

**CITY OF TAFT, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**PREPARED BY**

**City of Taft  
City Manager**

2

**CITY OF TAFT, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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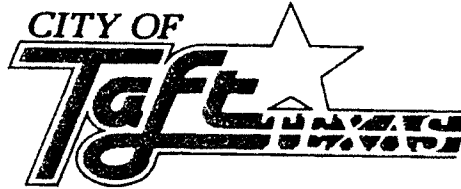
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## **INTRODUCTORY SECTION**

***City of Taft, Texas***



June 25, 2012

The Honorable Mayor, City Council and City Manager  
City of Taft  
Taft, Texas

This report represents the Annual Financial Report for the City of Taft, Texas for the fiscal year ended September 30, 2011.

This report is published to provide the City Council, City Staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The Staff is pleased to submit the Annual Financial Report for the City of Taft, Texas, for the fiscal year ended September 30, 2011.

### **THE REPORT**

This report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, a listing of the City Officials, and an organizational chart. The Financial Section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the Independent auditors' report on the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Taft's MD&A can be found immediately following the report of the independent auditors. The Statistical Section includes financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader.

The City of Taft's financial statements have been audited by Ernest R. Garza & Company, P.C.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Taft for the fiscal year ended September 30, 2011 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

*"SERVICE IS OUR BUSINESS"*

P.O. BOX 416 TAFT, TEXAS 78390-0416 [361] 528-3512  
FAX # [361] 528- 3515

The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2011 financial statements to be considered to be fairly presented in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board and other professional promulgations, as applicable.

## **CITY PROFILE**

### Location

The City of Taft is a city located in San Patricio County. Located in San Patricio County, Taft is 22 miles from Corpus Christi and about 88 miles south of San Antonio. The City encompasses approximately 4.0 square miles of land within the City's corporate boundary. Taft's population is estimated at about 3,048.

Taft was incorporated as a town in 1929. The City operates under a City Manager form of government.

### Services Provided

Services provided by the City under the general governmental functions include public safety (police and fire), streets, sanitation, health and social services, culture recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities operations. A private firm provides solid waste collection and disposal services under a contract with the City. In addition, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses, payments on outstanding debt and reserves.

### Blended Component Unit

The City of Taft, Texas had no blended component units.

### Discretely Presented Component Unit

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) service the citizens of the City of Taft, Texas, by providing financing of economic development objectives, recreational and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters in the fiscal year 1999. The Corporation is reported as a discretely component unit. The Taft Economic Development Corporation was created to be a vehicle for economic stimulus for the Taft area. In addition, the City has the Pride of Taft which is utilized for enhancing quality of life thru beautification of city wide cleanups activities. Complete financial statements of the Taft Economic Development Corporation may be obtained at the City's administrative office.

Taft Economic Development Corporation  
City Hall, 501 Green Avenue, P.O. Box 416  
Taft, Texas 78390

Pride of Taft  
City Hall, 501 Green Avenue, P.O. Box 416  
Taft, Texas 78390



Services provided by the City under the general governmental functions include public safety (police and fire).

#### Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable, expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's current internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City requires that on or before the end of August, the City Manager submits to the City Council a proposed budget and budget message to the City Council for the fiscal year commencing the following October 1. The budget message is the responsibility of the City Manager. The City Council shall review the proposed budget and make any appropriate changes prior to adopting and publishing the final budget. The budget is legally enacted through passage of an ordinance on or before September 30<sup>th</sup>. The City Manager is authorized to transfer budgeted amount within departments; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Manager may be authorized, by ordinance and by adoption of the City Council, to expend limited amounts which are included within the budget. Expenditures over this amount require authorization by the City Council.

Budgetary control has been established at the individual fund level. Financial reports are produced showing budget and actual expenditures by line item for the current month and year-to-date and are distributed monthly to City department supervisors as well as to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

## **ECONOMIC OUTLOOK AND FINANCIAL CONDITION**

### Taft's Position in the Region

As the location of some of the last remaining undeveloped coastline adjacent to a deep water channel, the City is actively pursuing opportunities to promote this untapped resource through cooperative efforts with various government agencies and developers.

In addition, the City of Taft is located 12 miles to the northwest of City of Corpus Christi, Texas. As such, our economic development is largely related to providing a high quality of life for the families that reside here. Because of the quality of life the City continues to see a steady population growth. The current population from the 2010 census of 3,048 reflects a drop in population of 348 from the 2000 census of 3,396.

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$32,882 compares unfavorably to \$54,591 for Texas.

The following facts reflect Taft's economic condition and outlook:

- Building activity continues to be very strong.
- Total taxable value for all residential and commercial property in the City of Taft was 79.9 million for fiscal year 2010/2011 for a 1.9 million decrease and a 2.3% decrease.
- Sales tax collections have increased by more than 7.07% for the most recent year.

### Future Economic Outlook

The City of Taft has taken several steps in recent years and continues to move forward on several projects to improve the quality of life by capitalizing on the natural beauty of the area and preserving public access to natural areas.

### Cash Management

Idle cash is invested by City officials in certificate of deposits when the interest rates available provide local government investment opportunities while protecting principal and liquidity.

It is the City's Policy that all demand deposits and time deposits are secured by pledged collateral with a market value equal to no less than 100% of the deposits less an amount insured by the FDIC. Evidence of the pledged collateral is periodically obtained at a third party financial institution. Collateral is reviewed to assure the market value of the securities pledged equals or exceeds the related bank balances. All collateral is subject to inspection and audit by the City's independent auditors.

### Pension Plan

The City of Taft provides pension benefits for all of its employees except for firefighters through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing statutes of TRMS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) from 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 by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://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:

	Plan Year 2011	Plan Year 2010
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, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	30% of CPI Repeating	30% of CPI Repeating

**Contributions:** Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	58,992
2. Interest on Net Pension Obligation	0
3. Adjustment to the ARC	0
4. Annual Pension Cost (APC)	58,992
5. Contributions Made	58,992
6. Increase (Decrease) in net pension obligation	0
7. Net Pension Obligation/(Asset), beginning of year	0
8. Net Pension Obligation/(Asset), end of year	0

The City has an unfunded Actuarial Accrued Liability overall but did not have a current year variance. See notes to financial statements for additional information.

#### Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees at the retired employee's expense. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. There is no direct cost to the City associated with this benefit. In addition, under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents.

### **OTHER INFORMATION**

#### **Acknowledgments**

Appreciation is expressed to each and every City employee who, throughout the past year, has faithfully and diligently served the City and its community. They are to be thanked.

The members of the City Council, and Citizens, are to be thanked for their active participation and support in the operations of the City. I would also like to thank the employees of the City of Taft, Texas, for their assistance in compiling the necessary financial data regarding this report.

Respectfully submitted,

City Manager

## **CITY OF TAFT**

### **List of Principal Officials**

#### **ELECTED OFFICIALS**

Robert "Bobby" Vega	Mayor
Ronnie Segovia	Mayor Pro-Tem
David Trevino	City Council
Martin Salcido	City Council
Roy Stegall	City Council

#### **APPOINTED OFFICIALS**

Kandi Hubert	City Manager
Stephanie Floyd	Finance Director
John Landreth	Chief of Police
Dan Gibson	Fire Chief
Fred Farias	Director of Public Works
Jennifer Pineda	City Secretary
Tazh Fonville	Building Inspector
Carmel Herrera	Municipal Court Judge
Ysidro Arismendez	City Attorney

***City of Taft, Texas***

## **FINANCIAL SECTION**

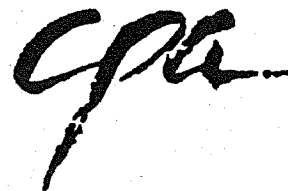
***City of Taft, Texas***



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**ERNEST R. GARZA  
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*Certified Public Accountants*

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**UNQUALIFIED OPINION ON FINANCIAL STATEMENTS**

The Honorable Mayor,  
Members of City Council  
City of Taft, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Taft, as of and for the year ended September 20, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taft management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

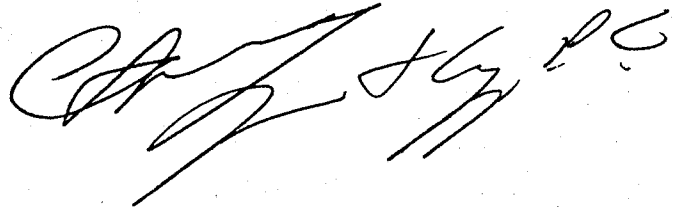
In our opinion, the financial statements referred to above presently fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Taft, Texas, as of September 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 17 through 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Page 2 of 2

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City of Taft's basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernest R. Garza & Company, P.C.  
Certified Public Accountants  
June 25, 2012

A handwritten signature in black ink, appearing to read "ERNEST R. GARZA", is written over the printed name of the accounting firm.

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011**

This discussion and analysis of the City of Taft's financial performance is intended to provide an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2011. The reader is encouraged to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- As of September 30, 2011, the City of Taft's General Fund reported an ending fund balance of \$14,400 in the governmental fund types. (Exhibit C-3)
- As of September 30, 2011, the City of Taft's Utility Fund reported an ending total nets assets of \$891,276, a decrease of \$313,438 (including a prior period adjustment) or 26.02%. (Exhibit D-2)
- The net assets of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2011 by \$6,363,735. An increase of the net assets a result of the governmental fixed assets being re-calculated and adjusted based on Engineer's information. The resulting prior period adjustment of \$5,982,792 was made to the fixed assets for the city's governmental infrastructure and buildings. Of \$6,363,735 total net assets, \$130,742 or 2.05% represents the fund balance of the General Fund on the full accrual basis. (Exhibit A-1, B-1)
- The City of Taft's total net assets increased by \$4,872,339 for the year ended September 30, 2011, this was a result of a prior period adjustment to the fixed assets as mentioned above and net loss in operations of \$1,032,469. (Exhibit B-1)
- As of September 30, 2011, the City of Taft's governmental funds reported combined ending fund balance of \$452,153. (Exhibit C-1, C-3)
- The City's total debt increased by \$109,314 during the year from \$1,577,956 to \$1,687,270.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the City of Taft's basic financial statements. The City of Taft's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Taft's finances, in a manner similar to a private-sector business.

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011**

The Statement of Net Assets presents information on all of the City of Taft's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Taft is improving or deteriorating. This statement combines and consolidates governmental funds' current financial resources (short-term spend-able resources) with capital assets and long-term obligations. Other non financial factors should be taken into consideration, such as changes in the City's property tax base and the condition on the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc), to asses the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxed and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities- Most of the City's basic services are reported here, including the police, fire, library, building and inspections, sanitation, code enforcement, parks and recreation and general administration. Property taxes, sales taxes and franchise fee finance most of these activities.
- Business type Activities- the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.
- Discretely Presented Component Unit – The Taft Economic Development Corporation and the Pride of Texas were created to assist in economic development and chamber enhancements.
- Reporting the City's Most Significant Funds

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City has established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and propriety- utilize different accounting guidelines.

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011**

- **Governmental Funds-** the majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provided a detailed short term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government's near term operating decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statement.

The City of Taft maintains nine individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund and Debt Service Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated non major fund presentation. Individual fund data for each of these non major governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary Funds-** the City charges customers for the services it provides. These services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Because these services benefit both governmental as well as business type functions, their cost has been included in both the governmental and business type activities in the government-wide financial statements.

#### **Notes to the Financial Statements**

These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2011**

**Other Information**

In addition to basic financial statement and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

**The City as a Whole- Government-wide Financial Analysis**

The City's combined net assets were \$7.26 million as of September 30, 2011. Analyzing the net assets and net expenses of governmental type activities were 6.36 million and business-type activities, separately the business type activities net assets are \$.89 million. The large increase was due to the adjustment of fixed assets as mentioned in the previously. The analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business type-activities.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, plant assets, machinery, equipment, and furniture), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table I  
CITY OF TAFT, TEXAS  
CHANGES IN NET ASSETS

	Governmental Activities		Business Type Activities	
	2011	2010	2011	2010
Current and Other Assets	617,074	913,063	267,865	336,875
Capital Assets	7,563,404	1,905,322	975,680	1,097,779
Total Assets	8,180,479	2,818,385	1,243,545	1,434,654
Current and Other Liabilities	406,927	250,772	352,269	229,941
Long Term Liabilities	1,409,817	1,389,655	0	0
Total Liabilities	1,816,744	1,640,427	352,269	229,941
Net Assets:				
Invested in Capital Assets Net of Related Debt	5,795,239	344,966	975,680	1,097,779
Restricted	437,753	765,164	0	0
Unrestricted	130,742	67,828	(84,404)	106,934
Total Net Assets	6,363,735	1,177,958	891,276	1,204,713

Table II  
CITY OF TAFT, TEXAS  
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	2011	2010	2011	2010
Revenues:				
Property Taxes	744,420	563,483	-	-
Sales Tax	195,154	182,258	-	-
Franchise Taxes	142,822	149,640	-	-
Licenses and Permits	87,214	-	-	-
Intergovernmental	90,098	375,156	-	-
Charges for Services	162,555	91,664	1,855,501	1,772,389
Fines and Forfeitures	103,313	23,119	-	-
Investment Earnings/Other	2,826	92,229	-	-
Other Revenue	327,535	41,308	-	-
Total Revenue	1,858,488	1,518,857	1,855,501	1,772,389
Expenses:				
General Government	562,671	438,501	-	-
Public Safety	1,519,936	826,225	-	-
Public Works	633,254	239,258	-	-
Parks, Recreation and Culture	319,966	162,519	-	-
Water			756,265	588,312
Wastewater			287,645	266,050
Sanitation			457,012	420,688
Economic Development and Assistance			-	-
Bond payments, principal, interest	87,610	195,838	-	-
Depreciation			122,099	122,099
Total Expenses	3,123,437	1,862,341	1,623,021	1,397,149
Increase (Decrease) in net assets before transfers and special items	(1,264,949)	(343,484)	232,480	375,240
Transfers	467,933	434,083	(467,933)	(524,083)
Non-operating Revenues/(Expenses)	-	-	-	-
Net Increase (Decrease)	(797,016)	90,599	(235,454)	(148,843)
Prior Period Adjustment	5,982,792	-	-	-
Net assets at beginning	1,177,958	1,087,359	1,204,713	1,353,556
Net assets at ending	6,363,735	1,177,958	891,276	1,204,713

## Government Fund Activities

The City's general fund revenues increased when compared to the prior year by 14.77 percent or \$165,814. The assessed value of the property in the City was 79.9 million, a decrease compared to the prior year of 81.8 million. In addition to ad valorem property taxes, the City collects sales taxes, franchise taxes, beverage taxes and other taxes in lieu of ad valorem taxes.

**Table 3**  
**General Fund Revenues**  
**At September 30**

	<u>2011</u>	<u>2010</u>	<u>Increase</u> <u>(decrease)</u>
Taxes	769,398	769,657	(259)
Licenses and Permits	87,214	69,359	17,855
Intergovernmental	1,000	2,464	(1,464)
Charges for services	23,236	17,926	5,310
Fines and penalties	103,313	43,818	59,495
Other	<u>304,548</u>	<u>219,673</u>	<u>84,875</u>
Total General Revenues	<u>1,288,710</u>	<u>1,122,896</u>	<u>165,813</u>

The most significant governmental expense for the City was in the public safety. The public safety incurred expenditures of \$1,031,670. Police accounted for \$537,326 in public safety expenditure and the emergency services was \$421,143.

## Enterprise Fund Activities

Revenues of the City's Utility Funds were \$1.86 million for the fiscal year ending September 30, 2011. Operating expenses were \$1.6 million for the year, resulting in net revenues of \$232,480 before transfers out is taken into account. The most significant expense of the Utility Fund was \$472,540 for water purchased.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of the fiscal year 2011, the City of Taft had nearly \$17.9 million invested in a broad range of capital assets, including police and fire equipment building, land, park facilities, roads, bridges, vehicles, and water and sewer lines. An increase of the net assets a result of the governmental fixed assets being re-calculated and adjusted based on Engineer's information. The resulting prior period adjustment of \$5,982,792 was made to the fixed assets for the city's governmental infrastructure and buildings. (Exhibit A-1, B-1) (See Table 4.).



**Table 4**  
**Capital Assets before Depreciation**  
**At September 30**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$10,524	\$10,524	\$ -	\$ -	\$10,524	\$10,524
Buildings	2,650,000	94,086	32,668	32,668	2,682,668	126,754
Improvements	3,159,294	3,159,294	-	-	3,159,294	3,159,294
Equipment	1,591,860	1,439,742	384,601	384,601	1,976,461	1,824,343
Vehicles	511,718	511,718	-	-	511,718	511,718
Infrastructure	10,000,000	-	-	-	10,000,000	-
Water System	-	-	1,624,910	1,624,910	1,624,910	1,624,910
Sewer System	-	-	2,734,357	2,734,357	2,734,357	2,734,357
Total Capital Assets	<u>\$17,923,396</u>	<u>\$5,215,364</u>	<u>\$4,776,536</u>	<u>\$4,776,536</u>	<u>\$22,699,932</u>	<u>\$9,991,899</u>

Reclassifications of capital items resulted in the variances. Adjustments were made to better reflect the capital assets. In addition, an engineering firm has assisted in providing updated governmental fixed assets for the City and this is reflected in the information above.

#### **Debt**

At year-end, the City of Taft had \$1,687,270 in General Certifications of Obligation and Revenue Bonds, as compared to \$1,577,956 at the end of the prior fiscal year. Table 5 below reflects outstanding long-term debt overall increase of 6.93 percent with the issuance of \$112,892 Series 2010 bonds and other note acquisitions of \$131,500. The City also has the authority to issue \$5,780,000 in Series 2010 but drew down \$90,000 in 2010 and \$112,892 in 2011 of that series during the year.

**Table 5**  
**Outstanding Long-Term Debt**  
**At September 30**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
TWDB Certificate of Obligations – 2010	\$202,892	\$90,000	\$0	\$0	\$202,892	\$90,000
General Certificates of Obligations – 2010	950,007	1,000,000	0	0	950,007	1,000,000
Note	281,172	175,356	0	0	281,172	175,356
Combination Tax/Revenue Bonds – 2004	<u>240,000</u>	<u>295,000</u>	<u>0</u>	<u>0</u>	<u>240,000</u>	<u>295,000</u>
Total Outstanding Debt	<u>\$1,674,071</u>	<u>\$1,560,356</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,674,071</u>	<u>\$1,560,356</u>

During the current fiscal year, the City of Taft paid principal of \$104,993 on the outstanding debt. The City Charter authorizes the City of Taft to issue bonds, when authorized by the voters or the City Council, for any purpose for which a city may issue bonds under the Constitution and laws of the State of Texas. The Charter precludes the use of bond proceeds for any other purpose other than that for which the bonds were sold. The City also is authorized to issue \$5,780,000 in TWDB Certificate of Obligations Series 2010 but drew down only \$112,892 of that series during the fiscal year.

Prior to the 2011 fiscal year, the City of Taft designated combination tax and revenue bond debt to be serviced by the collection of property taxes.

## **THE CITY'S FUNDS**

At the close of the City's fiscal year on September 30, 2011, the governmental funds of the City reported a combined fund balance of \$452,153. This ending balance includes an increase in the fund balance of \$28,781 including results of operations of \$37,559 and a prior period adjustment of \$(8,779) in the City's General Fund for an ending General Fund balance of \$14,400.

Other fund balance charges are:

- The Series 2004 Debt Service fund balance decreased from \$30,125 to \$3,145 while the Series 2000 Debt Service fund balance increased from \$137,665 to \$155,594, the Series 2010 resulted in a fund balance of \$128,909 and the combination tax and surplus fund ended with a fund balance of \$60,749.

### **General Fund Budgetary Highlights**

During the fiscal year, the City is continuing to enhance its purchase order system to establish stronger controls on its budget process.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2011-2012 budget, tax rates and fees that will be charged for the business-type activities. The total growth of the City's commercial development and revenues remain on target. Property tax valuations continue to increase; thus the property tax revenues are still increasing while the tax rate decreases. Water and sewer utility rates provide adequate revenue to cover the cash expenses of the Utility fund. However, rate increases are expected to be needed in order to accumulate operating reserves, depreciation, and transfers to the General Fund.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives from all sources. If you have questions about this report or need additional financial information, contact the City Manager at the City of Taft, 501 Green Avenue, Taft, Texas 78390.

## **BASIC FINANCIAL STATEMENTS**

***City of Taft, Texas***

**CITY OF TAFT, TEXAS**  
**STATEMENT OF NET ASSETS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

**EXHIBIT A-1**

	Primary Government			Component Unit Non-Major Component Unit
	Governmental Activities	Business Type Activities	Total	
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 441,349	20,428	461,777	62,996
Investments - Current	-	-	-	77,218
Receivables (net of allowance)	175,726	221,801	397,527	8,384
Prepaid Items	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Others	-	-	-	-
Inventory	-	25,635	25,635	-
Bond Issue Cost (net)	-	-	-	-
Restricted Assets:				
Temporarily Restricted:		-		
Temporarily Restricted Assets	-	-	-	-
Capital Assets:				
Land	10,524	-	10,524	-
Infrastructure and Buildings, net	7,209,553	481,685	7,691,238	-
Machinery and Equipment, net	343,327	493,995	837,322	-
Construction in Progress	-	-	-	-
<b>TOTAL ASSETS:</b>	<b>\$ 8,180,479</b>	<b>1,243,545</b>	<b>9,424,023</b>	<b>148,598</b>
<b>LIABILITIES:</b>				
Accounts Payable & Other Current Liab.	\$ 44,178	62,279	106,457	-
Due to Other Funds	-	-	-	-
Due to Others	-	-	-	-
Accrued Liabilities	4,401	176,901	181,302	-
Current Bonds/Loans/Lease Payable	358,348	-	358,348	-
Payable from Restricted Assets	-	113,089	113,089	-
Bonds/Loans Payable/Other - Long Term	1,409,817	-	1,409,817	-
<b>TOTAL LIABILITIES</b>	<b>\$ 1,816,744</b>	<b>352,269</b>	<b>2,169,013</b>	<b>-</b>
<b>NET ASSETS:</b>				
Invested in Capital Assets, Net of Debt	\$ 5,795,239	975,680	6,770,920	-
Restricted for Revenue Bond Retirement	-	-	-	-
Commitments	-	-	-	-
Restricted for Capital Project Funds	-	-	-	-
Restricted for Special Revenue Funds	153,250	-	153,250	-
Restricted for Debt Service Funds	284,503	-	284,503	-
Unrestricted Net Assets	130,742	(84,404)	46,338	148,598
<b>TOTAL NET ASSETS</b>	<b>\$ 6,363,735</b>	<b>891,276</b>	<b>7,255,011</b>	<b>148,598</b>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF TAFT, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

		<u>Program Revenues</u>	
		Charges For	Operating
<u>Primary Government:</u>	<u>Expenses</u>	<u>Services</u>	<u>Grants and Contributions</u>
<b>GOVERNMENTAL ACTIVITIES:</b>			
10 General Government	\$ 562,671	139,320	-
21 Public Safety	1,519,936	103,313	-
31 Public Works	633,254	23,236	-
50 Culture and Recreation	319,966	-	-
65 Economic Development and Assistance	-	-	-
73 Bond Interest	87,610	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ <u>3,123,437</u></b>	<b><u>265,868</u></b>	<b><u>-</u></b>
<b>BUSINESS-TYPE ACTIVITIES:</b>			
701 Utility Fund	\$ 1,623,021	1,855,501	-
<b>Total Business Type Activities:</b>	<b>\$ <u>1,623,021</u></b>	<b><u>1,855,501</u></b>	<b><u>-</u></b>

**General Revenues:**

Taxes:  
 Prop. Taxes, Levied for M&O, Debt Serv., Pen., Int.  
 Sales Taxes  
 Franchise Taxes  
 Other Taxes  
 Licenses and Permits  
 Grants and Contributions not Restricted  
 Other Revenue  
 Investment Earnings  
 Transfers In (Out)  
**Total General Revenues and Transfers**  
 Change in Net Assets

Net Assets - Beginning  
 Prior Period Adjustment  
 Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT B-1

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			Component Units Non-major Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (423,351)	-	(423,351)	-
(1,416,623)	-	(1,416,623)	-
(610,018)	-	(610,018)	-
(319,966)	-	(319,966)	-
-	-	-	30,388
(87,610)	-	(87,610)	-
<u>\$ (2,857,568)</u>	<u>-</u>	<u>(2,857,568)</u>	<u>30,388</u>
-	232,480	232,480	-
-	232,480	232,480	-
			-
			-
\$ 744,420	-	744,420	-
195,154	-	195,154	72,137
142,822	-	142,822	-
2,550	-	2,550	-
87,214	-	87,214	-
90,098	-	90,098	-
327,535	-	327,535	-
2,826	-	2,826	1,017
467,933	(467,933)	-	-
<u>\$ 2,060,553</u>	<u>(467,933)</u>	<u>1,592,619</u>	<u>73,155</u>
<u>(797,016)</u>	<u>(235,454)</u>	<u>(1,032,469)</u>	<u>42,767</u>
1,177,958	1,204,713	2,382,672	105,831
5,982,792	(77,984)	5,904,808	-
<u>\$ 6,363,735</u>	<u>891,276</u>	<u>7,255,011</u>	<u>148,598</u>

**CITY OF TAFT, TEXAS  
BALANCE SHEET  
GOVERNMENT FUNDS  
SEPTEMBER 30, 2011**

	<u>General</u>	<u>Firemen's Pension Fund</u>	<u>Interst &amp; Sinking Fund</u>	<u>Interest &amp; Sinking 2010 Fund</u>
<b>ASSETS</b>				
Cash and Texpool Accounts	\$ 98,189	160,298	154,266	128,909
Receivables and Allowances:				
Inventory	-	-	-	-
Due From Other Governmental Agencies				
Other	-	-	-	-
Ad Valorem Taxes	101,689	-	49,240	-
Allowance for Uncollectible Taxes	(20,338)	-	(9,848)	-
Due From Other Funds	-	-	1,328	-
Prepaid Items	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>179,541</u></b>	<b><u>160,298</u></b>	<b><u>194,986</u></b>	<b><u>128,909</u></b>
<b>LIABILITIES AND FUND BALANCE</b>				
Accounts Payable	\$ 43,608	-	-	-
Other Payables	-	-	-	-
Due to Other Funds	40,181	-	-	-
Deferred Revenues	81,351	-	39,392	-
<b>TOTAL LIABILITES</b>	<b>\$ <u>165,140</u></b>	<b><u>-</u></b>	<b><u>39,392</u></b>	<b><u>-</u></b>
<b>FUND BALANCE</b>				
Restricted for Special Revenue	\$ -	160,298	-	-
Restricted for Debt Service	-	-	155,594	128,909
Unassigned	14,400	-	-	-
<b>TOTAL FUND BALANCE</b>	<b>\$ <u>14,400</u></b>	<b><u>160,298</u></b>	<b><u>155,594</u></b>	<b><u>128,909</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>179,541</u></b>	<b><u>160,298</u></b>	<b><u>194,986</u></b>	<b><u>128,909</u></b>



EXHIBIT C-1

Other Governmental Funds	Total Governmental Funds
\$ (100,314)	441,349
-	-
54,982	54,982
-	150,929
-	(30,186)
38,854	40,181
-	-
\$ <u>(6,478)</u>	<u>657,255</u>
\$ 570	44,178
-	-
-	40,181
-	120,743
\$ <u>570</u>	<u>205,102</u>
\$ (7,048)	153,250
-	284,503
-	14,400
\$ <u>(7,048)</u>	<u>452,153</u>
\$ <u>(6,478)</u>	<u>657,255</u>

**CITY OF TAFT, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Exhibit C-2

<b>Total Fund Balances - Governmental Funds</b>	\$ 452,153
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The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.	-
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Capital assets are used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including these balances for capital assets (net of depreciation) in the governmental activities is to increase net assets. At the beginning of the year, the costs of these assets were: <u>\$ 17,771,278</u> and the accumulated depreciation was: <u>\$ (9,586,510)</u> In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets -- <u>(1,609,392) .</u>	6,557,776
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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 governmental-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	6,544
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The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(773,482)
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Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and the recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	120,743
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<b>Net assets of Governmental Activities</b>	\$ <u><u>6,363,735</u></u>
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The accompanying notes are an integral part of this statement.

## ***City of Taft, Texas***

**CITY OF TAFT, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	General	Firemen's Pension Fund	Interst & Sinking Fund	Interest & Sinking 2010 Fund
<b>REVENUES</b>				
Taxes	\$ 769,398	-	194,805	-
Licenses and Permits	87,214	-	-	-
Intergovernmental	1,000	-	-	-
Charges for Services	23,236	-	-	-
Fines and Penalties	103,313	-	-	-
Interest	-	261	291	393
Other	304,548	16,778	-	-
<b>TOTAL REVENUES</b>	<b>\$ 1,288,710</b>	<b>17,038</b>	<b>195,096</b>	<b>393</b>
<b>EXPENDITURES</b>				
Current				
General Administration	\$ 436,376	-	-	-
Cultural and Recreational, Tourism	217,927	-	-	-
Public Safety	1,031,670	3,975	-	-
Public Works	168,772	-	-	144,843
Debt Service				
Principal Retirement	-	-	104,993	-
Interest and Fiscal Charges	-	-	87,610	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,854,746</b>	<b>3,975</b>	<b>192,603</b>	<b>144,843</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (566,036)</b>	<b>13,063</b>	<b>2,493</b>	<b>(144,450)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital - related Debt Issued	\$ -	-	-	-
Transfers from Other Funds	603,595	-	15,436	-
Transfer to Other Funds	-	-	-	(100,668)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 603,595</b>	<b>-</b>	<b>15,436</b>	<b>(100,668)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>\$ 37,559</b>	<b>13,063</b>	<b>17,929</b>	<b>(245,118)</b>
<b>FUND BALANCE, beginning of year</b>	<b>\$ (14,380)</b>	<b>147,235</b>	<b>137,665</b>	<b>374,027</b>
Prior Period Adjustment	(8,779)	-	-	-
<b>FUND BALANCE, end of year</b>	<b>\$ 14,400</b>	<b>160,298</b>	<b>155,594</b>	<b>128,909</b>

EXHIBIT C-3

Other Governmental Funds	Total Governmental Funds
-	964,204
-	87,214
89,098	90,098
-	23,236
-	103,313
1,882	2,826
32,637	353,963
<u>123,616</u>	<u>1,624,853</u>
7,123	443,499
-	217,927
292,239	1,327,884
-	313,615
-	104,993
-	87,610
<u>299,362</u>	<u>2,495,529</u>
<u>(175,746)</u>	<u>(870,676)</u>
112,892	112,892
-	619,031
(50,430)	(151,098)
62,461	580,825
(113,284)	(289,851)
106,236	750,783
-	(8,779)
<u>(7,048)</u>	<u>452,153</u>

**CITY OF TAFT, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011**

**Exhibit C-4**

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (289,851)</b>
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The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.	-
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Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	145,574
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Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(773,482)
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Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds from bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions as to increase (decrease) net assets.	6,103,535
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>5,185,777</u></b>
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The accompanying notes are an integral part of this statement.

**CITY OF TAFT, TEXAS  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES  
BUDGET (GAAP BASIS) AND ACTUAL  
YEAR ENDED SEPTEMBER 30, 2011 WITH COMPARATIVE ACTUAL AMOUNTS FOR 2010**

**Exhibit C-5  
2010**

	2011			Variance with Final Budget Variance	2010
	BUDGETED AMOUNTS		Actual		Actual
	Original	Final			
<b>REVENUES</b>					
Taxes					
Property Taxes	396,500	396,500	428,739	32,239	437,605
General Sales and Use Taxes	193,000	193,000	195,154	2,154	182,258
Franchise Tax	144,200	144,200	142,822	(1,378)	149,640
Other Taxes	900	900	2,682	1,782	153
License and Permits	56,150	56,150	87,214	31,064	69,359
Intergovernmental Revenues	-	-	1,000	1,000	2,464
Charges for Services	19,600	19,600	23,236	3,636	17,926
Investment Earnings	1,000	1,000	527	(473)	429
Fines and Forfeitures	72,659	72,659	103,313	30,654	43,818
Other Revenues	242,355	242,355	304,021	61,666	219,244
<b>Total Revenues</b>	<b>1,126,364</b>	<b>1,126,364</b>	<b>1,288,710</b>	<b>162,346</b>	<b>1,122,896</b>
<b>EXPENDITURES</b>					
General Administration	-	-	21,916	(21,916)	-
Municipal Court	66,303	89,479	85,483	3,996	52,115
Administration	185,154	185,154	194,002	(8,848)	168,881
Legislative	95,887	95,887	130,577	(34,690)	135,832
Tax Collection	-	-	4,398	(4,398)	12,059
Public Safety					
Police	480,131	480,131	537,326	(57,195)	515,538
Fire	22,400	22,400	20,735	1,665	20,449
Emerg. Med. Service	377,154	393,254	421,143	(27,889)	356,250
Animal Control	21,115	21,115	27,345	(6,230)	34,168
Code Enforcement	23,682	23,682	25,120	(1,438)	25,922
Public Works					
Streets Department	178,182	178,182	168,772	9,410	155,703
Culture and Recreation					
Library	49,377	49,377	61,699	(12,322)	48,627
Parks/Community Center	126,382	126,382	131,256	(4,874)	113,740
Museum	5,000	5,000	5,727	(727)	4,818
Community Centers	16,495	16,495	19,245	(2,750)	17,337
<b>Total Expenditures</b>	<b>1,647,262</b>	<b>1,686,538</b>	<b>1,854,746</b>	<b>(168,208)</b>	<b>1,661,439</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(520,898)	(560,174)	(566,036)	(5,862)	(538,543)
<b>OTHER FINANCING SOURCES (USES):</b>					
Capital related Debt Issued	-	-	-	-	-
Transfers In	521,148	521,148	603,595	82,447	995,347
Transfers (Out)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>521,148</b>	<b>521,148</b>	<b>603,595</b>	<b>82,447</b>	<b>995,347</b>
Net Change in Fund Balance	250	(39,026)	37,559	76,585	456,804
Fund Balance - October 1 (Beginning)	(14,380)	(14,380)	(14,380)	-	(471,185)
Prior period adjustment	-	-	(8,779)	(8,779)	1
<b>Fund Balance - September 30 (Ending)</b>	<b>(14,130)</b>	<b>(53,406)</b>	<b>14,400</b>	<b>67,806</b>	<b>(14,380)</b>

The accompanying notes are an integral part of this statement.

## CITY OF TAFT, TEXAS

## EXHIBIT C-6

## FIREMAN'S PENSION FUND

SCHEDULES OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE- BUDGET (GAAP BASIS) AND ACTUAL  
 YEAR ENDED SEPTEMBER 30, 2011  
 WITH COMPARATIVE TOTALS FOR 2010

	2011				2010
	<u>BUDGETED AMOUNTS</u>			<u>Final Budget Variance</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>		<u>Actual</u>
<b>REVENUES</b>					
Other Revenues/Subsidy	17,550	17,550	16,778	(772)	17,062
Interest	500	500	261	(239)	337
<b>Total Revenues</b>	<u>18,050</u>	<u>18,050</u>	<u>17,038</u>	<u>(1,012)</u>	<u>17,399</u>
<b>EXPENDITURES</b>					
Personnel Costs	4,300	4,300	3,975	(325)	3,885
Supplies	-	-	-	-	-
Other Services and Charges	160	160	0	(160)	88
Capital Outlay	-	-	-	-	-
<b>Total Expenditures</b>	<u>4,460</u>	<u>4,460</u>	<u>3,975</u>	<u>(485)</u>	<u>3,973</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>13,590</u>	<u>13,590</u>	<u>13,063</u>	<u>(527)</u>	<u>13,426</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Other Sources - Transfers In	-	-	-	-	-
Other Sources - Transfers (Out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)</b>	<u>13,590</u>	<u>13,590</u>	<u>13,063</u>	<u>(527)</u>	<u>13,426</u>
<b>FUND BALANCE, beginning of year</b>	147,235	147,235	147,235	-	133,809
Prior Period Adjustment	-	-	-	-	-
<b>FUND BALANCE, end of year</b>	<u>160,825</u>	<u>160,825</u>	<u>160,298</u>	<u>(527)</u>	<u>147,235</u>



## CITY OF TAFT, TEXAS

EXHIBIT C-7

## DEBT SERVICE FUND - SERIES 2000 REFUNDING

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-

## BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE TOTALS FOR 2010

	2011			2010
	<u>BUDGETED AMOUNTS</u>		<u>Final Budget Variance</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Actual</u>
<b>REVENUES</b>				
Ad valorem Taxes	159,557	159,557	179,197	182,261
Ad valorem- Penalty & Interest	0	0	15,608	11,648
Total Ad valorem Taxes	159,557	159,557	194,805	193,909
Other Revenue	0	0	0	327
Interest	100	100	291	0
<b>Total Revenues</b>	<u>159,657</u>	<u>159,657</u>	<u>195,096</u>	<u>194,236</u>
<b>EXPENDITURES</b>				
Debt Service				
Principal Retirement	77,000	77,000	104,993	105,328
Interest and Fiscal Charges	82,557	82,557	87,610	45,393
<b>Total Expenditures</b>	<u>159,557</u>	<u>159,557</u>	<u>192,603</u>	<u>150,721</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>100</u>	<u>100</u>	<u>2,493</u>	<u>43,515</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other Sources- Transfers (Out)	0	0	15,436	0
Other Sources- Transfers In	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>0</u>	<u>15,436</u>	<u>0</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>100</u>	<u>100</u>	<u>17,929</u>	<u>43,515</u>
<b>FUND BALANCE, beginning of year</b>	<u>137,665</u>	<u>137,665</u>	<u>137,665</u>	<u>94,150</u>
<b>FUND BALANCE, end of year</b>	<u>137,765</u>	<u>137,765</u>	<u>155,594</u>	<u>137,665</u>

## DEBT SERVICE FUND - SERIES 2010

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-

## BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE TOTALS FOR 2010

	2011			2010	
	<u>BUDGETED AMOUNTS</u>		Final Budget		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
<b>REVENUES</b>					
Ad valorem Taxes	0	0	0	0	0
Ad valorem- Penalty & Interest	0	0	0	0	0
Total Ad valorem Taxes	0	0	0	0	0
Other Revenue	0	0	0	0	0
Interest	0	0	393	393	264
<b>Total Revenues</b>	0	0	393	393	264
<b>EXPENDITURES</b>					
Debt Service					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0
Other Services and Charges	0	0	0	0	7,914
Capital Outlay	0	0	144,843	(144,843)	91,110
<b>Total Expenditures</b>	0	0	144,843	(144,843)	99,024
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	0	0	(144,450)	(144,450)	(98,760)
<b>OTHER FINANCING SOURCES (USES)</b>					
Other Sources- Transfers (Out)	0	0	(100,668)	(100,668)	(197,213)
Other Sources- Transfers In	0	0	0	0	670,000
<b>Total Other Financing Sources (Uses)</b>	0	0	(100,668)	(100,668)	472,787
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	0	0	(245,118)	(245,118)	374,027
<b>FUND BALANCE, beginning of year</b>	374,027	374,027	374,027	0	0
<b>FUND BALANCE, end of year</b>	374,027	374,027	128,909	(245,118)	374,027

***City of Taft, Texas***

**CITY OF TAFT, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2011**

**EXHIBIT D-1**

	Business-Type Activities Enterprise Fund <hr/> Utility Fund <hr/>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	20,428
Receivables and Allowances	
Accounts	
Water and Wastewater Billings	236,228
Assessments	-
Other	-
Allowance for Uncollectible Accounts	(14,427)
Due from Other Funds	-
Bond Issue Cost (Net)	-
Prepaid Items	-
Inventory	25,635
<b>Total Current Assets</b>	<hr/> 267,865 <hr/>
<b>Non-Current Assets:</b>	
Restricted Assets:	
Cash and Cash Equivalents	
Revenue Bond Constuction	-
<b>Total - Non-Current Assets</b>	<hr/> - <hr/>
<b>Capital Assets</b>	
Land	-
Construction in Progress	-
Buildings	32,668
Water System	1,564,062
Sewer System	2,685,810
Vehicles	-
Furniture and Equipment	493,995
<b>Total Capital Assets</b>	<hr/> 4,776,536 <hr/>
Less Accumulated Depreciation	(3,800,856)
<b>Net Capital Assets</b>	<hr/> 975,680 <hr/>
<b>TOTAL ASSETS</b>	<hr/> 1,243,545 <hr/>

**CITY OF TAFT, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2011**

**EXHIBIT D-1**  
continued

	Business-Type Activities Enterprise Fund <hr/> Utility Fund
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts Payable	62,279
Accrued Liabilities	148,230
Compensated Absences	28,671
Due to Other Funds	-
Capital Leases Payable	-
Current Portion of Revenue Bonds Payable	-
Customer Meter Deposits	<u>113,089</u>
<b>Total Current Liabilities</b>	<u>352,269</u>
Liabilities (Payable from Restricted Assets):	
<b>Long-Term Liabilities</b>	
Revenue Bonds Payable	<u>-</u>
Total Long-Term Liabilities	<u>-</u>
<b>Total Liabilities</b>	<u>352,269</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	975,680
Restricted for:	
Revenue Bond Retirement	-
Unrestricted	<u>(84,404)</u>
<b>Net Assets</b>	<u><u>891,276</u></u>

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

**CITY OF TAFT, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2011**

**EXHIBIT D-2**

	Business-Type Activities Enterprise Fund Utility Fund
<b>OPERATING REVENUES</b>	
Water Sales	849,232
Sewer Sales	475,689
Sanitation Fees	468,578
Other Fees and Charges	62,002
<b>Total Operating Revenues</b>	<u>1,855,501</u>
<b>OPERATING EXPENSES</b>	
Personnel Costs	401,849
Contracted Services	401,107
Supplies	41,143
Maintenance	8,046
Self Insurance Claims & Administration	-
Other Operating Expenses	176,237
Subtotal	<u>1,028,382</u>
Water Purchased	472,540
Depreciation	122,099
Amortization	-
<b>Total Operating Expenses</b>	<u>1,623,021</u>
<b>Net Operating Income</b>	<u>232,480</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Refunding Bonds Issued	-
Payments to Escrow Agents	-
Grant Income	-
Interest Income	-
Interest and Fiscal Charges	-
<b>Net Non-Operating Revenues (Expenses)</b>	<u>-</u>
Income Before Transfers	<u>232,480</u>
Transfers in	-
Transfers (out)	(467,933)
<b>Change in Net Assets</b>	<u>(235,454)</u>
<b>Prior Period Adjustment</b>	<u>(77,984)</u>
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>1,204,713</u>
<b>NET ASSETS END OF YEAR</b>	<u>891,276</u>

**CITY OF TAFT, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2011**

**EXHIBIT D-3**

	Business-Type Activities Enterprise Fund Utility Fund
<b>Cash flow from operating activities:</b>	
Cash received from customers	1,879,964
Cash received from other funds for services	-
Cash payments to suppliers for goods and services	(977,069)
Cash payments to employees for services	(401,525)
Other adjustments	-
Net cash provided by operating activities	501,369
<b>Cash flows from noncapital financing activities:</b>	
Transfers to other funds	(467,933)
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Net Refunds bonds/costs	-
Grant Proceeds	-
Principal Payment on bonds	-
Interest and Fiscal Charges Paid	-
Purchase of Capital Assets	0
Prior period adjustment	(77,984)
Net Cash Used for Capital and Related Financing Activities	(77,984)
Cash Flows from Investing Activities- Interest Income	-
Net Increase (Decrease) in Cash and Cash Equivalents	(44,548)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>64,976</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>20,428</b>
<b>Reconciliation of Operating Income to Net Cash</b>	
Operating Activities	
Operating Income	232,480
<b>Adjustments to Reconcile Operating Income to Net Cash</b>	
Provided by Operating Activities:	
Depreciation	122,099
Amortization	-
<b>Change in Assets and Liabilities:</b>	
(Increase) Decrease in Accounts Receivable (Net)	(14,470)
(Increase) Decrease in Due from Other Funds	38,933
(Increase) Decrease in Due from Other Governments	-
(Increase) Decrease in Prepaid Items	-
(Increase) Decrease in Inventory	0
Increase (Decrease) in Accounts Payable	49,665
Increase (Decrease) in Accrued Liabilities	65,499
Increase (Decrease) in Due to Other Funds	-
Increase (Decrease) in Capital Leases Payable	-
Increase (Decrease) in Compensated Absences	324
Increase (Decrease) in Customer Deposits	6,840
Net Cash Provided by Operating Activities	501,369

***City of Taft, Texas***



## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF TAFT, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Taft, Texas, (the "City") was incorporated in 1890 under the provisions of the laws for the State of Texas. The City operates under a charter under a Home-Rule Charter, which was adopted on October 5, 1951, and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administration services. Other services include utilities and airport operations. The City operates with a Council-Manager type of government where the Mayor and four Council members are elected on a rotating schedule on a ward basis with 2 members for Ward 1 and 2 members for Ward 2. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the City operations and so data from these units are combined with data from the City. If applicable, discretely presented units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City.

**Blended Component Unit**

The City did not have any blended component units.

**Discretely Presented Component Unit**

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters.

The Pride of Taft is another nonprofit group which provides marketing efforts for various commerce efforts for the city.

**CITY OF TAFT, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

The City complies with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**B. Government-wide and fund financial statements**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of inter-fund activity, within the governmental and business-type activities columns, has been removed from these statements. However, any inter-fund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**Fund Financial Statements:**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

**CITY OF TAFT, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**General Fund-**

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

**Utility Fund-**

The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are finance through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Measurement Focus/Basis of Accounting**

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

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenue as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt services expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

**D. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2011.

**E. Cash and Investments**

The City can legally invest in certificates of deposit, obligations of the U.S. Government and its Agencies or instrumentalities, State obligations, local government investment pools and certain money market funds.

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

The City has implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." As a governmental entity other than an external investment pool, in accordance with GASB 31 the City's investments are stated at market value, except for money market investments with remaining maturity of one year or less when purchased and nonparticipating interest earning investment contracts.

For purposes of the statement of cash flows, the enterprise and internal service funds consider cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

**F. Prepaid Items**

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

**G. Inventories**

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

**H. Inter-fund Receivables and Payables**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**I. Transactions Between Funds**

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**J. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-50 Years
Water and Sewer System	5-50 Years
Infrastructure	10-50 Years
Machinery and Equipment	3-10 Years
Improvements	10-50 Years
Vehicles	3-10 Years

**K. Compensated Absences**

In proprietary fund types, accumulated unpaid compensated absences are accrued when incurred. The accruals are reported as liabilities and expenses for the year incurred. The liability in the governmental fund types is recorded only in the Government-wide Financial Statements. The amount expected to be paid from current resources is not considered to be significant. The City allows employees to accumulate an unlimited amount of vacation and sick leave. Applicable liabilities in the governmental wide net assets and in the proprietary fund have been established to reflect these liabilities.

**L. Net Assets and Fund Equity**

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments). All other net assets are considered unrestricted.

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**M. Use of Estimates**

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amount reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**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 assets.**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. 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, including bonds payable, 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:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	10,524	0	10,524	
Buildings	2,650,000	(1,325,000)	1,325,000	
Improvements	3,159,294	(1,658,555)	1,500,739	
Furniture & Equipment	1,439,742	(1,201,878)	237,864	
Vehicles	511,718	(401,077)	110,641	
Infrastructure	<u>10,000,000</u>	<u>(5,000,000)</u>	<u>5,000,000</u>	
Change in Net Assets				<u>8,184,768</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>				
Bonds and Loans Payable				(1,560,356)
Comp. Absences & Other				(49,036)
Deferred amounts				<u>(17,600)</u>
Total Long-term Liabilities				<u>(1,626,992)</u>
Net Adjustment to Net Assets				<u>6,557,776</u>



**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**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 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 assets 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 asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Land			
Buildings & Improvements			
Furniture & Equipment	152,118	152,118	152,118
Infrastructure			
Construction in Progress			
Total Capital Outlay			
<u>Debt Principal Payments</u>			
Bond Principal – net	(145,574)	(145,574)	(145,574)
Loan Principal			
Capital Lease Payments			
Other			
Total Principal Payments			
Total Adjustment to Net Assets		<u>297,692</u>	<u>297,692</u>

Another element of the reconciliation on Exhibit 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. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	120,743	120,743	120,743
Uncollected taxes(assumed collectible) from Current Year Levy			
Uncollected Taxes (assumed collectible) from Prior Year Levy			
Other			
Total		<u>120,743</u>	<u>120,743</u>

**CITY OF TAFT, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**III Stewardship, Compliance and Accountability**

**1 CASH AND INVESTMENTS**

**Legal and Contractual Provisions Governing Deposits and Investments**

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

**A. Cash Deposits**

At September 30, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$461,777 and the bank balance was \$770,724. The City's cash deposits at September 30, 2011 and during the period ended September 30, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

**B. Investments**

As of September 30, 2011, the City had the following investments and maturities:

Investment Maturities (In Years)				
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 3</u>
Investment Pools:				
Investments -Cert. of Deps.	<u>10,070</u>	<u>10,070</u>	<u>-</u>	<u>-</u>
Total Fair Value	<u>10,070</u>	<u>10,070</u>	<u>-</u>	<u>-</u>

**CITY OF TAFT, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
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Interest Rate Risk- In accordance with state law and City policy, the City does not purchase any investments with maturities greater than 10 years.

Credit Risk- In accordance with state law and the City's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, countries, etc. must be rated at least A. The City's investments in investment pools were rated AAA.

Concentration of Credit Risk- the City does not place a limit on the amount the City may invest in any one issuer. The City does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a custodial credit risk.

**2. CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2011, was as follows:

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Balance October 1st	Additions/ Completion	Retirements/ Adjustments	Balance 30-Sep
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	10,524	-	-	10,524
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	10,524	-	-	10,524
Capital assets, being depreciated				
Building	2,650,000	-	-	2,650,000
Improvements	3,159,294	-	-	3,159,294
Equipment	1,439,742	158,118	-	1,591,860
Vehicles	511,718	-	-	511,718
Infrastructure	10,000,000	-	-	10,000,000
Total capital assets, being depreciated	17,760,754	158,118	-	17,912,872
Less accumulated depreciation for:				
Buildings	(1,325,000)	(53,000)	-	(1,378,000)
Improvements	(1,658,555)	(63,186)	-	(1,721,741)
Equipment	(1,201,878)	(106,124)	-	(1,308,002)
Vehicles	(401,077)	(51,172)	-	(452,249)
Infrastructure	(5,000,000)	(500,000)	-	(5,500,000)
Total accumulated Depreciation	(9,586,510)	(773,482)	-	(10,359,992)
Total capital assets, being depreciated, net	8,174,244	(621,364)	-	7,552,880
Governmental activities capital assets, net	8,184,768	(621,364)	-	7,563,404
<b>Business-type Activities:</b>				
Capital assets, not being depreciated				
Land	-	-	-	-
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	-	-	-	-
Capital assets, being depreciated				
Buildings	32,668	-	-	32,668
Improvements	-	-	-	-
Equipment	384,601	-	-	384,601
Water System	1,624,910	-	-	1,624,910
Sewer System	2,734,357	-	-	2,734,357
Total capital assets, being depreciated	4,776,536	-	-	4,776,536
Less accumulated depreciation for:				
Buildings	(31,423)	(820)	-	(32,243)
Improvements	-	-	-	-
Equipment	(336,967)	(8,231)	-	(345,198)
Water System	(1,350,878)	(32,498)	-	(1,383,376)
Sewer System	(1,959,489)	(80,550)	-	(2,040,039)
Total accumulated depreciation	(3,678,757)	(122,099)	-	(3,800,856)
Total capital assets, being depreciated, net	1,097,779	(122,099)	-	975,680
Business-type activities capital assets, net	\$1,097,779	(122,099)	-	675,680

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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

Governmental activities:	
General government and administration	134,068
Public Works - Street Department	345,323
Parks and Recreation	102,039
Public Safety - Police Department	71,742
Public Safety - Fire Department	<u>120,311</u>
Total depreciation expense- Governmental activities	<u>773,482</u>
Business-type activities:	
Water System	32,498
Sewer System	80,550
Machinery and Equipment/Buildings	<u>9,051</u>
Total depreciation expense- Business-type activities	<u>122,099</u>

**3. LONG-TERM DEBT**

At September 30, 2011, bonds payable consisted of the following individual issues:

	<u>Governmental</u>
(1) Certificate of Obligations, Series 2010. In the original sum of \$1,000,000 with 5.4 % interest rates.	\$950,007
(2) Combination Tax and Revenue Bonds, Series 2004. in the original sum of \$500,000. With the interest rate of 2.80 to 4.75%	240,000
(3) Texas Water Development Board Certificate of Obligations, Series 2010 in the original sum of \$5,780,000. Only \$90,000 drew down in the fiscal year.	202,892
(4) Notes for equipment/ambulance	<u>281,172</u>
Total Certificate of Obligations/Revenue Bonds	<u>\$1,674,071</u>

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2011:

	BALANCE			BALANCE	DUE WITHIN ONE YEAR
	1-Oct	ADDITIONS	REDUCTIONS	30-Sep	
<b>GOVERNMENTAL ACTIVITIES</b>					
TWDB Certificate of Obligation Bonds, 2010	90,000	112,892	-	202,892	193,000
Certificate of Obligation Bonds, 2010	1,000,000	-	49,993	950,007	47,143
Combination Tax and Revenue Bonds, Series 2004	295,000	-	55,000	295,000	55,000
Deferred Costs	17,600	-	4,401	13,199	4,401
Compensated Absences	49,036	31,221	12,259	67,998	17,000
Notes payable	175,356	131,500	25,684	281,172	52,119
Capital Lease payable	0	27,787	10,489	17,298	11,086
Total Governmental Activities	<u>1,626,992</u>	<u>303,400</u>	<u>157,826</u>	<u>1,772,566</u>	<u>379,749</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Revenue Bonds	-	-	-	-	-
Capital Leases	-	-	-	-	-
Compensated Absences	<u>28,347</u>	<u>16,134</u>	<u>15,810</u>	<u>28,671</u>	<u>7,168</u>
Total Business-Type Activities	<u>28,347</u>	<u>16,134</u>	<u>15,810</u>	<u>28,671</u>	<u>7,168</u>
Total Government	<u>1,655,339</u>	<u>319,534</u>	<u>173,636</u>	<u>1,801,237</u>	<u>386,916</u>

The annual requirements for bonds for years subsequent to September 30, 2011, are as follows:

YEAR ENDING	GOVERNMENTAL ACTIVITIES GENERAL/ CERTIFICATE OBLIGATIONS/NOTES PAYABLE			BUSINESS-TYPE ACTIVITIES REVENUE BONDS		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
30-Sep				-	-	-
2012	358,348	73,571	431,919	-	-	-
2013	178,696	67,088	245,784	-	-	-
2014	168,081	58,485	226,566	-	-	-
2015	178,864	49,686	228,550			
2016	119,958	41,969	161,927			
Thereafter	<u>687,422</u>	<u>180,010</u>	<u>867,432</u>	=	=	=
TOTAL	<u>1,691,369</u>	<u>470,809</u>	<u>2,162,178</u>	=	=	=

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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The annual requirements for capital leases for years subsequent to September 30, 2011, are as follows:

YEAR ENDING 30-Sep	GOVERNMENTAL ACTIVITIES CAPITAL LEASES PAYABLE			BUSINESS-TYPE ACTIVITIES CAPITAL LEASES PAYABLE		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
Thereafter	=	=	=	=	=	=
TOTAL	=	=	=	=	=	=

**RESTRICTED CASH AND INVESTMENTS- UTILITY FUND**

**Revenue Bonds-**

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on the pledge of the net revenues of the water and sewer system.

The Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts. Management of the City believes that it is in the compliance with all significant financial requirements as of September 30, 2011.

**Authorized but Not Issued Debt-**

Series 2010 for \$5,780,000. The City has drawn down on \$202,892 and will draw down as needed.

**COMMITMENTS UNDER NON-CAPITALIZED LEASES**

**Operating Leases:**

The City leases equipment. Most of the leases are cancelable.

Minimum lease commitments for the next five years are immaterial.

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**4. INTERFUND TRANSACTIONS AND BALANCES**

Inter-fund balances at September 30, 2011 consisted of the following individual fund balances:

	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
General Fund:		
Special Revenue Fund	-	38,854
Debt Service Fund	-	1,328
Capital Projects Fund	-	-
Enterprise Funds	=	=
Total General Fund	-	40,181
Special Revenue Fund:		
General Fund	-	-
Special Revenue Funds	38,854	-
Enterprise Funds	-	-
Debt Service:		
General Fund	1,328	-
Enterprise Funds	-	-
Enterprise Funds:		
General Fund	-	-
Special Revenue Funds	-	-
Enterprise Funds	-	-
TOTAL	<u>40,181</u>	<u>40,181</u>

The inter-fund balances at September 30, 2011 are generally short-term loans to cover temporary cash flows and reimbursements for various funds.

Inter-fund transfers during the year ended September 30, 2011 were as follows:

Transfer In	<u>General</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Funds</u>	<u>Utility</u> <u>Fund</u>	<u>Total</u>
Utility Fund	467,933	-	-	-	467,933
General Fund	-	-	-	-	-
Debt Service Fund	135,662	15,436	-	-	151,098
Spec. Rev. Fund	=	=	=	-	=
Total	<u>603,595</u>	<u>15,436</u>	=	=	<u>619,031</u>
Less Transfers	=	<u>(100,662)</u>	<u>(50,430)</u>	<u>(467,933)</u>	<u>(619,031)</u>
Net Transfers	<u>603,595</u>	<u>(85,232)</u>	<u>(50,430)</u>	<u>(467,933)</u>	<u>-0-</u>

The Utility Fund transfers to the General Fund were for an allocated amount for administrative service charges and the transfer to the Debt Service Fund was for payment of Debt Service related to the various bond series.



**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

5. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2011, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	81,351	-	-	-	81,351
Major Gov. Funds	39,392	-	1,328	-	40,720
Non-major Gov. Funds		<u>54,982</u>	<u>38,854</u>	-	<u>93,836</u>
Total - Governmental Activities	<u>120,743</u>	<u>54,982</u>	<u>40,182</u>	=	<u>215,907</u>

Payables at September 30, 2011, were as follows:

	<u>Loans, Leases and Bonds Payable – Current Year</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	43,608	358,348	4,401	40,181	-	446,538
Major Gov. Fund	-	-	-	-	-	-
Non-major Gov. Funds	<u>570</u>	-	-	-	-	<u>570</u>
Total- Gov. Activities	<u>44,178</u>	<u>358,348</u>	<u>4,401</u>	<u>40,181</u>	=	<u>447,108</u>

6. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied on October 1 based on 100% of appraise value of property as listed on the previous January 1. Appraised values are determined by the San Patricio County Appraisal District; approved by the San Patricio County Appraisal Review Board; and certified by the Chief Appraiser. Property taxes are due upon receipt of the tax bill and are delinquent if not paid before February of the year following the year in which imposed. The city does not offer a discount or early payment of taxes. The City's taxes are billed and collected by the City during the current fiscal year and will be billed and collected by the San Patricio County Tax Assessor Collector in future years. Ad valorem taxes of \$599,645 were assessed on property values totaling \$79,952,720 using a tax rate of \$.750000 (\$.505315 for general operations and \$.244685 for debt service) per \$100 assessed value.

**CITY OF TAFT, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**7. PENSION PLAN**

Plan Description: The City of Taft provides pension benefits for all of its eligible employees (except firefighters and part – time personnel) through a non – traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple – employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

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 by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	Plan Year 2011	Plan Year 2010
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, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	30% of CPI Repeating	30% of CPI Repeating

Contributions: Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation (asset) are as follows:

1. Annual Required Contribution (ARC)	58,992
2. Interest on Net Pension Obligation	0
3. Adjustment to the ARC	0
4. Annual Pension Cost (APC)	58,992
5. Contributions Made	58,992
6. Increase (Decrease) in net pension obligation	0
7. Net Pension Obligation/(Asset), beginning of year	0
8. Net Pension Obligation/(Asset), end of year	0

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Three year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contributions Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2009	39,744	39,744	100%	0
2010	47,137	47,137	100%	0
2011	58,992	58,992	100%	0

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2009 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 2010, also follows:

Valuation Date	12/31/2008	12/31/2009	12/31/2010 – prior to restructuring	12/31/2010 – Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	24 years – closed period	22.1 years – closed period	20.8 years – closed period	22 years – closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years	25 years
Asset Valuation Method	Amortized cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	7.5%	7.0%	7.5%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%	3.00%
Cost-of-living adjustments	.9%	.9%	.9%	.9%

**Funded Status and Funding Progress** – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as of Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2006	731,415	1,039,320	70.4%	307,905	867,133	46.2%
12/31/2007	717,887	895,888	80.1%	177,801	743,292	23.9%
12/31/2008	775,987	955,656	81.2%	179,669	651,890	27.6%
12/31/2009	828,161	943,744	87.8%	115,583	845,456	13.7%
12/31/2010-1	945,468	1,054,170	89.7%	108,702	1,046,640	10.4%
12/31/2010-2	1,517,198	1,516,016	100.1%	(1,182)	1,046,640	(0.1)%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The city also participates in the cost sharing multi-employer defined benefit group-term life insurance coverage 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.

Regarding supplemental Death Benefits in compliance with GASB Statement 45, the City does not offer supplemental death benefits to active or retirees for the 2011 or 2010 plan years.

City supplemental death to:	Plan Year 2011	Plan Year 2010
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

**CITY OF TAFT, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Contributions**

The city contributes to the Supplemental Death Benefits Fund 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 Supplemental Death Benefits Fund 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.

**8. COMMITMENTS AND CONTINGENT LIABILITIES/SUBSEQUENT EVENTS**

There are claims and/or lawsuits pending against the City that were required to be disclosed. The City has not accrued any potential liability pending its lawsuits. No liability has been established for any pending and outstanding suits. The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

**9. PRIOR PERIOD ADJUSTMENTS**

During the year ended September 30, 2011, prior period adjustments were noted in the following fund(s):

	<u>Fund</u>	<u>Amount</u>
General Fund		\$ 8,779
Utility Fund		<u>77,984</u>
Total		<u>\$86,763</u>

Adjustments were also made to the governmental fixed assets for valuations for the buildings and infrastructure in the amount of \$5,982,792.

**10. NET ASSETS DEFICIT**

At September 30, 2011, the General Fund maintains a deficit fund balance as well as the Utility unrestricted net assets and several special revenue funds.

**11. GOING CONCERN ISSUE**

The City is currently in a deficit in the General Fund and has overspent in its overall budget line items. Significant corrections must be done in order for the City to return its fund balance to at least three months of annual operations. The City is working toward that goal and working on improvements.

**12. FUND BALANCES**

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The Council may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

Restricted	
Retirement of Long Term Debt	\$ 284,503
Special Revenue	153,250
Assigned Fund Balances	
Undesignated/Unassigned	<u>14,400</u>
Total Fund Balances	<u>\$ 452,153</u>

***City of Taft, Texas***

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAFT, TEXAS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

BUDGETARY DATA

Annual budgets are legally adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects fund, and the Asset Seizures and Forfeitures Fund, which are Special Revenue Funds. City Manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of a department must be approved by the City Council. Budgeted amounts reported in the 2008-2009 financial statements present the original and final amended budget approved by the Council. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

1. Prior to August 6<sup>th</sup> each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. Advertised public hearings are conducted.
3. The budget is required to be approved by September 20<sup>th</sup>.
4. The tax rates are approved after the budget has been approved.
5. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.



CITY OF TAFT, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
ANALYSIS OF FUNDING PROGRESS

LAST FOUR VALUATION DATES

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as of Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2007	717,887	895,888	80.1%	177,801	743,292	23.9%
12/31/2008	775,987	955,656	81.2%	179,669	651,890	27.6%
12/31/2009	828,161	943,744	87.8%	115,583	845,456	13.7%
12/31/2010-1	945,468	1,054,170	89.7%	108,702	1,046,640	10.4%
12/31/2010-2	1,517,198	1,516,016	100.1%	(1,182)	1,046,640	(0.1)%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

***City of Taft, Texas***

**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES AS SUPPLEMENTARY INFORMATION**

***City of Taft, Texas***

## GOVERNMENTAL FUNDS

***City of Taft, Texas***

## MAJOR FUNDS

### GENERAL FUND

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund. The Fund uses the modified accrual basis of accounting.

### TAFT FIREMEN'S PENSION FUND

The Taft Firemen's Pension Fund is for providing pension benefits for the former City of Taft firemen.

### TEXAS HOME PROGRAM FUND

Allows investments in homes in the City of Taft, Texas for eligible participants.

### DEBT SERVICE 2000 REFUNDING BONDS FUND

The Debt Service Fund is for repayment of outstanding 2000 refunding bonds.

***City of Taft, Texas***



**CITY OF TAFT, TEXAS  
GENERAL FUND  
COMPARATIVE BALANCE SHEETS  
SEPTEMBER 30, 2011 AND 2010**

**EXHIBIT H-1**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>ASSETS</b>		
Cash and Texpool Accounts	98,189	67,411
Receivables and Allowances:		
Accounts		
Assessments and Fees (net)	-	-
Miscellaneous	-	-
Inventory	-	-
Due From Other Governmental Agencies		
Sales Taxes	-	10,717
Parks and Wildlife	-	-
Ad Valorem Taxes	101,689	119,113
Allowance for Uncollectible Taxes	(20,338)	(17,867)
Due from Other Funds	-	-
Prepaid Items	-	-
	<u>179,541</u>	<u>179,374</u>
<b>TOTAL ASSETS</b>		
	<u><u>179,541</u></u>	<u><u>179,374</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
Accounts Payable	43,608	13,435
Other Payables	-	-
Due to Other Funds	40,181	79,073
Deferred Revenues	81,351	101,246
<b>TOTAL LIABILITIES</b>	<u>165,140</u>	<u>193,754</u>
	<u><u>165,140</u></u>	<u><u>193,754</u></u>
<b>FUND BALANCE</b>		
Reserve for Inventory	-	-
Reserve for Compensated Balances	-	-
Unreserved		
Undesignated	14,400	(14,380)
<b>TOTAL FUND BALANCE</b>	<u>14,400</u>	<u>(14,380)</u>
	<u><u>14,400</u></u>	<u><u>(14,380)</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>179,541</u></u>	<u><u>179,374</u></u>

**CITY OF TAFT, TEXAS  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES  
BUDGET (GAAP BASIS) AND ACTUAL  
YEAR ENDED SEPTEMBER 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNT FOR 2010**

**EXHIBIT H-2**

**Page 1 of 2**

	<b>2011</b>				<b>2010</b>
	<b>BUDGETED AMOUNTS</b>			<b>Variance with Final Budget Variance</b>	
	<b><u>Original</u></b>	<b><u>Final</u></b>	<b><u>Actual</u></b>		<b><u>Actual</u></b>
<b>REVENUES</b>					
Taxes					
Ad valorem- Current	350,000	350,000	370,119	20,119	389,055
Ad valorem- Delinquent	25,000	25,000	32,256	7,256	25,431
Ad valorem- Penalty & Interest	21,000	21,000	26,364	5,364	23,119
Attest Fees	500	500	132	(368)	153
City Sales	155,000	155,000	156,112	1,112	145,806
Street Maintenance Sales Tax	38,000	38,000	39,043	1,043	36,452
EDC Monthly Expense Fee	900	900	2,550	1,650	-
Franchise	144,200	144,200	142,822	(1,378)	149,641
<b>Total Taxes</b>	<b><u>734,600</u></b>	<b><u>734,600</u></b>	<b><u>769,398</u></b>	<b><u>34,798</u></b>	<b><u>769,657</u></b>
Licenses and Permits					
Animal Licenses	50	50	33	(17)	51
Business Licenses	45,000	45,000	51,214	6,214	54,845
Building Permits	4,500	4,500	26,522	22,022	5,575
Electrical Permits	2,000	2,000	3,537	1,537	4,249
Plumbing Permits	4,000	4,000	3,010	(990)	4,355
Other Permits	100	100	-	(100)	-
Mechanical Permits	500	500	2,898	2,398	284
<b>Total Licenses and Permits</b>	<b><u>56,150</u></b>	<b><u>56,150</u></b>	<b><u>87,214</u></b>	<b><u>31,064</u></b>	<b><u>69,359</u></b>
Intergovernmental					
Grants- Other	-	-	1,000	1,000	2,464
<b>Total Intergovernmental</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,000</u></b>	<b><u>1,000</u></b>	<b><u>2,464</u></b>

**CITY OF TAFT, TEXAS  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES  
BUDGET (GAAP BASIS) AND ACTUAL  
YEAR ENDED SEPTEMBER 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNT FOR 2010**

**EXHIBIT H-2  
Page 2 of 2**

	2011				2010
	<b>BUDGETED AMOUNTS</b>			Variance with Final Budget Variance	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>		<u>Actual</u>
<b>REVENUES</b>					
Charges for Services					
Rural Fire Calls	-	-	-	-	-
Jury Reimbursement Fees	1,500	1,500	5,662	4,162	2,087
Weed Control Charges	1,000	1,000	-	(1,000)	-
T Mobile Rent Fee	12,000	12,000	12,000	-	11,000
Rezoning Applications	-	-	-	-	-
Child Safety Fee	4,600	4,600	5,018	418	4,393
Library	-	-	-	-	-
Tax Certificates	-	-	-	-	-
Notary Revenue	500	500	556	56	446
Subtotal	19,600	19,600	23,236	3,636	17,926
<b>Fines and Penalties</b>	<b>72,659</b>	<b>72,659</b>	<b>103,313</b>	<b>30,654</b>	<b>43,818</b>
Other Revenues					
Other/Municipal Court Fines	7,505	7,505	179	(7,326)	4
Interest	1,000	1,000	527	(473)	429
EMS Billings/Contributions	125,500	125,500	139,320	13,820	91,664
Attorney Fees	5,000	5,000	-	(5,000)	-
Community Center Fees	2,500	2,500	4,371	1,871	2,404
Cash Over/Short	600	600	-	(600)	-
Verizon Fees/Court Fees	-	-	2,200	2,200	-
Sale of Assets	500	500	9,351	8,851	57
Miscellaneous	20,150	20,150	16,057	(4,093)	41,641
Fingerprint Fees	100	100	12	(88)	12
Copy & Map Sales	1,000	1,000	1,478	478	1,400
Insurance Refund	11,500	11,500	-	(11,500)	11,321
Other/Grants	-	-	-	-	-
Juvenile Case Manager	-	-	-	-	-
County EMS Subsidy	30,000	30,000	33,978	3,978	20,411
LEOSE	2,000	2,000	1,179	(821)	1,115
State Revenues	24,000	24,000	82,097	58,097	35,415
Sprint Binder Fee/Rent	12,000	12,000	13,800	1,800	13,800
Subtotal	243,355	243,355	304,548	61,193	219,673
<b>Total Revenues</b>	<b>1,126,364</b>	<b>1,126,364</b>	<b>1,288,710</b>	<b>162,346</b>	<b>1,122,897</b>
<b>OTHER SOURCES- Operating Transfers</b>					
Capital - related Debt Issued	-	-	-	-	-
Transfers	521,148	521,148	603,595	82,447	995,347
Total Operating Transfers	521,148	521,148	603,595	82,447	995,347
<b>TOTAL REVENUES AND OTHER SOURCES</b>	<b>1,647,512</b>	<b>1,647,512</b>	<b>1,892,305</b>	<b>244,793</b>	<b>2,118,244</b>

**CITY OF TAFT, TEXAS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES  
BUDGET (GAAP BASIS) AND ACTUAL  
YEAR ENDED SEPTEMBER 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNT FOR 2010**

		2011		
		<b>BUDGETED AMOUNTS</b>		
		<b>Original</b>	<b>Final</b>	<b>Personnel Costs</b>
				<b>Supplies &amp; Services</b>
<b>Current Expenditures</b>				
General Administration	-	-	-	21,916
Municipal Court	66,303	89,479	63,351	22,133
Administration	185,154	185,154	128,080	62,432
Legislative	95,887	95,887	50,478	80,099
Tax Collection	-	-	-	4,398
<b>Total General Administration</b>	<b>347,344</b>	<b>370,520</b>	<b>241,909</b>	<b>190,978</b>
<b>Public Safety</b>				
Police	480,131	480,131	451,540	77,748
Fire	22,400	22,400	-	20,735
Emergency Medical Services	377,154	393,254	349,269	67,687
Animal Control	21,115	21,115	-	27,345
Code Enforcement	23,682	23,682	18,538	6,582
<b>Total Public Safety</b>	<b>924,482</b>	<b>940,582</b>	<b>819,347</b>	<b>200,097</b>
<b>Public Works</b>				
Streets Department	178,182	178,182	77,013	87,771
<b>Total Public Works</b>	<b>178,182</b>	<b>178,182</b>	<b>77,013</b>	<b>87,771</b>
<b>Culture and Recreation</b>				
Library	49,377	49,377	42,898	17,801
Parks/Community Center	126,382	126,382	74,520	56,736
Museum	5,000	5,000	-	5,727
Community Centers	16,495	16,495	8,443	10,802
<b>Total Parks and Recreation</b>	<b>197,254</b>	<b>197,254</b>	<b>125,861</b>	<b>91,066</b>
<b>Total Current Expenditures</b>	<b>1,647,262</b>	<b>1,686,538</b>	<b>1,264,130</b>	<b>569,912</b>

## EXHIBIT H-3

			2011	2010
			Variance with Final Budget Variance	
Debt Service	Capital Outlay	Total Actual		Actual
		21,916	(21,916)	-
-	-	85,483	3,996	52,115
-	3,489	194,002	(8,848)	168,881
-	-	130,577	(34,690)	135,832
-	-	4,398	(4,398)	12,059
-	<b>3,489</b>	<b>436,376</b>	<b>(43,940)</b>	<b>368,887</b>
-	8,038	537,326	(57,195)	515,538
-	-	20,735	1,665	20,449
-	4,188	421,143	(27,889)	356,250
-	-	27,345	(6,230)	34,168
-	-	25,120	(1,438)	25,922
-	<b>12,226</b>	<b>1,031,670</b>	<b>(91,088)</b>	<b>952,327</b>
-	3,988	168,772	9,410	155,703
-	<b>3,988</b>	<b>168,772</b>	<b>9,410</b>	<b>155,703</b>
-	1,000	61,699	(12,322)	48,627
-	-	131,256	(4,874)	113,740
-	-	5,727	(727)	4,818
-	-	19,245	(2,750)	17,337
-	<b>1,000</b>	<b>217,927</b>	<b>(20,673)</b>	<b>184,522</b>
-	<b>20,703</b>	<b>1,854,746</b>	<b>(146,292)</b>	<b>1,661,439</b>

**CITY OF TAFT, TEXAS**  
**FIREMAN'S PENSION FUND**  
**COMPARATIVE BALANCE SHEETS**  
**SEPTEMBER 30, 2011 and 2010**

**EXHIBIT H-4**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	160,298	147,235
Accounts Receivable	-	-
Due From Other Funds	-	-
	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><b>160,298</b></u>	<u><b>147,235</b></u>
<b>LIABILITIES AND FUND BALANCES</b>		
Accounts Payable	-	-
Due to Other Funds	-	-
	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>		
Unreserved	-	-
Reserved	160,298	147,235
	<u>160,298</u>	<u>147,235</u>
<b>TOTAL FUND BALANCE</b>	<u><b>160,298</b></u>	<u><b>147,235</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>160,298</b></u>	<u><b>147,235</b></u>

## FIREMAN'S PENSION FUND

## SCHEDULES OF REVENUES, EXPENDITURES AND

## CHANGES IN FUND BALANCE- BUDGET (GAAP BASIS) AND ACTUAL

## YEAR ENDED SEPTEMBER 30, 2011

## WITH COMPARATIVE TOTALS FOR 2010

	2011			2010	
	<u>BUDGETED AMOUNTS</u>			<u>Final</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
				<u>Variance</u>	
<b>REVENUES</b>					
Other Revenues/Subsidy	17,550	17,550	16,778	(772)	17,062
Interest	500	500	261	(239)	337
<b>Total Revenues</b>	<u>18,050</u>	<u>18,050</u>	<u>17,038</u>	<u>(1,012)</u>	<u>17,399</u>
<b>EXPENDITURES</b>					
Personnel Costs	4,300	4,300	3,975	(325)	3,885
Supplies	-	-	-	-	-
Other Services and Charges	160	160	0	(160)	88
Capital Outlay	-	-	-	-	-
<b>Total Expenditures</b>	<u>4,460</u>	<u>4,460</u>	<u>3,975</u>	<u>(485)</u>	<u>3,973</u>
<b>EXCESS (DEFICIENCY) OF</b>					
<b>REVENUES OVER EXPENDITURES</b>	<u>13,590</u>	<u>13,590</u>	<u>13,063</u>	<u>(527)</u>	<u>13,426</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Other Sources - Transfers In	-	-	-	-	-
Other Sources - Transfers (Out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING</b>					
<b>SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>AND OTHER SOURCES OVER</b>					
<b>EXPENDITURES AND OTHER (USES)</b>	<u>13,590</u>	<u>13,590</u>	<u>13,063</u>	<u>(527)</u>	<u>13,426</u>
<b>FUND BALANCE, beginning of year</b>	147,235	147,235	147,235	-	133,809
Prior Period Adjustment	-	-	-	-	-
<b>FUND BALANCE, end of year</b>	<u>160,825</u>	<u>160,825</u>	<u>160,298</u>	<u>(527)</u>	<u>147,235</u>

**CITY OF TAFT, TEXAS  
DEBT SERVICE FUND - SERIES 2000 REFUNDING  
COMPARATIVE BALANCE SHEETS  
SEPTEMBER 30, 2011 AND 2010**

**EXHIBIT H-6**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>ASSETS</b>		
Cash and Cash Equivalents	154,266	136,338
Receivables and Allowances		
Ad Valorem Taxes	49,240	55,997
Allowance for Uncollectible Taxes	(9,848)	(8,400)
Due from Other Funds	<u>1,328</u>	<u>1,328</u>
<b>TOTAL ASSETS</b>	<u><b>194,986</b></u>	<u><b>185,263</b></u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	0	0
Due to Other Funds	0	0
Deferred Revenue- Ad Valorem Taxes	<u>39,392</u>	<u>47,598</u>
<b>TOTAL LIABILITIES</b>	<u><b>39,392</b></u>	<u><b>47,598</b></u>
<b>FUND BALANCE</b>		
Reserve for Debt Service	<u>155,594</u>	<u>137,665</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>194,986</b></u>	<u><b>185,263</b></u>



## CITY OF TAFT, TEXAS

## EXHIBIT H-7

## DEBT SERVICE FUND - SERIES 2000 REFUNDING

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-

## BUDGET (GAAP BASIS) AND ACTUAL

## YEAR ENDED SEPTEMBER 30, 2011

## WITH COMPARATIVE TOTALS FOR 2010

	2011			2010	
	<u>BUDGETED AMOUNTS</u>			<u>Final</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
				<u>Variance</u>	
<b>REVENUES</b>					
Ad valorem Taxes	159,557	159,557	179,197	19,640	182,261
Ad valorem- Penalty & Interest	0	0	15,608	15,608	11,648
Total Ad valorem Taxes	159,557	159,557	194,805	35,248	193,909
Other Revenue	0	0	0	0	327
Interest	100	100	291	191	0
<b>Total Revenues</b>	<u>159,657</u>	<u>159,657</u>	<u>195,096</u>	<u>35,439</u>	<u>194,236</u>
<b>EXPENDITURES</b>					
Debt Service					
Principal Retirement	77,000	77,000	104,993	(27,993)	105,328
Interest and Fiscal Charges	82,557	82,557	87,610	(5,053)	45,393
<b>Total Expenditures</b>	<u>159,557</u>	<u>159,557</u>	<u>192,603</u>	<u>(33,046)</u>	<u>150,721</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>100</u>	<u>100</u>	<u>2,493</u>	<u>2,393</u>	<u>43,515</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Other Sources- Transfers (Out)	0	0	15,436	15,436	0
Other Sources- Transfers In	0	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>0</u>	<u>15,436</u>	<u>15,436</u>	<u>0</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>100</u>	<u>100</u>	<u>17,929</u>	<u>17,829</u>	<u>43,515</u>
<b>FUND BALANCE, beginning of year</b>	<u>137,665</u>	<u>137,665</u>	<u>137,665</u>	<u>0</u>	<u>94,150</u>
<b>FUND BALANCE, end of year</b>	<u><u>137,765</u></u>	<u><u>137,765</u></u>	<u><u>155,594</u></u>	<u><u>17,829</u></u>	<u><u>137,665</u></u>

*City of Taft, Texas*

## NON-MAJOR GOVERNMENTAL FUNDS

**CITY OF TAFT, TEXAS  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
SEPTEMBER 30, 2011  
WITH COMPARATIVE TOTALS FOR 2010**

	Taft Fire Equipment Improv. Fund	Taft Emergency Medical Service Fund	Taft Fireman's Operations Fund	Juvenile Case Manager Fund	Taft Court Technology Fund	Taft Park Fund
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 0	0	36,207	0	0	0
Receivables	0	0	0	14,201	10,946	0
Due from Other Governments	0	0	0	0	0	0
Due from Other Funds	4	0	38,776	0	74	0
<b>TOTAL ASSETS</b>	<b>\$ 4</b>	<b>0</b>	<b>74,983</b>	<b>14,201</b>	<b>11,019</b>	<b>0</b>
<b>LIABILITIES AND FUND BALANCE</b>						
Accounts Payable	\$ 0	0	0	0	0	0
Due to Others	0	0	0	0	0	0
Due to Other Funds	0	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCE</b>						
Committed for Special Revenue	\$ 0	0	0	0	0	0
Assigned for Special Revenue	4	0	74,983	14,201	11,019	0
Restricted for Debt Service	0	0	0	0	0	0
<b>TOTAL FUND BALANCE</b>	<b>\$ 4</b>	<b>0</b>	<b>74,983</b>	<b>14,201</b>	<b>11,019</b>	<b>0</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ 4</b>	<b>0</b>	<b>74,983</b>	<b>14,201</b>	<b>11,019</b>	<b>0</b>

EXHIBIT H-8

Pride of Taft Fund	Taft Building & Security Fund	Criminal Justice Planning	Grant #725174	Forfeitures Fund	ORCA Grant #727461	Taft Emergency Services Fund	Solid Waste Grant Fund	Series 2004 Debt Serv. Fund	Combination Tax and Surplus Fund
\$ 2,562	0	(93,088)	0	44	(39,883)	3,861	(24,320)	3,145	60,749
0	5,189	0	0	0	0	0	0	0	0
0	0	24,647	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
<u>\$ 2,562</u>	<u>5,189</u>	<u>(68,442)</u>	<u>0</u>	<u>44</u>	<u>(39,883)</u>	<u>3,861</u>	<u>(24,320)</u>	<u>3,145</u>	<u>60,749</u>
\$ 0	0	570	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
<u>\$ 0</u>	<u>0</u>	<u>570</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$ 0	0	0	0	0	0	0	0	0	0
2,562	5,189	(69,012)	0	44	(39,883)	3,861	(24,320)	3,145	60,749
0	0	0	0	0	0	0	0	0	0
<u>\$ 2,562</u>	<u>5,189</u>	<u>(69,012)</u>	<u>0</u>	<u>44</u>	<u>(39,883)</u>	<u>3,861</u>	<u>(24,320)</u>	<u>3,145</u>	<u>60,749</u>
<u>\$ 2,562</u>	<u>5,189</u>	<u>(68,442)</u>	<u>0</u>	<u>44</u>	<u>(39,883)</u>	<u>3,861</u>	<u>(24,320)</u>	<u>3,145</u>	<u>60,749</u>

**CITY OF TAFT, TEXAS  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
SEPTEMBER 30, 2011  
WITH COMPARATIVE TOTALS FOR 2010**

**EXHIBIT H-8**

		Solid	Solid	Solid	Total Nonmajor Governmental Funds
	Police Department	Waste Grant #08-20-G14	Waste Grant #08-20-G16	Waste Grant #09-20-G06	2011
<b>ASSETS</b>					
Cash and Cash Equivalents	38	0	0	(49,629)	(100,314)
Receivables	0	0	0	0	30,336
Due from Other Governments	0	0	0	0	24,647
Due from Other Funds	0	0	0	0	38,854
<b>TOTAL ASSETS</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>(49,629)</b>	<b>(6,478)</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Accounts Payable	0	0	0	0	570
Due to Others	0	0	0	0	0
Due to Other Funds	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>570</b>
<b>FUND BALANCE</b>					
Committed for Special Revenue	0	0	0	0	0
Assigned for Special Revenue	38	0	0	(49,629)	(7,048)
Restricted for Debt Service	0	0	0	0	0
<b>TOTAL FUND BALANCE</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>(49,629)</b>	<b>(7,048)</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>38</b>	<b>0</b>	<b>0</b>	<b>(49,629)</b>	<b>(6,478)</b>

## ***City of Taft, Texas***

**CITY OF TAFT, TEXAS**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED SEPTEMBER 30, 2011**  
**WITH COMPARATIVE TOTALS FOR 2010**

	Taft Fire Equipment Improv. Fund	Taft Emergency Medical Service Fund	Taft Fireman's Operations Fund	Juvenile Case Manager Fund	Taft Court Technology Fund	Taft Park Fund
<b>REVENUE</b>						
Taxes	\$ 0	0	0	0	0	0
Intergovernmental	0	0	0	7,118	0	0
Interest	0	0	20	0	0	0
Other	0	0	16,778	0	5,733	0
<b>TOTAL REVENUES</b>	<b>\$ 0</b>	<b>0</b>	<b>16,797</b>	<b>7,118</b>	<b>5,733</b>	<b>0</b>
<b>EXPENDITURES</b>						
Current						
Personnel Costs	\$ 0	0	0	0	0	0
Supplies	0	0	7,123	0	0	0
Other Services and Charges	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>\$ 0</b>	<b>0</b>	<b>7,123</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>						
<b>OVER EXPENDITURES</b>	<b>\$ 0</b>	<b>0</b>	<b>9,674</b>	<b>7,118</b>	<b>5,733</b>	<b>0</b>
<b>OTHER FINANCE SOURCES (USES)</b>						
OTHER FINANCING - Bonds	\$ 0	0	0	0	0	0
Transfer In from Other Funds	0	0	0	0	0	0
Transfer (Out) to Other Funds	0	0	0	0	0	0
<b>TOTAL OTHER FINANCE</b>						
<b>SOURCES(USES)</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>EXCESS (DEFICIENCY) OF REV.</b>						
<b>AND OTHER SOURCES OVER</b>						
<b>EXPENDITURES &amp; OTHER USES</b>	<b>\$ 0</b>	<b>0</b>	<b>9,674</b>	<b>7,118</b>	<b>5,733</b>	<b>0</b>
<b>FUND BALANCE, beginning of year</b>	<b>4</b>	<b>0</b>	<b>65,309</b>	<b>7,083</b>	<b>5,287</b>	<b>0</b>
Prior Period Adjustment	0	0	0	0	0	0
<b>FUND BALANCE, end of year</b>	<b>\$ 4</b>	<b>0</b>	<b>74,983</b>	<b>14,201</b>	<b>11,019</b>	<b>0</b>



EXHIBIT H-9

Pride of Taft Fund	Taft Building & Security Fund	Criminal Justice Planning	Grant #725174	Forfeitures Fund	ORCA Grant #727461	Taft Emergency Services Fund	Solid Waste Grant Fund	Series 2004 Debt Serv. Fund	Combination Tax and Surplus Fund
\$ 0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	32,067	37,163	0	0	0
7	0	0	0	0	0	1,698	0	30	126
5,429	4,296	0	0	1	0	0	0	0	0
\$ 5,435	4,296	0	0	1	32,067	38,861	0	30	126
77,280									
\$ 0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
7,154	514	69,012	0	1,984	0	0	24,320	11,580	113,996
0	0	0	0	0	0	0	0	0	0
\$ 7,154	514	69,012	0	1,984	0	0	24,320	11,580	113,996
\$ (1,719)	3,782	(69,012)	0	(1,983)	32,067	38,861	(24,320)	(11,550)	(113,870)
0	0	0	0	0	0	0	0	0	112,892
\$ 0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	(35,000)	0	(15,430)	0
\$ 0	0	0	0	0	0	(35,000)	0	(15,430)	112,892
\$ (1,719)	3,782	(69,012)	0	(1,983)	32,067	3,861	(24,320)	(26,980)	(978)
4,281	1,407	0	0	2,026	(71,950)	0	0	30,125	61,727
0	0	0	0	0	0	0	0	0	0
\$ 2,562	5,189	(69,012)	0	44	(39,883)	3,861	(24,320)	3,145	60,749

**CITY OF TAFT, TEXAS**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED SEPTEMBER 30, 2011**  
**WITH COMPARATIVE TOTALS FOR 2010**

**EXHIBIT H-9**

					Total Nonmajor Governmental Funds
	Police Department	Solid Waste Grant #08-20-G14	Solid Waste Grant #08-20-G16	Solid Waste Grant #09-20-G06	2011
<b>REVENUES</b>					
Taxes	0	0	0	0	0
Intergovernmental	0	0	0	12,750	89,098
Interest	1	0	0	0	1,882
Other	400	0	0	0	32,637
<b>TOTAL REVENUES</b>	<u>401</u>	<u>0</u>	<u>0</u>	<u>12,750</u>	<u>123,616</u>
<b>EXPENDITURES</b>					
Current					
Personnel Costs	0	0	0	0	0
Supplies	0	0	0	0	7,123
Other Services and Charges	1,300	0	0	62,379	292,239
Capital Outlay	0	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<u>1,300</u>	<u>0</u>	<u>0</u>	<u>62,379</u>	<u>299,362</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(899)	0	0	(49,629)	(175,746)
<b>OTHER FINANCE SOURCES (USES)</b>					
OTHER FINANCING - Bonds	0	0	0	0	112,892
Transfer In from Other Funds	0	0	0	0	0
Transfer (Out) to Other Funds	0	0	0	0	(50,430)
<b>TOTAL OTHER FINANCE SOURCES(USES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>62,461</u>
<b>EXCESS (DEFICIENCY) OF REV. AND OTHER SOURCES OVER EXPENDITURES &amp; OTHER USES</b>	(899)	0	0	(49,629)	(113,284)
<b>FUND BALANCE, beginning of year</b>	937	0	0	0	106,236
Prior Period Adjustment	0	0	0	0	0
<b>FUND BALANCE, end of year</b>	<u>38</u>	<u>0</u>	<u>0</u>	<u>(49,629)</u>	<u>(7,048)</u>

## PROPRIETARY FUNDS

***City of Taft, Texas***

## ENTERPRISE FUND

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (including depreciation) or providing goods or services to the General public on a continuing basis be financed or recovered primarily through the user charges. The Enterprise Funds use the accrual basis of accounting. The City maintains the following Enterprise Fund:

Utility Fund- established to account for the operations of the City's water and sewer system.

**CITY OF TAFT, TEXAS  
COMPARATIVE STATEMENTS OF NET ASSETS  
UTILITY FUND  
SEPTEMBER 30, 2011 AND 2010**

**EXHIBIT I-1**

Page 1 of 2

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	20,428	64,976
Receivables and Allowances		
Accounts		
Water and Wastewater Billings	236,228	221,338
Assessments	0	0
Other	0	0
Allowance for Uncollectible Accounts	(14,427)	(14,007)
Due from Other Funds	0	38,933
Bond Issue Cost (Net)	0	0
Prepaid Items	0	0
Inventory	25,635	25,635
	<u>267,865</u>	<u>336,875</u>
<b>Total Current Assets</b>		
Non-Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents		
Meter Deposit Funds	0	0
Revenue Bond Reserve	0	0
Sinking Fund- Bonds	0	0
	<u>0</u>	<u>0</u>
<b>Total Restricted Assets</b>	<u>0</u>	<u>0</u>
Capital Assets:		
Land	0	0
Construction in Progress	0	0
Buildings	32,668	32,668
Water System	1,564,062	1,564,062
Sewer System	2,685,810	2,685,811
Vehicles	0	0
Furniture and Equipment	493,995	493,995
	<u>4,776,536</u>	<u>4,776,536</u>
<b>Total Capital Assets</b>		
Less Accumulated Depreciation	(3,800,856)	(3,678,757)
Net Capital Assets	<u>975,680</u>	<u>1,097,779</u>
<b>TOTAL ASSETS</b>	<u><u>1,243,545</u></u>	<u><u>1,434,654</u></u>

**CITY OF TAFT, TEXAS  
COMPARATIVE STATEMENTS OF NET ASSETS  
UTILITY FUND  
SEPTEMBER 30, 2011 AND 2010**

**EXHIBIT I-1**  
Page 2 of 2

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	62,279	12,614
Accrued Liabilities	148,230	82,731
Compensated Absences	28,671	28,347
Due to Other Funds	0	0
Capital Leases Payable	0	0
Current Portion of Revenue Bonds Payable	0	0
Customer Meter Deposits	<u>113,089</u>	<u>106,249</u>
<b>Total Current Liabilities</b>	<u>352,269</u>	<u>229,941</u>
Long-Term Liabilities		
Capital Leases Payable	0	0
Revenue Bonds Payable	<u>0</u>	<u>0</u>
<b>Total Long-Term Liabilities</b>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	<u>352,269</u>	<u>229,941</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	975,680	1,097,779
Restricted for:		
Revenue Bond Retirement	0	0
Unrestricted	<u>(84,404)</u>	<u>106,934</u>
<b>Net Assets</b>	<u><u>891,276</u></u>	<u><u>1,204,713</u></u>

**CITY OF TAFT, TEXAS  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
UTILITY FUND  
YEAR ENDED SEPTEMBER 30, 2011 AND 2010**

**EXHIBIT I-2**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Charges for Services		
Water Sales	849,232	757,539
Sewer Sales	475,689	455,901
Sanitation Fees	468,578	460,079
Other Fees and Charges	<u>62,002</u>	<u>62,655</u>
<b>Total Operating Revenues</b>	<u>1,855,501</u>	<u>1,736,174</u>
<b>OPERATING EXPENSES</b>		
Personnel Costs	401,849	382,797
Contracted Services	401,107	349,117
Supplies	41,143	34,574
Maintenance	8,046	36,342
Other Operating Expenses	176,237	164,985
Water Purchased	472,540	361,020
Depreciation	122,099	122,099
Amortization	-	-
<b>Total Operating Expenses</b>	<u>1,623,021</u>	<u>1,450,934</u>
<b>Net Operating Income</b>	<u>232,480</u>	<u>285,240</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Refunding Bonds Issued	-	-
Payments to Escrow Agents	-	-
Grant Income	-	-
Interest Income	-	-
Interest and Fiscal Charges	<u>-</u>	<u>-</u>
<b>Net Non-Operating Revenues (Expenses)</b>	<u>-</u>	<u>-</u>
<b>Income Before Transfers</b>	<u>232,480</u>	<u>285,240</u>
Transfers in	-	-
Transfers out	<u>(467,933)</u>	<u>(434,083)</u>
<b>Change in Net Assets</b>	<u>(235,454)</u>	<u>(148,843)</u>
Prior Period Adjustment	(77,984)	-
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>1,204,713</u>	<u>1,353,556</u>
<b>NET ASSETS END OF YEAR</b>	<u><u>891,276</u></u>	<u><u>1,204,713</u></u>



## CITY OF TAFT, TEXAS

## EXHIBIT I-3

## UTILITY FUND

## SCHEDULE OF OPERATING REVENUES AND EXPENSES- BY FUND

YEAR ENDED SEPTEMBER 30, 2011

	Utility-Water Fund 20	Utility-Wastewater Fund 30	Utility Sanitation Fund 40	Total
<b>OPERATING REVENUES</b>				
Charges for Services				
Water Sales	849,232	-	-	849,232
Sewer Sales	-	475,689	-	475,689
Sanitation Fees	-	-	468,578	468,578
Water Taps	-	-	-	0
Sewer Taps	-	-	-	0
<b>Total Charges for Services</b>	<b>849,232</b>	<b>475,689</b>	<b>468,578</b>	<b>1,793,499</b>
<b>Other Fees and Charges</b>				
Delinquent Account Penalties	40,236	-	-	40,236
Reimbursement	-	-	-	0
Other	21,766	-	-	21,766
<b>Total Other Fees and Charges</b>	<b>62,002</b>	<b>-</b>	<b>-</b>	<b>62,002</b>
<b>Total Operating Revenues</b>	<b>911,234</b>	<b>475,689</b>	<b>468,578</b>	<b>1,855,501</b>
<b>OPERATING EXPENSES</b>				
Personnel Costs	171,735	163,918	66,195	401,849
Contracted Services	23,151	18,696	359,260	401,107
Supplies	26,869	9,142	5,131	41,143
Maintenance	3,250	4,796	-	8,046
Other Operating Expenses	58,720	91,092	26,425	176,237
<b>SUBTOTAL</b>	<b>283,725</b>	<b>287,645</b>	<b>457,012</b>	<b>1,028,382</b>
Water Purchased	472,540	-	-	472,540
Depreciation	41,549	80,550	-	122,099
Amortization	-	-	-	0
<b>Total Operating Expenses</b>	<b>797,814</b>	<b>368,195</b>	<b>457,012</b>	<b>1,623,021</b>
<b>NET OPERATING INCOME</b>	<b>113,419</b>	<b>107,494</b>	<b>11,566</b>	<b>232,480</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Refunding Bonds Issued	-	-	-	-
Payments to Escrow Agents	-	-	-	-
Grant Income	-	-	-	-
Interest Income	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
<b>Net Non-Operating Revenues (Expenses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income Before Transfers</b>	<b>113,419</b>	<b>107,494</b>	<b>11,566</b>	<b>232,480</b>
Transfers in	-	-	-	-
Transfers (out)	(190,000)	(249,933)	(28,000)	(467,933)
<b>Change in Net Assets</b>	<b>(76,581)</b>	<b>(142,439)</b>	<b>(16,434)</b>	<b>(235,454)</b>
Prior Period Adjustment	(30,200)	(1,015)	(46,769)	(77,984)
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>338,937</b>	<b>875,690</b>	<b>(9,914)</b>	<b>1,204,713</b>
<b>NET ASSETS END OF YEAR</b>	<b>232,157</b>	<b>732,236</b>	<b>(73,117)</b>	<b>891,276</b>

**CITY OF TAFT, TEXAS  
COMPARATIVE STATEMENTS OF CASH FLOWS  
UTILITY FUND  
YEAR ENDED SEPTEMBER 30, 2011 AND 2010**

**EXHIBIT I-4**

	2011	2010
<b>Cash flow from operating activities:</b>		
Cash received from customers	1,879,964	1,730,649
Cash payments to suppliers for goods and services	(977,069)	(1,125,281)
Cash payments to employees for services	(401,525)	(364,766)
Net cash provided by operating activities	501,369	240,602
<b>Cash flows from noncapital financing activities:</b>		
Net transfers to funds	(467,933)	(434,083)
<b>Net Cash flows from non-capital financing activities</b>	<b>(467,933)</b>	<b>(434,083)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Net Refunds bonds/costs	0	0
Grant Proceeds	0	0
Principal Payment on bonds	0	0
Interest and Fiscal Charges Paid	0	0
Purchase of Fixed Assets/Bond Costs	0	(71,727)
Other adjustments	(77,984)	0
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b>(77,984)</b>	<b>(71,727)</b>
<b>Cash Flows from Investing Activities- Interest Income</b>	<b>0</b>	<b>0</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(44,548)</b>	<b>(265,208)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>64,976</b>	<b>330,184</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>20,428</b>	<b>64,976</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
<b>Operating Income</b>	<b>232,480</b>	<b>285,240</b>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>		
Depreciation	122,099	122,099
Amortization	0	0
<b>Change in Assets and Liabilities:</b>		
(Increase) Decrease in Accounts Receivable (Net)	(14,470)	(5,525)
(Increase) Decrease in Due from Other Funds	38,933	0
(Increase) Decrease in Due from Other Governments	0	0
(Increase) Decrease in Prepaid Items	0	0
(Increase) Decrease in Inventory	0	0
Increase (Decrease) in Accounts Payable	49,665	(193,467)
Increase (Decrease) in Accrued Liabilities	65,499	9,844
Increase (Decrease) in Due to Other Funds	0	0
Increase (Decrease) in Capital Leases Payable	0	0
Increase (Decrease) in Compensated Absences	324	18,031
Increase (Decrease) in Customer Deposits	6,840	4,380
<b>Net Cash Provided by Operating Activities</b>	<b>501,369</b>	<b>240,602</b>

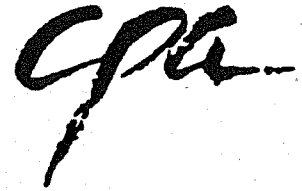
The accompanying notes to financial statements are an integral part of this statement.

## INTERNAL CONTROL AND COMPLIANCE SECTION

***City of Taft, Texas***

**ERNEST R. GARZA  
AND COMPANY, P.C.**  
*Certified Public Accountants*

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**Independent Auditor's Report**

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

To the Honorable Mayor,  
Members of City Council  
City of Taft, Texas

We have audited the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Taft, Texas as of and for the year ended September 30, 2011. These collectively comprise the City of Taft, Texas's basic financial statements. We have issued our report on them dated June 25, 2012.

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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Taft, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taft, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Taft, Texas's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. See Finding No. 2011-01.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. See Finding No. 2011-01 and 2011-02.

Compliance and Other Matters

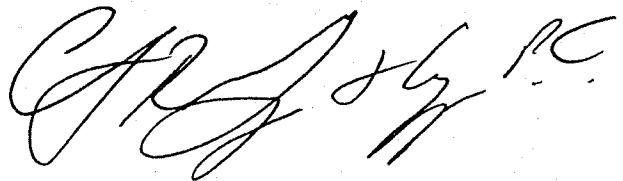
As part of obtaining reasonable assurance about whether the City of Taft, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2011-01 and 2011-02.

We noted certain matters that we reported to the administration of the City of Taft, Texas, in a letter dated June 25, 2012.

City of Taft, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Taft, Texas' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the various federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ernest R. Garza and Company, P.C.  
Certified Public Accountants

A handwritten signature in black ink, appearing to read "ERNEST R. GARZA" followed by a stylized "P.C." or similar initials.

June 25, 2012

CITY OF TAFT, TEXAS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Finding No. 2010-01.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance.

Effect: The City of Taft has a deficit fund and should have approximately a three month of annual expenditures in the general fund. This also affects the operations of the City when necessary funds are not available to operate the City overall.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund and well as other city funds to three months of annual operational expenditures.

Status: Finding still valid.

Finding No. 2010-02.

Criteria: The City of Taft is required to maintain a ledger of all of its fixed assets.

Condition: The City of Taft did not maintain a detailed fixed asset ledger for the governmental funds.

Cause: The lack of monitoring and accounting for the City's fixed assets creates a negative impact on its overall net assets.

Effect: The City of Taft lack of a detailed fixed asset ledger for the City overall creates a negative impact on its overall net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish a detailed fixed asset ledger for all funds and departments to ensure proper accountability and establish internal controls to safeguard the City's assets.

Status: Finding has been corrected in the post audit.

CITY OF TAFT, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

I. Summary of the Auditor's Results:

The report issued on the financial statements of City of Taft, Texas, was an unqualified opinion.

The audit did disclose compliance issues which are material to the basic financial statements, a qualified opinion was issued on the compliance and internal controls.

II. Findings relating to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

Finding No. 2011-01.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the utility fund as well.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance. Excessive transfers resulted in the deficit in the utility fund's unrestricted net assets.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund and well as other city funds to three months of annual operational expenditures/expenses.

Finding No. 2011-02.

Criteria: The City of Taft should ensure budget amendments do not result in a negative fund balance.

Condition: The City of Taft made budget amendments that resulted in a negative projected fund balance in the general fund.

Cause: Budget amendments that exceed the available fund balance are not allowed.

Effect: Budget amendments that exceed the available fund balance result in a larger deficit and can affect the operations of the City.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget (and amendments) and purchasing controls to re-build its general fund and well as other city funds to three months of annual operational expenditures/expenses.



CITY OF TAFT, TEXAS  
CORRECTION ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Response to Findings No. 2011-01: Management has acquired the purchasing module from the software vendor which will not allow purchases without a purchase order. Management will also monitor the expenditures monthly to ensure the City is not going over budget. If line items are maintained within budget, the general fund should be replenished over time as well as the utility fund.

Response to Findings No. 2011-02: Management will enhance its budget controls including avoiding negative budget amendments.

***City of Taft, Texas***