

CITY OF STANTON, TEXAS

**THE AUDITORS' COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2018**

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July 8, 2019

Honorable Jim Smith, Mayor
Members of the City Council
City of Stanton, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Stanton, Texas for the year ended September 30, 2018, and have issued our report thereon dated July 8, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 2, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of City of Stanton, Texas. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Stanton, Texas's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 2, 2019.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Stanton, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no significant accounting estimates used by management that affect the financial statements as presented.

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

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

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

We have requested certain representations from management that are included in the management representation letter dated July 8, 2019.

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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

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

Respectfully Submitted,

Stallings & Herm, P.C.

Stallings & Herm, P.C.
Certified Public Accountants

City of Stanton
Stanton, Texas
Report of Examination
For the Year Ended September 30, 2018

Stallings & Herm, P.C.
Certified Public Accountants
Stanton, Texas

CITY OF STANTON, TEXAS
 ANNUAL FINANCIAL REPORT
 for the Year Ended September 30, 2018

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Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information

Independent Auditor's Report

Honorable Jim Smith, Mayor
Members of the City Council
City of Stanton, Texas

Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Stanton, Texas as of and for the year ended September 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Stanton, Texas as of September 30, 2017, 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, budgetary comparison schedule – General Fund, City's changes in net pension liability and related ratios (TMRS) and schedule of City's contributions to TMRS, on pages 5 through 10 and 56 through 59 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 Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2019 on our consideration of City of Stanton, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City of Stanton, Texas's internal control over financial reporting and compliance.

Respectfully submitted,
Stallings & Herm, P.C.

Stallings and Herm, P. C.
Certified Public Accountants

July 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF STANTON, TEXAS

In this section of the Annual Financial and Compliance Report, we, the managers of City of Stanton, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2018. Please read it in conjunction with the Independent Auditor's Report on page 2, and the City's Basic Financial Statements which begin on page 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and culture and recreation. Business-type activities include water utilities, sewer utilities, solid waste management and sanitation services.

The City includes one other entity in its report - Stanton Economic Development Corporation, a component unit. Although legally separate, this component unit is important because the City is financially accountable for it. See Note B on page 23.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF STANTON, TEXAS

Fund Financial Statements

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

The City has two kinds of funds:

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

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

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements and schedules demonstrate compliance with the City's adopted and final revised budget.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water utilities, sewer utilities and sanitation services. The City has no internal service funds.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statement but with more detail for major enterprise funds.

Notes to the Financial Statements

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF STANTON, TEXAS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business type activities.

Net position of the City's governmental and business type activities decreased from \$7,735,453 to \$6,161,942. 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 - was \$2,124,811 at September 30, 2018. This decrease in governmental net position was the result of the City's expenses exceeding revenues by \$902,767 and a prior period adjustment decrease of \$801,916.

Table I

**CITY OF STANTON, TEXAS
NET POSITION**

	<u>Governmental</u> <u>Activities</u>	-	<u>Business</u> <u>Type</u> <u>Activities</u>	-	<u>Totals</u>	-	<u>Totals</u>
	2018		2018		2018		2017
Current and Other Assets	\$3,375,739		\$856,001		\$4,231,740		\$6,107,159
Capital Assets	1,287,927		1,829,741		3,117,668		2,885,834
Deferred Outflows	15,166		0		15,166		253,095
Total Assets and Deferred Outflows	<u>\$4,678,832</u>		<u>\$2,685,742</u>		<u>\$7,364,574</u>		<u>\$9,246,088</u>
Long Term Liabilities	\$604,264		\$206,672		\$810,936		\$759,000
Other Liabilities	146,872		191,640		338,512		328,361
Net Pension Liability	53,184		0		53,184		423,275
Total Liabilities	<u>\$804,320</u>		<u>\$398,312</u>		<u>\$1,202,632</u>		<u>\$1,510,636</u>
Net Position:							
Net Investment in Capital Assets	\$811,230		\$1,829,741		\$2,640,971		\$3,100,273
Restricted	1,396,160				1,396,160		484,788
Unrestricted	1,667,122		457,689		2,124,811		4,150,391
Total Net Position	<u>\$3,874,512</u>		<u>\$2,287,430</u>		<u>\$6,161,942</u>		<u>\$7,735,452</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF STANTON, TEXAS**

Table II

**CITY OF STANTON, TEXAS
CHANGES IN NET POSITION**

	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Totals</u>	<u>Totals</u>
	2018	2018	2018	2017
Revenues:				
Program Revenues:				
Charges for Services	\$41,134	\$1,750,518	\$1,791,652	\$1,975,268
Grants and Contributions	3,793		3,793	52,350
General Revenues:				
Maintenance and Operations Taxes	907,513		907,513	973,190
Sales Taxes	635,693		635,693	777,844
Hotel Occupancy Tax	288,833		288,833	105,772
Franchise Taxes	154,780		154,780	138,433
Penalty and Interest	33,227		33,227	17,553
Investment Earnings	0		0	3,672
Miscellaneous	9,399	2,204	11,603	6,314
Total Revenue	<u>\$2,074,372</u>	<u>\$1,752,722</u>	<u>\$3,827,094</u>	<u>\$4,050,396</u>
Expenses:				
Legislative	\$29,656		\$29,656	\$21,607
Financial Administration	1,760,479		1,760,479	486,732
Police	655,076		655,076	600,174
Fire Protection	125,208		125,208	27,752
Animal Control	7,247		7,247	6,163
Highways and Streets	408,924		408,924	299,327
Airport	19,451		19,451	1,649
Parks	191,616		191,616	232,837
Conservation	20,595		20,595	202,991
Water Utilities		697,874	697,874	866,579
Sewer Utilities		334,626	334,626	283,610
Sanitation Services		479,111	479,111	452,126
Total Expenses	<u>\$3,218,251</u>	<u>\$1,511,610</u>	<u>\$4,729,861</u>	<u>\$3,481,549</u>
Increase (Decrease) in Net Position	(\$1,143,879)	\$241,112	(\$902,767)	\$568,847
Transfers In (Out)	285,245	(154,071)	131,174	
Net Position at 10/1/17	4,275,753	3,459,698	7,735,451	6,478,391
Prior Period Adjustment	457,393	(1,259,309)	(801,916)	688,214
Net Position at 9/30/18	<u>\$3,874,512</u>	<u>\$2,287,430</u>	<u>\$6,161,942</u>	<u>\$7,735,453</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS CITY OF STANTON, TEXAS

The City's total revenues decreased by \$223,302 from \$4,050,396 to \$3,827,094. Water, sewer and sanitation service revenue increased by \$125,713, governmental activities program revenue decreased by \$357,885 and overall general revenue increased by \$8,871. The overall decrease in revenue was primarily due to decreases in sales tax and rents collected.

The City's total expenses increased by \$1,248,313 from \$3,481,549 to \$4,729,861. This was attributable to normal departmental increases. Payroll related expenses also increased during the year.

The cost of all governmental and business activities this year was \$4,729,861. However, as shown in the Statement of Activities on page 12, the amount that our taxpayers ultimately financed for these activities through City property taxes was \$907,513. Other general revenue received amounted to \$1,121,932, of which \$1,12,5332 related to property tax penalty and interest, sales taxes, hotel occupancy tax and franchise taxes.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$3,261,113, which is lower than last year's total of \$3,718,308. Included in this year's total change in fund balance is a decrease of \$2,060,122 in the City's General Fund. The Hotel Occupancy Tax Fund had an increase of \$399,4,19.

The City's General Fund balance of \$3,261,113 reported on page 16 differs from the General Fund's budgetary fund balance reported in the budgetary comparison schedule on page 56. This is due to actual revenues being more than budgeted, expenditures less than budgeted and net other financing sources being more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had \$7,040,839 invested for governmental and business type activities in a broad range of capital assets, including infrastructure, facilities and equipment for general government, public safety, highways and streets, airport, parks and water, sewer and sanitation services. Total additions this year totaled \$62,344. The General Fund expenditures included one new vehicle, a building addition, a trash pump, and office equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS CITY OF STANTON, TEXAS

Debt

The City's long term liabilities of \$864,120 at September 30, 2018 relate to capital leases, net pension liability, one bond issue, termination benefits payable, customer deposits and accrued landfill closure and post closure costs that are detailed in Notes F, G, I and J.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected council members considered many factors when adopting the fiscal year 2018-2019 budget and tax rate. The City anticipates revenues and other resources to be \$1,889,475 and expenditures to be \$1,832,048.

The 2018-2019 budget is a surplus budget. This budget is a financial plan and policy statement which expresses, in dollars-and-cents terms, the scope, type and cost of City Services that will be provided during the 2018-2019 fiscal year. This budget also shows the total amount of revenue that will be collected and spent on behalf of City Services and projects during the fiscal year.

The budget calls for the tax rate of \$1.17, the same as the 2017-2018 rate.

This budget calls for maintaining dumpsters, code enforcement, water lines, landfill, animal control, airport, police services and street improvements. The City of Stanton will be matching funds for TxDot Airport Grant.

This budget calls for a \$0.30 per hour increase in salaries and a Christmas bonus for employees. The amount of Christmas bonuses are calculated upon years of service: 1-5 years, \$250. After 5 years of service, an additional \$10 for each year of service is added to the original \$250.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office at City of Stanton, Texas, P. O. Box 370, Stanton, Texas 79782.

CITY OF STANTON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1

Data Control Codes	Primary Government			Component Unit	
	Governmental Activities	Business Type Activities	Total	Economic Development Fund	
ASSETS					
1010	Cash and Cash Equivalents	\$ 2,999,910	\$ 581,238	\$ 3,581,149	\$ 886,599
1150	Receivables (net of allowance for uncollectibles)	253,298	265,909	519,207	43,625
1260	Due from Other Governments	105,502	-	105,502	-
1300	Internal Balances	17,029	8,854	25,883	-
1330	Due from Primary Government	-	-	-	34,059
Capital Assets:					
1710	Land	106,861	485,386	592,247	52,614
1720	Infrastructure, net	109,957	73,525	183,482	-
1730	Buildings, net	289,619	918,261	1,207,880	-
1750	Machinery and Equipment, net	781,490	352,569	1,134,059	-
1000	Total Assets	<u>4,663,666</u>	<u>2,685,742</u>	<u>7,349,409</u>	<u>1,016,898</u>
DEFERRED OUTFLOW OF RESOURCES					
1996	Deferred Charge for Refunding	15,166	-	15,166	-
1997	Deferred Outflow Related to Pension Plan	-	-	-	-
1500	Total Deferred Outflows of Resources	<u>237,928</u>	<u>-----</u>	<u>"37.388</u>	<u>-</u>
LIABILITIES					
2020	Accounts Payable	42,242	"3; 2.9: 6	432.: 26	"-----964
2070	Intergovernmental Payable	48.7; 4"	/	48.7; 4	-
2100	Due to Component Unit	45.4: 5	-	"45.4: 5	-
2140	Accrued Interest Payable	6.43:	"": 77	"7.295	-
2270	Noncurrent Liabilities	: ; .266	428.894	4; 7.938	-
2501	Due Within One Year	94.982	-	94.982	-
2502	Due in More Than One Year	737.442	-	737.442	-
2580	Net Pension Liability	"75.3: 6	-	"75.3: 6	544
2000	Total Liabilities	<u>: 26.542</u>	<u>"5; : .534</u>	<u>1,424.853</u>	<u>1,286</u>
NET POSITION					
3200	Net Investment in Capital Assets	811,230	1,829,741	2,640,972	-
Restricted for:					
3810	Restricted for Tourism	782,572	-	782,572	-
3820	Restricted for Housing Rehabilitation	613,588	-	613,588	-
3830	Restricted for Economic Development	-	-	-	1,015,612
3900	Unrestricted Net Position	1,667,122	457,689	2,124,811	-
3000	Total Net Position	<u>\$ 3,874,513</u>	<u>\$ 2,287,431</u>	<u>\$ 6,161,943</u>	<u>\$ 1,015,612</u>

The notes to the financial statements are an integral part of this statement.

CITY OF STANTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Legislative	\$ 29,656	\$ -	\$ -
15 Financial Administration	1,760,479	31,002	-
21 Police	655,076	-	-
22 Fire Protection	125,208	-	3,793
25 Animal Control	7,247	-	-
31 Highways and Streets	408,924	-	-
35 Airport	19,451	10,132	-
52 Parks	191,616	-	-
61 Conservation	20,595	-	-
Total Governmental Activities:	3,218,251	41,134	3,793
BUSINESS-TYPE ACTIVITIES:			
701 Water, Sewer and Sanitation Services	1,511,610	1,750,518	-
Total Business-Type Activities:	1,511,610	1,750,518	-
TOTAL PRIMARY GOVERNMENT:	\$ 4,729,862	\$ 1,791,651	\$ 3,793
Component Unit:			
1991 Economic Development Fund	\$ 89,545	-	\$ -
TOTAL COMPONENT UNITS:	\$ 89,545	\$ -	\$ -

Data Control Codes	General Revenues:	
	Taxes:	
5010	Property Taxes, Levied for General Purposes	
5120	Sales Taxes	
5150	Hotel Occupancy Tax	
5170	Franchise Taxes	
5190	Penalty and Interest	
5600	Grants and Contributions Not Restricted	
5700	Miscellaneous Revenue	
5800	Investment Earnings	
5800	Transfers In (Out)	
	Total General Revenues and Transfers	
	Change in Net Position	
	Net Position - Beginning	
	Prior Period Adjustment	
	Net Position--Ending	

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Fund
\$ (29,656)	\$ -	\$ (29,656)	\$ -
(1,729,478)	-	(1,729,478)	-
(655,076)	-	(655,076)	-
(121,415)	-	(121,415)	-
(7,247)	-	(7,247)	-
(408,924)	-	(408,924)	-
(9,319)	-	(9,319)	-
(191,616)	-	(191,616)	-
(20,595)	-	(20,595)	-
<u>(3,173,324)</u>	<u>-</u>	<u>(3,173,324)</u>	<u>-</u>
-	238,907	238,907	-
-	238,907	238,907	-
<u>(3,173,324)</u>	<u>238,907</u>	<u>(2,934,417)</u>	<u>-</u>
-	-	-	(89,545)
-	-	-	(89,545)
907,513	-	907,513	-
635,693	-	635,693	262,349
288,833	-	288,833	-
154,780	-	154,780	-
33,227	-	33,227	-
-	-	-	4,200
9,399	2,204	11,604	-
-	-	-	2,372
<u>285,245</u>	<u>(154,071)</u>	<u>131,174</u>	<u>-</u>
<u>2,314,689</u>	<u>(151,866)</u>	<u>2,258,683</u>	<u>268,921</u>
(858,634)	87,041	(771,593)	149,720
4,275,754	3,459,699	7,735,453	825,825
457,393	(1,259,309)	(801,916)	10,412
<u>\$ 3,874,513</u>	<u>\$ 2,287,431</u>	<u>\$ 6,161,944</u>	<u>\$ 985,957</u>

CITY OF STANTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes	General Fund	Hotel Occupancy Tax Fund	Other Funds	Total Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ 1,284,586	\$ 777,122	\$ 938,202	\$ 2,999,910
1040 Interest Receivable	-	(2,055)	-	(2,055)
1050 Taxes Receivable	116,410	-	-	116,410
1051 Allowance for Uncollectible Taxes (credit)	(27,366)	-	-	(27,366)
1150 Receivables (Net)	8,965	7,505	156,749	173,219
1260 Intergovernmental Receivables	96,537	-	17,029	113,566
1300 Other Assets	-	-	1,303,092	1,303,092
1000 Total Assets	<u>\$ 1,479,132</u>	<u>\$ 782,572</u>	<u>\$ 2,415,072</u>	<u>\$ 4,676,776</u>
LIABILITIES				
2010 Accounts Payable	\$ 38,621	\$ -	\$ 2,023	\$ 40,644
2030 Termination Benefits Payable	53,184	-	-	53,184
2100 Due to Component Unit	23,283	-	-	23,283
2270 Other Liabilities	5,967	-	589,953	595,920
2000 Total Liabilities	<u>121,055</u>	<u>-</u>	<u>591,976</u>	<u>713,031</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	89,044	-	-	89,044
2600 Total Deferred Inflows of Resources	<u>89,044</u>	<u>-</u>	<u>-</u>	<u>89,044</u>
FUND BALANCES				
3470 Tourism	-	782,572	-	782,572
3480 Housing Rehabilitation	-	-	613,588	613,588
3600 Unassigned Fund Balance	1,269,033	-	-	1,269,033
3000 Total Fund Balances	<u>1,269,033</u>	<u>782,572</u>	<u>1,209,508</u>	<u>3,261,113</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,479,132</u>	<u>\$ 782,572</u>	<u>2,415,072</u>	<u>\$ 4,676,776</u>

The notes to the financial statements are an integral part of this statement.

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

Total Fund Balances - Governmental Funds	\$	3,261,113
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. 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. See Section II, Note A in Notes to Financial Statements for details. 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 net position.		802,925
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. See Section II, Note B to Financial Statements for details. The net effect of including the 2018 capital outlays and debt principal payments is to increase net position.		135,104
The 2018 depreciation expense increases accumulated depreciation. See Section IV, Note E in Notes to Financial Statements for details. The net effect of the current year's depreciation is to decrease net position.		(198,593)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy, adjusting debt expenditures and payable, removing book value of disposed capital assets and the transferring of bond principal balance between funds. See Section II, Note B in Notes to Financial Statements for details. The net effect of these reclassifications and recognitions is to increase net position.		(72,852)
Included in the items related to debt is the recognition of the City's proportionate share of TMRS net pension liability required by GASB 68 in the amount of \$53,184 and a deferred resource outflow related to TMRS in the amount of \$0. This resulted in a decrease in net position in the amount of \$53,184.		(53,184)
Net Position of Governmental Activities	\$	3,874,513

The notes to the financial statements are an integral part of this statement.

CITY OF STANTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	General Fund	Hotel Occupancy Tax Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 907,513	\$ -	\$ -	\$ 907,513
5120 General Sales and Use Taxes	635,693	-	-	635,693
5150 Hotel Occupancy Tax	-	288,833	-	288,833
5170 Franchise Tax	154,780	-	-	154,780
5190 Penalty and Interest on Taxes	33,227	-	-	33,227
5200 Licenses and Permits	485	-	-	485
5300 Intergovernmental Revenue and Grants	3,793	-	285,245	289,038
5400 Charges for Services	100	-	41,034	41,134
5610 Investment Earnings	-	-	-	-
5620 Rents and Royalties	-	-	-	-
5700 Other Revenue	8,914	-	-	8,914
5020 Total Revenues	<u>1,744,505</u>	<u>288,833</u>	<u>326,279</u>	<u>2,359,617</u>
EXPENDITURES:				
Current:				
General Government:				
0011 Legislative	29,656	-	-	29,656
0015 Financial Administration	1,675,266	-	-	1,675,266
Public Safety:				
0021 Police	655,076	-	-	655,076
0022 Fire Protection	122,208	-	-	122,208
0025 Animal Control	7,247	-	-	7,247
0031 Highways and Streets	408,924	-	-	408,924
0035 Airport	19,451	-	-	19,451
Culture and Recreation:				
0052 Parks	212,211	-	-	212,211
Conservation and Development:				
0061 Tourism and Assistance	-	85,213	-	85,213
6030 Total Expenditures	<u>3,133,038</u>	<u>85,213</u>	<u>-</u>	<u>3,218,251</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,388,533)</u>	<u>203,620</u>	<u>326,279</u>	<u>(858,634)</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	-	-
7915 Transfers In	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	(1,388,533)	203,620	326,279	(858,634)
0100 Fund Balance - October 1 (Beginning)	3,329,155	383,153	6,000	3,718,308
1300 Prior Period Adjustment	(671,589)	195,799	877,229	401,439
3000 Fund Balance - September 30 (Ending)	<u>\$ 1,269,033</u>	<u>\$ 782,572</u>	<u>\$ 1,209,508</u>	<u>\$ 3,261,113</u>

The notes to the financial statements are an integral part of this statement.

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

Total Net Change in Fund Balances - Governmental Funds	\$	(858,634)
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. See Section II, Note B in Notes to Financial Statements for details. The net effect of removing the 2018 capital outlays and debt principal payments is to increase the change in net position.		135,104
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 the change in net position.		(198,593)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, adjusting debt expenditures and payables, reemoving book value of disposed capital assets and the transferring of bond principal balance between funds. See Section II, Note B in Notes to Financial Statements for details. The net effect of these reclassifications and recognitions is to increase the change in net position.		116,673
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made before and after the measurement date of 12/31/18 caused the change in net position to increase in the amount of \$53,184. The City's proportionate share of TMRS pension expense had to be recorded as an expense. The net pension expense decreased the change in net position by \$0. The net effect of these adjustments is to decrease the change in net position by \$53,184.		(53,184)
 Change in Net Position of Governmental Activities	 \$	 (858,634)

The notes to the financial statements are an integral part of this statement.

CITY OF STANTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 581,238
Accounts Receivable-Net of Uncollectible Allowance	265,909
Due from Other Governments	8,854
Total Current Assets	856,001
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	485,386
Infrastructure	234,237
Accumulated Depreciation - Infrastructure	(160,711)
Buildings	2,925,403
Accumulated Depreciation - Buildings	(2,007,141)
Machinery and Equipment	1,123,216
Accumulated Depreciation - Machinery & Equipment	(770,647)
Total Noncurrent Assets	1,829,741
Total Assets	2,685,742
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge for Refunding	-
Deferred Outflow Related to Pension Plan	-
Total Deferred Outflows of Resources	-
LIABILITIES	
Current Liabilities:	
Accounts Payable	190,784
Intergovernmental Payable	-
Due to Other Funds	-
Accrued Interest Payable	855
Bonds Payable - Current:	
Revenue Bonds Payable	-
Capital Leases Payable - Current	22,942
Total Current Liabilities	214,581
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	-
Capital Leases Payable - Noncurrent	125,779
Net Pension Liability	36,606
Other Noncurrent Liabilities	21,345
Total Noncurrent Liabilities	183,730
Total Liabilities	398,312
NET POSITION	
Net Investment in Capital Assets	1,829,741
Unrestricted Net Position	457,689
Total Net Position	\$ 2,287,431

The notes to the financial statements are an integral part of this statement.

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

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Water Services	\$ 844,809
Charges for Sewerage Service	419,411
Charges for Sanitation Service	488,502
Total Operating Revenues	1,752,722
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	
Proprietary Fund Function - Water	133,559
Proprietary Fund Function - Sanitation	134,177
Proprietary Fund Function - Sewerage	139,684
Total Personnel Services - Salaries and Wages	407,421
Personnel Services - Employee Benefits	
Proprietary Fund Function - Water	56,143
Proprietary Fund Function - Sanitation	56,146
Proprietary Fund Function - Sewerage	75,834
Total Personnel Services - Employee Benefits	188,123
Purchased Professional & Technical Services	
Proprietary Fund Function - Water	40,250
Proprietary Fund Function - Sewerage	13,203
Total Purchased Professional & Technical Services	53,453
Purchased Property Services	
Proprietary Fund Function - Water	336,329
Proprietary Fund Function - Sanitation	93,931
Proprietary Fund Function - Sewerage	138,284
Total Purchased Property Services	568,544
Other Operating Expenses	
Proprietary Fund Function - Water	54,310
Proprietary Fund Function - Sanitation	8,794
Proprietary Fund Function - Sewerage	20,226
Total Other Operating Expenses	83,330
Supplies	
Proprietary Fund Function - Water	62,442
Proprietary Fund Function - Sanitation	13,534
Proprietary Fund Function - Sewerage	53,921
Total Supplies	129,897
Depreciation	198,593
Interest Expense	-
Landfill Closure & Postclosure Cost	36,321
Bond Issue Costs & Amortization	-
Total Operating Expenses	1,665,681
Operating Income (Loss)	87,040
NON-OPERATING REVENUES (EXPENSES):	
Loss on Sale of Property	-

The notes to the financial statements are an integral part of this statement.

CITY OF STANTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT D-2

	Business Type Activities
Total Non-operating Revenue (Expenses)	(2,194)
Income (Loss) Before Transfers	20,296
Transfers Out	(37,665)
Change in Net Position	(17,369)
Total Net Position -October 1 (Beginning)	3,485,590
Prior Period Adjustment	(8,523)
Total Net Position September 30 (Ending)	\$ 3,459,699

The notes to the financial statements are an integral part of this statement.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the City of Stanton, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2018. The City prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 56.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

B. REPORTING ENTITY AND COMPONENT UNIT

The City of Stanton, Texas (City) operates under an elected Mayor/Council form of government. The City's major operations include public safety, fire protection, recreation and parks, street services, water, sewer and sanitation services and general administrative services. The City Council (Council), a six member group, has governance responsibilities over all activities related to and within the jurisdiction of the City. The Council is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB"), in its Statement No. 14, *The Financial Reporting Entity*, and in its Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*. There is one component unit included within the reporting entity.

The accompanying government-wide financial statements present the City's primary government and component unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City. There is one component unit, Stanton Economic Development Corporation (Corporation), included within the reporting entity and the component unit does not issue separately audited financial statements.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

B. REPORTING ENTITY AND COMPONENT UNIT (continued)

The component unit is reported in the City's Annual Financial Report as a Discretely Presented Component Unit. The purpose of the Corporation is to promote, assist and enhance economic development and well-being of the community through projects that will promote new or expanded business enterprises that will either create or retain primary jobs.

The Mayor, with the approval of the Council, shall appoint the eight members of the Board of Directors of the Corporation. Any action approved by the Directors of the Corporation must be presented to the Council for subsequent approval. The City Administrator acts as agent between the City and the Corporation. The financing of the Corporation is coming from a Section 4B Sales and Use Tax at a rate of ½ of 1% being assessed and collected by the City. All financial accounting responsibilities are being handled by the City.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charges to external customers.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

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

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

E. FUND TYPES AND MAJOR FUND

Governmental Funds

The City reports the following major governmental funds:

The General Fund (GF) - The City accounts for financial resources used for general operations in this fund. It is a budgeted fund, and any fund balances are considered resources available for current operations.

Special Revenue Fund (SRF) – The Hotel/Motel Tax Fund is a major fund for the September 30, 2016 fiscal year. The City uses this fund to account for resources that have constraints placed upon their use by law.

The City reports the following non-major governmental fund:

Special Revenue Fund (SRF) - the City uses this fund to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance often is accounted for in a special revenue fund. In many SRF's, unused balances are returned to the grantor at the close of specified project periods. The City budgets SRF's and uses project accounting for them in order to maintain integrity for the various sources of funds. This includes the Housing Rehab Fund.

Proprietary Funds

The City reports the following major enterprise fund:

The Water and Sewer Fund - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

F. BUDGETARY DATA

The City Manager submits an annual budget to the City Council. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Other funds budgeted on a project-length basis are also subjected to the Council review and approval process.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. Budget revisions at this level are subject to final review by the City Council. Revisions to the budget were made during the year. TSee Schedule of Findings and Responses on page 62.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

G. FUND BALANCES/EQUITY

The City implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year ending September 30, 2012. In the fund financial statements, governmental funds report the following classifications of fund balance:

1. Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.
2. Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose. This is the residual amount available for any purpose.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

The fund balance policy states that the City's fund balance may be committed for a specific source only by formal action of the City Council. The policy also states that any modifications of the commitment must also be approved by formal action of the City Council.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

H. NET POSITION ON THE STATEMENT OF NET POSITION

Net position on the statement of net position includes the following:

1. Net Investment in Capital Assets - This component of net position represents the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding any unspent bond proceeds, that is directly attributable to the acquisition, construction or improvement of those assets.
2. Restricted for Tourism - This component of net position represents the difference between assets and liabilities of the Hotel/Motel Tax Fund that consists of assets with constraints placed on their use by law.
3. Restricted for Housing Rehabilitation - This component of net position represents the difference between assets and liabilities of the Housing Rehab Fund that consists of assets with constraints placed on their use by donors and law.
4. Restricted for Economic Development – This component of net position represents the difference between assets and liabilities of the Stanton Economic Development Fund, the component unit of the City, that consists of assets with constraints placed on their use by law.
5. Unrestricted - The difference between assets and liabilities that is not reported in net investment in capital assets or restricted for other purposes.

I. OTHER ACCOUNTING POLICIES

1. The City records purchases of supplies as expenditures.
2. For purposes of the statement of cash flows for proprietary fund types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
3. The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

CITY OF STANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2018

I. OTHER ACCOUNTING POLICIES (continued)

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	10-20
Infrastructure	20-40
Vehicles	7-10
Equipment	10-15
Office and Computer Equipment	5-10

4. Accounting records were not maintained to record fixed assets within the General Fund and the Water and Sewer Fund in prior years. Fixed asset additions were charged to expense in prior years. For the year ended September 30, 1996 a detail of fixed assets was developed for the General Fund and the Water and Sewer Fund. This was accomplished by examining prior years audit workpapers, city council minutes, invoices, and general ledgers for the years 1983 through 1996 and reviewing with the City Manager. Fixed assets prior to 1983 were established by reviewing supporting bond issues, city council minutes, invoices and reviewing with the City Manager to establish estimated fixed assets. Fixed assets and accumulated depreciation were determined as of September 30, 1995 and updated for fixed asset additions in September 30, 1996.
5. The City's policy is not to capitalize interest cost during construction of fixed assets.
6. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.
7. During the fiscal year, the City paid 100% of the monthly cost of the employees' health insurance cost. The premium was \$496. The employees have the option to cover their dependents at a cost of \$781. However, the City pays 75% of this cost which was \$586.
8. The City's policy is to write off specific accounts receivable in the Water and Sewer Fund to bad debt expense in the year they become worthless. There has not been any major write off of bad debts in prior years. No provision for uncollectible accounts has been established. The City has very high collection ratio of accounts receivable and the uncollectible portion is minimal according to the City. Therefore, it is not considered significant to establish.
9. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. This is also true for the Proprietary Funds Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs will be reported as debt service expenses.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

I. OTHER ACCOUNTING POLICIES (continued)

In the fund financial statements, governmental fund types recognize 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. Net premiums received on debt issuances are reported as other financing sources while net 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.

10. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two types of this item. One arises due to the implementation of GASB 63 and 65 during the fiscal year ending August 31, 2013. This is related to the accounting loss from the refunding of bonds during the current fiscal year. This item will be recognized in interest expenses in future periods. See Footnote F. The other item arises due to the implementation of GASB 68 during the fiscal year ending September 30, 2015. Under GASB 68, the City reported its proportionate share of the TMRS's deferred outflows of resources as of December 31, 2017, along with some 2018 adjustments. This item will be recognized in pension expense in future periods. See Footnote J. This item is reported in this category, deferred outflows of resources, on the government wide statement of net position.
11. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one type of this item. It arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. It is not reported in this category on the government wide statement of net position.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND
BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
(continued)

Capital Assets at the Beginning of the Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Position
Land	\$14,000	\$	\$14,000	
Buildings & Improvements	465,165	284,610	180,555	
Machinery & Equipment	1,323,224	836,025	487,199	
Infrastructure	928,431	859,881	68,550	
Change in Net Position				\$750,304
 Long-Term Liabilities			Payable at the Beginning of the Year	
at the Beginning of the Year				
Bonds Payable			\$109,000	
Loans & Capital Leases Payable			16,327	
Interest Payable			885	
Change in Net Position				(\$126,212)
Net Adjustment to Net Position				\$624,092

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (continued)

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Machinery & Equipment	\$62,344		
Total Capital Outlay	<u>\$62,344</u>	<u>\$149,690</u>	<u>\$149,690</u>
 Debt Payments			
Current Interest Bond			
Principal Payment	<u>\$109,000</u>		
Total Debt Payments	<u>\$109,000</u>	<u>\$109,000</u>	<u>\$109,000</u>
 Total Adjustments to Net Position		 <u><u>\$258,690</u></u>	 <u><u>\$258,690</u></u>

Another element of the reconciliation on Exhibits C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items and affects both the net position balance and the change in net position. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>			
Taxes Collected from Prior Year Levies	\$33,428	(\$33,428)	\$
Uncollected Taxes (assumed collectible) from Current Year Levy	42,188	42,188	42,188
Uncollected Taxes (assumed collectible) from Prior Year Levy	74,222		74,222
Adjust 9/30/17 Estimate of Taxes Assumed Collectible to 9/30/18 Estimates & Collections	349	349	
Total Adjustments to Net Position		<u><u>\$9,109</u></u>	<u><u>\$116,410</u></u>

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

III. DETAILED NOTES ON ALL FUNDS AND COMPONENT UNIT

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

District Policies, Legal Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

A. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) no-load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity 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.

Additional policies and contractual provisions governing cash, cash equivalents and investments for the District are specified below:

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. The City complied with this law for a portion of the year, but the City's deposits were not entirely covered by FDIC insurance or by pledged securities. Therefore, the City had custodial credit risk for its deposits during a portion of the year. See Schedule of Findings and Responses on page 62.

As of September 30, 2018, the carrying amount (fair value) of the City's (including component unit) cash and cash equivalent deposits was \$4,467,748. In addition to the cash on hand and cash deposits with First National Bank, their depository bank, which totaled \$3,605,675, the City (including the component unit) had \$862,073 in certificates of deposit with other financial institutions, which were covered by FDIC

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

insurance. These deposits obviously have daily access. The City has chosen to have cash deposits totally in these certificates of deposit or non-interest bearing checking accounts, which will all be reported as cash and cash equivalents. The City's cash deposits during the year ended September 30, 2018 were not entirely covered by FDIC insurance or by pledged securities, which are pledged in the City's name and held by the safekeeping bank of the City's depository bank. See Schedule of Findings and Responses on page 62.

Foreign Currency Risk - Deposits and Investments: The City limits the risk that comes from changes in exchange rates that would adversely affect the fair value of an investment or a deposit by not investing in any foreign investments.

A. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Interest Rate Risk - Investments: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by investing in certificates of deposit and non-interest bearing checking accounts, which have a daily access. These types of accounts are all reported as cash and cash equivalent deposits

Credit Risk - Investments: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City manages this risk by investing only in certificates of deposit and non-interest bearing checking accounts, which are reported as cash and cash equivalent deposits, and not in debt securities directly.

Concentration of Credit Risk - Investments: This risk is defined as positions of 5% or more in the securities of a single issuer. This is the issuer of the underlying investment, not a pool or mutual fund. The City limits this risk by not investing more than 5% in any single issuer except for its investments in certificates of deposit and non-interest bearing checking accounts, which are all reported as cash and cash equivalent deposits.

Custodial Credit Risk for Investments: To limit the risk that, in the event 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 includes securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

The City has chosen to invest only in certificates of deposit and non-interest bearing checking accounts. These type of accounts are reported as cash and cash equivalent deposits.

Whenever the City has an investment which will require applying Governmental Accounting Standards Board (GASB) – Number 72, Fair Value Measurement and Application, it will categorize its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

B. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated totally to the General Fund as no Debt Service Fund exists. Allowance for uncollectibles within the General Fund is based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

C. 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 when they become due or past due and receivable within the current period.

D. LITIGATION

The City has no outstanding litigation claims at this time.

E. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$14,000	\$	\$	\$14,000
Total capital assets, not being depreciated:	14,000			14,000
Capital assets, being depreciated:				
Buildings and improvements	465,165			465,165
Machinery and equipment	1,323,224	22,644		1,345,868
Infrastructure	928,431	39,700		968,131
Total capital assets, being depreciated:	2,716,820	62,344	0	2,779,164
Less accumulated depreciation for:				
Buildings and improvements	(284,610)	(15,055)		(299,665)
Machinery and equipment	(836,025)	(65,238)		(901,263)
Infrastructure	(859,881)	(45,754)		(905,635)
Total accumulated depreciation	(1,980,516)	(126,047)	0	(2,106,563)
Total capital assets, being depreciated, net	736,304	(63,703)	0	672,601
Governmental activities capital assets, net	\$750,304	(\$63,703)	\$0	\$686,601

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

E. CAPITAL ASSETS (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$597,386	\$	\$	\$597,386
Total capital assets, not being depreciated:	<u>597,386</u>	<u> </u>	<u> </u>	<u>597,386</u>
Capital assets, being depreciated:				
Buildings and improvements	731,464			731,464
Machinery and equipment	1,315,934			1,315,934
Infrastructure	4,101,042			4,101,042
Total capital assets, being depreciated:	<u>6,148,440</u>	<u>0</u>	<u> </u>	<u>6,148,440</u>
Less accumulated depreciation for:				
Buildings and improvements	(490,652)	(8,146)		(498,798)
Machinery and equipment	(926,184)	(24,773)		(950,957)
Infrastructure	(1,841,026)	(39,627)		(1,880,653)
Total accumulated depreciation	<u>(3,257,862)</u>	<u>(72,546)</u>	<u> </u>	<u>(3,330,408)</u>
Total capital assets, being depreciated, net	<u>2,890,578</u>	<u>(72,546)</u>	<u> </u>	<u>2,818,032</u>
Business-Type activities capital assets, net	<u>\$3,487,964</u>	<u>(\$72,546)</u>	<u>\$</u>	<u>\$3,415,418</u>
Primary Government Capital Assets, net	<u>\$4,238,268</u>	<u>(\$136,248)</u>	<u>\$0</u>	<u>\$4,102,020</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
Financial Administration	\$40,610
Police	50,074
Fire Protection	2,316
Streets	13,485
Airport	137
Parks	<u>19,425</u>
Total depreciation expense - governmental activities	<u>\$126,047</u>

Business-Type activities:	
Water	\$35,547
Sewer	15,632
Sanitation	<u>21,367</u>
Total depreciation expense - business-type activities	<u>\$72,546</u>

F. LONG TERM DEBT - BONDS

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Governmental Activities

General Fund

The City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2004 on June 9, 2004. The effective interest rates range from 3.95% to 4.75%. The final payment was due on February 1, 2018.

During the previous fiscal year, the City retired \$45,000 of the Series 2004 bonds payable with a payment on January 12, 2016. The remaining \$100,000 balance was refunded with the Limited Tax Refunding Bonds, Series 2016. This refunding took place in March 2016 and is being handled totally in the Water and Sewer Fund. Therefore, the \$100,000 is being treated as a transfer between General Fund and the Water and Sewer Fund with all of the refunding activity being recorded and payments to be made in the Water and Sewer Fund. Full details of the refunding are explained below in Water and Sewer Fund bond details and information.

Business-Type Activities

Water and Sewer Fund

The City issued Combination Tax and Revenue Certificates of Obligation, Series 2006 on September 13, 2006. The effective interest rate on the current outstanding Certificates of Obligation is 4.92%. The final payment was due September 30, 2026.

During the previous fiscal year, the City refunded \$625,000 of the Series 2006 bonds payable with the Limited Tax Refunding Bonds, Series 2016. The City retired the remaining \$45,000, which was not part of the refunding, with a payment on August 9, 2016.

In March 2016, the City issued \$767,000 City of Stanton, Texas Limited Tax Refunding Bonds, Series 2016. The bonds have a 2.0% interest rate with annual maturities from August 2016 through August 2026. The \$767,000 bonds were issued to advance refund \$100,000 of the Series 2004 bond issue and \$625,000 of the Series 2006 bond issue.

From the proceeds of the 2016 Series bond issue, \$741,004 was transferred to the Bond Refunding Escrow Agent to advance refund the above mentioned \$725,000 of the Series 2004 and Series 2006 bond issues. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds have

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

F. LONG TERM DEBT – BONDS (continued)

been removed from the City’s government-wide financial statements. This advance refunding was undertaken to reduce the remaining debt service payments by \$79,674 (cash flow gain) and resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$72,909. A deferred charge on refunding of \$16,004 was realized by the City, which consisted of funds transferred to the escrow agent in excess of the carrying amount of the bonds refunded. It will be amortized over the remaining life of the refunded debt which is through August 2026. The \$100,000 of the Series 2004 bond issue that were refunded were redeemed on March 25, 2016. The \$625,000 of the Series 2006 bond issue that were refunded were redeemed on August 1, 2016. Therefore, the balance in the Series 2016 Refunding Escrow account at September 30, 2018 was zero because all of the refunded bonds had been redeemed prior to September 30, 2018.

	Balance 10-1-17	Additions	Retirements	Balance 9-30-18	Interest Current Year
Limited Tax Refunding Bonds, Series 2016	<u>647,000</u>		<u>109,000</u>	<u>538,000</u>	<u>12,940</u>
Total	<u>\$647,000</u>		<u>\$109,000</u>	<u>\$538,000</u>	<u>\$12,940</u>

The debt service requirements are as follows:

Business-type Activities:
Water and Sewer Fund

September 30	Principal	Interest	Total
2019	62,000	10,760	72,760
2020	61,000	9,520	70,520
2021	65,000	8,300	73,300
2022	68,000	7,000	75,000
2023	66,000	4,320	70,320
2024-2026	<u>216,000</u>	<u>10,800</u>	<u>226,080</u>
	<u>\$538,000</u>	<u>\$50,700</u>	<u>\$588,700</u>

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

G. LONG TERM DEBT - LOANS AND CAPITAL LEASES

Business-type Activities
Water and Sewer Fund

The City purchased a 50% interest in a 2014 CAT D-6 Bulldozer through a lease purchase agreement on May 11, 2015 for \$161,400 for the landfill. Martin County purchased the other 50% interest. The asset, liability and interest expense are recorded in the Water and Sewer Fund. The effective interest rate is 2.70%. The final payment is due May 7, 2020.

Business-type Activities
Water and Sewer Fund

<u>Date of Issue</u>	<u>Description</u>	<u>Balance 10/1/17</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Balance 9/30/18</u>	<u>Interest Current Year</u>
5/11/15	CAT Bulldozer	<u>\$109,451</u>	<u>\$</u>	<u>\$16,327</u>	<u>\$93,124</u>	<u>\$2,955</u>
		<u>\$109,451</u>	<u>\$</u>	<u>\$16,327</u>	<u>\$93,124</u>	<u>\$2,955</u>

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

G. LONG TERM DEBT - LOANS AND CAPITAL LEASES (continued)

The Debt Service requirements are as follows:

Business-type Activities
Water and Sewer Fund

<u>September 30</u>	<u>Loans and Lease Purchase</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2019	17,221	2,502	19,723
2020	<u>75,463</u>	<u>2,037</u>	<u>77,500</u>
	<u>\$92,684</u>	<u>\$4,539</u>	<u>\$97,223</u>

H. TAX COLLECTION ANALYSIS

An analysis of the City's tax collection ratio to the total tax levy for the year ended September 30, 2018 is as follows:

	<u>Adjusted</u> <u>Tax Levy</u>	<u>Tax Collection</u>	<u>Collection</u> <u>Ratio</u>
Current Year Taxes	\$915,211	\$873,023	95.39%
Delinquent Taxes		33,428	3.65%
Penalty and Interest	_____	<u>32,660</u>	<u>3.57%</u>
Total	<u>\$915,211</u>	<u>\$939,111</u>	<u>102.61%</u>

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

I. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Other Payable:					
Termination Benefits Payable	53,184	544		53,728	
Customer Deposits	2,100	300		2,400	
Total Other Payables	<u>55,284</u>	<u>844</u>		<u>56,128</u>	
Net Pension Payable					
Net Pension Liability (Note J)	245,374	68,450		313,824	
Total Pension Payable	<u>245,374</u>	<u>68,450</u>		<u>313,824</u>	
Total Governmental Activities	<u>\$300,658</u>	<u>\$69,294</u>	<u>\$0</u>	<u>\$369,952</u>	<u>\$</u>
Business-Type Activities:					
Bonds Payable (Note F):					
Tax Refunding Bonds	655,000	0	109,000	538,000	62,000
Total Bonds Payable	<u>655,000</u>	<u>0</u>	<u>109,000</u>	<u>538,000</u>	<u>62,000</u>
Loans & Leases Payable (Note G):					
CAT Bulldozer	109,452		16,327	93,124	16,768
Total Loans & Leases Payable	<u>109,452</u>	<u>0</u>	<u>16,327</u>	<u>93,124</u>	<u>16,768</u>
Other Payable:					
Landfill Closure & Postclosure Costs (Note O)	21,023	1,679		22,702	
Customer Deposits	109,484			109,484	
Termination Benefits Payable	36,606			36,606	
Total Other Payable	<u>165,756</u>	<u>1,357</u>		<u>167,113</u>	
Net Pension Payable					
Net Pension Liability (Note J)	152,627			152,627	
Total Pension Payable	<u>152,627</u>	<u>0</u>		<u>152,627</u>	
Total Business-Type Activities	<u>\$1,084,192</u>	<u>\$1,679</u>	<u>\$125,327</u>	<u>\$960,544</u>	<u>\$78,768</u>

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

I. CHANGES IN LONG-TERM LIABILITIES (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit:					
Other Payable:					
Termination Benefits Payable	544			544	
Total Other Payables	544	0		544	
Net Pension Payable					
Net Pension Liability (Note J)	6,112	496		6,608	
Total Pension Payable	6,112	496		6,608	
Total Component Unit	\$6,656	\$496	\$	\$7,152	\$

J. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Stanton (City) participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

J. DEFINED BENEFIT PENSION PLAN (continued)

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at *www.tmrs.com*.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2017</u>	<u>Plan Year 2018</u>
Employee Deposit Rate :	5.0%	5.0%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
Years Required for Vesting:	5	5
Service Retirement Eligibility : (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit:	100% Repeating	100% Repeating
Annuity Increase (to retirees):	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>19</u>
	34

Contributions

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

Employees for the City of Stanton were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Stanton (City) was 7.82% in calendar years 2017 and 2018. The City's contributions to TMRS for the year ended September 30, 2018, were \$84,949, and were equal to the required contributions.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

J. DEFINED BENEFIT PENSION PLAN (continued)

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Small City Methodology is for cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2017 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2012 through December 31, 2016. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

J. DEFINED BENEFIT PENSION PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative with an adjustment for time (aggressive)). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	<u>100.0%</u>	

Discount Rate

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

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

J. DEFINED BENEFIT PENSION PLAN (continued)

<u>Changes in Net Pension Liability</u>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$2,918,640	\$2,508,482	\$410,158
Changes for the year:			
Service cost	108,949		108,949
Interest	195,806		195,806
Changes of Benefit Terms			
Difference between Expected and Actual Experience	100,449		100,449
Changes in Assumptions	0		0
Contributions - Employer		84,949	(84,949)
Contributions - Employee		56,102	(56,102)
Net Investment Income		169,604	(169,604)
Benefit Payments, Including Refunds of Employee Contributions	(144,581)	(144,581)	
Administrative Expense		(1,915)	1,915
Other Changes		(103)	103
Net Changes	<u>\$260,623</u>	<u>\$164,056</u>	<u>\$96,567</u>
Balance at 12/31/2017	<u>\$3,179,263</u>	<u>\$2,672,538</u>	<u>\$506,725</u>
Plan fiduciary net position as a percentage of the total pension liability			84.06%
Covered-employee payroll			\$1,122,033
Net pension liability as a percentage of covered employee payroll			45.16%
	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	529,730	159,145	(147,188)

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	952,068	506,725	138,706

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

J. DEFINED BENEFIT PENSION PLAN (continued)

As stated above, the net pension liability of the City is \$506,725. This liability has been allocated to governmental activities, business type activities and the component unit. The allocation of the net pension liability is as follows.

Governmental Activities	\$313,824
Business Type Activities	180,744
Component Unit	<u>12,157</u>
Total	<u><u>\$506,725</u></u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2018, the City recognized pension expense of \$172,348.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$74,084	\$
Difference in actuarial assumptions changes	144,158	
Difference in projected and actual earnings	0	225
Contributions subsequent to the measurement date	<u>64,853</u>	
Total	<u><u>\$253,095</u></u>	<u><u>\$ 225</u></u>

\$64,853 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

J. DEFINED BENEFIT PENSION PLAN (continued)

Year Ended December 31:	
2019	\$57,662
2020	(\$57)
2021	---
Thereafter	---
Total	\$239,263

As stated above, the deferred outflows of resources of the City is \$253,095. This deferred outflows of resources has been allocated to governmental activities, business type activities and the component unit. The allocation of the deferred outflows of resources is as follows.

Governmental Activities	\$229,737
Business Type Activities	15,166
Component Unit	8,192
Total	\$253,095

K. SUPPLEMENTAL DEATH BENEFITS FUND

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

<u>The City offers supplemental death to:</u>	<u>Plan Year 2017</u>	<u>Plan Year 2018</u>
Active Employees (Yes or No)	Yes	Yes
Retirees (Yes or No)	Yes	Yes

CITY OF STANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2018

K. SUPPLEMENTAL DEATH BENEFITS FUND (continued)

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Schedule of Contribution Rates:
 (Retiree-only Portion of the Rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2015	0.04%	0.04%	100.0%
2016	0.04%	0.04%	100.0%
2017	0.04%	0.04%	100.0%
2018	0.04%	0.04%	100.0%

L. HEALTH CARE COVERAGE

The City entered into an Interlocal Agreement with the TML Intergovernmental Employee Benefits Pool for health insurance coverage on April 1, 2000.

The TML Intergovernmental Employee Benefits Pool, hereinafter referred to as TML-IEBP, is a legal entity created by political subdivisions of the state and governed by trustees, and is the successor of the Texas Municipal League Group Benefits Risk Pool formerly operating under the name of the Texas Municipal League Insurance Trust Fund, which was established May 1, 1979; and which the City of Stanton was under until April 1, 2000.

The agreement may be extended annually by executing and returning the rerate notice. The agreement was extended for the year ending September 30, 2018. The agreement has also been extended for the year ending September 30, 2019.

The City of Stanton represents that it is a political subdivision of the state and that its board and governing body has acted by majority vote, at a duly called and posted public meeting, to authorize and participate in this Interlocal Agreement. The TML-IEBP represents that it is a "local government" qualified to enter into this Interlocal Agreement pursuant to Chapter 791 of the Texas Government Code.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

L. HEALTH CARE COVERAGE (continued)

In consideration of the agreement, the City of Stanton, together with other political subdivisions executing identical or substantially similar Interlocal agreements, enters into this agreement for the purpose of providing certain benefits and related services for their employees, officials, and retirees and their dependents. The benefits will be provided under the authority of the laws of the State of Texas including the Texas Political Subdivision Uniform Group Benefits Program (Chapter 172, Local Government Code), the Interlocal Cooperation Act (Chapter 791, Government Code) and the Texas Trust Code (Title 9, Subtitle B, Texas Property Code). The City hereby designates the TML-IEBP as its instrumentality to administer the business and supervise the performance of the Interlocal Agreement and the operation of the risk pool. All money transferred by the City to the TML-IEBP under this agreement, together with any other property which may become subject to this agreement, will be held in trust by the Board of Trustees of the TML-IEBP for the benefit of the employees, officials, and retirees and their dependents, of the Employer Members.

The City will adopt one or more of the TML-IEBP plans and make the payments and contributions set forth in the Summary of Benefits. The TML-IEBP will purchase excess loss coverage or reinsurance as provided in Chapter 172, Local Government Code, and all Employer Members are subject to the terms and conditions of any such excess loss coverage or reinsurance agreement.

During the fiscal year, the City paid 100% of the monthly cost of the employees' health insurance cost. The premium was \$496. The employees have the option to cover their dependents at a cost of \$781. However, the City pays 75% of this cost which was \$586.

M. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2018 consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds	Total Net
General Fund:			
Water & Sewer Fund	\$1,213	\$	\$1,213
Total General Fund	1,213		1,213
Water & Sewer Fund			
General Fund		1,213	1,213
Total Water & Sewer Fund		1,213	1,213
Grand Total	\$1,213	\$1,213	\$

The \$1,213 balance was generated from the Water and Sewer Fund bank account being credited for some payroll checks of the General Fund during the current fiscal year.

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

M. INTERFUND BALANCES AND TRANSFERS (continued)

A detail of interfund transfers at September 30, 2018⁷ is as follows:

	Other Resources	Other Uses
<u>General Fund</u>		
Transfer In - Proprietary Fund - Water & Sewer	\$151,866	
Total General Fund	\$151,866	
 <u>Proprietary Fund - Water & Sewer</u>		
Transfer Out - General Fund		\$151,866
Total Proprietary Fund - Water & Sewer		\$151,866

The transfers of \$151,866 from the Water and Sewer Fund to the General Fund were operating transfers to cover expenditures.

N. JOINT VENTURES

Martin County Appraisal District

The City has joined other governmental agencies in the formation of the Martin County Appraisal District. The Martin County Appraisal District is responsible for valuing property subject to taxation for all of the government agencies. They also collect the ad valorem taxes for some of the agencies, including the City.

Participants and their percentage shares in the Martin County Appraisal District appraisal and collection fees are as follows:

	<u>Appraisal</u>	<u>Collections</u>
Stanton Independent School District	32.03%	42.67%
County of Martin	18.00	0.00
City of Stanton	1.06	1.37
Grady Independent School District	19.92	25.63
Martin County Hospital District	12.09	15.56
Sands Consolidated Independent School District	4.44	14.31
Martin County Fresh Water District	0.36	0.46
Permian Basin Underground Water Conservation District	0.42	0.00
Klondike Independent School District	11.68	0.00
	100.00%	100.00%

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

N. JOINT VENTURES (continued)

Martin County

The landfill is operated jointly by Martin County and the City. Martin County reimburses the City for one-half of the landfill operating expenses on a monthly basis and this is reflected in the Water and Sewer Fund.

O. POSTCLOSURE SANITARY LANDFILL COSTS

The City closed the old landfill prior to June 15, 1993 and opened a new landfill subsequently in accordance with federal and state regulations. The City is operating the landfill jointly with Martin County and the financial activity is reflected in the Water and Sewer Fund.

State and federal laws and regulations require the City to place a final cover on the City's sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an expense and accrued liability in the Proprietary Fund Type - Water and Sewer Fund in each period based upon landfill capacity used as of each balance sheet date. The \$22,702 reported as landfill closure and postclosure care accrued liability at September 30, 2018 represents the cumulative amount reported to date based on the use of 31% of the estimated capacity of the landfill. These amounts are based on what it would cost to perform all closure and post closure care in 2018. The City expects to close the landfill in the year 2050. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City implemented Governmental Accounting Standards Board Statement Number 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* in prior years.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City has not placed funds in a trust to cover these costs, however, the City obtained an Irrevocable Standby Letter of Credit of \$72,283, and a Standby Trust Agreement from First National Bank - Stanton, on August 1, 2018, to fund the trust fund for closure and postclosure costs if needed. This letter of credit with the Standby Trust Agreement were reviewed by the Texas Natural Resource Conservation Commission and were found to be in accordance with regulations in regard to demonstration of financial assurance.

P. TEXAS MUNICIPAL LEAGUE INTERGOVERNMENTAL RISK POOL

Liability/Property Coverage

The City is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in coverage in the past fiscal year.

The City has entered into a contract and interlocal agreement with the Texas Municipal League Intergovernmental Risk Pool for property and liability insurance coverage as authorized by the Interlocal Cooperation Act. The purpose of the agreement is to facilitate effective risk management of the property

CITY OF STANTON, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED SEPTEMBER 30, 2018

P. TEXAS MUNICIPAL LEAGUE INTERGOVERNMENTAL RISK POOL (continued)

and liability obligations of program participants. The Fund is administered by a Board of Trustees on behalf of the Pool members. The City pays contributions based on the declarations of coverage elected by each pool member. The fund shall maintain adequate protection from catastrophic losses to protect its financial integrity. Aggregate protection shall also be maintained. The term of this agreement shall be continuous from October 1 to the following October 1 until terminated. The agreement may be terminated by either party giving the other sixty days prior written notice of intent to terminate.

Workers' Compensation Coverage

The City has entered into a contract and interlocal agreement with the Texas Municipal League Intergovernmental Risk Pool for the purpose of providing workers' compensation coverage as authorized by the Interlocal Cooperation Act. The Account is administered by a Board of Trustees on behalf of the Pool members. The City pays contributions based on a rate established by the Trustees with experience modifiers taken into consideration. The Fund shall maintain adequate protection from catastrophic losses to protect its financial integrity. This may be done through the purchase of catastrophic loss protection reinsurance and aggregate stop loss reinsurance. The term of this agreement shall be continuous from October 1 to the following October 1 until terminated. It may be terminated by either party with a 60-day written notice of intent to terminate.

Q. UNAVAILABLE REVENUE

Unavailable revenue at September 30, 2018 consisted of the following:

	<u>General Fund</u>
Net Tax Revenue	\$89,044
Total	<u>\$89,044</u>

R. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2018, were as follows:

	Notes and Accounts Receivable	Property Taxes	Other Governments	Due from Other Funds
Governmental Activities:				
General Fund	\$0	\$116,410	\$105,041	\$460
Major Special Revenue Funds	7,505			
Total - Governmental Activities	\$7,505	\$116,410	\$105,041	\$460
Amounts not scheduled for collection during the subsequent year	\$	\$75,605	\$	\$

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

R. DISAGGREGATION OF RECEIVABLES AND PAYABLES (continued)

	Notes and Accounts Receivable	Property Taxes	Other Governments	Due from Other Funds	Other	Total Receivables
Business-Type Activities:					\$	\$0
Enterprise Fund - Water & Sewer	\$265,909	\$	\$8,854	\$	0	\$274,763
Total - Business-Type Activities	<u>\$265,909</u>	<u>\$</u>	<u>\$8,854</u>	<u>\$</u>	<u>\$0</u>	<u>\$274,763</u>
Amounts not scheduled for collection during the subsequent year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$0</u>

	Notes and Accounts Receivable	Property Taxes	Other Governments	Due from Other Funds	Other	Total Receivables
Component Unit:						
Economic Development	\$43,625	\$	\$34,059	\$	\$	\$77,684
Total - Component Unit	<u>\$43,625</u>	<u>\$</u>	<u>\$34,059</u>	<u>\$</u>	<u>\$</u>	<u>\$77,684</u>
Amounts not scheduled for collection during the subsequent year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Payables at September 30, 2018, were as follows:

	Accounts Payable	Leases Bonds Payable Current Year	Accrued Expenses	Due to Other Funds	Other	Total Payables
Governmental Activities:						
General Fund	\$12,030	\$	\$59,151	\$49,875		\$121,056
Major Special Revenue Fund					\$0	\$0
Total - Governmental Activities	<u>\$12,030</u>	<u>\$</u>	<u>\$59,151</u>	<u>\$</u>	<u>\$0</u>	<u>\$0</u>
Amounts not scheduled for collection during the subsequent year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Business-Type Activities:						
Enterprise Fund - Water & Sewer	\$67,965	\$30,913	\$115,703	\$45,284	\$0	\$259,865
Total - Business-Type Activities	<u>\$67,965</u>	<u>\$30,913</u>	<u>\$115,703</u>	<u>\$45,284</u>	<u>\$0</u>	<u>\$259,865</u>

R. DISAGGREGATION OF RECEIVABLES AND PAYABLES (continued)

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

Component Unit:	Account s <u>Payable</u>	Loans, Leases Bonds Payable <u>Current Year</u>	Accrued Expense s	Due to Other Funds	Othe r	Total Payable s
Economic Development	\$371	\$	\$371	\$	\$544	\$1,286
Total - Component Unit	<u>\$371</u>	<u>\$</u>	<u>\$371</u>	<u>\$</u>	<u>\$544</u>	<u>\$1,286</u>

Amounts not scheduled for collection

S. COMMITMENTS UNDER NONCAPITALIZED LEASES

The City does not have any commitments under operating lease agreements for facilities and equipment for future rental payments as of September 30, 2018.

Rental expenditures during the year ending September 30, 2018 were \$2,550.

T. GASB STATEMENTS NUMBER 63 AND 65

During the fiscal year ended September 30, 2013, the City of Stanton implemented two statements of the Governmental Accounting Standard Board (GASB) this year - Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Number 65, *Items Previously Reported as Assets and Liabilities*. These two statements:

- Classified items that are a consumption of net assets applicable to a future reporting period as deferred outflows of resources,
- Classified items that are an acquisition of net assets applicable to a future reporting period as deferred inflows of resources,
- Renamed all “Statements of Net Assets” to “Statements of Net Position,”
- Required all bond issuance costs to be recorded as expenses in the year the bonds were issued,
- Reclassified the effect of accounting changes adopted to conform to the provisions of Statement Number 63 retroactively in statements of net position and balance sheets, if practical, for all prior periods presented. In the period Statement Number 63 is first applied, the financial statements should disclose the nature of any reclassifications and its effect,
- Required reasons for not reclassifying statements of net position and balance sheet information for prior periods presented to be explained.

The effect of these two statements on the City of Stanton’s 2018 annual financial statements was:

- To record uncollected property taxes as deferred inflows of resources.

Deferred Inflows of Resources	
“Unavailable revenues - property taxes” -	<u>\$89,044</u>

T. GASB STATEMENTS NUMBER 63 AND 65 (continued)

CITY OF STANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

- For refunded debt to record the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow of resources and recognize this as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. See Exhibit A-1 and Exhibit D-1.

Deferred Outflows of Resources

“Deferred charge from refunding bonds” - \$15,166

CITY OF STANTON, TEXAS
 NOTES TO THE SCHEDULE OF CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 YEAR ENDED SEPTEMBER 30, 2018

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 Years
Asset Valuation Method	10 Year smoothed market; 15 % soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2017 valuation pursuant to an experience study of the period 2012-2016
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes: There were no benefit changes during the year.

Stallings and Herm, P.C.

JOSHUA J. HAISLIP, CPA
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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*

Independent Auditor's Report

Honorable Jim Smith, Mayor
Members of the City Council
City of Stanton, Texas

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Stanton, Texas as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Stanton, Texas's basic financial statements and have issued our report thereon dated July 8, 2019.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

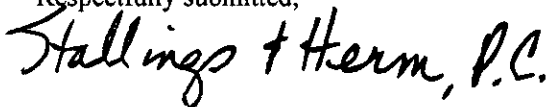
As part of obtaining reasonable assurance about whether City of Stanton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

There were no instances of noncompliance in the current or prior year.

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink that reads "Stallings + Herm, P.C." in a cursive, professional style.

Stallings and Herm, P.C.
Certified Public Accountants

July 8, 2019

CITY OF STANTON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the City of Stanton, Texas.
2. No control deficiencies, significant deficiencies or material weaknesses relating to the audit of the basic financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.