

CITY OF TAFT, TEXAS
Annual Financial Report
For the fiscal year ended September 30, 2017

Raul Hernandez & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5402 Holly Rd., Suite 102 Corpus Christi, TX 78411 Office: (361) 980-0428 Fax: (361) 980-1002

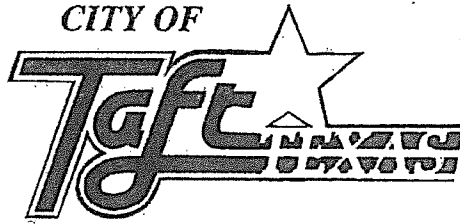
CITY OF TAFT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2017

CITY OF TAFT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Letter of Transmittal	1
Principal Officials	7
Independent Auditors' Report	8
Management's Discussion and Analysis	10
<u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	19
B-1 Statement of Activities	20
Governmental Fund Financial Statements:	
C-1 Balance Sheet	22
C-2 Reconciliation for C-1	23
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	24
C-4 Reconciliation for C-3	25
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	26
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	28
D-3 Statement of Cash Flows	29
Notes to the Financial Statements	30
<u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	57
Schedule of Changes in Net Pension Liability and Related Ratios for TMRS	58
Schedule of Contributions TMRS Pension Plan	59
Notes to Schedule of Contributions	60
<u>Combining and Individual Fund Statements</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	61
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	65
<u>Internal Control and Compliance</u>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	69
Schedule of Findings and Questioned Costs	71
Schedule of Status of Prior Findings	75
Corrective Action Plan	79

THIS PAGE LEFT BLANK INTENTIONALLY



June 12, 2018

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, 2017.

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, 2017.

THE REPORT

This report is presented in two sections: Introductory, and Financial. 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 City of Taft's financial statements have been audited by Raul Hernandez & 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, 2017 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.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2017 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) services 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. The City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters in the fiscal year 2015. 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

Taft Quality Improvement 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 30th. 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 22 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. The current population from the 2010 census of 3,048 reflects a drop in population of 348 from the 2000 census of 3,396. Due to renewed economic activity the City is experiencing a steady population growth

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$37,550 compares unfavorably to \$54,727 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 86.5 million for fiscal year 2016/2017 for a .34 million decrease and a .39% decrease.
- Sales tax collections have increased by more than 31.9% 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 TMRS.

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 1-800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	Plan Year 2016	Plan Year 2017
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 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. 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 for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

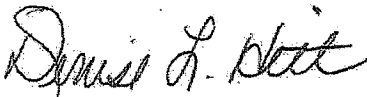
OTHER INFORMATION

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

Pedro Lopez	Mayor
Leonard Vasquez	Mayor Pro-Tem
Lolo Hernandez	City Council
Donnie S. Riojas	City Council
Rolando Rodriguez	City Council

APPOINTED OFFICIALS

Denise L. Hitt	City Manager
Mary Alice Sandoval	Finance/HR Director
Klaus W. Mansion	Chief of Police
Dan Gibson	Fire Chief
Jose M Sandoval Jr	Supervisor of Public Works
Jennifer Pineda	City Secretary Municipal Court Clerk
Tazh Fonville	Building Inspector
Carmel Herrera	Municipal Court Judge
Denton Navarro Rocha Bernal Hyde & Zech	City Attorney's

THIS PAGE LEFT BLANK INTENTIONALLY

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIS PAGE LEFT BLANK INTENTIONALLY

RAUL HERNANDEZ & COMPANY, P.C.
Certified Public Accountants
5402 Holly Road, Suite 102
Corpus Christi, Texas 78411
Office (361) 980-0428 Fax (361) 980-1002

Independent Auditors' Report

To the City Council
City of Taft, Texas
P.O. Box 416
Taft, Texas 78390

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Taft, Texas ("the City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Taft's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Taft, Texas as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the Taft's proportionate share of the net pension liability and schedule of Taft pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taft, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

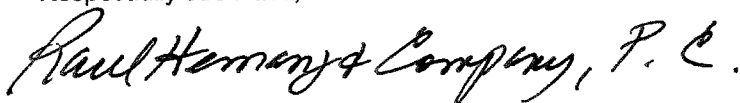
The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurances on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018 on our consideration of City of Taft, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Taft, Texas's internal control over financial reporting and compliance.

Respectfully submitted,



Raul Hernandez & Company, P.C.

Corpus Christi, Texas
June 12, 2018

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

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, 2017. 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, 2017, the City of Taft's General Fund reported an ending deficit fund balance of (\$187,626) in the governmental fund types.
- As of September 30, 2017, the City of Taft's Utility Fund reported ending total net position of \$626,236, an increase of \$167,919 with \$166,146 from operations, and a prior period adjustment of \$1,773.
- The net position of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2017 by \$5,568,329. An increase of the net assets was a result of the decrease in recognition of the net pension liability of \$553,519 for fiscal year 2017. Of \$5,568,329 total net position, (\$496,917) or .09% represents the unrestricted net position.
- The City of Taft's total net position increased by \$220,077 for the year ended September 30, 2017; the major reason for the increase in net position is attributed to an increase in capital assets and a decrease in debt liabilities for the governmental and utility funds.
- As of September 30, 2017, the City of Taft's governmental funds reported combined ending fund balance of \$394,880. Prior period adjustments of \$33,910 were made to increase fund balances to actual.
- The City's total debt decreased by \$345,363 during the year from \$5,907,148 to \$5,561,785.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serve 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, 2017**

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 assess 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.

- 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

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

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.

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

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

The City's combined net assets were \$6.19 million as of September 30, 2017. Analyzing the net assets and net expenses of governmental type activities were \$5.56 million and business-type activities, separately the business type activities net assets are \$.62 million. 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 POSITION**

	Governmental Activities		Business-Type Activities	
	2017	2016	2017	2016
Current and Other Assets	1,123,730	1,031,585	874,810	728,624
Capital Assets	5,396,242	5,395,581	5,980,624	6,189,545
Total Assets:	6,519,972	6,427,166	6,855,434	6,918,169
Deferred Outflows of Resources	140,569	188,972	57,415	77,186
Current and Other Liabilities	460,810	422,879	533,511	722,227
Long-Term Liabilities	586,883	674,146	5,756,483	5,813,629
Total Liabilities	1,047,693	1,097,026	6,289,994	6,535,856
Deferred Inflows of Resources	44,518	2,941	18,185	1,202
Net Assets:				
Invested in Capital Assets				
net of Related Debt	5,362,878	5,328,814	455,561	312,912
Restricted	702,368	706,985	-	-
Unrestricted	(496,917)	(519,628)	170,675	145,385
Total Net Assets	5,568,329	5,516,171	626,236	458,297

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

**Table II
CITY OF TAFT, TEXAS
CHANGES IN NET POSITION**

	Governmental Activities		Business Type Activities	
	2017	2016	2017	2016
Revenues:				
Property Taxes	\$ 827,218	\$ 1,234,991	\$ -	\$ -
Sales Tax	268,251	203,361	-	-
Franchise Taxes	94,008	104,137	-	-
Other Taxes	2,754	-	-	-
License and Permits	29,005	58,308	-	-
Intergovernmental	2,454	63,470	-	-
Charges for Services	126,897	25,694	2,530,800	2,281,349
Fines and Forfeitures	21,734	104,785	-	-
Investment Earnings/Other	366	321	-	7
Other Revenue	501,769	533,225	-	-
Total Revenues	1,874,456	2,328,292	2,530,800	2,281,356
Expenses:				
General Government	1,252,611	1,269,733	-	-
Public Safety	914,630	1,298,353	-	-
Public Works	336,045	300,037	-	-
Parks, Recreation and Culture	113,583	162,660	-	-
Water	-	-	722,469	647,012
Wastewater	-	-	170,810	165,357
Sanitation	-	-	465,528	448,390
Economic Development and Assistance	-	-	-	-
Bond Payments, Principal, and Interest	36,265	38,822	-	-
Depreciation	-	-	208,921	208,921
Total Expenses	2,653,134	3,069,605	1,567,728	1,469,679
Increase (Decrease) in Net Assets before transfers and special items	(778,678)	(741,313)	963,072	811,677
Transfers	796,926	555,518	(769,926)	(555,518)
Non-operating Revenues/(Expenses)	-	-	-	-
Net Increase (Decrease)	18,248	(185,795)	193,146	256,159
Net Position at Beginning	5,516,171	5,703,803	458,317	229,773
Prior Period Adjustment	33,910	(1,838)	1,773	(27,615)
Net Position at Ending	\$ 5,568,329	\$ 5,516,171	\$ 653,236	\$ 458,317

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

Government Fund Activities

The City's general fund revenues decreased when compared to the prior year by 13 percent or (\$162,202). The assessed value of the property in the City was \$86.8 million, an increase compared to the prior year of 81.5 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 III
General Fund Revenues
At September 30**

	2017	2016	Increase (Decrease)
Taxes	839,958	917,651	(77,693)
Licenses and Permits	29,005	58,308	(29,303)
Intergovernmental	-	8,155	(8,155)
Charges for Services	51,625	17,963	33,662
Fines and Penalties	21,734	35,162	(13,428)
Other	134,498	201,783	(67,285)
Total General Revenues	<u>1,076,820</u>	<u>1,239,022</u>	<u>(162,202)</u>

The most significant governmental expense for the City was in the general administration. The general administration incurred expenditures of \$931,771.

Enterprise Fund Activities

Revenues of the City's Utility Funds were \$2.5 million for the fiscal year ending September 30, 2017. Operating expenses were \$1.5 million for the year, resulting in net revenues of \$963,072 before transfers out is taken into account. The most significant expense of the Utility Fund was \$551,669 for purchased services.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2017, the City of Taft had nearly \$29.5 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.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 10,524	\$ 10,524	\$ -	\$ -	\$ 10,524	\$ 10,524
Buildings	2,702,766	2,702,766	32,668	32,668	2,735,434	2,735,434
Improvements	3,130,596	3,130,596	-	-	3,130,596	3,130,596
Equipment	1,679,719	1,626,152	407,482	407,482	2,087,201	2,033,634
Vehicles	648,293	652,348	-	-	648,293	652,348
Infrastructure	10,592,719	10,179,393	-	-	10,592,719	10,179,393
Construction in Progress	-	4,000	-	-	-	4,000
Water System			2,083,110	2,083,110	2,083,110	2,083,110
Sewer System			8,248,521	8,248,521	8,248,521	8,248,521
Total Capital Assets	<u>\$ 18,764,617</u>	<u>\$ 18,305,779</u>	<u>\$ 10,771,781</u>	<u>\$ 10,771,781</u>	<u>\$ 29,536,398</u>	<u>\$ 29,077,560</u>

Debt

At year-end, the City of Taft had \$5,561,785 in General Certifications of Obligation and Revenue Bonds, notes and capital leases as compared to \$5,907,148 at the end of the prior fiscal year. Table 5 below reflects outstanding long-term debt overall decrease of 5 percent.

**Table V
Outstanding Long-Term Debt
at September 30**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
TWDB Certificate of Obligations - 2010	\$ -	\$ -	\$ 4,815,000	\$ 5,008,000	\$ 4,815,000	\$ 5,008,000
General Certificates of Obligations - 2010	-	-	626,099	687,422	626,099	687,422
Note Payable	-	-	-	-	-	-
Loan Payable	-	-	106,962	174,738	106,962	174,738
Capital Leases	13,724	30,515	-	6,473	13,724	36,988
Total Outstanding Debt	<u>\$ 13,724</u>	<u>\$ 30,515</u>	<u>\$ 5,548,061</u>	<u>\$ 5,876,633</u>	<u>\$ 5,561,785</u>	<u>\$ 5,907,148</u>

During the current fiscal year, the City of Taft paid principal of \$355,196 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.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2017, the governmental funds of the City reported a combined fund balance of \$394,880. This ending total fund balance(s) include a increase in the fund balance of \$29,138 including results of overall operational loss of (\$4,772) and a prior period adjustment of \$33,910 in the City's Governmental funds. The ending General Fund balance resulted in a deficit of (\$187,626) with operations resulting in a gain of \$17,067 and a prior period adjustment of \$7,343.

General Fund Budgetary Highlights

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Taft remains on course with reducing debt. In 2018-19, growth is expected to slowly increase even though we were impacted by Hurricane Harvey, a Category 4 hurricane. Although weather related problems were a minor setback to our steady financial gain, we have continued to make improvements in the City and we are positioning the City of the future.

With the assistance of the Taft Economic Development Corporation, continued improvements with the downtown revitalization project are on tract and another \$900,000 in TXDOT grant money has been secured to finish sidewalks on Green Avenue, Harding Street and Retama, going all the way to the water park. Grant allocations to local businesses to improve the facades have started to be awarded and other grant opportunities are being explored to increase amounts to the local businesses for other improvements.

Taft has continued to make improvements to their streets and will start on Phase 3 of street rehabilitation in May, 2018. This has all been accomplished without accumulating additional debt.

A lift in economic growth is expected to occur as many major companies continue to express interest in the Coastal Bend area and have already or are in the process of purchasing large plots of land for their development purposes.

The Coastal Bend Area has an increased need for housing due to the hurricane and also the developments of Cheniere, Exxon, TPCO, Voestalpine, Chemours and other companies already in the Coastal Bend Area and more companies proposed over the next few years. Taft is situated in a region that is conducive to easy commuting travel for those employed by these companies and also the skill sets necessary for employment opportunities.

Investments in homes is on the rise and will enhance the economy of Taft through property tax, sales tax, etc. and will increase student enrollment at the Taft ISD. San Patricio county is still continuing to expand due to the rapid growth in the area. Thanks to a great job by the county leaders they have been paramount in placing Taft and the other cities in San Patricio County in a strong position for positive progress and financial gain.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

The City expects ad valorem taxes to remain about the same or with a slight degree downward due to the aftermath of the hurricane keeping some values a little lower this year due to the many properties still rebuilding from the hurricane.

Sales tax is slowly rising with the increased traffic generated by the building or expanding of manufacturing facilities. Several businesses are poised to open within the next few months and the proposed ballot item to allow the sale of alcohol and mixed beverages, if passed, will increase revenue from sales tax.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the a general overview of the City's finances for those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Taft Finance Department, Director of Finance, 501 Green Avenue, Taft, Texas 78390.

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

EXHIBIT A-1

Data Control Codes	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Units
ASSETS				
1010 Cash and Cash Equivalents	\$ 679,837	\$ 300,589	\$ 980,426	\$ 127,966
1030 Investments - Current	10,126	-	10,126	83,681
1150 Receivables (net of allowance for uncollectibles)	420,879	575,626	996,505	8,384
1300 Internal Balances	1,405	(1,405)	-	-
1320 Due from Component Unit	11,483	-	11,483	(11,483)
1410 Inventories	-	21,566	21,566	-
Capital Assets:				
1710 Land	10,524	-	10,524	415,920
1720 Infrastructure, net	3,265,507	-	3,265,507	-
1730 Buildings, net	1,986,981	-	1,986,981	-
1740 Improvements other than Buildings, net	-	5,963,761	5,963,761	-
1750 Machinery and Equipment, net	133,230	16,863	150,093	89,490
1000 Total Assets	6,519,972	6,877,000	13,396,972	713,958
DEFERRED OUTFLOW OF RESOURCES				
1997 Deferred Outflow Related to Pension Plan	140,569	57,415	197,984	-
1500 Total Deferred Outflows of Resources	140,569	57,415	197,984	-
LIABILITIES				
2020 Accounts Payable	400,085	270,464	670,549	-
2070 Sales Tax Payable	-	96,173	96,173	-
2100 Due to Component Unit	32,319	-	32,319	(32,319)
2140 Accrued Interest Payable	-	8,543	8,543	1,658
2220 Unearned Revenues	28,406	-	28,406	-
2240 Notes Payable - Current	-	22,681	22,681	-
2400 Payable from Restricted Assets	-	135,650	135,650	-
Noncurrent Liabilities				
2501 Due Within One Year	3,494	280,542	284,036	34,893
2502 Due in More Than One Year	29,870	5,249,855	5,279,725	370,166
2580 Net Pension Liability	553,519	226,086	779,605	-
2000 Total Liabilities	1,047,693	6,289,994	7,337,687	374,398
DEFERRED INFLOW OF RESOURCES				
2602 Deferred Inflow Related to Pension Plan	44,518	18,185	62,703	-
2500 Total Deferred Inflows of Resources	44,518	18,185	62,703	-
NET POSITION				
3200 Net Investment in Capital Assets	5,362,878	455,561	5,818,439	100,352
3810 Restricted for Federal or State Grants	3	-	3	-
3820 Restricted for Retirement of Long-Term Debt	311,450	-	311,450	-
3830 Restricted for Other Purposes	390,915	-	390,915	-
3900 Unrestricted Net Position	(496,917)	170,675	(326,242)	239,208
3000 Total Net Position	\$ 5,568,329	\$ 626,236	\$ 6,194,565	\$ 339,560

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

CITY OF TAFT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

		Program Revenues		
Data Control Codes	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 General Administration	\$ 714,194	\$ 1,364	\$	-
12 Finance	186,164	-		-
13 Municipal Court	64,464	21,734		-
14 Administrative	99,720	-		-
16 Legislative	38,774	-		-
17 Tax Collection	16,448	-		-
21 Police	539,971	-		-
22 Fire Protection	170,659	-		-
24 Emergency Medical Service	204,000	48,357		-
26 Animal Control	53,751	-		-
28 Code Enforcement	14,505	-		-
31 Highways and Streets	336,045	69,974		-
44 Welfare	280	-		-
51 Library	64,311	-		-
52 Parks	103,959	-		-
56 Community Centers	9,624	7,202		-
73 Bond Interest	36,265	-		-
Total Governmental Activities:	2,653,134	148,631		-
BUSINESS-TYPE ACTIVITIES:				
701 WATER FUND	764,131	1,216,592		-
702 WASTEWATER FUND	338,069	686,512		-
703 SANITATION FUND	465,528	627,696		-
Total Business-Type Activities:	1,567,728	2,530,800		-
TOTAL PRIMARY GOVERNMENT:	\$ 4,220,862	\$ 2,679,431	\$	-
Component Unit:				
1991 Nonmajor Component Unit	120,373	-		-
TOTAL COMPONENT UNITS:	\$ 120,373	\$ -	\$	-

Data Control Codes	General Revenues:
	Taxes:
	Property Taxes:
5010	Property Taxes, Levied for General Purposes
5011	Property Taxes, Levied for Debt Service
5120	Sales Taxes
5170	Franchise Taxes
5180	Other Taxes
5190	Penalty and Interest
5600	Grants and Contributions Not Restricted
5700	Miscellaneous Revenue
5800	Investment Earnings
	Transfers In (Out)
	Total General Revenues and Transfers
	Change in Net Position
	Net Position - Beginning
	Prior Period Adjustment
	Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Nonmajor Component Units	
\$ (712,830)	\$ -	\$ (712,830)	\$ -	
(186,164)	-	(186,164)	-	
(42,730)	-	(42,730)	-	
(99,720)	-	(99,720)	-	
(38,774)	-	(38,774)	-	
(16,448)	-	(16,448)	-	
(539,971)	-	(539,971)	-	
(170,659)	-	(170,659)	-	
(155,643)	-	(155,643)	-	
(53,751)	-	(53,751)	-	
(14,505)	-	(14,505)	-	
(266,071)	-	(266,071)	-	
(280)	-	(280)	-	
(64,311)	-	(64,311)	-	
(103,959)	-	(103,959)	-	
(2,422)	-	(2,422)	-	
(36,265)	-	(36,265)	-	
(2,504,503)	-	(2,504,503)	-	
-	452,461	452,461	-	
-	348,443	348,443	-	
-	162,168	162,168	-	
-	963,072	963,072	-	
(2,504,503)	963,072	(1,541,431)	-	
-	-	-	(120,373)	
-	-	-	(120,373)	
494,507	-	494,507	-	
304,037	-	304,037	-	
268,251	-	268,251	161,032	
94,008	-	94,008	-	
2,754	-	2,754	-	
28,674	-	28,674	-	
2,454	-	2,454	-	
530,774	-	530,774	498	
366	-	366	-	
796,926	(796,926)	-	-	
2,522,751	(796,926)	1,725,825	161,530	
18,248	166,146	184,394	41,158	
5,516,171	458,317	5,974,488	298,403	
33,910	1,773	35,683	-	
\$ 5,568,329	\$ 626,236	\$ 6,194,565	\$ 339,560	

CITY OF TAFT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

Data Control Codes	General Fund	Interest & Sinking Fund	Other Funds	Total Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ -	\$ 293,317	\$ 386,520	\$ 679,837
1030 Investments - Current	10,126	-	-	10,126
1050 Taxes Receivable	154,340	127,806	-	282,146
1051 Allowance for Uncollectible Taxes (credit)	(7,717)	(6,390)	-	(14,107)
1150 Receivables (Net)	124,046	-	8,161	132,207
1260 Intergovernmental Receivables	20,633	-	-	20,633
1300 Due from Other Funds	78,601	18,133	105,222	201,956
1320 Due from Component Unit	11,483	-	-	11,483
1000 Total Assets	<u>\$ 391,512</u>	<u>\$ 432,866</u>	<u>\$ 499,903</u>	<u>\$ 1,324,281</u>
LIABILITIES				
2010 Accounts Payable	\$ 124,095	\$ -	\$ 29,805	\$ 153,900
2020 Wages and Salaries Payable	31,944	-	-	31,944
2040 Bank Overdraft	96,477	-	117,764	214,241
2080 Due to Other Funds	119,274	-	81,278	200,552
2100 Due to Component Unit	32,319	-	-	32,319
2220 Unearned Revenues	28,406	-	-	28,406
2000 Total Liabilities	<u>432,515</u>	<u>-</u>	<u>228,847</u>	<u>661,362</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	146,623	121,416	-	268,039
2600 Total Deferred Inflows of Resources	<u>146,623</u>	<u>121,416</u>	<u>-</u>	<u>268,039</u>
FUND BALANCES				
3450 Federal or State Funds Grant Restriction	-	-	3	3
3480 Retirement of Long-Term Debt	-	311,450	-	311,450
3490 Other Restricted Fund Balance	-	-	390,915	390,915
3600 Unassigned Fund Balance	(187,626)	-	(119,862)	(307,488)
3000 Total Fund Balances	<u>(187,626)</u>	<u>311,450</u>	<u>271,056</u>	<u>394,880</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 391,512</u>	<u>\$ 432,866</u>	<u>\$ 499,903</u>	<u>\$ 1,324,281</u>

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

CITY OF TAFT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$	394,880
---	----	---------

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 activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.		-0-
--	--	-----

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$18,305,779 and the accumulated depreciation was (\$12,910,199). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		5,365,064
--	--	-----------

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase (decrease) net position.		451,752
--	--	---------

The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(478,730)
--	--	-----------

Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of \$(553,521), a deferred resource inflow in the amount of \$(44,518), and a deferred resource outflow in the amount of \$140,569. This resulted in an increase/(decrease) in net position by \$(457,470).		(457,470)
--	--	-----------

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 recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		292,833
---	--	---------

Net Position of Governmental Activities	\$	5,568,329
--	-----------	-----------

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

CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT C-3

Data Control Codes	General Fund	Interest & Sinking Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 499,948	\$ 304,037	\$ -	\$ 803,985
5120 General Sales and Use Taxes	214,574	-	53,677	268,251
5170 Franchise Tax	94,008	-	-	94,008
5180 Other Taxes	2,754	-	-	2,754
5190 Penalty and Interest on Taxes	28,674	-	-	28,674
5200 Licenses and Permits	29,005	-	-	29,005
5400 Charges for Services	73,359	-	75,271	148,630
5610 Investment Earnings	77	138	151	366
5620 Rents and Royalties	28,482	-	-	28,482
5640 Contributions & Donations from Private Sources	754	-	1,700	2,454
5700 Other Revenue	105,185	-	73,767	178,952
5020 Total Revenues	<u>1,076,820</u>	<u>304,175</u>	<u>204,566</u>	<u>1,585,561</u>
EXPENDITURES:				
Current:				
General Government:				
0011 General Administration	931,771	-	-	931,771
0012 Finance	186,164	-	-	186,164
0013 Municipal Court	64,464	-	-	64,464
0014 Administrative	99,720	-	-	99,720
0016 Legislative	38,774	-	-	38,774
0017 Tax Collection	16,448	-	-	16,448
Public Safety:				
0021 Police	527,048	-	33,451	560,499
0022 Fire Protection	743	-	103,461	104,204
0024 Emergency Medical Service	204,000	-	-	204,000
0026 Animal Control	67,465	-	-	67,465
0028 Code Enforcement	14,505	-	-	14,505
Public Works:				
0031 Highways and Streets	157,182	-	91,853	249,035
Health and Welfare:				
0044 Welfare	-	-	280	280
Culture and Recreation:				
0051 Library	64,311	-	-	64,311
0052 Parks	48,916	-	-	48,916
0056 Community Centers	9,624	-	-	9,624
Debt Service:				
0073 Bond Interest	-	36,265	-	36,265
6030 Total Expenditures	<u>2,431,135</u>	<u>36,265</u>	<u>229,045</u>	<u>2,696,445</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,354,315)</u>	<u>267,910</u>	<u>(24,479)</u>	<u>(1,110,884)</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	1,000	1,000
7915 Transfers In	1,078,046	-	-	1,078,046
7949 Other Resources	-	-	14,850	14,850
8911 Transfers Out (Use)	-	(255,830)	(25,290)	(281,120)
7960 Capital Contributions	293,336	-	-	293,336
7080 Total Other Financing Sources (Uses)	<u>1,371,382</u>	<u>(255,830)</u>	<u>(9,440)</u>	<u>1,106,112</u>
1200 Net Change in Fund Balances	17,067	12,080	(33,919)	(4,772)
0100 Fund Balance - October 1 (Beginning)	(212,036)	299,370	278,408	365,742
1300 Prior Period Adjustment	7,343	-	26,567	33,910
3000 Fund Balance - September 30 (Ending)	<u>\$ (187,626)</u>	<u>\$ 311,450</u>	<u>\$ 271,056</u>	<u>\$ 394,880</u>

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

CITY OF TAFT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	(4,772)
---	----	---------

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) the change in net position.		-0-
--	--	-----

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 2017 capital outlays and debt principal payments is to increase (decrease) the change in net position.		451,752
---	--	---------

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(478,730)
---	--	-----------

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred ending net position to increase in the amount of \$70,657. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(62,718). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$(13,544). The result of these changes is to increase/(decrease) the change in net position by \$(5,605).		(5,605)
--	--	---------

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		55,603
---	--	--------

Change in Net Position of Governmental Activities	\$	18,248
--	----	--------

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

CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

EXHIBIT D-1

Business-Type Activities - Enterprise Funds				
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 177,467	\$ 123,122	\$ 300,589
Accounts Receivable-Net of Uncollectible Allowance	272,571	154,901	148,154	575,626
Inventories	21,566	-	-	21,566
Total Current Assets	294,137	332,368	271,276	897,781
Noncurrent Assets:				
Capital Assets:				
Buildings	28,970	-	3,698	32,668
Accumulated Depreciation - Buildings	(28,970)	-	(3,698)	(32,668)
Improvements other than Buildings	2,083,110	8,248,521	-	10,331,631
Accumulated Depreciation - Other Improvements	(1,572,794)	(2,795,076)	-	(4,367,870)
Machinery and Equipment	142,111	206,098	59,273	407,482
Accumulated Depreciation - Machinery & Equipment	(142,111)	(189,235)	(59,273)	(390,619)
Total Noncurrent Assets	510,316	5,470,308	-	5,980,624
Total Assets	804,453	5,802,676	271,276	6,878,405
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	25,666	17,110	14,639	57,415
Total Deferred Outflows of Resources	25,666	17,110	14,639	57,415

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

CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds			
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
LIABILITIES				
Current Liabilities:				
Accounts Payable	49,024	5,497	96,672	151,193
Wages and Salaries Payable	5,516	4,352	3,348	13,216
Compensated Absences Payable	47,669	10,659	567	58,895
Bank Overdraft	47,160	-	-	47,160
Intergovernmental Payable	-	-	96,173	96,173
Due to Other Funds	1,405	-	-	1,405
Accrued Interest Payable	-	8,543	-	8,543
Notes Payable - Current	22,681	-	-	22,681
Bonds Payable - Current	-	257,634	22,908	280,542
Total Current Liabilities	173,455	286,685	219,668	679,808
NonCurrent Liabilities:				
Bonds Payable - Noncurrent	-	5,183,465	-	5,183,465
Notes Payable - Noncurrent	61,283	-	5,107	66,390
Net Pension Liability	98,740	65,827	61,519	226,086
Payable from Restricted Assets - Noncurrent:				
Payable from Restricted Asset	135,650	-	-	135,650
Total Noncurrent Liabilities	295,673	5,249,292	66,626	5,611,591
Total Liabilities	469,128	5,535,977	286,294	6,291,399
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan	6,884	4,589	6,712	18,185
Total Deferred Inflows of Resources	6,884	4,589	6,712	18,185
NET POSITION				
Net Investment in Capital Assets	426,352	29,209	-	455,561
Unrestricted Net Position	(72,245)	250,011	(7,091)	170,675
Total Net Position	\$ 354,107	\$ 279,220	\$ (7,091)	\$ 626,236

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

CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Business-Type Activities - Enterprise Funds				
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Water Services	\$ 1,216,592	\$ -	\$ -	\$ 1,216,592
Charges for Sewerage Service	-	686,512	-	686,512
Charges for Sanitation Service	-	-	627,696	627,696
Total Operating Revenues	<u>1,216,592</u>	<u>686,512</u>	<u>627,696</u>	<u>2,530,800</u>
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages				
Proprietary Fund Function - Water	170,800	-	-	170,800
Proprietary Fund Function - Sanitation	-	125,409	-	125,409
Proprietary Fund Function - Sewerage	-	-	90,979	90,979
Total Personnel Services - Salaries and Wages	<u>170,800</u>	<u>125,409</u>	<u>90,979</u>	<u>387,188</u>
Purchased Professional & Technical Services				
Proprietary Fund Function - Water	551,669	-	-	551,669
Proprietary Fund Function - Sanitation	-	45,401	-	45,401
Proprietary Fund Function - Sewerage	-	-	373,800	373,800
Total Purchased Professional & Technical Services	<u>551,669</u>	<u>45,401</u>	<u>373,800</u>	<u>970,870</u>
Depreciation	41,662	167,259	-	208,921
Interest Expense	-	-	749	749
Total Operating Expenses	<u>764,131</u>	<u>338,069</u>	<u>465,528</u>	<u>1,567,728</u>
Income Before Transfers	<u>452,461</u>	<u>348,443</u>	<u>162,168</u>	<u>963,072</u>
Non-Operating Transfer In	-	254,323	-	254,323
Transfers Out	<u>(510,125)</u>	<u>(459,968)</u>	<u>(81,156)</u>	<u>(1,051,249)</u>
Change in Net Position	<u>(57,664)</u>	<u>142,798</u>	<u>81,012</u>	<u>166,146</u>
Total Net Position - October 1 (Beginning)	410,769	135,651	(88,103)	458,317
Prior Period Adjustment	1,002	771	-	1,773
Total Net Position - September 30 (Ending)	<u>\$ 354,107</u>	<u>\$ 279,220</u>	<u>\$ (7,091)</u>	<u>\$ 626,236</u>

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

CITY OF TAFT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-3

	Business-Type Activities			
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 1,123,070	\$ 366,340	\$ 608,776	\$ 2,098,186
Cash Payments to Employees for Services	(155,994)	(115,452)	(77,947)	(349,393)
Cash Payments for Suppliers	(551,669)	(45,401)	(373,800)	(970,870)
Net Cash Provided by Operating Activities	415,407	205,487	157,029	777,923
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Operating Transfer Out	(510,125)	(459,968)	(81,156)	(1,051,249)
Operating Transfer In	-	254,323	-	254,323
Net Cash Provided by (Used for) Non-Capital Financing Activities	(510,125)	(205,645)	(81,156)	(796,926)
<u>Cash Flows from Capital & Related Financing Activities:</u>				
Principal and Interest Paid	-	-	(41,501)	(41,501)
Net Increase(Decrease) in Cash and Cash Equivalents	(94,718)	(158)	34,372	(60,504)
Cash and Cash Equivalents at Beginning of the Year:	47,558	177,625	88,750	313,933
Cash and Cash Equivalents at the End of the Year:	\$ (47,160)	\$ 177,467	\$ 123,122	\$ 253,429
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>				
Operating Income:	\$ 452,461	\$ 348,443	\$ 162,168	\$ 963,072
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	41,662	167,259	-	208,921
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	(83,734)	(51,909)	(50,364)	(186,007)
Decrease (increase) in Inventories	4,909	-	-	4,909
Increase (decrease) in Accounts Payable	(14,697)	(268,263)	31,442	(251,518)
Increase (decrease) in Payroll Deductions	14,806	9,957	13,783	38,546
Net Cash Provided by Operating Activities	\$ 415,407	\$ 205,487	\$ 157,029	\$ 777,923

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

THIS PAGE LEFT BLANK INTENTIONALLY

NOTES TO THE FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The accounting policies of the City conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant policies.

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole presenting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and changes in net position of the City. These statements are prepared using the accrual basis of accounting. Separate rows and columns are used in the government-wide statements to distinguish between governmental activities and business-type activities, with a total column for the primary government.

B. SCOPE OF REPORTING ENTITY

The City has used the criteria detailed in GASB statement No. 14, *"The Financial Reporting Entity"* and GASB Statement No. 61, *The Financial Reporting Entity; Omnibus an amendment of GASB Statements No. 14 and No. 34* to determine whether or not certain entities should be included in the accompanying financial statements. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Based on these criteria, the City has identified the following as Discretely Presented Component Units.

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 City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

C. FUND FINANCIAL STATEMENTS

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

The City has reported the following major governmental funds:

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.

Debt Service Fund - The fund accounts for taxes collected and the repayment of principal and interest of debt.

The City has reported 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 financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to whether a particular type of transaction will be recorded in the financial statements. The economic resources measurement focus recognizes all resources and obligations and the changes in them. The current financial resources measurement focus recognizes only current resources and obligations and transactions affecting current resources and obligations. 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 measurements made, regardless of the measurement focus applied.

Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of account. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized in accordance with the requirements specific to the class of nonexchange transactions. For the government-wide financial statements prepared on the accrual basis, property tax revenues are recognized in the period for which the taxes are levied.

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Fund financial statements – government funds

The fund financial statements for the government funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus affects the accounting and reporting treatment of capital assets and long-term liabilities. The capital assets and long-term liabilities of the governmental activities are not recorded on the balance sheet of the fund financial statements of the governmental funds. Transactions for the purchase of assets, the issuance of debt, and the payment of debt principal are reflected in the governmental funds, but they are reported on the statement of revenues, expenditures, and changes in fund balances as capital outlay and debt service principal expenditures and proceeds from debt.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available and recognizes expenditures in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues of the City are considered susceptible to accrual except for revenue from delinquent property taxes receivable, revenue from fines and revenue from fines.

While the City expects all taxes on real property to ultimately be collectible, the bulk of delinquent property taxes receivable at the end of the year are not anticipated to be collected soon enough thereafter to be used to pay liabilities of current period. Therefore, revenue from delinquent property taxes receivable is not recognized in the fund financial statements until they are considered available when collected during the current period of within 60 days of the end of the current fiscal period.

Fines receivable but not past due at the end of the fiscal year may be subsequently reduced when the offender attends a defensive driving course, provides proof of insurance, has the offense dismissed by the municipal court, or serves jail time. Current fines receivable thus do not meet the measurability criterion required to be susceptible to accrual. A significant portion of past due fines receivable is not anticipated to be collected enough to meet the criterion that the revenue be considered available.

Fund financial statements – proprietary funds

The fund financial statements for the proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting and are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net position and cash flows. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

E. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and debt service fund. The other special revenue funds do not have appropriated budgets since other means control the use of these resources and sometimes span a period of more than one fiscal year.

The appropriated budgets are prepared by fund and function. Any revisions that alter the total appropriations of any fund must be approved by City Council. All budget amounts presented reflect the original budget and the final amended budget, which has been adjusted for legally authorized revisions or appropriations to the original budgets during the fiscal year. 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:

- a. Prior to August 6th 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.
- b. Advertised public hearings are conducted.
- c. The budget is required to be approved by September 20th.
- d. The tax rates are approved after the budget has been approved.
- e. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

F. 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, 2017.

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for purposes of the statements of cash flows represent demand accounts and petty cash. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

H. INVESTMENTS

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (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 bonds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

I. 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.

J. RECEIVABLES

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Within the governmental fund financial statements, long-term advances and long-term receivables are reflected as unspendable fund balance indicating they do not constitute available expendable resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is management's best estimate of the amount of credit losses based on account delinquencies and historical write-off expense.

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled has been included in the financial statements and has been accrued in the proprietary funds to record the estimated amount of revenues earned but not billed as of the end of the fiscal year. The estimate is based on the pro rata number of days in the billing cycle before and after the fiscal year end.

K. INVENTORY

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.

L. INTER-FUND RECEIVABLE 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."

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

M. 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.

O. 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

P. 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.

Q. LONG-TERM DEBT

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses on proprietary fund refunding and on the government-wide financial statements are reported as deferred inflows or outflows and are amortized over the term of the lesser of the new bonds or the refunded bonds using the effective interest method. Bond issuance costs are recognized as expenditures/expenses when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Bond issuance costs are shown as debt service expenditures.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

R. FUND EQUITY

In the government-wide financial statements and proprietary funds financial statements, net position is classified in the following categories:

Net assets invested in capital assets

This category represents the net carrying value of all capital assets, reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction or improvement of these assets.

Restricted

The restricted component of net position represents restricted assets reduced by liabilities related to those assets. This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This category is the “residual” component of net position. It consists of net position that does not meet the definition of “restricted” or “net invested in capital assets.”

In the governmental fund financial statements, fund balances are classified in the following categories:

The *nonspendable* fund balance includes the portion of net resources that cannot be spend because of their form or because they must be maintained intact. Resources not in spendable form include inventories and prepaid items, long-term advances, long-term receivable, and nonfinancial assets held for resale.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints that are imposed by the highest level of decision making authority, City Council. City Council is required to take formal action by ordinance or resolution to establish, modify, or rescind a fund balance commitment. Committed funds incorporate contractual obligations constraints to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council action. The residual fund balance that is not Restricted or Committed in governmental funds except the General Fund is assigned.

The *unassigned* fund balance represents the spendable net resources that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned fund balance.

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

S. SPENDING PRIORITIZATION IS USING AVAILABLE RESOURCES

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong at the 25% general fund policy level. The General Fund will need to re-build with future revenues.

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.

T. PROGRAM REVENUES AND INDIRECT EXPENSES

The government-wide statement of activities is presented in a format that identifies the net cost of the City's individual functions. The expense of each function are reduced by the functions program revenues. Program revenues are revenues which derive directly from the program itself and include charges for services, program-specific operating grants and contributions, and program specific capital grants and contributions. Some governmental functions such as administration and finance are in essence indirect expenses of other functions. Governments are not required to allocate those indirect expenses to other functions, but if they do, indirect expenses should be presented in a separate column from direct expenses. The City has chosen not to allocate those indirect expenses.

U. OPERATING AND NONOPERATING REVENUES AND EXPENSES

The City's policy in distinguishing proprietary fund operating and nonoperating revenues and expenses follows the guidance for distinguishing types of cash flows. Transactions for capital and related financing activities, noncapital financing activities, or investing activities are normally not treated as operating revenues or expenses.

V. ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principle requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, service lines and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation.

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

W. NET PENSION LIABILITY

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

Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

X. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City has one item that qualifies for reporting in this category, which is related to the City's net pension liability and is reported on the government-wide statements of net position. This deferred outflow include City contributions to the retirement systems contributed subsequent to the measurement date of the net pension liability, as of September 30, 2017, the City's deferred outflows totaled \$197,984.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has two items that qualify for reporting in this category, one of which is reported on the government wide statements of net position and the other reported on the balance sheet at the governmental fund level.

Government-wide statements

One is the deferred inflow related to the net position liability and is the difference between expected and actual economic experiences and changes in actual earnings. This is amortized over subsequent accounting periods as determined by the actuary. As of September 30, 2017, the City's deferred inflow totaled \$62,703.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2017, the City's deferred inflowed totaled \$268,039.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENT

At September 30, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$719,025 and the bank balance was \$914,380. The City's cash deposits at September 30, 2017 and during the period ended September 30, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

A. Investments

As of September 30, 2017, the City had no investments:

Investment Maturities (In Years)

Investment Type	Fair Value	Less than 1	1 to 2	2 to 3
Investment Pools:				
N/A	-	-	-	-
Total Fair Value	\$ -	\$ -	\$ -	\$ -

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.

NOTE 3 AD VALOREM PROPERTY TAXES

Property taxes are levied on October 1 bases on assessed value of property as of January 1, for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately impose.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Ad valorem taxes of \$731,555 were assessed on property values totaling \$86,540,829 using a tax rate of \$0.828552 (\$0.567069 for general operations and \$0.261483 for debt service) per \$100 assessed value. Additional Ad valorem taxes of \$77,302 were assessed on disannexed property with values totaling \$21,887,723 using a tax rate of \$0.375211 for debt service per \$100 assessed value.

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. The city does not offer a discount or early payment of taxes. The City's taxes are billed and collected by the San Patricio County Tax Assessor Collector.

NOTE 4 RECEIVABLES AND PAYABLES

Receivables are recorded net of allowance for uncollectible accounts as follows:

Receivables at September 30, 2017, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 146,623	\$ 20,633	\$ 78,601	\$ 124,046	\$ 369,903
Major Governmental Funds	121,416	-	18,133	-	139,549
Non-major Governmental Funds	-	-	105,222	8,161	113,383
Total - Governmental Activities	<u>\$ 268,039</u>	<u>\$ 20,633</u>	<u>\$ 201,956</u>	<u>\$ 132,207</u>	<u>\$ 622,835</u>

Payables at September 30, 2017, were as follows:

	Accounts Payable	Loans, Leases and Bonds Payable Current Year	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:							
General Fund	\$ 124,095	\$ 3,494	\$ 31,944	\$ 119,274	\$ -	\$ 157,202	\$ 436,009
Major Governmental Fund	-	-	-	-	-	-	-
Non-major Governmental Fund	29,805	-	-	81,278	-	117,764	228,847
Total - Governmental Activities	<u>\$ 153,900</u>	<u>\$ 3,494</u>	<u>\$ 31,944</u>	<u>\$ 200,552</u>	<u>\$ -</u>	<u>\$ 274,966</u>	<u>\$ 664,856</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 5 CAPITAL ASSETS

Capital Assets for governmental activities are as follows:

	Beginning Balance October 1, 2016	Additions	Deletions	Ending Balance September 30, 2017
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 10,524	\$ -	\$ -	\$ 10,524
Construction in Progress	4,000	322,941	326,941	-
Total Capital assets, not being depreciated	<u>14,524</u>	<u>322,941</u>	<u>326,941</u>	<u>10,524</u>
Capital Asset being depreciated:				
Buildings	2,702,766	-	-	2,702,766
Improvements	3,130,596	-	-	3,130,596
Equipment	1,626,152	53,567	-	1,679,719
Vehicles	652,348	16,500	(20,555)	648,293
Infrastructure	10,179,393	413,326	-	10,592,719
Total capital assets, being depreciated	<u>18,291,255</u>	<u>483,393</u>	<u>(20,555)</u>	<u>18,754,093</u>
Less accumulated depreciation for:				
Buildings	(1,698,138)	(67,569)	-	(1,765,707)
Improvements	(2,002,409)	(78,265)	-	(2,080,674)
Equipment	(1,610,173)	(8,523)	-	(1,618,696)
Vehicles	(581,540)	(15,101)	20,555	(576,086)
Infrastructure	(7,017,939)	(309,272)	-	(7,327,211)
Total accumulated depreciation	<u>(12,910,199)</u>	<u>(478,730)</u>	<u>20,555</u>	<u>(13,368,374)</u>
Total capital assets being depreciated, net	5,381,056	4,663	-	5,385,719
Governmental activities capital assets, net	<u>\$ 5,395,580</u>	<u>\$ 327,604</u>	<u>\$ 326,941</u>	<u>\$ 5,396,243</u>

Depreciation expense was charged as follows:

Governmental Activities:	
General Government and Administration	\$ 116,371
Public Works - Street Department	193,196
Parks and Recreation	56,693
Public Safety - Police Department	46,015
Public Safety - Fire Department	66,455
Total Depreciation Expense - Governmental Activities	<u>\$ 478,730</u>

The City of Taft recognized a capital contribution of \$293,336 for infrastructure improvements that were made in conjunction with the Texas Department of Transportation.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Capital Assets for Business-type activities are as follows:

	Beginning Balance October 1, 2016	Additions	Deletions	Ending Balance September 30, 2017
Business-type Activities				
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	407,482	-	-	407,482
Water System	2,083,110	-	-	2,083,110
Sewer System	8,248,521	-	-	8,248,521
Total capital assets, being depreciated	10,771,781	-	-	10,771,781
 Less accumulated depreciation for:				
Buildings	(33,063)	-	-	(33,063)
Improvements	-	-	-	-
Equipment	(388,331)	(2,288)	-	(390,619)
Water System	(1,530,736)	(41,662)	-	(1,572,398)
Sewer System	(2,630,105)	(164,970)	-	(2,795,075)
Total accumulated depreciation	(4,582,235)	(208,921)	-	(4,791,156)
 Total capital assets, being depreciated, net	6,189,546	(208,921)	-	5,980,625
 Business-type activities capital assets, net	<u>\$ 6,189,546</u>	<u>\$ (208,921)</u>	<u>\$ -</u>	<u>\$ 5,980,625</u>

Depreciation expense was charged as follows:

Business-type Activities:	
Water System	41,662
Sewer System	164,970
Machinery and Equipment/Buildings	2,288
Total Depreciation Expense - Business-type Activities	<u>208,921</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 6 INTERFUND TRANSACTIONS AND BALANCES

Inter-fund balances at September 30, 2017 consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds
General Fund:		
Special Revenue Fund	\$ 77,196	\$ 105,222
Enterprise Funds	1,405	-
Total General Fund	<u>78,601</u>	<u>105,222</u>
Special Revenue Fund:		
General Fund	105,222	77,196
Debt Service fund	-	4,082
	<u>105,222</u>	<u>81,278</u>
Debt Service:		
Special Revenue Fund	<u>4,082</u>	<u>-</u>
Enterprise Funds:		
General Fund	<u>-</u>	<u>1,405</u>
Total	<u><u>\$ 187,905</u></u>	<u><u>\$ 187,905</u></u>

NOTE 7 INTERFUND TRANSFERS

The inter-fund balances at September 30, 2017 are generally short-term loans to cover temporary cash flows and reimbursements for various funds.

Inter-fund transfers during the year ended September 30, 2017 were as follows:

Transfer In	General Fund	Debt Service Fund	Special Revenue Funds	Utility Fund	Total
Utility Fund	\$ 1,051,249	\$ -	\$ -	\$ -	\$ 1,051,249
General Fund	-	-	-	-	-
Debt Service Fund	1,507	-	-	254,323	255,830
Special Revenue Fund	25,290	-	-	-	25,290
Total	<u>1,078,046</u>	<u>-</u>	<u>-</u>	<u>254,323</u>	<u>1,332,369</u>
Less Transfers	<u>-</u>	<u>(255,830)</u>	<u>(25,290)</u>	<u>(1,051,249)</u>	<u>(1,332,369)</u>
Net Transfers	<u><u>\$ 1,078,046</u></u>	<u><u>\$ (255,830)</u></u>	<u><u>\$ (25,290)</u></u>	<u><u>\$ (796,926)</u></u>	<u><u>\$ -</u></u>

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 8 LONG-TERM DEBT

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, 2017.

Long-term debt at September 30, 2017, is composed of the following items:

General Obligation Bonds – Payable out of the Utility System through ad valorem taxes:

\$5,780,000 Series 2010 combination tax and surplus revenue certificates of obligation due in annual installments of \$192,000 to \$193,000 with a final payment of \$193,000 on March 1, 2042; zero percent interest	\$4,815,000
---	-------------

\$1,000,000 Series 2010 certificates of obligation due in annual installments of \$49,993 to \$93,399 through March 15, 2025; interest at 5.400 percent.	\$ 626,099
--	------------

Capital Leases

Payable out of the General Fund	\$ 13,724
---------------------------------	-----------

Notes Payable

Payable out of the Utility Fund	\$ 106,962
---------------------------------	------------

Total long-term debt	<u>\$5,561,785</u>
----------------------	--------------------

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

The following is a summary of long-term debt activity for September 30, 2017.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and leases payable					
Capital Leases Payable	\$ 30,515	\$ 14,850	\$ 31,641	\$ 13,724	\$ 3,494
Total bonds and leases payable	<u>30,515</u>	<u>14,850</u>	<u>31,641</u>	<u>13,724</u>	<u>3,494</u>
Other long-term liabilities					
Accumulated compensated absences	36,251	-	16,611	19,640	4,910
Net pension liability	<u>637,897</u>	<u>-</u>	<u>84,376</u>	<u>553,521</u>	
Total other long-term liabilities	<u>674,148</u>	<u>-</u>	<u>100,987</u>	<u>573,161</u>	<u>4,910</u>
 Total Governmental Activities	 <u>\$ 704,663</u>	 <u>\$ 14,850</u>	 <u>\$ 132,628</u>	 <u>\$ 586,885</u>	 <u>\$ 8,404</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and leases payable					
TWDB Certificates of Obligation Bonds					
2010	\$ 5,008,000	\$ -	\$ 193,000	\$ 4,815,000	\$ 193,000
Certificate of Obligation Bonds 2010	<u>687,422</u>	<u>-</u>	<u>61,323</u>	<u>626,099</u>	<u>64,634</u>
Capital Leases Payable	<u>6,473</u>	<u>-</u>	<u>6,473</u>	<u>-</u>	
Total bonds and leases payable	<u>5,701,895</u>	<u>-</u>	<u>260,796</u>	<u>5,441,099</u>	<u>257,634</u>
Other long-term liabilities					
Accumulated compensated absences	24,975	-	12,660	12,315	3,079
Notes Payable	<u>169,721</u>	<u>-</u>	<u>62,759</u>	<u>106,962</u>	<u>45,589</u>
Net pension liability	<u>260,550</u>	<u>-</u>	<u>34,463</u>	<u>226,087</u>	
Total other long-term liabilities	<u>455,246</u>	<u>-</u>	<u>109,881</u>	<u>345,364</u>	<u>48,668</u>
 Total Business-type Activities	 <u>\$ 6,157,141</u>	 <u>\$ -</u>	 <u>\$ 370,677</u>	 <u>\$ 5,786,464</u>	 <u>\$ 306,302</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

The annual requirements for bonds for years subsequent to September 30, 2017, are as follows:

Year Ending September 30	Governmental Activities General/Certificate Obligations/Notes Payable			Business-type Activities Revenue Bonds Loan Payable		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ -	\$ -	\$ -	\$ 303,223	\$ 37,012	\$ 340,235
2019	-	-	-	285,324	31,751	317,075
2020	-	-	-	290,624	26,352	316,976
2021	-	-	-	279,943	20,903	300,846
2022	-	-	-	272,767	16,523	289,290
Thereafter	-	-	-	4,116,180	22,056	4,138,236
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,548,061</u>	<u>\$ 154,597</u>	<u>\$ 5,702,658</u>

NOTE 9 CAPITAL LEASES PAYABLE

The City is obligated under certain lease agreement which have been classified as capital leases. Property under capital lease consists of equipment totaling \$ 14,850. Accumulated depreciation of \$3,300 has been recorded against the assets under capital lease. The leases are payable out of the general fund. Capital lease obligations at September 30, 2017 are composed of the following:

Governmental Activities Capital Lease Payable:

Lease payable to Prosperity Bank for a 2016 Dodge Ram;
Annual installments of \$4,109 including principal and interest through
May 15, 2021; interest rate of 4.99 percent \$13,724

Capital lease future payments are as follows:

Year Ending September 30	Governmental Activities Capital Leases Payable			Business-type Activities Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 3,494	\$ 615	\$ 4,109	\$ -	\$ -	\$ -
2019	3,675	434	4,109	-	-	-
2020	3,866	243	4,109	-	-	-
2021	2,689	51	2,740	-	-	-
2022	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-
Total	<u>\$ 13,724</u>	<u>\$ 1,343</u>	<u>\$ 15,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 10 OPERATING LEASES

The City entered into a lease agreement with NDS Leasing to provide copying machines. Total costs for the leases were \$10,758 for the year ended September 30, 2017.

The future minimum lease payments are as follows:

Year Ending September 30	Total
2018	\$ 16,137
2019	16,137
2020	16,137
2021	16,137
2022	<u>5,379</u>
Total	<u>\$ 69,929</u>

NOTE 11 FUND BALANCE RESTRICTED OR COMMITTED TO OTHER PURPOSES

Some fund balance restrictions and commitments have been grouped together under the heading of other or various purposes. Those amounts are detailed below:

Restricted Fund Balance:	
Federal of State Funds Grant Restriction	\$ 3
Retirement of Long-Term Debt	311,450
Other Restricted Fund Balance	390,915
Unassigned Fund Balance	<u>(307,488)</u>
Total Fund Balance	<u><u>\$ 394,880</u></u>

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 12 PENSION PLAN

A. Plan Description

The City of Taft participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

B. Benefits Provided

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

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

Plan Provisions:

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

	Plan Year 2016	Plan Year 2017
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 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

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	94
Active employees	<u>25</u>
Total	<u><u>130</u></u>

C. Contributions

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

Employees for the City of Taft were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Taft were 12.23% and 14.76% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$132,585 and were equal to the required contributions.

D. Net Pension Liability

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

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year

Investment Rate of Return 6.75%, net of pension plan investment expense, including inflation

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

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate:

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

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2015	\$ 3,098,401	\$ 2,199,954	\$ 898,447
Changes for the year:			
Service cost	164,979	-	164,979
Interest	209,567	-	209,567
Change of benefit terms	-	-	-
Difference between expected and actual experience	(157,954)	-	(157,954)
Changes of assumptions	-	-	-
Contributions - employer	-	118,619	(118,619)
Contributions - employee	-	69,486	(69,486)
Net investment income	-	149,095	(149,095)
Benefit payments, including refunds of employee contributions	(152,381)	(152,381)	-
Administrative expense	-	(1,679)	1,679
Other changes	-	(90)	90
Net changes	64,211	183,050	(118,839)
Balance at 12/31/2016	\$ 3,162,612	\$ 2,383,004	\$ 779,608

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 1,182,584	\$ 779,608	\$ 447,369

Pension Plan Fiduciary Net Position:

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

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

For the year ended September 30, 2017, the City recognized pension expense of \$137,695.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 62,224
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings (net of current year amortization)	98,467	478
Contributions subsequent to the measurement date	99,518	-
Total	<u>\$ 197,985</u>	<u>\$ 62,702</u>

\$ 99,518 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$ (27,820)
2019	\$ 34,402
2020	\$ 29,301
2021	\$ (118)
2022	\$ -
Thereafter	\$ -

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 13 POST RETIREMENT BENEFITS OTHER THAN PENSION

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

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

Regarding supplemental Death Benefits in compliance with GASB Statement 45, the City does offer supplemental death benefits to active or retirees for the 2016 or 2017 plan years.

City Supplemental Death to:	Plan Year 2016	Plan Year 2017
Active Employees (Yes or No)	Yes	Yes
Retirees (Yes or No)	Yes	Yes

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.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$2,857, \$2,801 and \$4,083, respectively, which equaled the required contributions each year.

Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 14 HEALTH CARE COVERAGE

During the year ended September 30, 2017, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$592 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Plan was authorized by Article 3.51-5, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer are available for the year ended and have been filed with the Texas State Board of Insurance, Austin, Texas and are public record.

NOTE 15 COMMITMENTS AND CONTINGENCIES

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 suites. 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.

NOTE 16 RISK MANAGEMENT

The City is exposed to various to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 17 FUND DEFICITS

At September 30, 2017, the General Fund had a deficit fund balance of (\$187,626), and the State Fees Fund Fund had a deficit fund balance of (\$119,862).

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

NOTE 18 PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2017, prior period adjustments were made to correctly reflect fund balances to actual. The effect of these prior period adjustments was as follows: An adjustment of \$7,343 was made to the general fund which increased the ending net position and fund balance. An adjustment of \$18,534 was made to the firemen's operating fund which increased the ending net position and fund balance. An adjustment of \$8,033 was made to the state fees fund which increased the ending net position and fund balance. An adjustment of \$1,773 was made to the utility fund, which increased the ending net position and fund balance.

NOTE 19 EVALUATION OF SUBSEQUENT EVENTS

The City is currently in a small deficit in the General Fund and 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. The Council has evaluated subsequent events through June 12, 2018 the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TAFT, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT G-1

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
	Taxes:				
5110	Property Taxes	\$ 523,534	\$ 523,534	\$ 499,948	\$ (23,586)
5120	General Sales and Use Taxes	392,000	392,000	214,574	(177,426)
5170	Franchise Tax	102,000	102,000	94,008	(7,992)
5180	Other Taxes	3,000	3,000	2,754	(246)
5190	Penalty and Interest on Taxes	30,000	30,000	28,674	(1,326)
5200	Licenses and Permits	22,100	22,100	29,005	6,905
5400	Charges for Services	65,600	65,600	73,359	7,759
5610	Investment Earnings	200	200	77	(123)
5620	Rents and Royalties	26,600	26,600	28,482	1,882
5640	Contributions & Donations from Private Sources	-	-	754	754
5700	Other Revenue	195,000	195,000	105,185	(89,815)
5020	Total Revenues	1,360,034	1,360,034	1,076,820	(283,214)
EXPENDITURES:					
	Current:				
	General Government:				
0011	General Administration	852,036	852,036	931,771	(79,735)
0012	Finance	182,572	182,572	186,164	(3,592)
0013	Municipal Court	66,420	66,420	64,464	1,956
0014	Administrative	117,844	117,844	99,720	18,124
0016	Legislative	40,294	40,294	38,774	1,520
0017	Tax Collection	19,299	19,299	16,448	2,851
	Public Safety:				
0021	Police	541,199	541,199	527,048	14,151
0022	Fire Protection	47,600	47,600	743	46,857
0024	Emergency Medical Service	204,000	204,000	204,000	-
0026	Animal Control	57,025	57,025	67,465	(10,440)
0028	Code Enforcement	30,937	30,937	14,505	16,432
	Public Works:				
0031	Highways and Streets	177,067	177,067	157,182	19,885
	Culture and Recreation:				
0051	Library	69,880	69,880	64,311	5,569
0052	Parks	47,765	47,765	48,916	(1,151)
0056	Community Centers	12,099	12,099	9,624	2,475
6030	Total Expenditures	2,466,037	2,466,037	2,431,135	34,902
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,106,003)	(1,106,003)	(1,354,315)	(248,312)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	1,106,003	1,106,003	1,078,046	(27,957)
8940	Capital Contributions	-	-	293,336	293,336
7080	Total Other Financing Sources (Uses)	1,106,003	1,106,003	1,371,382	265,379
1200	Net Change in Fund Balances	-	-	17,067	17,067
0100	Fund Balance - October 1 (Beginning)	(212,036)	(212,036)	(212,036)	-
1300	Prior Period Adjustment	-	-	7,343	7,343
3000	Fund Balance - September 30 (Ending)	\$ (212,036)	\$ (212,036)	\$ (187,626)	\$ 24,410

CITY OF TAFT, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Plan Year Ended December 31,		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 164,979	\$ 166,770	\$ 178,906
Interest (on the total pension liability)	209,567	192,863	183,803
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(157,954)	36,416	(84,571)
Change of assumptions	-	101,816	-
Benefit payments, including refunds of employee contributions	(152,381)	(142,536)	(142,737)
Net Change in Total Pension Liability	64,211	355,329	135,401
Total Pension Liability - Beginning	3,098,401	2,743,072	2,604,671
Total Pension Liability - Ending (a)	<u>\$ 3,162,612</u>	<u>\$ 3,098,401</u>	<u>\$ 2,740,072</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 118,619	\$ 119,931	\$ 104,293
Contributions - employee	69,486	74,499	77,790
Net investment income	149,095	3,171	114,128
Benefit payments, including refunds of employee contributions	(152,381)	(142,536)	(142,737)
Administrative expense	(1,679)	(1,930)	(1,191)
Other	(90)	(95)	(98)
Net Change in Plan Fiduciary Net Position	183,050	53,040	152,185
Plan Fiduciary Net Position - Beginning	2,199,954	2,146,915	1,994,730
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,383,004</u>	<u>\$ 2,199,955</u>	<u>\$ 2,146,915</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 779,608</u>	<u>\$ 898,446</u>	<u>\$ 593,157</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.35%	71.00%	78.35%
Covered Employee Payroll	\$ 992,656	\$ 1,064,265	\$ 1,111,280
Net Pension Liability as a Percentage of Covered Employee Payroll	78.54%	84.42%	53.38%

CITY OF TAFT, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Fiscal Year Ended September 30,		
	2017	2016	2015
Actuarially determined contribution	\$ 132,585	\$ 120,783	\$ 114,529
Contributions in relation to actuarially determined contribution	(132,585)	(120,783)	(114,529)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 985,310	\$ 1,000,324	\$ 1,020,793
Contributions as a percentage of covered employee payroll	13.46%	12.07%	11.22%

**CITY OF TAFT, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF TAFT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

Data Control Codes		208 TDA Grant Fund	211 Fireman's Pension Fund	215 Fireman's Operating Fund	219 Police Department Fund
ASSETS					
1010	Cash and Cash Equivalents	\$ 3	\$ 146,149	\$ 72,286	\$ 2,872
1150	Receivables (Net)	-	-	-	-
1300	Due from Other Funds	-	-	80,907	-
1000	Total Assets	<u>\$ 3</u>	<u>\$ 146,149</u>	<u>\$ 153,193</u>	<u>\$ 2,872</u>
LIABILITIES					
2010	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2040	Bank Overdraft	-	-	-	-
2080	Due to Other Funds	-	-	77,196	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>77,196</u>	<u>-</u>
FUND BALANCES					
3450	Federal or State Funds Grant Restriction	3	-	-	-
3490	Other Restricted Fund Balance	-	146,149	75,997	2,872
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>3</u>	<u>146,149</u>	<u>75,997</u>	<u>2,872</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3</u>	<u>\$ 146,149</u>	<u>\$ 153,193</u>	<u>\$ 2,872</u>

226 Taft Building & Security Fund	227 Taft Court Technolgy Fund	228 Juvenile Case Manager Fund	229 Pride of Taft Fund	233 EMS Account	241 Police Dept A/C Donation Fund	242 Municipal Court Fund	243 Street Fund
\$ 15,039	\$ 25,524	\$ -	\$ 4,886	\$ -	\$ -	\$ 37,187	\$ 65,340
-	-	-	-	-	-	-	8,161
-	-	-	-	-	-	-	24,315
<u>\$ 15,039</u>	<u>\$ 25,524</u>	<u>\$ -</u>	<u>\$ 4,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,187</u>	<u>\$ 97,816</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,707
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	4,082
-	-	-	-	-	-	-	31,789
-	-	-	-	-	-	-	-
15,039	25,524	-	4,886	-	-	37,187	66,027
-	-	-	-	-	-	-	-
<u>15,039</u>	<u>25,524</u>	<u>-</u>	<u>4,886</u>	<u>-</u>	<u>-</u>	<u>37,187</u>	<u>66,027</u>
<u>\$ 15,039</u>	<u>\$ 25,524</u>	<u>\$ -</u>	<u>\$ 4,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,187</u>	<u>\$ 97,816</u>

CITY OF TAFT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

Data Control Codes		245 State Fees	264 Drug Seizure Fund	265 Forfeiture Fund	Total Nonmajor Special Revenue Funds
ASSETS					
1010	Cash and Cash Equivalents	\$ -	\$ 17,234	\$ -	\$ 386,520
1150	Receivables (Net)	-	-	-	8,161
1300	Due from Other Funds	-	-	-	105,222
1000	Total Assets	<u>\$ -</u>	<u>\$ 17,234</u>	<u>\$ -</u>	<u>\$ 499,903</u>
LIABILITIES					
2010	Accounts Payable	\$ 2,098	\$ -	\$ -	\$ 29,805
2040	Bank Overdraft	117,764	-	-	117,764
2080	Due to Other Funds	-	-	-	81,278
2000	Total Liabilities	<u>119,862</u>	<u>-</u>	<u>-</u>	<u>228,847</u>
FUND BALANCES					
3250	Federal or State Funds Grant Restriction	-	-	-	3
3290	Other Restricted Fund Balance	-	17,234	-	390,915
3600	Unassigned Fund Balance	(119,862)	-	-	(119,862)
3000	Total Fund Balances	<u>(119,862)</u>	<u>17,234</u>	<u>-</u>	<u>271,056</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 17,234</u>	<u>\$ -</u>	<u>\$ 499,903</u>

522 Certificate Of Obligation Series 2004	531 Combination Tax & Surplus	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 386,520
-	-	8,161
-	-	105,222
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 499,903</u>
\$ -	\$ -	\$ 29,805
-	-	117,764
-	-	81,278
-	-	228,847
-	-	3
-	-	390,915
-	-	(119,862)
-	-	271,056
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 499,903</u>

CITY OF TAFT, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Data Control Codes	208 TDA Grant Fund	211 Fireman's Pension Fund	215 Fireman's Operating Fund	219 Police Department Fund
REVENUES:				
Taxes:				
5120 General Sales and Use Taxes	\$ -	\$ -	\$ -	\$ -
5400 Charges for Services	-	-	-	-
5610 Investment Earnings	-	65	38	5
5640 Contributions & Donations from Private Sources	-	-	-	-
5700 Other Revenue	-	-	70,646	-
5020 Total Revenues	-	65	70,684	5
EXPENDITURES:				
Current:				
Public Safety:				
0021 Police	-	-	-	10,633
0022 Fire Protection	-	2,999	100,462	-
Public Works:				
0031 Highways and Streets	-	-	-	-
Health and Welfare:				
0044 Welfare	-	-	-	-
6030 Total Expenditures	-	2,999	100,462	10,633
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(2,934)	(29,778)	(10,628)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	-	-
7949 Other Resources	-	-	-	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	-	-
1200 Net Change in Fund Balance	-	(2,934)	(29,778)	(10,628)
0100 Fund Balance - October 1 (Beginning)	3	149,083	87,241	13,500
1300 Prior Period Adjustment	-	-	18,534	-
3000 Fund Balance - September 30 (Ending)	\$ 3	\$ 146,149	\$ 75,997	\$ 2,872

226 Taft Building & Security Fund	227 Taft Court Technolgy Fund	228 Juvenile Case Manager Fund	229 Pride of Taft Fund	233 EMS Account	241 Police Dept A/C Donation Fund	242 Municipal Court Fund	243 Street Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,677
362	483	-	-	-	-	4,452	69,974
-	-	-	2	-	1	16	15
-	-	-	1,700	-	-	-	-
-	-	-	-	-	-	-	-
362	483	-	1,702	-	1	4,468	123,666
-	-	-	-	-	18,349	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	91,853
-	-	-	280	-	-	-	-
-	-	-	280	-	18,349	-	91,853
362	483	-	1,422	-	(18,348)	4,468	31,813
-	-	-	-	-	1,000	-	-
-	-	-	-	-	14,850	-	-
-	-	(19,445)	-	(33)	-	-	-
-	-	(19,445)	-	(33)	15,850	-	-
362	483	(19,445)	1,422	(33)	(2,498)	4,468	31,813
14,677	25,041	19,445	3,464	33	2,498	32,719	34,214
-	-	-	-	-	-	-	-
\$ 15,039	\$ 25,524	\$ -	\$ 4,886	\$ -	\$ -	\$ 37,187	\$ 66,027

CITY OF TAFT, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Data Control Codes	245 State Fees	264 Drug Seizure Fund	265 Forfeiture Fund	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
5120 General Sales and Use Taxes	\$ -	\$ -	\$ -	\$ 53,677
5400 Charges for Services	-	-	-	75,271
5610 Investment Earnings	-	9	-	151
5640 Contributions & Donations from Private Sources	-	-	-	1,700
5700 Other Revenue	1,315	1,806	-	73,767
5020 Total Revenues	1,315	1,815	-	204,566
EXPENDITURES:				
Current:				
Public Safety:				
0021 Police	-	4,469	-	33,451
0022 Fire Protection	-	-	-	103,461
Public Works:				
0031 Highways and Streets	-	-	-	91,853
Health and Welfare:				
0044 Welfare	-	-	-	280
6030 Total Expenditures	-	4,469	-	229,045
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	1,315	(2,654)	-	(24,479)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	-	1,000
7949 Other Resources	-	-	-	14,850
8911 Transfers Out (Use)	-	-	(2,500)	(21,978)
7080 Total Other Financing Sources (Uses)	-	-	(2,500)	(6,128)
1200 Net Change in Fund Balance	1,315	(2,654)	(2,500)	(30,607)
0100 Fund Balance - October 1 (Beginning)	(129,210)	19,888	2,500	275,096
1300 Prior Period Adjustment	8,033	-	-	26,567
3000 Fund Balance - September 30 (Ending)	\$ (119,862)	\$ 17,234	\$ -	\$ 271,056

522 Certificate Of Obligation Series 2004	531 Combination Tax & Surplus	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 53,677
-	-	75,271
-	-	151
-	-	1,700
-	-	73,767
-	-	204,566
-	-	33,451
-	-	103,461
-	-	91,853
-	-	280
-	-	229,045
-	-	(24,479)
-	-	1,000
-	-	14,850
(3,156)	(156)	(25,290)
(3,156)	(156)	(9,440)
(3,156)	(156)	(33,919)
3,156	156	278,408
-	-	26,567
\$ -	\$ -	\$ 271,056

THIS PAGE LEFT BLANK INTENTIONALLY

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

THIS PAGE LEFT BLANK INTENTIONALLY

RAUL HERNANDEZ & COMPANY, P.C.
Certified Public Accountants
5402 Holly Road, Suite 102
Corpus Christi, Texas 78411
Office (361) 980-0428 Fax (361) 980-1002

**Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards**

City Council
City of Taft, Texas
P.O. Box 416
Taft, Texas 78390

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Taft, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Taft, Texas's basic financial statements and have issued our report thereon dated June 12, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-1, 2017-2, 2017-3 and 2017-4 to be a material weakness.

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 as items 2017-1, 2017-2, 2017-3 and 2017-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taft, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2017-1, 2017-2, 2017-3 and 2017-4.

City of Taft, Texas's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,


Raul Hernandez & Company, P.C.

Corpus Christi, Texas
June 12, 2018

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

___ Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses?

X Yes ___ None Reported

Noncompliance material to financial
statements noted?

X Yes ___ No

2. Federal Awards - N/A

Internal control over major programs:

One or more material weaknesses identified?

___ Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses?

___ Yes X None Reported

Type of auditor's report issued on compliance for
major programs:

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Title 2 U.S. Code of Federal Regulations
(CFR) Part 200?

___ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

Dollar threshold used to distinguish between
type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

___ Yes X No

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

B. Financial Statement Findings

Finding No. 2017-1.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the cash reconciliation, accounts receivable, tax receivable, accounts payable, fixed assets, bond schedules etc.

Condition: The City of Taft did not maintain accurate sub-ledgers to the financial statements during the fiscal year. The Pool Cash Account Reconciliation (includes General Fund, Water Fund, Building Security Fund, Court Technology Fund, Wastewater Fund, Sanitation Fund, State Fees Fund, and Pooled Cash Fund) had an unidentifiable reconciling balance of \$6,933 at September 30, 2017.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with daily accounting needs.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: For accountability compliance and internal control purposes, the City of Taft should ensure there are sufficient staff members that can assist with the daily accounting needs of the City.

Management Response: The City of Taft has hired fee accountant/CPA firm to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

Finding No. 2017-2.

Criteria: The City's accounting system must make it possible both: (a) to present fairly and fully disclose the funds and activities of the City in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Condition: The City did not prepare accurate schedules of Due to & Due from, a schedule of transfers, accurate schedules of debt, and accurate capital lease schedule.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2017-3.

Criteria: Management is responsible for understanding proper accounting rules in recording all financial transactions as well as compliance with the requirements of law, regulations, contracts, and grants applicable to the City's federal programs. Therefore, this process requires management to record transactions accurately in order to develop relevant and reliable financial statements. Furthermore, an official and thorough review of all postings of transactions and account balances should be performed by key management personnel.

Condition: The City recorded numerous posting errors during the fiscal year and especially during the year-end closing. We performed an extended analysis of many accounts and transactions and we determined that the errors resulted from the lack of proper oversight by a authorized personnel.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place. The City should consider hiring an CPA with governmental knowledge to provide technical assistance and oversight of all accounting functions.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding No. 2017-4.

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.

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 as well as other city funds to three months of annual operational expenditures/expenses.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

- C. Federal Award Findings and Questioned Costs
NONE

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2016-1.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the cash reconciliation, accounts receivable, tax receivable, accounts payable, fixed assets, bond schedules etc.

Condition: The City of Taft did not maintain accurate sub-ledgers to the financial statements during the fiscal year.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with daily accounting needs.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: For accountability compliance and internal control purposes, the City of Taft should ensure there are sufficient staff members that can assist with the daily accounting needs of the City.

Management Response: The City of Taft has hired fee accountant, Connie Cardamone to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2017.

Finding No. 2016-2.

Criteria: The City's accounting system must make it possible both: (a) to present fairly and fully disclose the funds and activities of the City in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions. Finding is a repeat of 2015.

Condition: The City did not prepare accurate schedules of Due to & Due from, a schedule of transfers, accurate schedules of debt, and accurate capital lease schedule.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2017.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2016-3.

Criteria: Management is responsible for understanding proper accounting rules in recording all financial transactions as well as compliance with the requirements of law, regulations, contracts, and grants applicable to the City's federal programs. Therefore, this process requires management to record transactions accurately in order to develop relevant and reliable financial statements. Furthermore, an official and thorough review of all postings of transactions and account balances should be performed by key management personnel.

Condition: The City recorded numerous posting errors during the fiscal year and especially during the year-end closing. We performed an extended analysis of many accounts and transactions and we determined that the errors resulted from the lack of proper oversight by a authorized personnel. The following corrections were necessary:

- An adjustment was made to the Water Fund to correctly reflect Inventory at fiscal year end.
- An adjustment was made to record Municipal Court Deferred Revenue.
- An adjustment was made to record Property Tax Accrual for fiscal year end 2015 in the General Fund, and Debt Service Funds.
- An adjustment was made to the Utility Fund and Street Fund to adjust Unbilled accounts receivable at fiscal year end 2017.
- An adjustment of was made to the Utility Fund and Street Fund to record bad debt expense for fiscal year end 2017.
- An adjustment was made in the General Fund to reverse fiscal year 2015 sales tax accrual and record fiscal year 2017 sales tax accrual.
- An adjustment was made to revenue and expense accounts for 4-A and 4-B sales tax which was also reported in the Taft Quality Improvement Corporation Fund and the Street Fund.
- An adjustment was made to accrue fiscal year 2017 sales tax for the Taft Quality Improvement Corporation Fund and the Street Fund and record appropriate Due To's.
- An adjustment was made to record and reverse fiscal year 2015 sales tax accruals.
- An adjustment was made to clear voided checks from prior fiscal years in the EDC Fund.
- An adjustment was made in the general fund to remove Street fund revenue.
- An adjustment was made to accrue fiscal year 2017 sales tax and setup due from general fund for pending tax allocation in the Street fund.
- An adjustment was made in the general fund to adjust street revenue account to reflect fiscal year transfers made to the street fund and cash was adjusted accordingly.
- An adjustment was made to reclassify debt principal and interest postings for fiscal year 2017.
- An adjustment was made to reflect year end adjustments to reclassify debt to the Utility Fund.
- An adjustment was made to correctly record interest expense and agent fees for fiscal year 2017 in the Utility Fund.
- Accrued Wages payable was not posted in the original trial balance received from the City. Furthermore, an additional adjustment was made to remove the prior year wages accrual.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2016-3. (continued)

- An adjustment was made to remove and correct adjustment made for 2012-2013 attorney fees adjustment in the general fund.
- An adjustment was made in the TQIC Fund recognize full value of Asphalt Zipper and setup loan payable to Welch State Bank.
- An adjustment was made in the TQIC fund to capitalize asphalt zipper and record depreciation expense for 2017.
- An adjustment was made in the Utility fund to capitalize completed Water Tower Tank improvements and record depreciation expense for fiscal year 2017.
- An adjustment was made in the Utility Fund to accrue interest for 2017 and remove accrual from 2015.
- An adjustment was made in the General Fund to bring pooled cash balances to actual for 2017.
- An adjustment was made in the Street Fund and the Debt Service Fund to setup a due to/due from for an online transfer correction.
- An adjustment was made to the General Fund to accrue franchise tax revenue for 2017 and remove accrual from 2015.
- An adjustment was made in the Utility Fund to adjust loan payables for fiscal year 2017 payments.
- An adjustment was made in the TDA Fund to record accounts receivable and grant revenue. An additional adjustment was made to capitalize Water Tower Project expense.
- An adjustment was made to capitalize equipment in the Utility Fund.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place. The City should consider hiring an CPA with governmental knowledge to provide technical assistance and oversight of all accounting functions.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2017.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2016-4.

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. Finding is a repeat of 2015.

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.

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 as well as other city funds to three months of annual operational expenditures/expenses.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2017.

**CITY OF TAFT, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Management will undertake the proper steps to maintain accurate financial records, overall internal control and timely financial reporting.

The City Manager is the contact person and will oversee corrective action.

THIS PAGE LEFT BLANK INTENTIONALLY