacation and sick leave benefits

City employees are entitled to certain compensated absences based on their length of employment. There were no accrued compensated absences payable at year-end.

H. Bonds and notes payable

On March 27, 2014 the City issued certificates of obligation totaling \$95,000 in order to finance the construction of new waterlines from the City of Eastland. The certificates titled "City of Carbon, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2014" were issued at variable interest rates ranging from 0.96% to 5.44% with a net effective interest rate over the life of the bonds of 4.977%. The bonds are to be repaid semi-annually beginning August 15, 2014 with final maturity on February 15, 2035. Total annual payments will approximate \$7,700 until fully retired.

I. Debt service requirements - notes payable

The annual debt service requirements to maturity for long-term notes payable as of June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 4,000	\$ 3,989	\$ 7,989
2022	4,000	3,839	7,839
2023	4,000	3,676	7,676
2024	4,000	3,503	7,503
2025	4,000	3,321	7,321
2026-30	26,000	13,145	39,145
2031-35	33,000	5,536	38,536
Total	<u>\$ 79,000</u>	<u>\$ 37,009</u>	<u>\$ 116,009</u>

J. Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 83,000		\$ 4,000	\$ 79,000	\$ 4,000
Meter Deposits	13,715	700	150	14,265	0
Total	<u>\$ 96,715</u>	<u>\$ 700</u>	<u>\$ 4,150</u>	<u>\$ 93,265</u>	<u>\$ 4,000</u>

K. Deferred inflow of resources

	Property Taxes
General Fund	<u>\$ 2,896</u>

L. Economic dependency

The City's sole source of providing water to its citizens through the water fund is from the City of Eastland, Texas. Total cost of water purchases totaled \$160,680 (or approximately 51% of total operating expenses). The City has a renewable contract with the City of Eastland, Texas to provide water at a wholesale rate which is negotiated annually.

M. Construction and other significant commitments and contingencies

On April 22, 2020, the City received funding totaling \$754,600 in the form of a loan forgiveness grant to be used for water system improvements. Most of the grant and construction activity will not begin until after June 30, 2020 of which the entire project will be paid with the granted funds. As of June 30, 2020 the City had expended \$35,500 in funds primarily for preliminary planning for the project and financing fees.

N. Restricted cash

As stated above, the City was awarded \$754,600 in the form of a loan forgiveness grant that was funded on April 22, 2020. Funds received were placed in a restricted cash account with disbursement only with the express approval and authorization of the Texas Water Development Board ("TWDB"). As of June 30, 2020, remaining balances in the account totaled \$719,100.

O. Unearned revenue

Unexpended grant awards from TWDB related to the above-referenced construction and restricted cash are classified as unearned and reported on the Statement of Net Position of the City's water fund. As funds are approved for disbursement, the unearned balances will be converted to earned grant revenues. At June 30, 2020, amounts received but unearned totaled \$719,100.

P. Subsequent events

Management has evaluated subsequent events through August 31, 2020; the date which the financial statements were available for distribution. There were none noted.

REQUIRED SUPPLEMENTARY INFORMATION

This page left intentionally blank.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(GAAP Basis)	Final Budget
				Positive (Negative)
REVENUES				
Property taxes	\$ 12,000	\$ 12,000	\$ 13,667	\$ 1,667
Sales tax	11,000	11,000	14,080	3,080
Franchise taxes	10,850	10,850	10,870	20
Interest	250	250	35	(215)
Miscellaneous	500	500	-	(500)
TOTAL REVENUES	34,600	34,600	38,652	4,052
EXPENDITURES				
GENERAL GOVERNMENT:				
Collection fees	90	90	-	90
ECAD fees	500	500	555	(55)
Utilities	2,500	2,500	2,763	(263)
Salary	12,543	12,543	12,830	(287)
Insurance	1,589	1,589	1,705	(116)
Other	1,590	3,614	2,041	1,573
Payroll taxes	630	630	632	(2)
Dues/audit/legal	4,650	4,650	4,666	(16)
Election	200	200	-	200
Office & postage	750	2,348	2,476	(128)
TOTAL GENERAL GOVERNMENT	25,042	28,664	27,668	996
STREETS:				
Road repair	5,300	5,300	2,804	2,496
Mowing	1,300	2,300	2,264	36
TOTAL STREETS	6,600	7,600	5,068	2,532
TOTAL EXPENDITURES	31,642	36,264	32,736	3,528
EXCESS REVENUE OVER (UNDER) EXPENDITURES	2,958	(1,664)	5,916	7,580
FUND BALANCE - BEGINNING	60,050	60,050	60,050	-
FUND BALANCE - ENDING	\$ 63,008	\$ 58,386	\$ 65,966	\$ 7,580

This page left intentionally blank.

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

-

This page left intentionally blank.

Independent Auditor's Report

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

City Commission
City of Carbon, Texas
P. O. Box 414
Carbon, Texas 76435

I 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Carbon, Texas (the "City") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated August 31, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Carbon, Texas' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

August 31, 2020

This page left intentionally blank.

CITY OF CARBON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

A. Summary of Auditor's Results

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	None.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.
An unmodified opinion was issued on the general purpose financial statements.	
The audit disclosed no noncompliance which is material to the general purpose financial statements.	

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

C. Findings and Questioned Costs for Federal Awards

N/A.

CITY OF CARBON, TEXAS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
None reported.		

CITY OF CARBON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

This page left intentionally blank.

CITY OF CARBON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report:</u>	
Unmodified Opinion on Basic Financial Statements	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Governmental Fund Financial Statements:	
Balance Sheet-Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in	
Fund Balance-Governmental Funds	14
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement	
of Activities	15
Proprietary Fund Financial Statements:	
Statement of Net Position-Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in	
Fund Net Position-Proprietary Funds	17
Statement of Cash Flows-Proprietary Funds	18
Notes to the Financial Statements	19
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule-General Fund	29
<u>Overall Compliance and Internal Controls Section:</u>	
Report on Internal Control Over Financial Reporting and on Compliance and	
Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	31
Schedule of Findings and Questioned Costs	32
Schedule of Prior Audit Findings	33

This page left intentionally blank.

Independent Auditor's Report

**UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED
BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION**

City Commission
City of Carbon, Texas
P. O. Box 414
Carbon, Texas 76435

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for City of Carbon, Texas (the "City") as of and for the year ended June 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Carbon, Texas as of June 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule for the general fund as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 23, 2019, on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

September 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Carbon, Texas, discuss and analyze the City's financial performance for the fiscal year ended June 30, 2019. Please read it in conjunction with the independent auditor's report on page 1 and the City's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 4. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the City into two activities:

Governmental activities - Most of the City's basic services are reported here, including public safety, maintenance of City roads, community services, and general administration. Property taxes, fines and other fees, and state and federal grants finance most of these services.

Business-type activities - The City charges a fee to "customers" to help it cover all or most of the cost of services it provides in the utility waterworks, sewer, and solid waste funds.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the City as a whole. Laws and contracts require the City to establish some funds, such as a debt service fund used to provide sources of revenues to service the City's general obligation bonds. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds - Most of the City's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds - the City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total net position of the City's governmental activities decreased from \$250,960 to \$230,357. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$66,059 to \$62,846. The change in net position is primarily due to current year depreciation expense. Current and other assets decreased by \$3,419 due mainly to decreases in cash. Capital assets decreased by \$17,390 due to depreciation expense. Other liabilities decreased by \$206 due to changes in ending accounts payable.

Net position of the business-type activities decreased by \$28,490. Current and other assets decreased by \$5,342 due to receivables. Capital asset decreased by \$32,429 due to current year depreciation expense. Long-term liabilities were lower by \$2,500 due to retirement of long-term debt offset by increases in meter deposits. Other liabilities declined by \$6,781 due to changes in accounts payable.

Table I City of Carbon, Texas Net Position			
	Governmental Activities 2019	Governmental Activities 2018	Variance, Increase/ (Decrease)
Current and other assets	\$ 63,085	\$ 66,504	\$ (3,419)
Capital assets	167,511	184,901	(17,390)
Total assets	230,596	251,405	(20,809)
Long-term liabilities	0	0	0
Other liabilities	239	445	(206)
Total liabilities	239	445	(206)
Net position:			
Net investment in capital assets	167,511	184,901	(17,390)
Unrestricted	62,846	66,059	(3,213)
Total net position	\$ 230,357	\$ 250,960	\$ (20,603)
	Business-type Activities 2019	Business-type Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 141,641	\$ 146,983	\$ (5,342)
Capital assets	932,848	965,277	(32,429)
Total assets	1,074,489	1,112,260	(37,771)
Long-term liabilities	96,715	99,215	(2,500)
Other liabilities	17,239	24,020	(6,781)
Total liabilities	113,954	123,235	(6,281)
Net position:			
Net investment in capital assets	849,848	879,277	(29,429)
Unrestricted	110,687	109,748	939
Total net position	\$ 960,535	\$ 989,025	\$ (28,490)

Table II
City of Carbon, Texas
Changes in Net Position

	Governmental Activities 2019	Governmental Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Operating grants and contributions	\$ 0	\$ 0	\$ 0
General Revenues:			
Property taxes	12,600	12,226	374
Sales taxes	9,243	8,707	536
Franchise fees	11,036	9,385	1,651
Investment earnings	24	9	15
Total Revenues	32,903	30,327	2,576
Expenses:			
General government	32,946	25,543	(7,403)
Streets	20,560	22,751	2,191
Total Expenses	53,506	48,294	(5,212)
Increase in Net Position	(20,603)	(17,967)	(2,636)
Net Position - beginning of year	250,960	268,927	(17,967)
Net Position - end of year	\$ 230,357	\$ 250,960	\$ (20,603)

Table II - Continued City of Carbon, Texas Changes in Net Position			
	Business-type Activities 2019	Business-type Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 262,875	\$ 278,973	\$ (16,098)
Investment income	35	20	15
Total Revenues	262,875	278,993	(16,083)
Expenses:			
Water and garbage	286,927	271,915	(15,012)
Interest expense	4,473	4,546	73
Total Expenses	291,400	276,461	(14,939)
Increase in Net Position	(28,490)	2,512	(31,037)
Net Position - beginning of year	989,025	986,493	2,532
Net Position - end of year	\$ 960,535	\$ 989,025	\$ (28,490)

The City's revenues from its governmental activities increased modestly by \$2,576 from the previous year. Increases were in property taxes, sales taxes and franchise fees. Total expenses increased slightly by \$5,212. Increases in general government expenses were due to city-wide cleanup and noncapitalized equipment expenses.

The City's total revenues of its business-type activities decreased by \$16,098 due primarily to charges for services related to reduced water sales. Total expenses for the business-type activities increased by \$15,012 due mainly to higher water purchases.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$60,050, a decrease of \$3,652 in the City's governmental funds from last year's fund balance of \$63,702.

The City Council set its originally adopted budget at \$28,251 for general fund expenditures with an amended budget of \$30,521. Most of the amendments related to city-wide cleanup and noncapitalized equipment expenditures..

The City's General Fund balance of \$60,050 reported on pages 14 and 29 differs from the projected budgetary fund balance of \$61,984 due to general government expenditures being approximately \$5,200 more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2019, the City had \$1,666,998 invested in a broad range of capital assets including infrastructure, City government facilities and maintenance equipment. There were no additions for the year.

Debt

The City issued certificates of obligation totaling \$95,000 in order to finance the construction of new waterlines from the City of Eastland. The certificates titled "City of Carbon, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2014" were issued at variable interest rates ranging from 0.96% to 5.44% with a net effective interest rate over the life of the bonds of 4.977%. The bonds are to be repaid semi-annually beginning August 15, 2014 with final maturity on February 15, 2035. Total annual payments will approximate \$7,700 until fully retired.

The following table summarizes the outstanding debt of the City:

Debt outstanding by type	2019	2018
Certificates of obligation	\$ 83,000	\$ 86,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City should maintain its financial health during the 2019-20 fiscal year. Projected revenues and expenditures of the City should remain consistent with what they were for the 2018-19 fiscal year. The projected fund balances and net position of the general fund and water fund during the next fiscal year should remain relatively consistent with where they ended at June 30, 2019.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City office at: City of Carbon, Texas, P. O. Box 414, Carbon, Texas 76435.

BASIC FINANCIAL STATEMENTS

This page left intentionally blank.

CITY OF CARBON, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 59,307	\$ 109,397	\$ 168,704
Property taxes receivable (net of uncollectibles)	2,796	-	2,796
Accounts receivable (net of uncollectibles)	-	32,244	32,244
Due from other governments	982	-	982
Total current assets	63,085	141,641	204,726
Noncurrent assets:			
Capital assets			
Land	2,675	600	3,275
Infrastructure	339,741	1,258,853	1,598,594
Buildings and improvements	16,018	-	16,018
Furniture and equipment	25,205	23,906	49,111
Less: accumulated depreciation	(216,128)	(350,511)	(566,639)
Total capital assets	167,511	932,848	1,100,359
Total noncurrent assets	167,511	932,848	1,100,359
TOTAL ASSETS	230,596	1,074,489	1,305,085
LIABILITIES			
Current liabilities:			
Accounts payable	239	15,694	15,933
Accrued interest payable	-	1,545	1,545
Current portion of long-term debt	-	4,000	4,000
Total current liabilities	239	21,239	21,478
Noncurrent liabilities:			
Long-term notes payable	-	83,000	83,000
Less: current portion	-	(4,000)	(4,000)
Customer deposits	-	13,715	13,715
Total noncurrent liabilities	-	92,715	92,715
TOTAL LIABILITIES	239	113,954	114,193
NET POSITION			
Net investment in capital assets	167,511	849,848	1,017,359
Unrestricted	62,846	110,687	173,533
TOTAL NET POSITION	\$ 230,357	\$ 960,535	\$ 1,190,892

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 32,946	\$ -	\$ -	\$ (32,946)	\$ -	\$ (32,946)
Streets	20,560	-	-	(20,560)	-	(20,560)
Total governmental activities	53,506	-	-	(53,506)	-	(53,506)
Business-type activities:						
Water and garbage	286,927	262,875	-	-	(24,052)	(24,052)
Interest expense	4,473	-	-	-	(4,473)	(4,473)
Total business-type activities	291,400	262,875	-	-	(28,525)	(28,525)
Total	\$ 344,906	\$ 262,875	\$ -	(53,506)	(28,525)	(82,031)
General revenues:						
Property taxes				12,600	-	12,600
Sales tax				9,243	-	9,243
Franchise fees				11,036	-	11,036
Investment income				24	35	59
Total general revenues				32,903	35	32,938
Changes in net position				(20,603)	(28,490)	(49,093)
Beginning net position				250,960	989,025	1,239,985
Ending net position				\$ 230,357	\$ 960,535	\$ 1,190,892

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 59,307
Delinquent taxes receivable (net of estimated uncollectible accounts)	2,796
Due from other governments	982
TOTAL ASSETS	<u><u>\$ 63,085</u></u>
 LIABILITIES, DEFERRED RESOURCE INFLOWS & FUND EQUITIES	
LIABILITIES	
Accounts payable	\$ 239
TOTAL LIABILITIES	<u>239</u>
 DEFERRED INFLOW OF RESOURCES	
Unavailable revenue - property taxes	2,796
TOTAL DEFERRED INFLOW OF RESOURCES	<u>2,796</u>
 FUND EQUITIES	
Fund balances:	
Unassigned	60,050
TOTAL FUND EQUITIES	<u>60,050</u>
TOTAL LIABILITIES, DEFERRED RESOURCE INFLOWS & FUND EQUITIES	<u><u>\$ 63,085</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government
Total Fund Balances - Governmental Funds	\$ 60,050
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$383,639 and the accumulated depreciation was \$162,911. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	184,901
2 Prior year property tax levies which are considered collectible are recognized as revenue in the accounting period in which levied. However, they are reported as deferred revenue in the fund level financial statements until received. The net effect of including the beginning balances for deferred revenues related to delinquent taxes receivable is to increase net position.	2,357
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase (decrease) net position.	-
4 The depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(17,390)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	439
Net Position of Governmental Activities	\$ 230,357

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 12,161
Sales tax	9,243
Franchise taxes	11,036
Interest	24
Miscellaneous	315
TOTAL REVENUES	<u>32,779</u>
EXPENDITURES	
General government	30,866
Street department	5,565
TOTAL EXPENDITURES	<u>36,431</u>
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(3,652)
FUND BALANCE - BEGINNING	63,702
FUND BALANCE - ENDING	<u><u>\$ 60,050</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Primary Government
Total Net Change in Fund Balances - Governmental Funds	\$ (3,652)
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase (decrease) net position.	-
2 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(17,390)
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	439
Change in Net Position of Governmental Activities	<u>\$ (20,603)</u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	<u>Water Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 109,397
Accounts receivable (net of allowance for uncoll)	<u>32,244</u>
Total current assets	<u>141,641</u>
Noncurrent assets:	
Capital assets:	
Land	600
Infrastructure	1,258,853
Furniture and equipment	23,906
Less: accumulated depreciation	<u>(350,511)</u>
Total capital assets	<u>932,848</u>
Total noncurrent assets	<u>932,848</u>
TOTAL ASSETS	<u>1,074,489</u>
LIABILITIES	
Current liabilities:	
Accounts payable	15,694
Accrued interest payable	1,545
Current portion of long-term debt	<u>4,000</u>
Total current liabilities	<u>21,239</u>
Noncurrent liabilities:	
Long-term notes payable	83,000
Less: current portion of long-term debt	<u>(4,000)</u>
Customer deposits	<u>13,715</u>
Total noncurrent liabilities	<u>92,715</u>
TOTAL LIABILITIES	<u>113,954</u>
NET POSITION	
Net investment in capital assets	849,848
Unrestricted	<u>110,687</u>
TOTAL NET POSITION	<u>\$ 960,535</u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Water Fund</u>
OPERATING REVENUES	
Water revenue	\$ 214,930
Trash revenue	39,978
Other operating revenues	<u>7,967</u>
TOTAL OPERATING REVENUES	<u>262,875</u>
OPERATING EXPENSES	
Salaries and contract labor	49,418
Payroll taxes	438
Water purchases	152,202
Trash removal	28,964
Utilities and telephone	9,333
Repairs	6,842
Depreciation expense	32,429
Water tests and fees	1,429
Chemicals	486
Bad debt expense	1,342
Office supplies	2,602
Miscellaneous expense	<u>1,442</u>
TOTAL OPERATING EXPENSES	<u>286,927</u>
OPERATING INCOME (LOSS)	<u>(24,052)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(4,473)
Interest income	<u>35</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(4,438)</u>
CHANGE IN NET POSITION	(28,490)
NET POSITION - BEGINNING	<u>989,025</u>
NET POSITION - ENDING	<u><u>\$ 960,535</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 272,602
Cash payments to suppliers for goods and services	(211,391)
Cash payments to employees for services (and related benefit payments)	(49,856)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>11,355</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Cash used for payment of long-term debt principal	(3,000)
Cash used for payment of interest expense	(4,505)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(7,505)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	35
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>35</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	3,885
Cash and cash equivalents - beginning of year	105,512
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 109,397</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (24,052)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	32,429
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	9,227
Increase (decrease) in accounts payable	(6,749)
Increase (decrease) in meter deposits	500
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 11,355</u>

The accompanying notes are an integral part of this statement.

This page left intentionally blank.

CITY OF CARBON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED JUNE 30, 2019

I. Summary of significant accounting policies

City of Carbon, Texas (the "City") is a charter city in which citizens elect the mayor at large and five council members. The financial statements of the City are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The City's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The City applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. Reporting entity

For financial reporting purposes, the City includes all funds and account groups for which the City is considered to be financially accountable. The criteria used by the City for including activities in preparing its financial statements are in conformity with GASB Statement 14, "The Financial Reporting Entity."

In applying the criteria of GASB #14, the City has no component units.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise fees, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charged for fines, city clerk fees, etc. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds [and between governmental funds and proprietary funds] appear as due to/due from on the Governmental Fund Balance Sheet [and Proprietary Fund Statement of Net Position] and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance [and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position]. All interfund transactions between governmental funds are eliminated on the government-wide statements. [Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.] Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise 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.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, [as do the proprietary fund and fiduciary fund financial statements]. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund accounting

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

2. **Water Enterprise Funds** - The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund.

E. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The City reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expended in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. The City's policy does permits employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset:</u>	<u>Years</u>
Buildings	20-40
Building Improvements	20-40
Streets	20
Vehicles	5
Equipment	10
Technology Equipment	5

6. Governmental fund balances are classified into the following categories:

Non-spendable fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

City policies concerning fund balances are as follows:

The City's Unassigned General Fund Balance will be maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the City Council.

Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council.

When it is appropriate for fund balance to be assigned, the City delegates authority to the mayor or mayor pro-tem.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At June 30, 2019, none of the City's fund balances were committed or assigned.

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

II. Stewardship, compliance, and accountability

A. Budgetary data

The City Secretary submits an annual budget to the City Council in accordance with the City Charter. In June, the City Council adopts annual fiscal year budgets for specified City funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

B. Excess of expenditures over appropriations by more than \$2,500

Category	Over Budget	Explanation
General government	\$5,145	Other expenditures (primarily trailer and city-wide clean-up expenditures not fully budgeted)

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

City Policies and Legal and Contractual Provisions Governing 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. 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, (10) and 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.

As of June 30, 2019, the City had the following cash and cash equivalents.

Cash and Cash Equivalents	Fair Value	Investment Maturities			Rating
		Less than 1 Year	1-3 Years	3-10 Years	
FDIC insured deposits	\$ 167,412	\$ 167,412			N/A
Certificates of deposit	1,267	1,267			N/A
Petty cash	25	25			N/A
Total Cash and Cash Equivalents	<u>\$ 168,704</u>	<u>\$ 168,704</u>			

Additional policies and contractual provisions governing deposits and investments for the City are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the City's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the City requires counterparties to register the securities in the name of the City and hand them over to the City or its designated agent. This included securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City limits investments to less than 5% of its total investments. The City further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

At June 30, 2019, the City had no investments.

B. Property taxes

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 school fiscal year.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. The City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Delinquent taxes receivable balance at year-end was as follows:

Delinquent taxes receivable	\$ 3,806
Less: allowance for uncollectible accounts	(1,010)
Estimated Collectible Balance	<u>\$ 2,796</u>

D. Interfund balances and transfers

None.

E. Disaggregation of receivables and payables

Receivables at June 30, 2019 were as follows:

	Accounts	Other Government	Taxes	Total Receivables
Governmental Activities:				
General Fund		\$ 982	\$ 2,796	\$ 3,778
Total Governmental Activities		<u>\$ 982</u>	<u>\$ 2,796</u>	<u>\$ 3,778</u>
Proprietary Activities:				
Water Fund	\$ 32,244			\$ 32,244
Total Proprietary Activities	<u>\$ 32,244</u>			<u>\$ 32,244</u>

Payables at June 30, 2019 were as follows:

	Accounts	Accrued Payroll	Accrued Interest	Total Payables
Governmental Activities:				
General Fund	\$ 239			\$ 239
Total Governmental Activities	<u>\$ 239</u>			<u>\$ 239</u>
Proprietary Activities:				
Water Fund	\$ 15,694		\$ 1,545	\$ 17,239
Total Proprietary Activities	<u>\$ 15,694</u>		<u>\$ 1,545</u>	<u>\$ 17,239</u>

F. Capital asset activity

Capital asset activity for the City for the year ended June 30, 2019, was as follows:

	Balance 06/30/18	Additions	Deletions	Balance 06/30/19
Governmental activities:				
Land	\$ 2,675			\$ 2,675
Infrastructure - roads	339,741			339,741
Buildings	16,018			16,018
Furniture and equipment	25,205			25,205
Totals	<u>383,639</u>			<u>383,639</u>
Less accum depreciation for:				
Infrastructure - roads	169,913	14,995		184,908
Buildings and improvements	9,605	400		10,005
Furniture and equipment	19,220	1,995		21,215
Total accum depreciation	<u>198,738</u>	<u>17,390</u>		<u>216,128</u>
Governmental activities capital assets, net	<u>\$ 184,901</u>	<u>\$ (17,390)</u>	<u>\$ 0</u>	<u>\$ 167,511</u>
Proprietary activities:				
Land	\$ 600			\$ 600
Infrastructure	1,258,853			1,258,853
Furniture and equipment	23,906			23,906
Totals	<u>1,283,359</u>			<u>1,283,359</u>
Less accum depreciation for:				
Infrastructure	302,476	31,452		333,928
Furniture and equipment	15,606	977		16,583
Total accum depreciation	<u>318,082</u>	<u>32,429</u>		<u>350,511</u>
Proprietary activities capital assets, net	<u>\$ 965,277</u>	<u>\$ (32,429)</u>		<u>\$ 932,848</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$	2,395
Streets		14,995
Total depreciation expense - governmental activities	\$	<u>17,390</u>

Proprietary activities:

Water and garbage	\$	32,429
Total depreciation expense - proprietary activities	\$	<u>32,429</u>

G. Accumulated unpaid vacation and sick leave benefits

City employees are entitled to certain compensated absences based on their length of employment. There were no accrued compensated absences payable at year-end.

H. Bonds and notes payable

On March 27, 2014 the City issued certificates of obligation totaling \$95,000 in order to finance the construction of new waterlines from the City of Eastland. The certificates titled "City of Carbon, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2014" were issued at variable interest rates ranging from 0.96% to 5.44% with a net effective interest rate over the life of the bonds of 4.977%. The bonds are to be repaid semi-annually beginning August 15, 2014 with final maturity on February 15, 2035. Total annual payments will approximate \$7,700 until fully retired.

I. Debt service requirements - notes payable

The annual debt service requirements to maturity for long-term notes payable as of June 30, 2019 are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 4,000	\$ 4,121	\$ 8,121
2021	4,000	3,989	7,989
2022	4,000	3,839	7,839
2023	4,000	3,676	7,676
2024	4,000	3,503	7,503
2025-29	24,000	14,353	38,353
2030-34	32,000	7,267	39,267
2035	7,000	381	7,381
Total	<u>\$ 83,000</u>	<u>\$ 41,129</u>	<u>\$ 124,129</u>

J. Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 86,000		\$ 3,000	\$ 83,000	\$ 4,000
Meter Deposits	13,215	800	300	13,715	0
Total	<u>\$ 99,215</u>	<u>\$ 800</u>	<u>\$ 3,300</u>	<u>\$ 96,715</u>	<u>\$ 4,000</u>

K. Deferred inflow of resources

	Property Taxes
General Fund	<u>\$ 982</u>

L. Economic dependency

The City's sole source of providing water to its citizens through the water fund is from the City of Eastland, Texas. Total cost of water purchases totaled \$152,202 (or approximately 53% of total operating expenses). The City has a renewable contract with the City of Eastland, Texas to provide water at a wholesale rate which is negotiated annually.

M. Construction and other significant commitments and contingencies

None.

N. Subsequent events

Management has evaluated subsequent events through September 23, 2019; the date which the financial statements were available for distribution. There were none noted.

This page left intentionally blank.

REQUIRED SUPPLEMENTARY INFORMATION

This page left intentionally blank.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(GAAP Basis)	Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 10,000	\$ 10,000	\$ 12,161	\$ 2,161
Sales tax	8,500	8,500	9,243	743
Franchise taxes	9,553	9,553	11,036	1,483
Interest	250	250	24	(226)
Miscellaneous	500	500	315	(185)
TOTAL REVENUES	28,803	28,803	32,779	3,976
EXPENDITURES				
GENERAL GOVERNMENT:				
Collection fees	90	90	-	90
ECAD fees	225	225	584	(359)
Utilities	3,000	3,000	890	2,110
Salary	12,243	12,243	12,443	(200)
Telephone	660	660	447	213
Insurance	1,589	1,589	1,879	(290)
Other	200	2,470	8,083	(5,613)
Payroll taxes	594	594	700	(106)
Dues/audit/legal	3,500	3,500	4,138	(638)
Election	200	200	-	200
Office & postage	1,150	1,150	1,702	(552)
TOTAL GENERAL GOVERNMENT	23,451	25,721	30,866	(5,145)
STREETS:				
Road repair	3,500	3,500	3,765	(265)
Mowing	1,300	1,300	1,800	(500)
Capital outlay	-	-	-	-
TOTAL STREETS	4,800	4,800	5,565	(765)
TOTAL EXPENDITURES	28,251	30,521	36,431	(5,910)
EXCESS REVENUE OVER (UNDER) EXPENDITURES	552	(1,718)	(3,652)	(1,934)
FUND BALANCE - BEGINNING	63,702	63,702	63,702	-
FUND BALANCE - ENDING	\$ 64,254	\$ 61,984	\$ 60,050	\$ (1,934)

This page left intentionally blank.

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

This page left intentionally blank.

Independent Auditor's Report

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

City Commission
City of Carbon, Texas
P. O. Box 414
Carbon, Texas 76435

I 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Carbon, Texas (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated September 23, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Carbon, Texas' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

September 23, 2019

This page left intentionally blank.

CITY OF CARBON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

A. Summary of Auditor's Results:

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	None.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.

An unmodified opinion was issued on the general purpose financial statements.

The audit disclosed no noncompliance which is material to the general purpose financial statements.

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

C. Findings and Questioned Costs for Federal Awards

N/A.

CITY OF CARBON, TEXAS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
None reported.		

CITY OF CARBON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

This page left intentionally blank.

CITY OF CARBON, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report:</u>	
Unmodified Opinion on Basic Financial Statements	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Governmental Fund Financial Statements:	
Balance Sheet-Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in	
Fund Balance-Governmental Funds	14
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement	
of Activities	15
Proprietary Fund Financial Statements:	
Statement of Net Position-Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in	
Fund Net Position-Proprietary Funds	17
Statement of Cash Flows-Proprietary Funds	18
Notes to the Financial Statements	19
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule-General Fund	29
<u>Overall Compliance and Internal Controls Section:</u>	
Report on Internal Control Over Financial Reporting and on Compliance and	
Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	31
Schedule of Findings and Questioned Costs	32
Schedule of Prior Audit Findings	33

This page left intentionally blank.

Independent Auditor's Report

**UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED
BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION**

City Commission
City of Carbon, Texas
P. O. Box 414
Carbon, Texas 76435

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for City of Carbon, Texas (the "City") as of and for the year ended June 30, 2018, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Carbon, Texas as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule for the general fund as listed in the table of contents 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 27, 2018, on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

August 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Carbon, Texas, discuss and analyze the City's financial performance for the fiscal year ended June 30, 2018. Please read it in conjunction with the independent auditor's report on page 1 and the City's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 4. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenue sharing programs from other governments received and fees charged for utility services (program revenues), and revenues provided by the taxpayers or by the State of Texas (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the City into two activities:

Governmental activities - Most of the City's basic services are reported here, including public safety, maintenance of City roads, community services, and general administration. Property taxes, fines and other fees, and state and federal grants finance most of these services.

Business-type activities - The City charges a fee to "customers" to help it cover all or most of the cost of services it provides in the utility waterworks, sewer, and solid waste funds.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the City as a whole. Laws and contracts require the City to establish some funds, such as a debt service fund used to provide sources of revenues to service the City's general obligation bonds. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds - Most of the City's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds - the City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total net position of the City's governmental activities decreased from \$268,927 to \$250,960. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$66,115 to \$66,059 at June 30, 2018. The change in net position is primarily due to current year depreciation expense. Current and other assets decreased by \$2,302 due mainly to decreases in interfund receivables offset by increases in cash. Capital assets decreased by \$17,911 due to depreciation expense. Other liabilities decreased by \$2,246 due to changes in ending accounts payable.

Net position of the business-type activities increased by \$2,532. Current and other assets increased by \$26,813 due to cash and receivables. Capital asset decreased by \$32,430 due to current year depreciation expense. Long-term liabilities were lower by \$3,859 due to retirement of long-term debt offset by increases in meter deposits. Other liabilities declined by \$4,290 due to changes in interfund liabilities and accounts payable.

Table I City of Carbon, Texas Net Position			
	Governmental Activities 2018	Governmental Activities 2017	Variance, Increase/ (Decrease)
Current and other assets	\$ 66,504	\$ 68,806	\$ (2,302)
Capital assets	184,901	202,812	(17,911)
Total assets	251,405	271,618	(20,213)
Long-term liabilities	0	0	0
Other liabilities	445	2,691	(2,246)
Total liabilities	445	2,691	(2,246)
Net position:			
Net investment in capital assets	184,901	202,812	(17,911)
Unrestricted	66,059	66,115	(56)
Total net position	\$ 250,960	\$ 268,927	\$ (17,967)
	Business-type Activities 2018	Business-type Activities 2017	Variance Increase/ (Decrease)
Current and other assets	\$ 146,983	\$ 120,170	\$ 26,813
Capital assets	965,277	997,707	(32,430)
Total assets	1,112,260	1,117,877	(5,617)
Long-term liabilities	99,215	103,074	(3,859)
Other liabilities	24,020	28,310	(4,290)
Total liabilities	123,235	131,384	(8,149)
Net position:			
Net investment in capital assets	879,277	908,707	(29,430)
Unrestricted	109,748	77,786	31,962
Total net position	\$ 989,025	\$ 986,493	\$ 2,532

<p>Table II City of Carbon, Texas Changes in Net Position</p>			
	Governmental Activities 2018	Governmental Activities 2017	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Operating grants and contributions	\$ 0	\$ 2,676	\$ (2,676)
General Revenues:			
Property taxes	12,226	10,396	1,830
Sales taxes	8,707	8,019	688
Franchise fees	9,385	9,454	(69)
Investment earnings	9	14	(5)
Total Revenues	30,327	30,559	(232)
Expenses:			
General government	25,543	25,314	(229)
Streets	22,751	22,295	(456)
Total Expenses	48,294	47,609	(685)
Increase in Net Position	(17,967)	(17,050)	(917)
Net Position - beginning of year	268,927	285,977	(17,050)
Net Position - end of year	\$ 250,960	\$ 268,927	\$ (17,967)

Table II - Continued City of Carbon, Texas Changes in Net Position			
	Business-type Activities 2018	Business-type Activities 2017	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 278,973	\$ 249,390	\$ 29,583
Investment income	20	120	(100)
Operating grants and contributions	0	124,331	(124,331)
Total Revenues	278,993	373,841	(94,848)
Expenses:			
Water and garbage	271,915	251,055	(20,860)
Interest expense	4,546	6,221	1,675
Total Expenses	276,461	257,276	(19,185)
Increase in Net Position	2,512	116,565	(114,033)
Net Position - beginning of year	986,493	869,928	116,565
Net Position - end of year	\$ 989,025	\$ 986,493	\$ 2,532

The City's revenues from its governmental activities decreased modestly by \$232 from the previous year. Property and sales tax increases were offset by lower operating grants and contributions related to FEMA grant revenues received last year. Total expenses increased slightly by \$685.

The City's total revenues of its business-type activities decreased by \$94,748 due primarily to reductions in grant revenues from last fiscal year. Charges for services related to water sales and trash fees were \$29,583 more than last year. Total expenses for the business-type activities increased by \$19,185 due mainly to higher water purchases.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$63,702, an increase of \$501 in the City's governmental funds from last year's fund balance of \$63,201.

The City Council set its originally adopted budget at \$27,524 for general fund expenditures with an amended budget of \$31,138. Most of the amendments related to increased street repairs for signs and maintenance.

The City's General Fund balance of \$63,702 reported on pages 14 and 29 differs from the projected budgetary fund balance of \$57,780 due to general government revenues being approximately \$5,200 more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the City had \$1,666,998 invested in a broad range of capital assets including infrastructure, City government facilities and maintenance equipment. There were no additions for the year.

Debt

The City issued certificates of obligation totaling \$95,000 in order to finance the construction of new waterlines from the City of Eastland. The certificates titled "City of Carbon, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2014" were issued at variable interest rates ranging from 0.96% to 5.44% with a net effective interest rate over the life of the bonds of 4.977%. The bonds are to be repaid semi-annually beginning August 15, 2014 with final maturity on February 15, 2035. Total annual payments will approximate \$7,700 until fully retired.

The following table summarizes the outstanding debt of the City:

Debt outstanding by type	2018	2017
Certificates of obligation	\$ 86,000	\$ 89,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City should maintain its financial health during the 2018-19 fiscal year. Projected revenues and expenditures of the City should remain consistent with what they were for the 2017-18 fiscal year. The projected fund balances and net position of the general fund and water fund during the next fiscal year should remain relatively consistent with where they ended at June 30, 2018.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City office at: City of Carbon, Texas, P. O. Box 414, Carbon, Texas 76435.

BASIC FINANCIAL STATEMENTS

This page left intentionally blank.

CITY OF CARBON, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 63,339	\$ 105,512	\$ 168,851
Property taxes receivable (net of uncollectibles)	2,357	-	2,357
Accounts receivable (net of uncollectibles)	-	41,471	41,471
Due from other governments	808	-	808
Total current assets	<u>66,504</u>	<u>146,983</u>	<u>213,487</u>
Noncurrent assets:			
Capital assets			
Land	2,675	600	3,275
Infrastructure	339,741	1,258,853	1,598,594
Buildings and improvements	16,018	-	16,018
Furniture and equipment	25,205	23,906	49,111
Less: accumulated depreciation	(198,738)	(318,082)	(516,820)
Total capital assets	<u>184,901</u>	<u>965,277</u>	<u>1,150,178</u>
Total noncurrent assets	<u>184,901</u>	<u>965,277</u>	<u>1,150,178</u>
TOTAL ASSETS	<u>251,405</u>	<u>1,112,260</u>	<u>1,363,665</u>
LIABILITIES			
Current liabilities:			
Accounts payable	445	22,443	22,888
Accrued interest payable	-	1,577	1,577
Current portion of long-term debt	-	3,000	3,000
Total current liabilities	<u>445</u>	<u>27,020</u>	<u>27,465</u>
Noncurrent liabilities:			
Long-term notes payable	-	86,000	86,000
Less: current portion	-	(3,000)	(3,000)
Customer deposits	-	13,215	13,215
Total noncurrent liabilities	<u>-</u>	<u>96,215</u>	<u>96,215</u>
TOTAL LIABILITIES	<u>445</u>	<u>123,235</u>	<u>123,680</u>
NET POSITION			
Net investment in capital assets	184,901	879,277	1,064,178
Unrestricted	66,059	109,748	175,807
TOTAL NET POSITION	<u>\$ 250,960</u>	<u>\$ 989,025</u>	<u>\$ 1,239,985</u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:						
General government	\$ 25,543	\$ -	\$ -	\$ (25,543)	\$ -	\$ (25,543)
Streets	22,751	-	-	(22,751)	-	(22,751)
Total governmental activities	48,294	-	-	(48,294)	-	(48,294)
Business-type activities:						
Water and garbage	271,915	278,973	-	-	7,058	7,058
Interest expense	4,546	-	-	-	(4,546)	(4,546)
Total business-type activities	276,461	278,973	-	-	2,512	2,512
Total	\$ 324,755	\$ 278,973	\$ -	(48,294)	2,512	(45,782)
General revenues:						
Property taxes				12,226	-	12,226
Sales tax				8,707	-	8,707
Franchise fees				9,385	-	9,385
Investment income				9	20	29
Total general revenues				30,327	20	30,347
Changes in net position				(17,967)	2,532	(15,435)
Beginning net position				268,927	986,493	1,255,420
Ending net position				\$ 250,960	\$ 989,025	\$ 1,239,985

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 63,339
Delinquent taxes receivable (net of estimated uncollectible accounts)	2,357
Due from other governments	<u>808</u>
TOTAL ASSETS	<u><u>\$ 66,504</u></u>
 LIABILITIES, DEFERRED RESOURCE INFLOWS & FUND EQUITIES	
LIABILITIES	
Accounts payable	\$ 445
TOTAL LIABILITIES	<u>445</u>
 DEFERRED INFLOW OF RESOURCES	
Unavailable revenue - property taxes	<u>2,357</u>
TOTAL DEFERRED INFLOW OF RESOURCES	<u>2,357</u>
 FUND EQUITIES	
Fund balances:	
Unassigned	<u>63,702</u>
TOTAL FUND EQUITIES	<u>63,702</u>
TOTAL LIABILITIES, DEFERRED RESOURCE INFLOWS & FUND EQUITIES	<u><u>\$ 66,504</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government
Total Fund Balances - Governmental Funds	\$ 63,702
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$383,639 and the accumulated depreciation was \$162,911. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	202,812
2 Prior year property tax levies which are considered collectible are recognized as revenue in the accounting period in which levied. However, they are reported as deferred revenue in the fund level financial statements until received. The net effect of including the beginning balances for deferred revenues related to delinquent taxes receivable is to increase net position.	2,914
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase (decrease) net position.	-
4 The depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(17,911)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(557)
Net Position of Governmental Activities	\$ 250,960

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 12,783
Sales tax	8,707
Franchise taxes	9,385
Interest	9
TOTAL REVENUES	<u>30,884</u>
EXPENDITURES	
General government	23,148
Street department	7,235
TOTAL EXPENDITURES	<u>30,383</u>
EXCESS REVENUE OVER (UNDER) EXPENDITURES	501
FUND BALANCE - BEGINNING	63,201
FUND BALANCE - ENDING	<u>\$ 63,702</u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Primary Government
Total Net Change in Fund Balances - Governmental Funds	\$ 501
1 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase (decrease) net position.	-
2 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(17,911)
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(557)
Change in Net Position of Governmental Activities	<u>\$ (17,967)</u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	<u>Water Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 105,512
Accounts receivable (net of allowance for uncoll)	<u>41,471</u>
Total current assets	<u>146,983</u>
Noncurrent assets:	
Capital assets:	
Land	600
Infrastructure	1,258,853
Furniture and equipment	23,906
Less: accumulated depreciation	<u>(318,082)</u>
Total capital assets	<u>965,277</u>
Total noncurrent assets	<u>965,277</u>
TOTAL ASSETS	<u><u>1,112,260</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	22,443
Accrued interest payable	1,577
Current portion of long-term debt	<u>3,000</u>
Total current liabilities	<u>27,020</u>
Noncurrent liabilities:	
Long-term notes payable	86,000
Less: current portion of long-term debt	<u>(3,000)</u>
Customer deposits	<u>13,215</u>
Total noncurrent liabilities	<u>96,215</u>
TOTAL LIABILITIES	<u><u>123,235</u></u>
NET POSITION	
Net investment in capital assets	879,277
Unrestricted	<u>109,748</u>
TOTAL NET POSITION	<u><u>\$ 989,025</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Water Fund</u>
OPERATING REVENUES	
Water revenue	\$ 233,828
Trash revenue	38,016
Other operating revenues	<u>7,129</u>
TOTAL OPERATING REVENUES	<u>278,973</u>
OPERATING EXPENSES	
Salaries and contract labor	54,227
Payroll taxes	813
Water purchases	131,576
Trash removal	24,518
Utilities and telephone	8,942
Repairs	9,445
Depreciation expense	32,430
Water tests and fees	3,090
Chemicals	1,375
Bad debt expense	1,940
Office supplies	1,724
Miscellaneous expense	<u>1,835</u>
TOTAL OPERATING EXPENSES	<u>271,915</u>
OPERATING INCOME (LOSS)	<u>7,058</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(4,546)
Interest income	<u>20</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(4,526)</u>
CHANGE IN NET POSITION	2,532
NET POSITION - BEGINNING	<u>986,493</u>
NET POSITION - ENDING	<u><u>\$ 989,025</u></u>

The accompanying notes are an integral part of this statement.

CITY OF CARBON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 261,385
Cash payments to suppliers for goods and services	(175,823)
Cash payments to employees for services (and related benefit payments)	(55,193)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>30,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Cash used for acquisition of capital assets	-
Cash used for payment of long-term debt principal	(3,000)
Cash used for payment of interest expense	(4,571)
Net cash received from interfund borrowing	(10,945)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(18,516)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	20
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>20</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	11,873
Cash and cash equivalents - beginning of year	93,639
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 105,512</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 7,058
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	32,430
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(14,940)
Increase (decrease) in accounts payable	6,833
Increase (decrease) in accrued liabilities	(153)
Increase (decrease) in meter deposits	(859)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 30,369</u></u>

The accompanying notes are an integral part of this statement.

This page left intentionally blank.

CITY OF CARBON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of significant accounting policies

City of Carbon, Texas (the "City") is a charter city in which citizens elect the mayor at large and five council members. The financial statements of the City are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The City's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. Proprietary funds apply only those Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The City applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. Reporting entity

For financial reporting purposes, the City includes all funds and account groups for which the City is considered to be financially accountable. The criteria used by the City for including activities in preparing its financial statements are in conformity with GASB Statement 14, "The Financial Reporting Entity."

In applying the criteria of GASB #14, the City has no component units.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise fees, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include fees charged for fines, city clerk fees, etc. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Examples include grants under the U.S. Department of Agriculture Rural Development Program. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds [and between governmental funds and proprietary funds] appear as due to/due from on the Governmental Fund Balance Sheet [and Proprietary Fund Statement of Net Position] and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance [and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position]. All interfund transactions between governmental funds are eliminated on the government-wide statements. [Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.] Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise 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.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, [as do the proprietary fund and fiduciary fund financial statements]. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund accounting

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

2. **Water Enterprise Funds** - The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund.

E. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The City reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expended in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. The City's policy does permits employees to accumulate unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset:</u>	<u>Years</u>
Buildings	20-40
Building Improvements	20-40
Streets	20
Vehicles	5
Equipment	10
Technology Equipment	5

6. Governmental fund balances are classified into the following categories:

Non-spendable fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

City policies concerning fund balances are as follows:

The City's Unassigned General Fund Balance will be maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the City Council.

Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council.

When it is appropriate for fund balance to be assigned, the City delegates authority to the mayor or mayor pro-tem.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At June 30, 2018, none of the City's fund balances were committed or assigned.

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

II. Stewardship, compliance, and accountability

A. Budgetary data

The City Secretary submits an annual budget to the City Council in accordance with the City Charter. In June, the City Council adopts annual fiscal year budgets for specified City funds. Budgets for the general fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

B. Excess of expenditures over appropriations by more than \$2,500

Category	Over Budget	Explanation
None.		

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

City Policies and Legal and Contractual Provisions Governing 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. 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, (10) and 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.

As of June 30, 2018, the City had the following cash and cash equivalents.

Cash and Cash Equivalents	Fair Value	Investment Maturities			Rating
		Less than 1 Year	1-3 Years	3-10 Years	
FDIC insured deposits	\$ 167,560	\$ 167,560			N/A
Certificates of deposit	1,266	1,266			N/A
Petty cash	25	25			N/A
Total Cash and Cash Equivalents	\$ 168,851	\$ 168,851			

Additional policies and contractual provisions governing deposits and investments for the City are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the City's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the City requires counterparties to register the securities in the name of the City and hand them over to the City or its designated agent. This included securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City limits investments to less than 5% of its total investments. The City further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

At June 30, 2018, the City had no investments.

B. Property taxes

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 school fiscal year.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. The City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Delinquent taxes receivable balance at year-end was as follows:

Delinquent taxes receivable	\$ 2,942
Less: allowance for uncollectible accounts	(585)
Estimated Collectible Balance	<u><u>\$2,357</u></u>

D. Interfund balances and transfers

None.

E. Disaggregation of receivables and payables

Receivables at June 30, 2018 were as follows:

	Accounts	Other Government	Taxes	Total Receivables
Governmental Activities:				
General Fund		\$808	\$2,357	\$3,165
Total Governmental Activities		<u>\$808</u>	<u>\$2,357</u>	<u>\$3,165</u>
Proprietary Activities:				
Water Fund	\$41,471			\$41,471
Total Proprietary Activities	<u>\$41,471</u>			<u>\$41,471</u>

Payables at June 30, 2018 were as follows:

	Accounts	Accrued Payroll	Accrued Interest	Total Payables
Governmental Activities:				
General Fund	\$445			\$445
Total Governmental Activities	<u>\$445</u>			<u>\$445</u>
Proprietary Activities:				
Water Fund	\$22,443		\$1,577	\$24,020
Total Proprietary Activities	<u>\$22,443</u>		<u>\$1,577</u>	<u>\$24,020</u>

F. Capital asset activity

Capital asset activity for the City for the year ended June 30, 2018, was as follows:

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18
Governmental activities:				
Land	\$ 2,675			\$ 2,675
Infrastructure - roads	339,741			339,741
Buildings	16,018			16,018
Furniture and equipment	25,205			25,205
Totals	<u>383,639</u>			<u>383,639</u>
Less accum depreciation for:				
Infrastructure - roads	154,918	\$ 14,995		169,913
Buildings and improvements	9,205	400		9,604
Furniture and equipment	16,704	2,516		19,220
Total accum depreciation	<u>180,827</u>	<u>17,911</u>		<u>198,738</u>
Governmental activities capital assets, net	<u>\$ 202,812</u>	<u>\$ (17,911)</u>	<u>\$ 0</u>	<u>\$ 184,901</u>
Proprietary activities:				
Land	\$ 600			\$ 600
Infrastructure	1,258,853			1,258,853
Furniture and equipment	23,906			23,906
Totals	<u>1,283,359</u>			<u>1,283,359</u>
Less accum depreciation for:				
Infrastructure	271,023	31,453		302,476
Furniture and equipment	14,629	977		15,606
Total accum depreciation	<u>285,652</u>	<u>32,430</u>		<u>318,082</u>
Proprietary activities capital assets, net	<u>\$ 997,707</u>	<u>\$ (32,430)</u>	<u>\$ 0</u>	<u>\$ 965,277</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 2,395
Streets	15,516
Total depreciation expense - governmental activities	<u>\$ 17,911</u>

Proprietary activities:

Water and garbage	\$ 32,430
Total depreciation expense - proprietary activities	<u>\$ 32,430</u>

G. Accumulated unpaid vacation and sick leave benefits

City employees are entitled to certain compensated absences based on their length of employment. There were no accrued compensated absences payable at year-end.

H. Bonds and notes payable

On March 27, 2014 the City issued certificates of obligation totaling \$95,000 in order to finance the construction of new waterlines from the City of Eastland. The certificates titled "City of Carbon, Texas Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2014" were issued at variable interest rates ranging from 0.96% to 5.44% with a net effective interest rate over the life of the bonds of 4.977%. The bonds are to be repaid semi-annually beginning August 15, 2014 with final maturity on February 15, 2035. Total annual payments will approximate \$7,700 until fully retired.

I. Debt service requirements - notes payable

The annual debt service requirements to maturity for long-term notes payable as of June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$3,000	\$4,205	\$7,205
2020	4,000	4,121	8,121
2021	4,000	3,989	7,989
2022	4,000	3,839	7,839
2023	4,000	3,676	7,676
2024-28	23,000	15,479	38,479
2029-33	30,000	8,884	38,884
2034-35	14,000	1,142	15,142
Total	<u>\$ 86,000</u>	<u>\$ 45,335</u>	<u>\$ 131,335</u>

J. Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 89,000		\$ 3,000	\$ 86,000	\$ 3,000
Meter Deposits	14,074	\$ 800	1,659	13,215	0
Total	<u>\$ 103,074</u>	<u>\$ 800</u>	<u>\$ 4,659</u>	<u>\$ 99,215</u>	<u>\$ 3,000</u>

K. Deferred inflow of resources

	Property Taxes
General Fund	<u>\$ 2,357</u>

L. Economic dependency

The City's sole source of providing water to its citizens through the water fund is from the City of Eastland, Texas. Total cost of water purchases totaled \$131,576 (or approximately 48.3% of total operating expenses). The City has a renewable contract with the City of Eastland, Texas to provide water at a wholesale rate which is negotiated annually.

M. Construction and other significant commitments and contingencies

None.

N. Subsequent events

Management has evaluated subsequent events through August 27, 2018; the date which the financial statements were available for distribution. There were none noted.

This page left intentionally blank.

REQUIRED SUPPLEMENTARY INFORMATION

This page left intentionally blank.

CITY OF CARBON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(GAAP Basis)	Final Budget
				Positive (Negative)
REVENUES				
Property taxes	\$ 7,400	\$ 7,400	\$ 12,783	\$ 5,383
Sales tax	8,000	8,000	8,707	707
Franchise taxes	9,567	9,567	9,385	(182)
Interest	250	250	9	(241)
Miscellaneous	500	500	-	(500)
TOTAL REVENUES	25,717	25,717	30,884	5,167
EXPENDITURES				
GENERAL GOVERNMENT:				
Collection fees	90	90	96	(6)
ECAD fees	225	225	337	(112)
Utilities	3,250	3,250	2,686	564
Salary	12,051	12,051	11,901	150
Telephone	725	725	608	117
Insurance	1,589	1,589	1,611	(22)
Other	400	647	357	290
Payroll taxes	594	594	511	83
Dues/audit/legal	4,150	4,150	4,138	12
Election	200	200	-	200
Office & postage	750	750	903	(153)
TOTAL GENERAL GOVERNMENT	24,024	24,271	23,148	1,123
STREETS:				
Road repair	2,500	5,517	5,480	37
Mowing	1,000	1,350	1,755	(405)
Capital outlay	-	-	-	-
TOTAL STREETS	3,500	6,867	7,235	(368)
TOTAL EXPENDITURES	27,524	31,138	30,383	755
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(1,807)	(5,421)	501	5,922
FUND BALANCE - BEGINNING	63,201	63,201	63,201	-
FUND BALANCE - ENDING	\$ 61,394	\$ 57,780	\$ 63,702	\$ 5,922

This page left intentionally blank.

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

This page left intentionally blank.

Independent Auditor's Report

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS**

City Commission
City of Carbon, Texas
P. O. Box 414
Carbon, Texas 76435

I 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Carbon, Texas (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated August 27, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Carbon, Texas' financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

August 27, 2018

This page left intentionally blank.

CITY OF CARBON, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

A. Summary of Auditor's Results

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	None.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.

An unmodified opinion was issued on the general purpose financial statements.

The audit disclosed no noncompliance which is material to the general purpose financial statements.

B. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

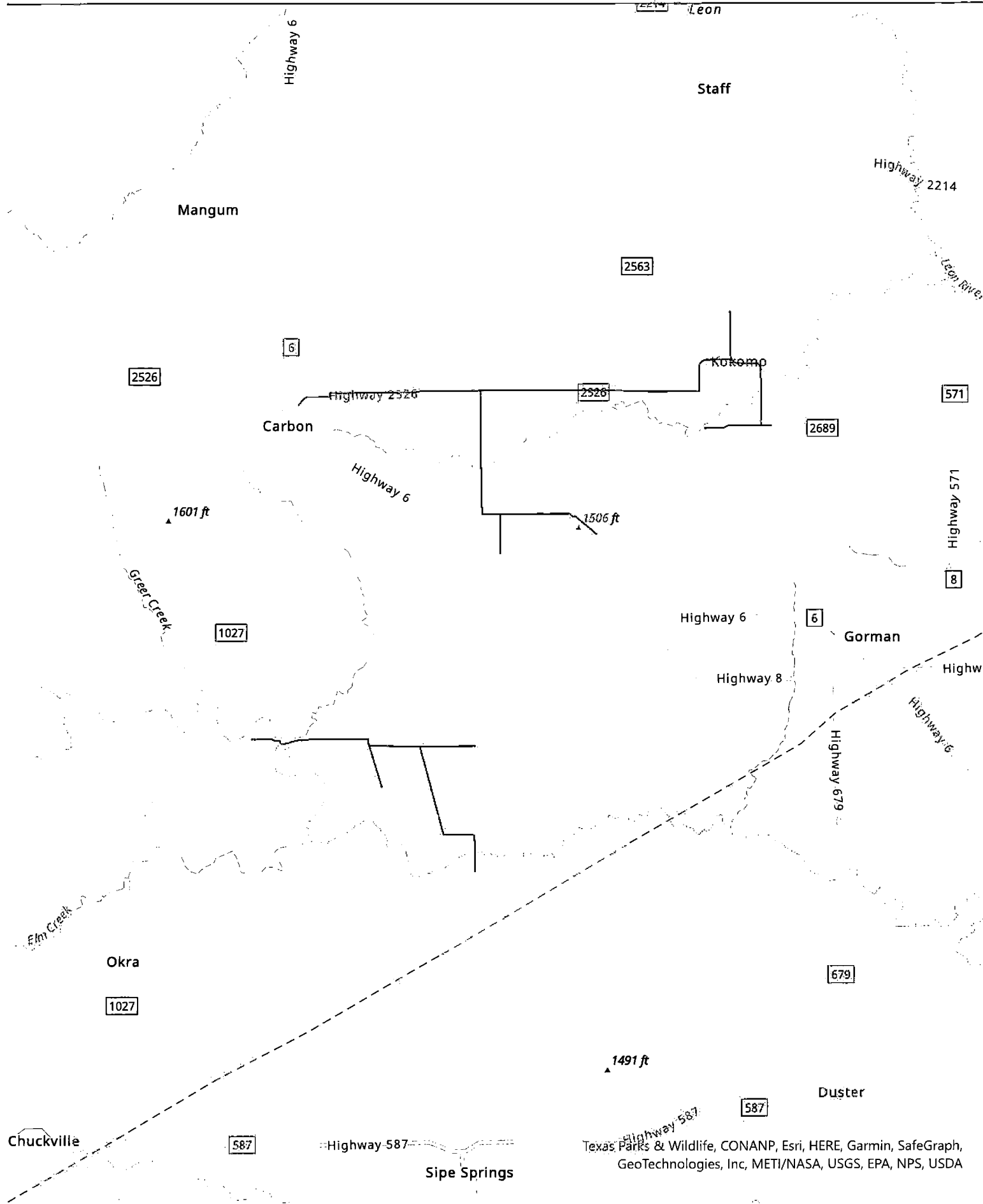
C. Findings and Questioned Costs for Federal Awards

N/A.

CITY OF CARBON, TEXAS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Program</u>	<u>Findings</u>	<u>Questioned Costs</u>
None reported.		

General Location Map



Texas Parks & Wildlife, CONANP, Esri, HERE, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, EPA, NPS, USDA

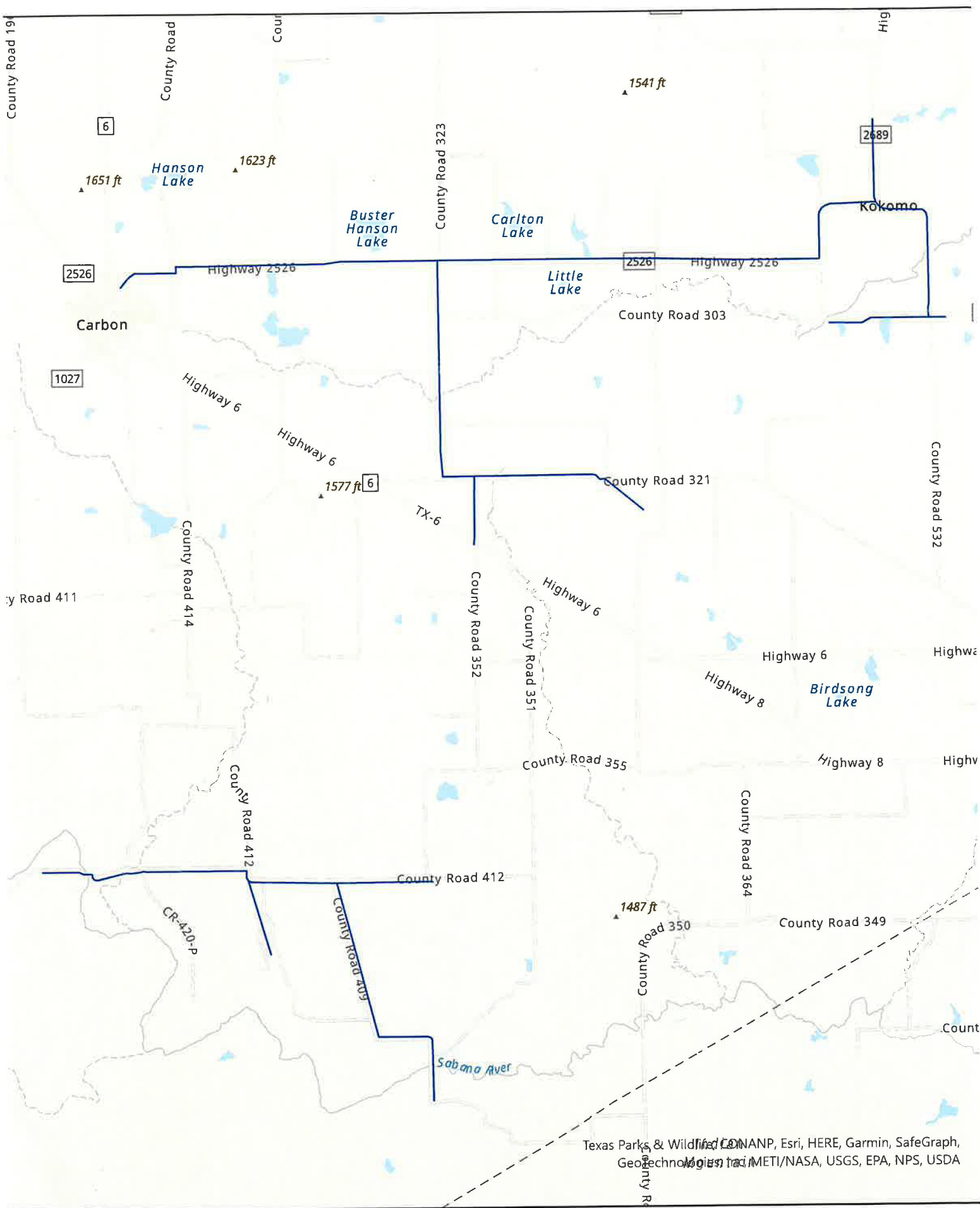
— Facilities Plus Lines

Part F: General Map

0 1 2 Miles



Detailed Map



Part F: Detail Map

0 3,000 6,000 Feet

