



**CITY OF TAFT, TEXAS**  
**Annual Financial Report**  
**For the fiscal year ended September 30, 2019**

**Raul Hernandez & Company, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**CITY OF TAFT, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**



CITY OF TAFT, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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**September 4, 2020**

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, 2019.

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, 2019.

## **THE REPORT**

This report is presented in two sections: Introductory, and Financial. The Introductory Section includes this transmittal letter, and a listing of the City Officials. 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, 2019 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.

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The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2019 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 30<sup>th</sup>. The City Manager is authorized to transfer budgeted amount within departments; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Manager may be authorized, by ordinance and by adoption of the City Council, to expend limited amounts which are included within the budget. Expenditures over this amount require authorization by the City Council.

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

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

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

## **ECONOMIC OUTLOOK AND FINANCIAL CONDITION**

### **Taft's Position in the Region**

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

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

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$31,607 compares unfavorably to \$60,629 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 86.4 million for fiscal year 2018/2019 for a 6 million decrease and a 6% decrease.
- Sales tax collections have increased by more than 6% 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](http://www.TMRS.com).

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

|  | Plan Year 2018            | Plan Year 2019            |
|--|---------------------------|---------------------------|
| 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,

A handwritten signature in blue ink, appearing to read "Robt. Long", is written over a horizontal line.

Interim 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  |
| Felipe Rodriguez III | City Council  |

#### **APPOINTED OFFICIALS**

|   |   |
|---|---|
| Denise L. Hitt                          | City Manager                            |
| Mary Alice Sandoval                     | Finance/HR Director                     |
| John D Cornish                          | Chief of Police                         |
| Dan Gibson                              | Fire Chief                              |
| Jose M Sandoval Jr                      | Director of Public Works                |
| Jennifer Pineda                         | City Secretary<br>Municipal Court Clerk |
| Arnulfo Banda                           | Building Inspector                      |
| Karen Diaz                              | Municipal Court Judge                   |
| Denton Navarro Rocha Bernal Hyde & Zech | City Attorney's                         |

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## FINANCIAL SECTION

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## **Raul Hernandez & Company, P.C.**

Certified Public Accountants  
5402 Holly Rd, Suite 102  
Corpus Christi, Texas 78411  
Office (361)980-0482 Fax (361)980-1002

### **INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Taft, Texas  
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 as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Taft, Texas'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 City of Taft, Texas's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Taft, Texas'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 the City of Taft, Texas as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison and schedule of the City of Taft, Texas's proportionate share of the net pension liability and schedule of City of Taft, Texas pension contributions, and schedule of the City of Taft, Texas's proportionate share of the net OPEB liability and schedule of City of Taft, Texas OPEB 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 September 4, 2020, on our consideration of the 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 the effectiveness of the City of Taft, Texas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Taft, Texas's internal control over financial reporting and compliance.

*Raul Hernandez & Company, P.C.*

Corpus Christi, Texas  
September 4, 2020

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

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, 2019. 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, 2019, the City of Taft's General Fund reported an ending fund balance of \$126,287 in the governmental fund types.
- As of September 30, 2019, the City of Taft's Utility Fund reported ending total net position of \$1,052,181, an increase of \$152,482 with \$89,311 from operations, and a prior period adjustment of \$63,171.
- The net position of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2019 by \$5,997,765. Of \$5,997,765 total net position, (\$205,476) or (.03%) represents the unrestricted net position.
- As of September 30, 2019, the City of Taft's total combined net position was \$7,049,946 an increase of \$730,292 compared to the prior year total of \$6,319,654.
- As of September 30, 2019, the City of Taft's governmental funds reported combined ending fund balance of \$708,685.
- The City's total debt decreased by \$167,146 during the year from \$5,254,983 to \$5,087,837.

**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, 2019**

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 of 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 taxes 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 services it provides. Governmental fund information helps determine whether there are more or



**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

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 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 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, 2019**

The City's combined net assets were \$7.04 million as of September 30, 2019. Analyzing the net assets and net expenses of governmental type activities were \$5.99 million and business-type activities, separately the business type activities net assets are \$1.05 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**

|                                | <b>Governmental Activities</b> |                     | <b>Business-Type Activities</b> |                   |
|--------------------------------|--------------------------------|---------------------|---------------------------------|-------------------|
|                                | <b>2019</b>                    | <b>2018</b>         | <b>2019</b>                     | <b>2018</b>       |
| Current and Other Assets       | \$ 1,539,023                   | \$ 1,364,897        | \$ 817,303                      | \$ 917,360        |
| Capital Assets                 | 5,629,414                      | 5,085,534           | 5,697,486                       | 5,789,255         |
| Total Assets:                  | <u>7,168,437</u>               | <u>6,450,431</u>    | <u>6,514,789</u>                | <u>6,706,615</u>  |
| Deferred Outflows of Resources | <u>186,399</u>                 | <u>63,053</u>       | <u>122,800</u>                  | <u>43,985</u>     |
| Current and Other Liabilities  | 542,702                        | 527,419             | 315,750                         | 252,507           |
| Long-Term Liabilities          | 811,548                        | 525,247             | 5,238,452                       | 5,566,968         |
| Total Liabilities              | <u>1,354,250</u>               | <u>1,052,666</u>    | <u>5,554,202</u>                | <u>5,819,475</u>  |
| Deferred Inflows of Resources  | <u>2,820</u>                   | <u>40,864</u>       | <u>31,206</u>                   | <u>31,426</u>     |
| Net Assets:                    |                                |                     |                                 |                   |
| Invested in Capital Assets     |                                |                     |                                 |                   |
| net of Related Debt            | 5,500,981                      | 5,075,299           | 738,061                         | 544,507           |
| Restricted                     | 702,260                        | 800,126             | -                               | -                 |
| Unrestricted                   | (205,476)                      | (455,471)           | 314,120                         | 355,192           |
| Total Net Assets               | <u>\$ 5,997,765</u>            | <u>\$ 5,419,955</u> | <u>\$ 1,052,181</u>             | <u>\$ 899,699</u> |

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

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

|  | <b>Governmental Activities</b> |                     | <b>Business Type Activities</b> |                   |
|--|--------------------------------|---------------------|---------------------------------|-------------------|
|  | <b>2019</b>                    | <b>2018</b>         | <b>2019</b>                     | <b>2018</b>       |
| <b>Revenues:</b>   |                                |                     |                                 |                   |
| Property Taxes   | \$ 828,926                     | \$ 867,950          | \$ -                            | \$ -              |
| Sales Tax  | 327,407                        | 307,547             | -                               | -                 |
| Franchise Taxes  | 117,219                        | 98,055              | -                               | -                 |
| Other Taxes  | 4,027                          | 3,585               | -                               | -                 |
| License and Permits  | 35,469                         | 24,626              | -                               | -                 |
| Intergovernmental  | 21,630                         | 100,012             | -                               | -                 |
| Charges for Services   | 90,055                         | 120,989             | 2,661,482                       | 2,428,419         |
| Fines and Forfeitures  | 48,026                         | 42,391              | -                               | -                 |
| Investment Earnings/Other  | 81                             | 61                  | -                               | -                 |
| Other Revenue  | 845,674                        | 334,727             | 126,846                         | 715               |
| Total Revenues   | <u>2,318,514</u>               | <u>1,899,943</u>    | <u>2,788,328</u>                | <u>2,429,134</u>  |
| <b>Expenses:</b>   |                                |                     |                                 |                   |
| General Government   | 1,322,341                      | 1,150,639           | -                               | -                 |
| Public Safety  | 924,148                        | 873,435             | -                               | -                 |
| Public Works   | 359,175                        | 292,085             | -                               | -                 |
| Parks, Recreation and Culture  | 212,249                        | 189,804             | -                               | -                 |
| Water  | -                              | -                   | 798,013                         | 776,038           |
| Wastewater   | -                              | -                   | 359,640                         | 398,096           |
| Sanitation   | -                              | -                   | 463,725                         | 455,932           |
| Economic Development and Assistance                                  | -                              | -                   | -                               | -                 |
| Bond Payments, Principal, and Interest                               | 431                            | 738                 | -                               | -                 |
| Total Expenses   | <u>2,818,344</u>               | <u>2,506,701</u>    | <u>1,621,378</u>                | <u>1,630,066</u>  |
| Increase (Decrease) in Net Assets before transfers and special items | (499,830)                      | (606,758)           | 1,166,950                       | 799,068           |
| Transfers  | 1,077,639                      | 510,488             | (1,077,639)                     | (510,488)         |
| Non-operating Revenues/(Expenses)                                    | -                              | -                   | -                               | -                 |
| Net Increase (Decrease)  | 577,809                        | (96,270)            | 89,311                          | 288,580           |
| Net Position at Beginning  | 5,419,956                      | 5,568,331           | 899,699                         | 626,236           |
| Prior Period Adjustment  | -                              | (52,104)            | 63,171                          | (15,117)          |
| Net Position at Ending   | <u>\$ 5,997,765</u>            | <u>\$ 5,419,956</u> | <u>\$ 1,052,181</u>             | <u>\$ 899,699</u> |

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**Government Fund Activities**

The City's general fund revenues decreased when compared to the prior year by 9 percent or (\$131,416). The assessed value of the property in the City was \$86.4 million, a decrease compared to the prior year of 92.5 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**

|                        | 2019             | 2018             | Increase<br>(Decrease) |
|------------------------|------------------|------------------|------------------------|
| Taxes                  | 914,384          | 879,186          | 35,198                 |
| Licenses and Permits   | 35,469           | 24,626           | 10,843                 |
| Intergovernmental      | 21,630           | 100,012          | (78,382)               |
| Fines and Penalties    | 37,390           | 28,162           | 9,228                  |
| Other                  | 223,729          | 332,032          | (108,303)              |
| Total General Revenues | <u>1,232,602</u> | <u>1,364,018</u> | <u>(131,416)</u>       |

The most significant governmental expense for the City was in the general administration. The general administration incurred expenditures of \$1,281,253.

**Enterprise Fund Activities**

Revenues of the City's Utility Funds were \$2.6 million for the fiscal year ending September 30, 2019. Operating expenses were \$1.5 million for the year, resulting in net revenues of \$1,105,264 before transfers out is taken into account. The most significant expense of the Utility Fund was \$569,031 for purchased services.

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year 2019, the City of Taft had nearly \$30.7 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**

|                          | <b>Governmental<br/>Activities</b> |                      | <b>Business-type<br/>Activities</b> |                      | <b>Total</b>         |                      |
|--------------------------|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
|                          | <b>2019</b>                        | <b>2018</b>          | <b>2019</b>                         | <b>2018</b>          | <b>2019</b>          | <b>2018</b>          |
| Land                     | \$ 10,524                          | \$ 10,524            | \$ -                                | \$ -                 | \$ 10,524            | \$ 10,524            |
| Buildings                | 2,720,486                          | 2,708,586            | 32,668                              | 32,668               | 2,753,154            | 2,741,254            |
| Improvements             | 3,130,596                          | 3,130,596            | -                                   | -                    | 3,130,596            | 3,130,596            |
| Equipment                | 1,702,235                          | 1,702,235            | 535,336                             | 410,142              | 2,237,571            | 2,112,377            |
| Vehicles                 | 945,148                            | 648,293              | -                                   | -                    | 945,148              | 648,293              |
| Infrastructure           | 11,420,238                         | 10,631,049           | -                                   | -                    | 11,420,238           | 10,631,049           |
| Construction in Progress | -                                  | 56,658               | -                                   | -                    | -                    | 56,658               |
| Water System             | -                                  | -                    | 2,092,319                           | 2,092,319            | 2,092,319            | 2,092,319            |
| Sewer System             | -                                  | -                    | 8,163,141                           | 8,163,141            | 8,163,141            | 8,163,141            |
| Total Capital Assets     | <u>\$ 19,929,227</u>               | <u>\$ 18,887,941</u> | <u>\$ 10,823,464</u>                | <u>\$ 10,698,269</u> | <u>\$ 30,752,691</u> | <u>\$ 29,586,210</u> |

**Debt**

At year-end, the City of Taft had \$5,087,837 in General Certifications of Obligation and Revenue Bonds, notes and capital leases as compared to \$5,254,983 at the end of the prior fiscal year. Table 5 below reflects outstanding long-term debt overall decrease of 3 percent.

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

|   | <b>Governmental<br/>Activities</b> |                  | <b>Business-type<br/>Activities</b> |                     | <b>Total</b>        |                     |
|---|------------------------------------|------------------|-------------------------------------|---------------------|---------------------|---------------------|
|   | <b>2019</b>                        | <b>2018</b>      | <b>2019</b>                         | <b>2018</b>         | <b>2019</b>         | <b>2018</b>         |
| TWDB Certificate of<br>Obligations - 2010     | \$ -                               | \$ -             | \$ 4,429,000                        | \$ 4,622,000        | \$ 4,429,000        | \$ 4,622,000        |
| General Certificates of<br>Obligations - 2010 | -                                  | -                | 493,341                             | 561,465             | 493,341             | 561,465             |
| Loan Payable                                  | -                                  | -                | 37,084                              | 61,283              | 37,084              | 61,283              |
| Capital Leases                                | 128,412                            | 10,235           | -                                   | -                   | 128,412             | 10,235              |
| Total Outstanding Debt                        | <u>\$ 128,412</u>                  | <u>\$ 10,235</u> | <u>\$ 4,959,425</u>                 | <u>\$ 5,244,748</u> | <u>\$ 5,087,837</u> | <u>\$ 5,254,983</u> |

During the current fiscal year, the City of Taft paid principal of \$289,001 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, 2019**

**THE CITY'S FUNDS**

At the close of the City's fiscal year on September 30, 2019, the governmental funds of the City reported a combined fund balance of \$708,685. This ending total fund balance(s) include an increase in the fund balance of \$126,662 including results of overall operational gain of \$126,662 in the City's Governmental funds. The ending General Fund balance resulted in an ending fund balance of \$126,287 with operations resulting in a gain of \$224,528.

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

Taft has continued to rebuild and repair after Hurricane Harvey. We have received most of the funding from Insurance and FEMA proceeds due to the hurricane. In 2019-2020, growth and revenue are expected to increase significantly due to a proposed 84 home subdivision and expected groundbreaking on an RV Park. We have continued to make improvements to structures after Hurricane Harvey. The positive outlook for Taft from the growth of several large industrial complexes is excellent.

The Taft Economic Development Corporation, will continue with the downtown revitalization and sidewalk project and will be looking to TXDOT for additional grant money to finish the sidewalks on the East side of Green Avenue along with new planters, benches and lights. Several other grant programs will be rolled out to the business owners in the next fiscal year.

We are almost half way to rehabilitating the 22 miles of streets in the City of Taft. Again, this is being accomplished without accumulating additional debt. We are on track with our timeline of seven years to complete this project.

Economic growth is expected to continue as many major companies continue to express interest in the Coastal Bend area and have already or are in the process of purchasing other farm land for development purposes. The EDC has seen much interest in the 105 acres in the City and it looks promising that this property will have a tenant in the next budget year.

Housing is still in demand and will continue for some time due to additional sales of land in the Coastal Bend. It is expected that more farm land will be made available for housing or retail development. Taft is a commuters ideal location since it affords quiet urban living but will be minutes away from the many job opportunities that are and will continue to become available.

Homes for sale in Taft makes it a sellers dream market right now. Many dilapidated homes are being purchased and improved which increases the tax base for ad valorem taxes, sales tax, etc. and will escalate the numbers in student enrollment at the Taft ISD. San Patricio County will continue to see growth for many years to come. Thanks to our City and County leaders they have placed the cities in San Patricio County in a strong and positive financial advantage.

The City of Taft expects ad valorem taxes to increase in the 2019-2020 budget year due to most of the hurricane related damage having been completed thereby increasing property values.

Sales tax for 2018-2019 has seen increases every month, with some months being extremely prolific. We feel that this will be a monthly trend in 2019-2020. Several businesses are poised to open within the next few months and the 2018 ballot item to allow the sale of alcohol and mixed beverages, that passed overwhelmingly, will increase revenue for businesses thereby increasing sales tax for the city.

**CITY OF TAFT, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019**

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide 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.

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## BASIC FINANCIAL STATEMENTS

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CITY OF TAFT, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019

EXHIBIT A-1

|   | Primary Government |                 |              | Component Unit |
|---|--------------------|-----------------|--------------|----------------|
|   | Governmental       | Business -      | Total        | Nonmajor       |
|   | Activities         | Type Activities |              | Component Unit |
| <b>ASSETS</b>                             |                    |                 |              |                |
| Cash and Cash Equivalents                 | \$ 1,096,248       | \$ -            | \$ 1,096,248 | \$ 181,476     |
| Investments - Current                     | 10,183             | -               | 10,183       | 84,813         |
| Taxes Receivable, Net                     | 273,433            | -               | 273,433      | -              |
| Accounts Receivable Net                   | 204,320            | 761,998         | 966,318      | 8,384          |
| Due from Other Funds                      | (45,162)           | 45,162          | -            | -              |
| Inventories                               | -                  | 10,143          | 10,143       | -              |
| Capital Assets:                           |                    |                 |              |                |
| Land                                      | 10,524             | -               | 10,524       | 415,920        |
| Infrastructure, Net                       | 3,501,877          | 5,566,629       | 9,068,506    | -              |
| Buildings, Net                            | 1,733,949          | -               | 1,733,949    | -              |
| Machinery and Equipment, Net              | 383,064            | 130,857         | 513,921      | 76,065         |
| Total Assets                              | 7,168,437          | 6,514,789       | 13,683,226   | 766,657        |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>     |                    |                 |              |                |
| Deferred Outflow Related to Pension Plan  | 162,762            | 113,145         | 275,907      | -              |
| Deferred Resource Outflow Related to OPEB | 23,637             | 9,655           | 33,292       | -              |
| Total Deferred Outflows of Resources      | 186,399            | 122,800         | 309,199      | -              |
| <b>LIABILITIES</b>                        |                    |                 |              |                |
| Accounts Payable                          | 112,278            | 46,580          | 158,858      | -              |
| Wages and Salaries Payable                | 67,789             | -               | 67,789       | -              |
| Compensated Absences Payable              | 39,943             | 17,814          | 57,757       | -              |
| Sales Tax Payable                         | -                  | 99,533          | 99,533       | -              |
| Meter Deposits Payable                    | -                  | 150,720         | 150,720      | -              |
| Due to Others                             | 25,895             | -               | 25,895       | -              |
| Due to Component Unit                     | 39,022             | -               | 39,022       | (39,022)       |
| Accrued Interest Payable                  | 35                 | 1,104           | 1,139        | 558            |
| Deferred Revenue                          | 257,740            | -               | 257,740      | -              |
| Noncurrent Liabilities:                   |                    |                 |              |                |
| Due Within One Year                       | 3,866              | 290,624         | 294,490      | 40,636         |
| Due in More Than One Year                 | 124,546            | 4,668,801       | 4,793,347    | 287,405        |
| Net Pension Liability                     | 593,311            | 242,338         | 835,649      | -              |
| Net OPEB Liability                        | 89,825             | 36,689          | 126,514      | -              |
| Total Liabilities                         | 1,354,250          | 5,554,203       | 6,908,453    | 289,577        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>      |                    |                 |              |                |
| Deferred Inflow Related to Pension Plan   | -                  | 30,054          | 30,054       | -              |
| Deferred Resource Inflow Related to OPEB  | 2,820              | 1,152           | 3,972        | -              |
| Total Deferred Inflows of Resources       | 2,820              | 31,206          | 34,026       | -              |
| <b>NET POSITION</b>                       |                    |                 |              |                |
| Net Investment in Capital Assets          | 5,500,981          | 738,061         | 6,239,042    | 164,214        |
| Restricted for:                           |                    |                 |              |                |
| Restricted for Federal or State Grants    | 3                  | -               | 3            | -              |
| Restricted for Debt Service               | 354,787            | -               | 354,787      | -              |
| Restricted for Other Purposes             | 347,470            | -               | 347,470      | -              |
| Unrestricted                              | (205,476)          | 314,120         | 108,644      | 312,866        |
| Total Net Position                        | \$ 5,997,765       | \$ 1,052,181    | \$ 7,049,946 | \$ 477,080     |

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, 2019

|                                |              | Program Revenues        |  |
|--------------------------------|--------------|-------------------------|--|
|                                |              | Charges for<br>Services | Operating<br>Grants and<br>Contributions |
|                                | Expenses     |                         |  |
| <b>Primary Government:</b>     |              |                         |  |
| GOVERNMENTAL ACTIVITIES:       |              |                         |  |
| General Government             | \$ 777,476   | \$ -                    | \$ 21,630                                |
| Finance                        | 193,318      | -                       | -  |
| Municipal Court                | 51,454       | 48,026                  | -  |
| Administration                 | 99,261       | -                       | -  |
| Legislative                    | 48,447       | -                       | -  |
| Tax Collection                 | 17,735       | -                       | -  |
| Public Safety                  | 924,148      | -                       | -  |
| Animal Control                 | 59,384       | -                       | -  |
| Code Enforcement               | 42,222       | 35,469                  | -  |
| Highways and Streets           | 359,176      | 58,426                  | -  |
| Health and Welfare             | 14,248       | 23,393                  | -  |
| Library                        | 57,803       | -                       | -  |
| Parks                          | 154,446      | -                       | -  |
| Community Centers              | 18,795       | 8,236                   | -  |
| Interest on Debt               | 431          | -                       | -  |
| Total Governmental Activities  | 2,818,344    | 173,550                 | 21,630                                   |
| BUSINESS-TYPE ACTIVITIES:      |              |                         |  |
| Water Fund                     | 798,013      | 1,330,407               | -  |
| Waste- Water Fund              | 359,641      | 729,703                 | -  |
| Sanitation Fund                | 463,724      | 601,372                 | -  |
| Total Business-Type Activities | 1,621,378    | 2,661,482               | -  |
| TOTAL PRIMARY GOVERNMENT       | \$ 4,439,722 | \$ 2,835,032            | \$ 21,630                                |
| <b>Component Unit:</b>         |              |                         |  |
| Nonmajor Component Unit        | 117,972      | -                       | -  |
| TOTAL COMPONENT UNIT           | \$ 117,972   | \$ -                    | \$ -                                     |

**General Revenues:**

|   |
|---|
| Taxes:                                      |
| Property Taxes, Levied for General Purposes |
| Property Taxes, Levied for Debt Service     |
| Taxes Delinquent                            |
| General Sales and Use Taxes                 |
| Franchise Tax                               |
| Hotel/Motel Tax                             |
| Penalty and Interest on Taxes               |
| Miscellaneous Revenue                       |
| 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<br>Changes in Net Position |                             |                     |                               |
|--|-----------------------------|---------------------|-------------------------------|
| Primary Government                                   |                             |                     | Component Units               |
| Governmental<br>Activities                           | Business-Type<br>Activities | Total               | Nonmajor<br>Component<br>Unit |
| (755,846)  | -                           | (755,846)           | -                             |
| (193,318)  | -                           | (193,318)           | -                             |
| (3,428)  | -                           | (3,428)             | -                             |
| (99,261)   | -                           | (99,261)            | -                             |
| (48,447)   | -                           | (48,447)            | -                             |
| (17,735)   | -                           | (17,735)            | -                             |
| (924,148)  | -                           | (924,148)           | -                             |
| (59,384)   | -                           | (59,384)            | -                             |
| (6,753)  | -                           | (6,753)             | -                             |
| (300,750)  | -                           | (300,750)           | -                             |
| 9,145  | -                           | 9,145               | -                             |
| (57,803)   | -                           | (57,803)            | -                             |
| (154,446)  | -                           | (154,446)           | -                             |
| (10,559)   | -                           | (10,559)            | -                             |
| (431)  | -                           | (431)               | -                             |
| <u>(2,623,164)</u>                                   | <u>-</u>                    | <u>(2,623,164)</u>  | <u>-</u>                      |
| -  | 532,394                     | 532,394             | -                             |
| -  | 370,062                     | 370,062             | -                             |
| -  | 137,648                     | 137,648             | -                             |
| <u>-</u>   | <u>1,040,104</u>            | <u>1,040,104</u>    | <u>-</u>                      |
| <u>(2,623,164)</u>                                   | <u>1,040,104</u>            | <u>(1,583,060)</u>  | <u>-</u>                      |
| -  | -                           | -                   | (117,972)                     |
| <u>-</u>   | <u>-</u>                    | <u>-</u>            | <u>(117,972)</u>              |
| 464,379  | -                           | 464,379             | -                             |
| 264,630  | -                           | 264,630             | -                             |
| 74,370   | -                           | 74,370              | -                             |
| 327,407  | -                           | 327,407             | 201,420                       |
| 117,219  | -                           | 117,219             | -                             |
| 4,027  | -                           | 4,027               | -                             |
| 25,547   | -                           | 25,547              | -                             |
| 845,674  | 126,846                     | 972,520             | -                             |
| 81   | -                           | 81                  | 572                           |
| <u>1,077,639</u>                                     | <u>(1,077,639)</u>          | <u>-</u>            | <u>-</u>                      |
| <u>3,200,973</u>                                     | <u>(950,793)</u>            | <u>2,250,180</u>    | <u>201,992</u>                |
| 577,809  | 89,311                      | 667,120             | 84,020                        |
| 5,419,956  | 899,699                     | 6,319,655           | 393,060                       |
| -  | 63,171                      | 63,171              | -                             |
| <u>\$ 5,997,765</u>                                  | <u>\$ 1,052,181</u>         | <u>\$ 7,049,946</u> | <u>\$ 477,080</u>             |

CITY OF TAFT, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2019

|  | General<br>Fund     | Debt Service<br>Fund | Other<br>Funds    | Total<br>Governmental<br>Funds |
|--|---------------------|----------------------|-------------------|--------------------------------|
| <b>ASSETS</b>  |                     |                      |                   |                                |
| Cash and Cash Equivalents                                      | \$ 473,993          | \$ 336,194           | \$ 286,061        | \$ 1,096,248                   |
| Investments - Current  | 10,183              | -                    | -                 | 10,183                         |
| Taxes Receivable, Net  | 160,381             | 127,444              | -                 | 287,825                        |
| Allowance for Uncollectible Taxes (credit)                     | (8,019)             | (6,373)              | -                 | (14,392)                       |
| Accounts Receivable Net  | 204,320             | -                    | -                 | 204,320                        |
| Due from Other Funds   | 516,029             | 18,594               | 163,436           | 698,059                        |
| <b>Total Assets</b>  | <b>\$ 1,356,887</b> | <b>\$ 475,859</b>    | <b>\$ 449,497</b> | <b>\$ 2,282,243</b>            |
| <b>LIABILITIES</b>   |                     |                      |                   |                                |
| Accounts Payable   | \$ 85,956           | \$ -                 | \$ 26,322         | \$ 112,278                     |
| Wages and Salaries Payable                                     | 67,789              | -                    | -                 | 67,789                         |
| Due to Other Funds   | 573,552             | -                    | 169,669           | 743,221                        |
| Due to Others  | -                   | -                    | 25,895            | 25,895                         |
| Due to Component Unit  | 39,022              | -                    | -                 | 39,022                         |
| Unearned Revenues  | 54,179              | -                    | -                 | 54,179                         |
| Deferred Revenue   | 257,740             | -                    | -                 | 257,740                        |
| <b>Total Liabilities</b>                                       | <b>1,078,238</b>    | <b>-</b>             | <b>221,886</b>    | <b>1,300,124</b>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                           |                     |                      |                   |                                |
| Unavailable Revenue - Property Taxes                           | 152,362             | 121,072              | -                 | 273,434                        |
| <b>Total Deferred Inflows of Resources</b>                     | <b>152,362</b>      | <b>121,072</b>       | <b>-</b>          | <b>273,434</b>                 |
| <b>FUND BALANCES</b>   |                     |                      |                   |                                |
| Restricted Fund Balance:                                       |                     |                      |                   |                                |
| Federal or State Funds Grant Restriction                       | -                   | -                    | 3                 | 3                              |
| Retirement of Long-Term Debt                                   | -                   | 354,787              | -                 | 354,787                        |
| Other Restricted Fund Balance                                  | -                   | -                    | 347,470           | 347,470                        |
| Unassigned Fund Balance  | 126,287             | -                    | (119,862)         | 6,425                          |
| <b>Total Fund Balances</b>                                     | <b>126,287</b>      | <b>354,787</b>       | <b>227,611</b>    | <b>708,685</b>                 |
| <b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b> | <b>\$ 1,356,887</b> | <b>\$ 475,859</b>    | <b>\$ 449,497</b> | <b>\$ 2,282,243</b>            |

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, 2019

|   |                     |
|---|---------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | <b>\$ 708,685</b>   |
| 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. 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.                       | 5,049,868           |
| 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 2019 capital outlays and debt principal payments is to increase (decrease) net position.  | 923,095             |
| 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 \$(593,311), a deferred resource inflow in the amount of \$-0-, and a deferred resource outflow in the amount of \$162,762. This resulted in an increase/(decrease) in net position by \$(430,549).   | (430,549)           |
| Included in the noncurrent assets/(liabilities) is the recognition of the City's net OPEB asset/(liability) required by GASB 75 in the amount of \$(89,825), a deferred resource inflow in the amount of \$(2,820), and a deferred resource outflow in the amount of \$23,637. This resulted in an increase/(decrease) in net position by \$(69,008).   | (69,008)            |
| The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.  | (497,405)           |
| 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. | 313,079             |
| <b>Net Position of Governmental Activities</b>  | <b>\$ 5,997,765</b> |

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 BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

EXHIBIT C-3

|   | General<br>Fund    | Debt Service<br>Fund | Other<br>Funds    | Total<br>Governmental<br>Funds |
|---|--------------------|----------------------|-------------------|--------------------------------|
| <b>REVENUES:</b>  |                    |                      |                   |                                |
| Taxes:  |                    |                      |                   |                                |
| Property Taxes  | \$ 471,833         | \$ 264,630           | \$ -              | \$ 736,463                     |
| Taxes Delinquent  | 38,316             | 36,054               | -                 | 74,370                         |
| General Sales and Use Taxes                               | 257,442            | -                    | 69,965            | 327,407                        |
| Franchise Tax   | 117,219            | -                    | -                 | 117,219                        |
| Hotel/Motel Tax   | 4,027              | -                    | -                 | 4,027                          |
| Penalty and Interest on Taxes                             | 25,547             | -                    | -                 | 25,547                         |
| Licenses and Permits                                      | 35,469             | -                    | -                 | 35,469                         |
| Intergovernmental Revenue and Grants                      | 21,630             | -                    | -                 | 21,630                         |
| Charges for Services                                      | -                  | -                    | 58,426            | 58,426                         |
| Fines   | 37,390             | -                    | 10,635            | 48,025                         |
| Investment Earnings                                       | 81                 | -                    | -                 | 81                             |
| Other Revenue   | 223,648            | -                    | 100,245           | 323,893                        |
| Total Revenues  | <u>1,232,602</u>   | <u>300,684</u>       | <u>239,271</u>    | <u>1,772,557</u>               |
| <b>EXPENDITURES:</b>                                      |                    |                      |                   |                                |
| Current:  |                    |                      |                   |                                |
| General Government:                                       |                    |                      |                   |                                |
| General Government  | 1,281,253          | -                    | -                 | 1,281,253                      |
| Finance   | 193,218            | -                    | 100               | 193,318                        |
| Municipal Court   | 51,454             | -                    | -                 | 51,454                         |
| Administration  | 99,261             | -                    | -                 | 99,261                         |
| Legislative   | 48,447             | -                    | -                 | 48,447                         |
| Tax Collection  | 17,735             | -                    | -                 | 17,735                         |
| Public Safety:  |                    |                      |                   |                                |
| Police  | 558,202            | -                    | 8,161             | 566,363                        |
| Fire Protection   | 130,526            | -                    | 187,472           | 317,998                        |
| Emergency Medical Service                                 | 204,000            | -                    | -                 | 204,000                        |
| Animal Control  | 59,384             | -                    | -                 | 59,384                         |
| Code Enforcement  | 42,222             | -                    | -                 | 42,222                         |
| Public Works:   |                    |                      |                   |                                |
| Highways and Streets                                      | 132,596            | -                    | 137,436           | 270,032                        |
| Health and Welfare  | -                  | -                    | 14,248            | 14,248                         |
| Culture and Recreation:                                   |                    |                      |                   |                                |
| Library   | 57,803             | -                    | -                 | 57,803                         |
| Parks   | 98,199             | -                    | -                 | 98,199                         |
| Community Centers   | 18,795             | -                    | -                 | 18,795                         |
| Debt Service:   |                    |                      |                   |                                |
| Principal on Debt   | 3,678              | -                    | -                 | 3,678                          |
| Interest on Debt  | 431                | -                    | -                 | 431                            |
| Total Expenditures  | <u>2,997,204</u>   | <u>-</u>             | <u>347,417</u>    | <u>3,344,621</u>               |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(1,764,602)</u> | <u>300,684</u>       | <u>(108,146)</u>  | <u>(1,572,064)</u>             |
| <b>OTHER FINANCING SOURCES (USES):</b>                    |                    |                      |                   |                                |
| Proceeds from Capital Leases                              | 121,855            | -                    | -                 | 121,855                        |
| Transfers In  | 1,432,851          | 53,157               | -                 | 1,486,008                      |
| Transfers Out (Use)                                       | (64,808)           | (343,561)            | -                 | (408,369)                      |
| Capital Contributions                                     | 499,232            | -                    | -                 | 499,232                        |
| Total Other Financing Sources (Uses)                      | <u>1,989,130</u>   | <u>(290,404)</u>     | <u>-</u>          | <u>1,698,726</u>               |
| Net Change in Fund Balances                               | <u>224,528</u>     | <u>10,280</u>        | <u>(108,146)</u>  | <u>126,662</u>                 |
| Fund Balance - October 1 (Beginning)                      | <u>(98,241)</u>    | <u>344,507</u>       | <u>335,757</u>    | <u>582,023</u>                 |
| Fund Balance - September 30 (Ending)                      | <u>\$ 126,287</u>  | <u>\$ 354,787</u>    | <u>\$ 227,611</u> | <u>\$ 708,685</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, 2019

|  |                   |
|--|-------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>  | <b>\$ 126,662</b> |
| 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 2019 capital outlays and debt principal payments is to increase (decrease) the change in net position.  | 923,095           |
| The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/18 caused the change in the ending net position to increase in the amount of \$57,263. 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 (\$71,139). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$17,073. The result of these changes is to increase/(decrease) the change in net position by \$3,197. | 3,197             |
| The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/18 caused the change in the ending net position to increase in the amount of \$1,904. 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 (\$1,729). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense increased/(decreased) the change in net position by (\$10,106). The result of these changes is to increase/(decrease) the change in net position by (\$9,931).     | (9,931)           |
| 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.  | (497,405)         |
| 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.  | 32,191            |
| <b>Change in Net Position of Governmental Activities</b>   | <b>\$ 577,809</b> |

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, 2019

|   | Business-Type Activities - Enterprise Funds |                         |                    |                              |
|---|---|-------------------------|--------------------|------------------------------|
|   | Water<br>Fund                               | Waste-<br>Water<br>Fund | Sanitation<br>Fund | Total<br>Enterprise<br>Funds |
| <b>ASSETS</b>                             |   |                         |                    |                              |
| Current Assets:                           |   |                         |                    |                              |
| Accounts Receivable, Net                  | \$ 407,253                                  | \$ 191,294              | \$ 163,451         | \$ 761,998                   |
| Due from Other Funds                      | -   | 180,439                 | -                  | 180,439                      |
| Inventories                               | 10,143                                      | -                       | -                  | 10,143                       |
| Total Current Assets                      | 417,396                                     | 371,733                 | 163,451            | 952,580                      |
| Noncurrent Assets:                        |   |                         |                    |                              |
| Capital Assets:                           |   |                         |                    |                              |
| Infrastructure, Net                       | 434,754                                     | 5,131,875               | -                  | 5,566,629                    |
| Machinery and Equipment, Net              | 115,779                                     | 14,478                  | 600                | 130,857                      |
| Total Noncurrent Assets                   | 550,533                                     | 5,146,353               | 600                | 5,697,486                    |
| Total Assets                              | 967,929                                     | 5,518,086               | 164,051            | 6,650,066                    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>     |   |                         |                    |                              |
| Deferred Outflow Related to Pension Plan  | 53,609                                      | 29,783                  | 29,753             | 113,145                      |
| Deferred Resource Outflow Related to OPEB | 4,573                                       | 2,541                   | 2,541              | 9,655                        |
| Total Deferred Outflows of Resources      | 58,182                                      | 32,324                  | 32,294             | 122,800                      |
| <b>LIABILITIES</b>                        |   |                         |                    |                              |
| Current Liabilities:                      |   |                         |                    |                              |
| Accounts Payable                          | 46,580                                      | -                       | -                  | 46,580                       |
| Compensated Absences Payable              | 13,754                                      | 2,541                   | 1,519              | 17,814                       |
| Sales Tax Payable                         | -   | -                       | 99,533             | 99,533                       |
| Customer Deposits                         | 150,720                                     | -                       | -                  | 150,720                      |
| Due to Other Funds                        | 78,258                                      | 1,266                   | 55,753             | 135,277                      |
| Accrued Interest Payable                  | -   | 1,104                   | -                  | 1,104                        |
| Total Current Liabilities                 | 289,312                                     | 4,911                   | 156,805            | 451,028                      |
| Noncurrent Liabilities:                   |   |                         |                    |                              |
| Due Within One Year                       | 25,821                                      | 264,803                 | -                  | 290,624                      |
| Due In More Than One Year                 | 11,263                                      | 4,657,538               | -                  | 4,668,801                    |
| Net Pension Liability                     | 114,792                                     | 63,773                  | 63,773             | 242,338                      |
| Net OPEB Liability                        | 17,379                                      | 9,655                   | 9,655              | 36,689                       |
| Total Noncurrent Liabilities              | 169,255                                     | 4,995,769               | 73,428             | 5,238,452                    |
| Total Liabilities                         | 458,567                                     | 5,000,680               | 230,233            | 5,689,480                    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>      |   |                         |                    |                              |
| Deferred Inflow Related to Pension Plan   | 14,236                                      | 7,909                   | 7,909              | 30,054                       |
| Deferred Resource Inflow Related to OPEB  | 546   | 303                     | 303                | 1,152                        |
| Total Deferred Inflows of Resources       | 14,782                                      | 8,212                   | 8,212              | 31,206                       |
| <b>NET POSITION</b>                       |   |                         |                    |                              |
| Net Investment in Capital Assets          | 513,449                                     | 224,012                 | 600                | 738,061                      |
| Unrestricted                              | 39,313                                      | 317,506                 | (42,699)           | 314,120                      |
| Total Net Position                        | \$ 552,762                                  | \$ 541,518              | \$ (42,099)        | \$ 1,052,181                 |

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, 2019

|   | Business-Type Activities - Enterprise Funds |                         |                    |                              |
|---|---|-------------------------|--------------------|------------------------------|
|   | Water<br>Fund                               | Waste-<br>Water<br>Fund | Sanitation<br>Fund | Total<br>Enterprise<br>Funds |
| OPERATING REVENUES:                         |   |                         |                    |                              |
| Charges for Services                        | \$ 1,330,407                                | \$ 729,703              | \$ 601,372         | \$ 2,661,482                 |
| Other Revenue                               | 23,530                                      | 5,170                   | 4,242              | 32,942                       |
| Total Operating Revenues                    | <u>1,353,937</u>                            | <u>734,873</u>          | <u>605,614</u>     | <u>2,694,424</u>             |
| OPERATING EXPENSES:                         |   |                         |                    |                              |
| Personnel Services - Salaries and Wages     | 175,282                                     | 108,098                 | 84,074             | 367,454                      |
| Purchased Professional & Technical Services | 569,031                                     | 56,263                  | 379,450            | 1,004,744                    |
| Depreciation                                | 50,496                                      | 166,266                 | 200                | 216,962                      |
| Total Operating Expenses                    | <u>794,809</u>                              | <u>330,627</u>          | <u>463,724</u>     | <u>1,589,160</u>             |
| Operating Income                            | <u>559,128</u>                              | <u>404,246</u>          | <u>141,890</u>     | <u>1,105,264</u>             |
| NONOPERATING REVENUES (EXPENSES):           |   |                         |                    |                              |
| Proceeds from Capital Lease                 | 93,904                                      | -                       | -                  | 93,904                       |
| Interest Expense - Non-Operating            | (3,204)                                     | (29,014)                | -                  | (32,218)                     |
| Total Nonoperating Revenue (Expenses)       | <u>90,700</u>                               | <u>(29,014)</u>         | <u>-</u>           | <u>61,686</u>                |
| Income Before Transfers                     | 649,828                                     | 375,232                 | 141,890            | 1,166,950                    |
| Nonoperating Transfers In                   | 21,136                                      | 290,404                 | -                  | 311,540                      |
| Transfers Out (Use)                         | <u>(520,455)</u>                            | <u>(614,344)</u>        | <u>(254,380)</u>   | <u>(1,389,179)</u>           |
| Change in Net Position                      | 150,509                                     | 51,292                  | (112,490)          | 89,311                       |
| Total Net Position - October 1 (Beginning)  | 339,082                                     | 490,226                 | 70,391             | 899,699                      |
| Prior Period Adjustment                     | 63,171                                      | -                       | -                  | 63,171                       |
| Total Net Position - September 30 (Ending)  | <u>\$ 552,762</u>                           | <u>\$ 541,518</u>       | <u>\$ (42,099)</u> | <u>\$ 1,052,181</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, 2019

|  | Business-Type Activities - Enterprise Funds |                         |                    |                              |
|--|---|-------------------------|--------------------|------------------------------|
|  | Water<br>Fund                               | Waste-<br>Water<br>Fund | Sanitation<br>Fund | Total<br>Enterprise<br>Funds |
| <b><u>Cash Flows from Operating Activities:</u></b>  |   |                         |                    |                              |
| Cash Received from User Charges  | \$ 1,353,937                                | \$ 734,873              | \$ 605,614         | \$ 2,694,424                 |
| Cash Payments to Employees for Services  | (176,305)                                   | (112,862)               | (88,617)           | (377,784)                    |
| Cash Payments for Other Operating Expenses   | (622,055)                                   | (270,858)               | (383,120)          | (1,276,033)                  |
| Net Cash Provided by Operating Activities  | <u>555,577</u>                              | <u>351,153</u>          | <u>133,877</u>     | <u>1,040,607</u>             |
| <b><u>Cash Flows from Non-Capital Financing Activities:</u></b>                                |   |                         |                    |                              |
| Operating Transfer In  | 21,136                                      | 290,404                 | -                  | 311,540                      |
| Operating Transfer Out   | (520,455)                                   | (614,344)               | (254,380)          | (1,389,179)                  |
| Net Cash Provided by (Used for) Non-Capital Financing Activities                               | <u>(499,319)</u>                            | <u>(323,940)</u>        | <u>(254,380)</u>   | <u>(1,077,639)</u>           |
| <b><u>Cash Flows from Capital and Related Financing Activities:</u></b>                        |   |                         |                    |                              |
| Acquisition of Capital Assets  | (122,759)                                   | (2,435)                 | -                  | (125,194)                    |
| Proceeds from Capital Lease  | 93,904                                      | -                       | -                  | 93,904                       |
| Principal and Interest Paid on Long-Term Debt  | (27,403)                                    | (290,137)               | -                  | (317,540)                    |
| Net Cash Provided by (Used for) Capital and Related Financing Activities                       | <u>(56,258)</u>                             | <u>(292,572)</u>        | <u>-</u>           | <u>(348,830)</u>             |
| Net Increase (Decrease) in Cash and Cash Equivalents   | -   | (265,359)               | (120,503)          | (385,862)                    |
| Cash and Cash Equivalents at the Beginning of the Year   | <u>-</u>                                    | <u>265,359</u>          | <u>120,503</u>     | <u>385,862</u>               |
| Cash and Cash Equivalents at the End of the Year   | <u>\$ -</u>                                 | <u>\$ -</u>             | <u>\$ -</u>        | <u>\$ -</u>                  |
| <b><u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u></b> |   |                         |                    |                              |
| Operating Income   | \$ 559,128                                  | \$ 404,246              | \$ 141,890         | \$ 1,105,264                 |
| Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:        |   |                         |                    |                              |
| Depreciation   | 50,496                                      | 166,266                 | 200                | 216,962                      |
| Effect of Increases and Decreases in Current Assets and Liabilities:                           |   |                         |                    |                              |
| Decrease (Increase) in Receivables   | (115,438)                                   | (30,308)                | (13,594)           | (159,340)                    |
| Decrease (Increase) in Interfund Receivables   | -   | (180,439)               | -                  | (180,439)                    |
| Decrease (Increase) in Inventories   | 11,423                                      | -                       | -                  | 11,423                       |
| Increase (Decrease) in Accounts Payable  | 14,586                                      | (266)                   | 196                | 14,516                       |
| Increase (Decrease) in Payroll Deductions  | (1,023)                                     | (4,764)                 | (4,542)            | (10,329)                     |
| Increase (Decrease) in Interfund Payables  | 36,405                                      | (3,582)                 | 9,727              | 42,550                       |
| Net Cash Provided by Operating Activities  | <u>\$ 555,577</u>                           | <u>\$ 351,153</u>       | <u>\$ 133,877</u>  | <u>\$ 1,040,607</u>          |

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

## NOTES TO THE FINANCIAL STATEMENTS

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**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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, general administration services and utilities. 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, 2019**

**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.

Additionally, the City reports the following fund type(s):

**Special Revenue Funds** - The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

**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.



**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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.

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 or 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, 2019**

**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 6<sup>th</sup> each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
- b. Advertised public hearings are conducted.
- c. The budget is required to be approved by September 20<sup>th</sup>.
- 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, 2019.

**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, 2019**

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."

**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.

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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, 2019**

**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 spent 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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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.

**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.

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

**X. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Y. 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, 2019, the City's deferred outflows totaled \$309,199.

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, 2019, the City's deferred inflow totaled \$34,026.

**Governmental fund level**

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2019, the City's deferred inflow totaled \$273,434.

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 2        DEPOSITS AND INVESTMENT**

At September 30, 2019, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,096,248 and the bank balance was \$1,694,991. The City's cash deposits at September 30, 2019 and during the period ended September 30, 2019, 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, 2019, 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.

**Interest Rate Risk –** This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

**Foreign Currency Risk –** This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

**Investment Accounting Policy –** The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.



**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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.

Ad valorem taxes of \$744,363 were assessed on property values totaling \$86,479,939 using a tax rate of \$0.889263 (\$0.608464 for general operations and \$0.280799 for debt service) per \$100 assessed value. Additional Ad valorem taxes of \$51,090 were assessed on disannexed property with values totaling \$19,925,083 using a tax rate of \$0.256813 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, 2019, were as follows:

|                              | Property<br>Taxes | Due From<br>Other Funds | Other             | Total<br>Receivables |
|------------------------------|-------------------|-------------------------|-------------------|----------------------|
| <b>Governmental Funds:</b>   |                   |                         |                   |                      |
| General Fund                 | \$ 152,362        | \$ 516,029              | \$ 204,320        | \$ 872,711           |
| Major Governmental Funds     | 121,072           | 18,594                  | -                 | 139,666              |
| Non-major Governmental Funds | -                 | 163,436                 | -                 | 163,436              |
| Total - Governmental Funds   | <u>\$ 273,434</u> | <u>\$ 698,059</u>       | <u>\$ 204,320</u> | <u>\$ 1,175,813</u>  |

Payables at September 30, 2019, were as follows:

|                             | Accounts<br>Payable | Salaries and<br>Benefits | Due to<br>Other<br>Funds | Total<br>Payables |
|-----------------------------|---------------------|--------------------------|--------------------------|-------------------|
| <b>Governmental Funds:</b>  |                     |                          |                          |                   |
| General Fund                | \$ 85,957           | \$ 67,789                | \$ 573,552               | \$ 727,298        |
| Major Governmental Fund     | -                   | -                        | -                        | -                 |
| Non-major Governmental Fund | 26,322              | -                        | 169,669                  | 195,991           |
| Total - Governmental Funds  | <u>\$ 112,279</u>   | <u>\$ 67,789</u>         | <u>\$ 743,221</u>        | <u>\$ 923,289</u> |

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 5      CAPITAL ASSETS**

Capital Assets for governmental activities are as follows:

|   | Beginning Balance<br>October 1, 2018 | Additions         | Deletions         | Ending Balance<br>September 30, 2019 |
|---|--------------------------------------|-------------------|-------------------|--------------------------------------|
| <b>Governmental Activities:</b>             |                                      |                   |                   |                                      |
| Capital Assets, not being depreciated:      |                                      |                   |                   |                                      |
| Land  | \$ 10,524                            | \$ -              | \$ -              | \$ 10,524                            |
| Construction in Progress                    | 56,658                               | 125,041           | 181,699           | -                                    |
| Total Capital assets, not being depreciated | <u>67,182</u>                        | <u>125,041</u>    | <u>181,699</u>    | <u>10,524</u>                        |
| <b>Capital Asset being depreciated:</b>     |                                      |                   |                   |                                      |
| Buildings                                   | 2,708,586                            | 11,900            | -                 | 2,720,486                            |
| Improvements                                | 3,130,596                            | -                 | -                 | 3,130,596                            |
| Equipment                                   | 1,702,235                            | -                 | -                 | 1,702,235                            |
| Vehicles                                    | 648,293                              | 296,855           | -                 | 945,148                              |
| Infrastructure                              | 10,631,049                           | 789,189           | -                 | 11,420,238                           |
| Total capital assets, being depreciated     | <u>18,820,759</u>                    | <u>1,097,944</u>  | <u>-</u>          | <u>19,918,703</u>                    |
| <b>Less accumulated depreciation for:</b>   |                                      |                   |                   |                                      |
| Buildings                                   | (1,809,645)                          | (70,285)          | -                 | (1,879,930)                          |
| Improvements                                | (2,158,939)                          | (78,265)          | -                 | (2,237,204)                          |
| Equipment                                   | (1,629,716)                          | (13,472)          | -                 | (1,643,188)                          |
| Vehicles                                    | (591,187)                            | (29,944)          | -                 | (621,131)                            |
| Infrastructure                              | (7,612,921)                          | (305,439)         | -                 | (7,918,360)                          |
| Total accumulated depreciation              | <u>(13,802,408)</u>                  | <u>(497,405)</u>  | <u>-</u>          | <u>(14,299,813)</u>                  |
| Total capital assets being depreciated, net | 5,018,351                            | 600,539           | -                 | 5,618,890                            |
| Governmental activities capital assets, net | <u>\$ 5,085,533</u>                  | <u>\$ 725,580</u> | <u>\$ 181,699</u> | <u>\$ 5,629,414</u>                  |

Depreciation expense was charged as follows:

|  |                   |
|--|-------------------|
| <b>Governmental Activities:</b>                      |                   |
| General Government and Administration                | \$ 94,345         |
| Public Works - Street Department                     | 214,186           |
| Parks and Recreation                                 | 56,247            |
| Public Safety - Police Department                    | 47,195            |
| Public Safety - Fire Department                      | 85,433            |
| Total Depreciation Expense - Governmental Activities | <u>\$ 497,405</u> |

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Capital Assets for Business-type activities are as follows:

|  | Beginning Balance<br>October 1, 2018 | Additions          | Deletions   | Ending Balance<br>September 30, 2019 |
|--|--------------------------------------|--------------------|-------------|--------------------------------------|
| Business-type Activities                     |                                      |                    |             |                                      |
| Capital Assets, being depreciated            |                                      |                    |             |                                      |
| Buildings                                    | \$ 32,668                            | \$ -               | \$ -        | \$ 32,668                            |
| Equipment                                    | 410,142                              | 125,194            | -           | 535,336                              |
| Water System                                 | 2,092,319                            | -                  | -           | 2,092,319                            |
| Sewer System                                 | 8,163,141                            | -                  | -           | 8,163,141                            |
| Total capital assets, being depreciated      | <u>10,698,270</u>                    | <u>125,194</u>     | <u>-</u>    | <u>10,823,464</u>                    |
| Less accumulated depreciation for:           |                                      |                    |             |                                      |
| Buildings                                    | (32,668)                             | -                  | -           | (32,668)                             |
| Equipment                                    | (393,835)                            | (10,644)           | -           | (404,480)                            |
| Water System                                 | (1,614,981)                          | (42,583)           | -           | (1,657,565)                          |
| Sewer System                                 | (2,867,530)                          | (163,735)          | -           | (3,031,265)                          |
| Total accumulated depreciation               | <u>(4,909,015)</u>                   | <u>(216,962)</u>   | <u>-</u>    | <u>(5,125,977)</u>                   |
| Total capital assets, being depreciated, net | <u>5,789,255</u>                     | <u>(91,768)</u>    | <u>-</u>    | <u>5,697,486</u>                     |
| Business-type activities capital assets, net | <u>\$ 5,789,255</u>                  | <u>\$ (91,768)</u> | <u>\$ -</u> | <u>\$ 5,697,486</u>                  |

Depreciation expense was charged as follows:

|   |                   |
|---|-------------------|
| Business-type Activities:                             |                   |
| Water System  | \$ 42,583         |
| Sewer System  | 163,735           |
| Machinery and Equipment/Buildings                     | 10,644            |
| Total Depreciation Expense - Business-type Activities | <u>\$ 216,962</u> |

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 6 INTERFUND TRANSACTIONS AND BALANCES**

Inter-fund balances at September 30, 2019 consisted of the following individual fund balances:

|                       | Due From<br>Other Funds | Due To<br>Other Funds |
|-----------------------|-------------------------|-----------------------|
| General Fund:         |                         |                       |
| General Fund          | \$ 215,165              | \$ 215,165            |
| Special Revenue Fund  | 165,587                 | 163,436               |
| Debt Service Fund     | -                       | 14,512                |
| Enterprise Funds      | 135,277                 | 180,439               |
| Total General Fund    | <u>516,029</u>          | <u>573,552</u>        |
| Special Revenue Fund: |                         |                       |
| General Fund          | 163,436                 | 165,587               |
| Debt Service fund     | -                       | 4,082                 |
|                       | <u>163,436</u>          | <u>169,669</u>        |
| Debt Service:         |                         |                       |
| General Fund          | 14,512                  | -                     |
| Special Revenue Fund  | 4,082                   | -                     |
|                       | <u>18,594</u>           | <u>-</u>              |
| Enterprise Funds:     |                         |                       |
| General Fund          | 180,439                 | -                     |
| Enterprise Funds      | -                       | 135,277               |
|                       | <u>180,439</u>          | <u>135,277</u>        |
| Total                 | <u>\$ 878,498</u>       | <u>\$ 878,498</u>     |

**NOTE 7 INTERFUND TRANSFERS**

The inter-fund balances at September 30, 2019 are generally short-term loans to cover temporary cash flows and reimbursements for various funds.

Inter-fund transfers during the year ended September 30, 2019 were as follows:

| Transfer In          | General<br>Fund     | Debt Service<br>Fund | Special<br>Revenue<br>Funds | Utility<br>Fund      | Total              |
|----------------------|---------------------|----------------------|-----------------------------|----------------------|--------------------|
| Utility Fund         | \$ 1,432,851        | \$ -                 | \$ -                        | \$ 10,568            | \$ 1,443,419       |
| General Fund         | -                   | -                    | -                           | 10,568               | 10,568             |
| Debt Service Fund    | -                   | 53,157               | -                           | 290,404              | 343,561            |
| Special Revenue Fund | -                   | -                    | -                           | -                    | -                  |
| Total                | <u>1,432,851</u>    | <u>53,157</u>        | <u>-</u>                    | <u>311,540</u>       | <u>1,797,549</u>   |
| Less Transfers       | <u>(64,808)</u>     | <u>(343,561)</u>     | <u>-</u>                    | <u>(1,389,179)</u>   | <u>(1,797,549)</u> |
| Net Transfers        | <u>\$ 1,368,043</u> | <u>\$ (290,404)</u>  | <u>\$ -</u>                 | <u>\$(1,077,639)</u> | <u>\$ (0)</u>      |

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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, 2019.

Long-term debt at September 30, 2019, 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 | \$ 4,429,000 |
|---|--------------|

|  |         |
|--|---------|
| \$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. | 493,341 |
|--|---------|

Capital Leases

|                                 |         |
|---------------------------------|---------|
| Payable out of the General Fund | 128,412 |
|---------------------------------|---------|

Notes Payable

|                                 |        |
|---------------------------------|--------|
| Payable out of the Utility Fund | 37,084 |
|---------------------------------|--------|

|                      |                    |
|----------------------|--------------------|
| Total long-term debt | <u>\$5,087,837</u> |
|----------------------|--------------------|

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

The following is a summary of long-term debt activity for September 30, 2019.

|                                   | Beginning<br>Balance | Additions         | Reductions       | Ending<br>Balance | Due Within<br>One Year |
|-----------------------------------|----------------------|-------------------|------------------|-------------------|------------------------|
| <b>Governmental Activities:</b>   |                      |                   |                  |                   |                        |
| Bonds and leases payable          |                      |                   |                  |                   |                        |
| Capital Leases Payable            | \$ 10,235            | \$ 121,855        | \$ 3,678         | \$ 128,412        | \$ 3,866               |
| Total bonds and leases payable    | <u>10,235</u>        | <u>121,855</u>    | <u>3,678</u>     | <u>128,412</u>    | <u>3,866</u>           |
| Other long-term liabilities       |                      |                   |                  |                   |                        |
| Accumulated compensated absences  | 25,411               | 39,943            | 25,411           | 39,943            | -                      |
| Net pension liability             | 451,076              | 142,235           | -                | 593,311           | -                      |
| Net OPEB liability                | 63,936               | 25,889            | -                | 89,825            | -                      |
| Total other long-term liabilities | <u>540,423</u>       | <u>208,067</u>    | <u>25,411</u>    | <u>633,254</u>    | <u>-</u>               |
| Total Governmental Activities     | <u>\$ 550,658</u>    | <u>\$ 329,922</u> | <u>\$ 29,089</u> | <u>\$ 761,666</u> | <u>\$ 3,866</u>        |

|  | Beginning<br>Balance | Additions        | Reductions        | Ending<br>Balance   | Due Within<br>One Year |
|--|----------------------|------------------|-------------------|---------------------|------------------------|
| <b>Business-type Activities:</b>           |                      |                  |                   |                     |                        |
| Bonds and leases payable                   |                      |                  |                   |                     |                        |
| TWDB Certificates of Obligation Bonds 2010 | \$ 4,622,000         | \$ -             | \$ 193,000        | \$ 4,429,000        | \$ 193,000             |
| Certificate of Obligation Bonds 2010       | 561,465              | -                | 68,124            | 493,341             | 71,803                 |
| Total bonds and leases payable             | <u>5,183,465</u>     | <u>-</u>         | <u>261,124</u>    | <u>4,922,341</u>    | <u>264,803</u>         |
| Other long-term liabilities                |                      |                  |                   |                     |                        |
| Accumulated compensated absences           | 31,953               | 17,813           | 31,953            | 17,813              | -                      |
| Notes Payable                              | 61,283               | -                | 24,199            | 37,084              | 25,821                 |
| Net pension liability                      | 184,243              | 58,095           | -                 | 242,338             | -                      |
| Net OPEB liability                         | 26,115               | 10,574           | -                 | 36,689              | -                      |
| Total other long-term liabilities          | <u>303,594</u>       | <u>86,482</u>    | <u>56,152</u>     | <u>333,924</u>      | <u>25,821</u>          |
| Total Business-type Activities             | <u>\$ 5,487,059</u>  | <u>\$ 86,482</u> | <u>\$ 317,276</u> | <u>\$ 5,256,265</u> | <u>\$ 290,624</u>      |

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
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The annual requirements for bonds for years subsequent to September 30, 2019, are as follows:

| Year Ending<br>September 30 | Governmental Activities<br>General/Certificate<br>Obligations/Notes Payable |             |             | Business-type Activities<br>Revenue Bonds<br>Loan Payable |                  |                    |
|-----------------------------|---|-------------|-------------|---|------------------|--------------------|
|                             | Principal   | Interest    | Total       | Principal   | Interest         | Total              |
| 2020                        | \$ -  | \$ -        | \$ -        | \$ 290,624  | \$ 26,352        | \$ 316,976         |
| 2021                        | -   | -           | -           | 279,943   | 20,903           | 300,846            |
| 2022                        | -   | -           | -           | 272,767   | 16,523           | 289,290            |
| 2023                        | -   | -           | -           | 277,075   | 12,099           | 289,174            |
| 2024                        | -   | -           | -           | 281,615   | 7,436            | 289,051            |
| Thereafter                  | -   | -           | -           | 3,557,400   | 2,522            | 3,559,922          |
| Total                       | <u>\$ -</u>   | <u>\$ -</u> | <u>\$ -</u> | <u>\$4,959,425</u>  | <u>\$ 85,835</u> | <u>\$5,045,260</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 \$ 313,355. Accumulated depreciation of \$24,743 has been recorded against the assets under capital lease. The leases are payable out of the general fund. Capital lease obligations at September 30, 2019 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 \$ 6,557

Lease payable to Government Capital Corporation for a Fire Pumper  
Annual installments of \$19,906 including principal and interest through  
October 16, 2026; interest rate of 3.47 percent 121,855

Total Capital Lease Payable \$ 128,412

**CITY OF TAFT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Capital lease future payments are as follows:

| Year Ending<br>September 30 | Governmental Activities<br>Capital Leases Payable |                 |                   | Business-type Activities<br>Capital Leases Payable |             |             |
|-----------------------------|---|-----------------|-------------------|--|-------------|-------------|
|                             | Principal   | Interest        | Total             | Principal  | Interest    | Total       |
| 2020                        | \$ 3,866  | \$ 243          | \$ 4,109          | \$ -   | \$ -        | \$ -        |
| 2021                        | 18,369  | 4,277           | 22,646            | -  | -           | -           |
| 2022                        | 16,222  | 3,684           | 19,906            | -  | -           | -           |
| 2023                        | 16,785  | 3,121           | 19,906            | -  | -           | -           |
| 2024                        | 17,367  | 2,539           | 19,906            | -  | -           | -           |
| Thereafter                  | 55,803  | 3,918           | 59,721            | -  | -           | -           |
| Total                       | <u>\$ 128,412</u>                                 | <u>\$17,782</u> | <u>\$ 146,194</u> | <u>\$ -</u>  | <u>\$ -</u> | <u>\$ -</u> |

**NOTE 10 OPERATING LEASES**

The City entered into a lease agreement with NDS Leasing to provide copying machines. Total costs for the leases were \$16,137 for the year ended September 30, 2019.

The future minimum lease payments are as follows:

| Year Ending<br>September 30 | Total            |
|-----------------------------|------------------|
| 2020                        | \$ 16,137        |
| 2021                        | 16,137           |
| 2022                        | 5,379            |
| 2023                        | -                |
| 2024                        | -                |
| Total                       | <u>\$ 37,654</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             | 354,787           |
| Other Restricted Fund Balance            | 347,470           |
| Unassigned Fund Balance                  | 6,425             |
| Total Fund Balance                       | <u>\$ 708,685</u> |



**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 12      PENSION PLAN**

**A.      Plan Description**

The City of Taft participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas 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](http://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 2018            | Plan Year 2019            |
|--|---------------------------|---------------------------|
| 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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

***Employees covered by benefit terms***

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

|  |                   |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 16                |
| Inactive employees entitled to but not yet receiving benefits    | 89                |
| Active employees   | <u>22</u>         |
| Total  | <u><u>127</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 16.44% and 17.27% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$165,026 and were equal to the required contributions.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall Payroll Growth 3.0% per year

Investment Rate of Return 6.75%, net 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

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

to account for future mortality improvements subject to the 3% floor.

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

The long-term expected rate of return on pension plan investments was 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 2018 are summarized in the following table:

| Asset Class           | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Domestic Equity       | 17.5%             | 4.30%   |
| International Equity  | 17.5%             | 6.10%   |
| Core Fixed Income     | 10.0%             | 1.00%   |
| Non-Core Fixed Income | 20.0%             | 3.39%   |
| Real Return           | 10.0%             | 3.78%   |
| Real Estate           | 10.0%             | 4.44%   |
| Absolute Return       | 10.0%             | 3.56%   |
| 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**  
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***Changes in the Net Pension Liability:***

|  | Increase (Decrease)     |                             |                       |
|--|-------------------------|-----------------------------|-----------------------|
|  | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|  | (a)                     | (b)                         | (a)-(b)               |
| Balance at 12/31/2017  | \$ 3,384,187            | \$ 2,748,869                | \$ 635,318            |
| Changes for the year:  |                         |                             |                       |
| Service cost   | 168,576                 | -                           | 168,576               |
| Interest   | 225,316                 | -                           | 225,316               |
| Change of benefit terms  | -                       | -                           | -                     |
| Difference between expected and actual experience                | (75,996)                | -                           | (75,996)              |
| Changes of assumptions   | -                       | -                           | -                     |
| Contributions - employer   | -                       | 140,360                     | (140,360)             |
| Contributions - employee   | -                       | 61,237                      | (61,237)              |
| Net investment income  | -                       | (82,359)                    | 82,359                |
| Benefit payments,<br>including refunds of employee contributions | (260,923)               | (260,923)                   | -                     |
| Administrative expense   | -                       | (1,591)                     | 1,591                 |
| Other changes  | -                       | (83)                        | 83                    |
| Net changes  | 56,973                  | (143,359)                   | 200,332               |
| <b>Balance at 12/31/2018</b>                                     | <b>\$ 3,441,160</b>     | <b>\$ 2,605,510</b>         | <b>\$ 835,650</b>     |

***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<br>Discount Rate<br>(5.75%) | Discount Rate<br>(6.75%) | 1% Increase in<br>Discount Rate<br>(7.75%) |
|------------------------------|--|--------------------------|--|
| City's net pension liability | \$ 1,279,945                               | \$ 835,650               | \$ 472,688                                 |

***Pension Plan Fiduciary Net Position:***

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

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
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**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2019, the City recognized pension expense of \$148,491.

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

|   | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience<br>(net of current year amortization) | \$ -                                 | \$ 30,054                           |
| Changes in actuarial assumptions  | -                                    | -                                   |
| Difference between projected and actual investment earnings<br>(net of current year amortization) | 149,937                              | -                                   |
| Contributions subsequent to the measurement date  | 125,970                              | -                                   |
| Total   | <u>\$ 275,907</u>                    | <u>\$ 30,054</u>                    |

\$125,970 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, 2019. 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: |           |
|-------------------------|-----------|
| 2020                    | \$ 27,208 |
| 2021                    | 19,502    |
| 2022                    | 19,622    |
| 2023                    | 53,580    |
| 2024                    | -         |
| Thereafter              | -         |

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 13      OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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

**Employees covered by benefit terms**

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

|  |                  |
|--|------------------|
| Inactive employees or beneficiaries currently receiving benefits | 15               |
| Inactive employees entitled to but not yet receiving benefits    | 4                |
| Active employees   | <u>22</u>        |
| Total  | <u><u>41</u></u> |

**Contributions**

Employees for the City of Taft were required to contribute 0.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.29% and 0.36% in calendar year 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$3,631 and were equal to the required contributions.

**Net Pension Liability**

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

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**Actuarial assumptions:**

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

|  |   |
|--|---|
| Inflation                                | 2.5% per year                                 |
| Overall Payroll Growth                   | 3.50% to 10.5% per year - including inflation |
| Discount rate*                           | 3.71%   |
| Retiree's share of benefit related costs | \$0   |

*\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.*

Administrative Expenses - All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates – service retirees - RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates – disabled retirees – RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

**Discount Rate:**

The discount rate used to measure the Total OPEB Liability was 3.71%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**Total OPEB Liability:**

|  | Increase<br>(Decrease)<br>Total OPEB<br>Liability |
|--|---|
| Balance at 12/31/2017  | \$ 90,051   |
| Changes for the year:  |   |
| Service cost   | 3,674   |
| Interest   | 3,031   |
| Change of benefit terms  | -   |
| Difference between expected and actual experience                | 35,500  |
| Changes of assumptions   | (5,130)   |
| Contributions - employer   | -   |
| Contributions - employee   | -   |
| Net investment income  | -   |
| Benefit payments,<br>including refunds of employee contributions | (612)   |
| Administrative expense   | -   |
| Other changes  | -   |
| Net changes  | 36,463  |
| <b>Balance at 12/31/2018</b>                                     | <b>\$ 126,514</b>                                 |

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate:

|                             | 1% Decrease in<br>Discount Rate<br>(2.71%) | Discount Rate<br>(3.71%) | 1% Increase in<br>Discount Rate<br>(4.71%) |
|-----------------------------|--|--------------------------|--|
| City's total OPEB liability | \$ 140,287                                 | \$ 126,514               | \$ 115,389                                 |



**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

For the year ended September 30, 2019, the City recognized OPEB expense in the amount of \$14,846.

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

|   | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience<br>(net of current year amortization) | \$ 27,486                            | \$ -                                |
| Changes in actuarial assumptions  | 3,123                                | 3,972                               |
| Difference between projected and actual investment earnings<br>(net of current year amortization) | -                                    | -                                   |
| Contributions subsequent to the measurement date  | 2,682                                | -                                   |
| Total   | <u>\$ 33,291</u>                     | <u>\$ 3,972</u>                     |

\$2,682 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

| Year ended December 31: |          |
|-------------------------|----------|
| 2020                    | \$ 8,141 |
| 2021                    | 8,141    |
| 2022                    | 7,409    |
| 2023                    | 2,946    |
| 2024                    | -        |
| Thereafter              | -        |

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 14      HEALTH CARE COVERAGE**

During the year ended September 30, 2019, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$486 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.

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.

**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 2019, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool 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.

**CITY OF TAFT, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 17 COMPLIANCE AND ACCOUNTABILITY**

**A. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None Reported    | Not applicable      |

**B. Deficit Fund Balance or Fund Net Assets of Individual Funds**

At September 30, 2019, the State Fees Fund had a deficit fund balance of (\$119,862) and the Sanitation Fund had a deficit fund balance of (\$42,100).

**C. Excess of expenditures over appropriations**

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund:

| <u>Fund Name</u> | <u>Department/Expenditure</u> | <u>Amount of Excess</u> |
|------------------|-------------------------------|-------------------------|
| General Fund     | General Government            | \$ 445,653              |
| General Fund     | Municipal Court               | 1,200                   |
| General Fund     | Administration                | 8,772                   |
| General Fund     | Fire Protection               | 105,426                 |
| General Fund     | Community Centers             | 3,865                   |

**NOTE 18 PRIOR PERIOD ADJUSTMENTS**

A prior period adjustment of \$63,171 was made to the enterprise funds which resulted in an increase in 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 September 4, 2020 the date which the financial statements were available to be issued.

The 2020 COVID-19 (Coronavirus) pandemic has caused extensive disruptions to businesses in America and the entire World. In the face of these disruptions, the fluid situation has become difficult to assess the likely impact to not only the economy in America but also the local economy. The City of Taft, is striving to be highly attuned and is maintaining a heightened state of readiness for the principal risks and increased uncertainties ahead. Given the potential for rapid spreading of the virus, management will be evaluating the current and potential effects on its operations and financial reporting.

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## REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF TAFT, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

|   | Budgeted Amounts |              | Actual<br>Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|---|------------------|--------------|-----------------------------------|--|
|   | Original         | Final        |                                   |  |
| REVENUES:   |                  |              |                                   |  |
| Taxes:  |                  |              |                                   |  |
| Property Taxes  | \$ 451,797       | \$ 451,797   | \$ 471,833                        | \$ 20,036  |
| Taxes Delinquent  | 75,000           | 75,000       | 38,316                            | (36,684)   |
| General Sales and Use Taxes                               | 210,000          | 210,000      | 257,442                           | 47,442   |
| Franchise Tax   | 88,500           | 88,500       | 117,219                           | 28,719   |
| Hotel/Motel Tax   | 3,000            | 3,000        | 4,027                             | 1,027  |
| Penalty and Interest on Taxes                             | 25,000           | 25,000       | 25,547                            | 547  |
| Licenses and Permits                                      | 21,950           | 21,950       | 35,469                            | 13,519   |
| Intergovernmental Revenue and Grants                      | -                | -            | 21,630                            | 21,630   |
| Fines   | 25,750           | 25,750       | 37,390                            | 11,640   |
| Investment Earnings                                       | 200              | 200          | 81                                | (119)  |
| Other Revenue   | 236,600          | 236,600      | 223,648                           | (12,952)   |
| Total Revenues  | 1,137,797        | 1,137,797    | 1,232,602                         | 94,805   |
| EXPENDITURES:   |                  |              |                                   |  |
| Current:  |                  |              |                                   |  |
| General Government  | 835,600          | 835,600      | 1,281,253                         | (445,653)  |
| Finance   | 205,872          | 205,872      | 193,218                           | 12,654   |
| Municipal Court   | 50,254           | 50,254       | 51,454                            | (1,200)  |
| Administration  | 90,489           | 90,489       | 99,261                            | (8,772)  |
| Legislative   | 51,671           | 51,671       | 48,447                            | 3,224  |
| Tax Collection  | 18,000           | 18,000       | 17,735                            | 265  |
| Police  | 646,600          | 646,600      | 558,202                           | 88,398   |
| Fire Protection   | 25,100           | 25,100       | 130,526                           | (105,426)  |
| Emergency Medical Service                                 | 204,000          | 204,000      | 204,000                           | -  |
| Animal Control  | 79,528           | 79,528       | 59,384                            | 20,144   |
| Code Enforcement  | 82,482           | 82,482       | 42,222                            | 40,260   |
| Highways and Streets                                      | 150,790          | 150,790      | 132,596                           | 18,194   |
| Library   | 76,346           | 76,346       | 57,803                            | 18,543   |
| Parks   | 102,936          | 102,936      | 98,199                            | 4,737  |
| Community Centers   | 14,930           | 14,930       | 18,795                            | (3,865)  |
| Debt Service:   |                  |              |                                   |  |
| Principal on Debt   | 3,678            | 3,678        | 3,678                             | -  |
| Interest on Debt  | 431              | 431          | 431                               | -  |
| Total Expenditures  | 2,638,707        | 2,638,707    | 2,997,204                         | (358,497)  |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,500,910)      | (1,500,910)  | (1,764,602)                       | (263,692)  |
| OTHER FINANCING SOURCES (USES):                           |                  |              |                                   |  |
| Proceeds from Capital Leases                              | -                | -            | 121,855                           | 121,855  |
| Transfers In  | 1,495,887        | 1,495,887    | 1,432,851                         | (63,036)   |
| Transfers Out (Use)                                       | -                | -            | (64,808)                          | (64,808)   |
| Capital Contributions                                     | -                | -            | 499,232                           | 499,232  |
| Total Other Financing Sources (Uses)                      | 1,495,887        | 1,495,887    | 1,989,130                         | 493,243  |
| Net Change in Fund Balances                               | (5,023)          | (5,023)      | 224,528                           | 229,551  |
| Fund Balance - October 1 (Beginning)                      | (98,241)         | (98,241)     | (98,241)                          | -  |
| Fund Balance - September 30 (Ending)                      | \$ (103,264)     | \$ (103,264) | \$ 126,287                        | \$ 229,551   |

CITY OF TAFT, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

|  | FY 2019<br>Plan Year 2018 | FY 2018<br>Plan Year 2017 |
|--|---------------------------|---------------------------|
| <b>A. Total Pension Liability</b>  |                           |                           |
| Service Cost   | \$ 168,576                | \$ 182,378                |
| Interest (on the Total Pension Liability)  | 225,316                   | 213,745                   |
| Changes of Benefit Terms   | -                         | -                         |
| Difference between Expected and Actual Experience                                | (75,996)                  | (123)                     |
| Changes of Assumptions   | -                         | -                         |
| Benefit Payments, Including Refunds of Employee Contributions                    | (260,923)                 | (174,425)                 |
| Net Change in Total Pension Liability  | \$ 56,973                 | \$ 221,575                |
| Total Pension Liability - Beginning  | 3,384,187                 | 3,162,612                 |
| Total Pension Liability - Ending   | \$ 3,441,160              | \$ 3,384,187              |
| <b>B. Total Fiduciary Net Position</b>   |                           |                           |
| Contributions - Employer   | \$ 140,360                | \$ 142,494                |
| Contributions - Employee   | 61,237                    | 68,933                    |
| Net Investment Income  | (82,359)                  | 330,661                   |
| Benefit Payments, Including Refunds of Employee Contributions                    | (260,923)                 | (174,425)                 |
| Administrative Expense   | (1,591)                   | (1,712)                   |
| Other  | (82)                      | (87)                      |
| Net Change in Plan Fiduciary Net Position  | \$ (143,358)              | \$ 365,864                |
| Plan Fiduciary Net Position - Beginning  | 2,748,868                 | 2,383,004                 |
| Plan Fiduciary Net Position - Ending   | \$ 2,605,510              | \$ 2,748,868              |
| <b>C. Net Pension Liability</b>  | \$ 835,650                | \$ 635,319                |
| <b>D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b> | 75.72%                    | 81.23%                    |
| <b>E. Covered Payroll</b>  | \$ 874,813                | \$ 984,762                |
| <b>F. Net Pension Liability as a Percentage of Covered Payroll</b>               | 95.52%                    | 64.51%                    |

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only five years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."



|    | FY 2017<br>Plan Year 2016 | FY 2016<br>Plan Year 2015 | FY 2015<br>Plan Year 2014 |
|----|---------------------------|---------------------------|---------------------------|
| \$ | 164,979                   | \$ 166,770                | \$ 178,906                |
|    | 209,567                   | 192,863                   | 183,803                   |
|    | -                         | -                         | -                         |
|    | (157,954)                 | 36,416                    | (84,571)                  |
|    | -                         | 101,816                   | -                         |
|    | (152,381)                 | (142,536)                 | (142,737)                 |
| \$ | 64,211                    | \$ 355,329                | \$ 135,401                |
|    | 3,098,401                 | 2,743,072                 | 2,604,671                 |
| \$ | 3,162,612                 | \$ 3,098,401              | \$ 2,740,072              |
| \$ | 118,619                   | \$ 119,931                | \$ 104,293                |
|    | 69,486                    | 74,499                    | 77,790                    |
|    | 149,095                   | 3,171                     | 114,128                   |
|    | (152,381)                 | (142,536)                 | (142,737)                 |
|    | (1,679)                   | (1,930)                   | (1,191)                   |
|    | (90)                      | (95)                      | (98)                      |
| \$ | 183,050                   | \$ 53,040                 | \$ 152,185                |
|    | 2,199,954                 | 2,146,915                 | 1,994,730                 |
| \$ | 2,383,004                 | \$ 2,199,955              | \$ 2,146,915              |
| \$ | 779,608                   | \$ 898,446                | \$ 593,157                |
|    | 75.35%                    | 71.00%                    | 78.35%                    |
| \$ | 992,656                   | \$ 1,064,265              | \$ 1,111,280              |
|    | 78.54%                    | 84.42%                    | 53.38%                    |

CITY OF TAFT, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE FISCAL YEAR 2019

|   | 2019       | 2018       | 2017       |
|---|------------|------------|------------|
| Actuarially Determined Contribution                                   | \$ 165,026 | \$ 139,238 | \$ 132,585 |
| Contributions in Relation to the Actuarially Determined Contributions | (165,026)  | (139,238)  | (132,585)  |
| Contribution Deficiency (Excess)                                      | \$ -       | \$ -       | \$ -       |
| Covered Payroll   | \$ 988,282 | \$ 894,088 | \$ 985,310 |
| Contributions as a Percentage of Covered Payroll                      | 16.70%     | 15.57%     | 13.46%     |

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

| 2016 |           | 2015 |           |
|------|-----------|------|-----------|
| \$   | 120,783   | \$   | 114,529   |
|      | (120,783) |      | (114,529) |
| \$   | -         | \$   | -         |
|      |           |      |           |
| \$   | 1,000,324 | \$   | 1,020,793 |
|      | 12.07%    |      | 11.22%    |

**CITY OF TAFT, TEXAS  
NOTES TO SCHEDULE OF CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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 | 27 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. |
| <b>Other Information:</b>     | There were no benefit changes during the year.  |

CITY OF TAFT, TEXAS  
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

|  | FY 2019<br>Plan Year 2018 | FY 2018<br>Plan Year 2017 |
|--|---------------------------|---------------------------|
| <b>Total OPEB Liability</b>                                    |                           |                           |
| Service Cost   | \$ 3,674                  | \$ 3,742                  |
| Interest on the Total OPEB Liability                           | 3,031                     | 3,017                     |
| Changes of Benefit Terms                                       | -                         | -                         |
| Difference between Expected and Actual Experience              | 35,500                    | -                         |
| Changes of Assumptions   | (5,130)                   | 5,693                     |
| Benefit Payments*  | (612)                     | (689)                     |
| Net Change in Total OPEB Liability                             | 36,463                    | 11,763                    |
| Total OPEB Liability - Beginning                               | 90,051                    | 78,288                    |
| Total OPEB Liability - Ending                                  | \$ 126,514                | \$ 90,051                 |
| <b>Covered Payroll</b>   | \$ 874,813                | \$ 984,762                |
| <b>Total OPEB Liability as a Percentage of Covered Payroll</b> | 14.46%                    | 9.14%                     |

\*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF TAFT, TEXAS  
NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

**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 | 17 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. |
| <b>Other Information:</b>     | 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, 2019

|  | TDA<br>Grant<br>Fund | Fireman's<br>Pension<br>Fund | Firemen's<br>Operating<br>Fund | Police<br>Department<br>Fund |
|--|----------------------|------------------------------|--------------------------------|------------------------------|
| <b>ASSETS</b>                              |                      |                              |                                |                              |
| Cash and Cash Equivalents                  | \$ 3                 | \$ 29,529                    | \$ 36,814                      | \$ 1,373                     |
| Due from Other Funds                       | -                    | -                            | 80,907                         | -                            |
| <b>Total Assets</b>                        | <b>\$ 3</b>          | <b>\$ 29,529</b>             | <b>\$ 117,721</b>              | <b>\$ 1,373</b>              |
| <b>LIABILITIES</b>                         |                      |                              |                                |                              |
| Accounts Payable                           | \$ -                 | \$ -                         | \$ -                           | \$ -                         |
| Due to Other Funds                         | -                    | -                            | 77,196                         | -                            |
| Due to Others                              | -                    | -                            | -                              | -                            |
| <b>Total Liabilities</b>                   | <b>-</b>             | <b>-</b>                     | <b>77,196</b>                  | <b>-</b>                     |
| <b>FUND BALANCES</b>                       |                      |                              |                                |                              |
| Restricted Fund Balance:                   |                      |                              |                                |                              |
| Federal or State Funds Grant Restriction   | 3                    | -                            | -                              | -                            |
| Other Restricted Fund Balance              | -                    | 29,529                       | 40,525                         | 1,373                        |
| Unassigned Fund Balance                    | -                    | -                            | -                              | -                            |
| <b>Total Fund Balances</b>                 | <b>3</b>             | <b>29,529</b>                | <b>40,525</b>                  | <b>1,373</b>                 |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 3</b>          | <b>\$ 29,529</b>             | <b>\$ 117,721</b>              | <b>\$ 1,373</b>              |



| Taft Building<br>& Security<br>Fund | Taft Court<br>Technology<br>Fund | Pride of<br>Taft<br>Fund | Police Dept.<br>A/C Donation<br>Fund | Municipal<br>Court<br>Fund | Street<br>Fund    | State<br>Fees<br>Fund | Drug<br>Seizure<br>Fund |
|-------------------------------------|----------------------------------|--------------------------|--------------------------------------|----------------------------|-------------------|-----------------------|-------------------------|
| \$ -                                | \$ -                             | \$ 2,148                 | \$ 37,906                            | \$ 50,953                  | \$ 114,507        | \$ -                  | \$ 12,828               |
| 17,237                              | 28,455                           | -                        | -                                    | -                          | 36,837            | -                     | -                       |
| <u>\$ 17,237</u>                    | <u>\$ 28,455</u>                 | <u>\$ 2,148</u>          | <u>\$ 37,906</u>                     | <u>\$ 50,953</u>           | <u>\$ 151,344</u> | <u>\$ -</u>           | <u>\$ 12,828</u>        |
| \$ -                                | \$ -                             | \$ -                     | \$ -                                 | \$ -                       | \$ 20,746         | \$ 5,576              | \$ -                    |
| -                                   | -                                | -                        | -                                    | -                          | 4,082             | 88,391                | -                       |
| -                                   | -                                | -                        | -                                    | -                          | -                 | 25,895                | -                       |
| -                                   | -                                | -                        | -                                    | -                          | 24,828            | 119,862               | -                       |
| -                                   | -                                | -                        | -                                    | -                          | -                 | -                     | -                       |
| 17,237                              | 28,455                           | 2,148                    | 37,906                               | 50,953                     | 126,516           | -                     | 12,828                  |
| -                                   | -                                | -                        | -                                    | -                          | -                 | (119,862)             | -                       |
| <u>17,237</u>                       | <u>28,455</u>                    | <u>2,148</u>             | <u>37,906</u>                        | <u>50,953</u>              | <u>126,516</u>    | <u>(119,862)</u>      | <u>12,828</u>           |
| <u>\$ 17,237</u>                    | <u>\$ 28,455</u>                 | <u>\$ 2,148</u>          | <u>\$ 37,906</u>                     | <u>\$ 50,953</u>           | <u>\$ 151,344</u> | <u>\$ -</u>           | <u>\$ 12,828</u>        |

CITY OF TAFT, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2019

|  | Total<br>Nonmajor<br>Special<br>Revenue Funds | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|---|--|
| <b>ASSETS</b>                              |   |  |
| Cash and Cash Equivalents                  | \$ 286,061                                    | \$ 286,061                                 |
| Due from Other Funds                       | 163,436                                       | 163,436                                    |
| <b>Total Assets</b>                        | <b>\$ 449,497</b>                             | <b>\$ 449,497</b>                          |
| <b>LIABILITIES</b>                         |   |  |
| Accounts Payable                           | \$ 26,322                                     | \$ 26,322                                  |
| Due to Other Funds                         | 169,669                                       | 169,669                                    |
| Due to Others                              | 25,895  | 25,895                                     |
| <b>Total Liabilities</b>                   | <b>221,886</b>                                | <b>221,886</b>                             |
| <b>FUND BALANCES</b>                       |   |  |
| Restricted Fund Balance:                   |   |  |
| Federal or State Funds Grant Restriction   | 3   | 3  |
| Other Restricted Fund Balance              | 347,470                                       | 347,470                                    |
| Unassigned Fund Balance                    | (119,862)                                     | (119,862)                                  |
| <b>Total Fund Balances</b>                 | <b>227,611</b>                                | <b>227,611</b>                             |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 449,497</b>                             | <b>\$ 449,497</b>                          |

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CITY OF TAFT, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

|                                      | TDA<br>Grant<br>Fund | Fireman's<br>Pension<br>Fund | Firemen's<br>Operating<br>Fund | Police<br>Department<br>Fund |
|--------------------------------------|----------------------|------------------------------|--------------------------------|------------------------------|
| <b>REVENUES:</b>                     |                      |                              |                                |                              |
| Taxes:                               |                      |                              |                                |                              |
| General Sales and Use Taxes          | \$ -                 | \$ -                         | \$ -                           | \$ -                         |
| Charges for Services                 | -                    | -                            | -                              | -                            |
| Fines                                | -                    | -                            | -                              | -                            |
| Other Revenue                        | -                    | -                            | 39,570                         | 1,099                        |
| Total Revenues                       | <u>-</u>             | <u>-</u>                     | <u>39,570</u>                  | <u>1,099</u>                 |
| <b>EXPENDITURES:</b>                 |                      |                              |                                |                              |
| Current:                             |                      |                              |                                |                              |
| General Government:                  |                      |                              |                                |                              |
| Finance                              | -                    | -                            | -                              | -                            |
| Public Safety:                       |                      |                              |                                |                              |
| Police                               | -                    | -                            | -                              | 251                          |
| Fire Protection                      | -                    | 113,980                      | 73,492                         | -                            |
| Public Works:                        |                      |                              |                                |                              |
| Highways and Streets                 | -                    | -                            | -                              | -                            |
| Health and Welfare                   | -                    | -                            | -                              | -                            |
| Total Expenditures                   | <u>-</u>             | <u>113,980</u>               | <u>73,492</u>                  | <u>251</u>                   |
| Net Change in Fund Balance           | -                    | (113,980)                    | (33,922)                       | 848                          |
| Fund Balance - October 1 (Beginning) | <u>3</u>             | <u>143,509</u>               | <u>74,447</u>                  | <u>525</u>                   |
| Fund Balance - September 30 (Ending) | <u>\$ 3</u>          | <u>\$ 29,529</u>             | <u>\$ 40,525</u>               | <u>\$ 1,373</u>              |

| Taft Building<br>& Security<br>Fund | Taft Court<br>Technology<br>Fund | Pride of<br>Taft<br>Fund | Police Dept.<br>A/C Donation<br>Fund | Municipal<br>Court<br>Fund | Street<br>Fund    | State<br>Fees<br>Fund | Drug<br>Seizure<br>Fund |
|-------------------------------------|----------------------------------|--------------------------|--------------------------------------|----------------------------|-------------------|-----------------------|-------------------------|
| \$ -                                | \$ -                             | \$ -                     | \$ -                                 | \$ -                       | \$ 69,965         | \$ -                  | \$ -                    |
| 1,215                               | 1,620                            | -                        | -                                    | 7,800                      | 58,426            | -                     | -                       |
| -                                   | -                                | 14,378                   | 45,198                               | -                          | -                 | -                     | -                       |
| <u>1,215</u>                        | <u>1,620</u>                     | <u>14,378</u>            | <u>45,198</u>                        | <u>7,800</u>               | <u>128,391</u>    | <u>-</u>              | <u>-</u>                |
| -                                   | -                                | -                        | -                                    | 100                        | -                 | -                     | -                       |
| -                                   | -                                | -                        | 7,332                                | -                          | -                 | -                     | 578                     |
| -                                   | -                                | -                        | -                                    | -                          | -                 | -                     | -                       |
| -                                   | -                                | -                        | -                                    | -                          | 137,436           | -                     | -                       |
| -                                   | -                                | 14,248                   | -                                    | -                          | -                 | -                     | -                       |
| <u>-</u>                            | <u>-</u>                         | <u>14,248</u>            | <u>7,332</u>                         | <u>100</u>                 | <u>137,436</u>    | <u>-</u>              | <u>578</u>              |
| 1,215                               | 1,620                            | 130                      | 37,866                               | 7,700                      | (9,045)           | -                     | (578)                   |
| <u>16,022</u>                       | <u>26,835</u>                    | <u>2,018</u>             | <u>40</u>                            | <u>43,253</u>              | <u>135,561</u>    | <u>(119,862)</u>      | <u>13,406</u>           |
| <u>\$ 17,237</u>                    | <u>\$ 28,455</u>                 | <u>\$ 2,148</u>          | <u>\$ 37,906</u>                     | <u>\$ 50,953</u>           | <u>\$ 126,516</u> | <u>\$ (119,862)</u>   | <u>\$ 12,828</u>        |

CITY OF TAFT, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

|                                      | Total<br>Nonmajor<br>Special<br>Revenue Funds | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------------|---|--|
| <b>REVENUES:</b>                     |   |  |
| Taxes:                               |   |  |
| General Sales and Use Taxes          | \$ 69,965                                     | \$ 69,965                                  |
| Charges for Services                 | 58,426  | 58,426                                     |
| Fines                                | 10,635  | 10,635                                     |
| Other Revenue                        | 100,245                                       | 100,245                                    |
| Total Revenues                       | <u>239,271</u>                                | <u>239,271</u>                             |
| <b>EXPENDITURES:</b>                 |   |  |
| Current:                             |   |  |
| General Government:                  |   |  |
| Finance                              | 100   | 100  |
| Public Safety:                       |   |  |
| Police                               | 8,161   | 8,161                                      |
| Fire Protection                      | 187,472                                       | 187,472                                    |
| Public Works:                        |   |  |
| Highways and Streets                 | 137,436                                       | 137,436                                    |
| Health and Welfare                   | 14,248  | 14,248                                     |
| Total Expenditures                   | <u>347,417</u>                                | <u>347,417</u>                             |
| Net Change in Fund Balance           | (108,146)                                     | (108,146)                                  |
| Fund Balance - October 1 (Beginning) | <u>335,757</u>                                | <u>335,757</u>                             |
| Fund Balance - September 30 (Ending) | <u>\$ 227,611</u>                             | <u>\$ 227,611</u>                          |

CITY OF TAFT, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

| Data<br>Control<br>Codes                     | Budgeted Amounts |            | Actual                   | Variance With                             |
|--|------------------|------------|--------------------------|---|
|  | Original         | Final      | GAAP BASIS<br>(See Note) | Final Budget<br>Positive or<br>(Negative) |
| REVENUES:                                    |                  |            |                          |   |
| Taxes:                                       |                  |            |                          |   |
| 5110 Property Taxes                          | \$ 290,406       | \$ 290,406 | \$ 264,630               | \$ (25,776)                               |
| 5111 Taxes Delinquent                        | -                | -          | 36,054                   | 36,054                                    |
| 5020 Total Revenues                          | 290,406          | 290,406    | 300,684                  | 10,278                                    |
| EXPENDITURES:                                |                  |            |                          |   |
| Debt Service:                                |                  |            |                          |   |
| 0710 Principal on Debt                       | 261,125          | 261,125    | -                        | 261,125                                   |
| 0720 Interest on Debt                        | 28,480           | 28,480     | -                        | 28,480                                    |
| 0790 Other Debt Service                      | 801              | 801        | -                        | 801                                       |
| 6030 Total Expenditures                      | 290,406          | 290,406    | -                        | 290,406                                   |
| 1100 Excess of Revenues Over<br>Expenditures | -                | -          | 300,684                  | 300,684                                   |
| OTHER FINANCING SOURCES (USES):              |                  |            |                          |   |
| 7915 Transfers In                            | -                | -          | 53,157                   | 53,157                                    |
| 8911 Transfers Out (Use)                     | -                | -          | (343,561)                | (343,561)                                 |
| 7080 Total Other Financing Sources (Uses)    | -                | -          | (290,404)                | (290,404)                                 |
| 1200 Change in Fund Balance                  | -                | -          | 10,280                   | 10,280                                    |
| 0100 Fund Balance - October 1 (Beginning)    | 344,507          | 344,507    | 344,507                  | -   |
| 3000 Fund Balance - September 30 (Ending)    | \$ 344,507       | \$ 344,507 | \$ 354,787               | \$ 10,280                                 |

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## REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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**Raul Hernandez & Company, P.C.**  
Certified Public Accountants  
5402 Holly Rd., Suite 102  
Corpus Christi, Texas 78411  
Office (361)980-0482 Fax (361)980-1002

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

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

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, 2019, 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 September 4, 2020.

**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 purposed 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 have not been 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 2019-001, 2019-002, 2019-003 and 2019-004 to be 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001, 2019-002, 2019-003 and 2019-004 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) 2019-001, 2019-002, 2019-003 and 2019-004.

## **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.

*Raul Hernandez & Company, P.C.*

Corpus Christi, Texas

September 4, 2020

**CITY OF TAFT, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**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 ☒ No

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

☒ Yes ☐ None Reported

Noncompliance material to financial statements noted?

☒ Yes ☐ No

**2. Federal Awards - N/A**

Internal control over major programs:

One or more material weaknesses identified?

☐ Yes ☐ No

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

☐ Yes ☐ 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 ☐ No

Identification of major programs:

CFDA Number(s)  
N/A

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?

N/A

☐ Yes ☐ No

**CITY OF TAFT, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**B. Financial Statement Findings**

Finding No. 2019-001.

**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. Finding is a repeat from prior 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 a fee accountant/CPA firm to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

Finding No. 2019-002.

**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. Finding is a repeat from prior fiscal year.

**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 which will be developed and implemented for full compliance of financial reporting at year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Finding No. 2019-003.

**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 an authorized personnel. Finding is a repeat from prior fiscal year.

**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 which will be developed and implemented for full compliance of financial reporting at year-end and cross training is ongoing.

Finding No. 2019-004.

**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. Finding is a repeat from prior fiscal year.

**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 which will be developed and implemented for full compliance of financial reporting at year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

C. Federal Award Findings and Questioned Costs  
NONE



**CITY OF TAFT, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Finding No. 2018-1.

**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/CPA firm 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, 2019.

Finding No. 2018-2.

**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.

Finding has been reported during the current fiscal year ending September 30, 2019.

**CITY OF TAFT, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Finding No. 2018-3.

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 has been reported during the current fiscal year ending September 30, 2019.

Finding No. 2018-4.

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.

Finding has been reported during the current fiscal year ending September 30, 2019.

**CITY OF TAFT, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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.

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