



CITY OF TAFT, TEXAS
Annual Financial Report
For the fiscal year ended September 30, 2020

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, 2020

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January 27, 2022

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, 2020.

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, 2020.

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, 2020 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2020 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 2,945.

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

Services Provided

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

Blended Component Unit

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

Discretely Presented Component Unit

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives, recreational and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters in the fiscal year 1999. The Corporation is reported as a discretely component unit. The Taft Economic Development Corporation was created to be a vehicle for economic stimulus for the Taft area. The City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters in the fiscal year 2015. In addition, the City has the Pride of Taft which is utilized for enhancing quality of life thru beautification of city wide cleanups activities. Complete financial statements of the Taft Economic Development Corporation may be obtained at the City's administrative office.

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

Taft Quality Improvement Corporation
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

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

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

Accounting System and Budgetary Control

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

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

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

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

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

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

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

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

Taft's Position in the Region

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

In addition, the City of Taft is located 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 2019 census of 2,945 reflects a drop in population of 103 from the 2010 census of 3,048.

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$35,147 compares unfavorably to \$64,034 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 94.8 million for fiscal year 2012/2020 for a 8.4 million increase and a 9% increase.
- Sales tax collections have increased by more than 13% for the most recent year.

Future Economic Outlook

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

Cash Management

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

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

Pension Plan

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) from TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 1-800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	Plan Year 2019	Plan Year 2020
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,



Melissa L. Gonzalez
City Manager

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CITY OF TAFT

List of Principal Officials

ELECTED OFFICIALS

Pedro Lopez	Mayor
Leonard Vasquez	City Council
Lolo Hernandez	Mayor Pro-Tem
JoAdrian Vara	City Council
Rolando Rodriguez	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 Municipal Court Clerk
Bureau Veritas	Building Inspector
Karen Diaz	Municipal Court Judge
Roxann P Cotroneo	City Attorney

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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, 2020, 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, 2020, 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 January 27, 2022, 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
January 27, 2022

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MANAGEMENTS' DISCUSSION AND ANALYSIS

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**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

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, 2020. 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, 2020, the City of Taft's General Fund reported an ending fund balance of \$554,826 in the governmental fund types.
- As of September 30, 2020, the City of Taft's Utility Fund reported ending total net position of \$801,499, a decrease of (\$250,683) with (\$156,799) from operations, and a prior period adjustment of (\$93,904).
- The net position of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2020 by \$5,969,860. Of \$5,969,860 total net position, \$320,997 or .05% represents the unrestricted net position.
- As of September 30, 2020, the City of Taft's total combined net position was \$6,771,359 a decrease of (\$278,587) compared to the prior year total of \$7,049,946.
- As of September 30, 2020, the City of Taft's governmental funds reported combined ending fund balance of \$1,165,412.
- The City's total debt decreased by \$227,759 during the year from \$5,087,837 to \$4,860,078.

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, 2020**

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 taxed and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

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

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

Fund Financial Statements

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

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

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

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, 2020**

The City's combined net assets were \$6.76 million as of September 30, 2020. Analyzing the net assets and net expenses of governmental type activities were \$5.96 million and business-type activities, separately the business type activities net assets are \$0.8 million. The analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business type-activities.

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

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

	Governmental Activities		Business-Type Activities	
	2020	2019	2020	2019
Current and Other Assets	\$ 2,166,661	\$ 1,539,023	\$ 897,247	\$ 817,303
Capital Assets	5,043,507	5,629,414	5,565,945	5,697,486
Total Assets:	7,210,168	7,168,437	6,463,192	6,514,789
Deferred Outflows of Resources	87,844	186,399	82,517	122,800
Current and Other Liabilities	1,156,736	542,702	903,943	315,750
Long-Term Liabilities	85,114	811,548	4,774,964	5,238,452
Total Liabilities	1,241,850	1,354,250	5,678,907	5,554,202
Deferred Inflows of Resources	86,302	2,820	65,303	31,206
Net Assets:				
Invested in Capital Assets				
net of Related Debt	4,918,415	5,500,981	790,981	738,061
Restricted	730,448	702,260	-	-
Unrestricted	320,997	(205,476)	10,518	314,120
Total Net Assets	\$ 5,969,860	\$ 5,997,765	\$ 801,499	\$ 1,052,181

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

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

	Governmental Activities		Business Type Activities	
	2020	2019	2020	2019
Revenues:				
Property Taxes	\$ 825,430	\$ 828,926	\$ -	\$ -
Sales Tax	370,815	327,407	-	-
Franchise Taxes	115,954	117,219	-	-
Other Taxes	2,760	4,027	-	-
License and Permits	102,998	35,469	-	-
Intergovernmental	36,926	21,630	-	-
Charges for Services	16,563	90,055	2,661,336	2,661,482
Fines and Forfeitures	29,228	48,026	-	-
Investment Earnings/Other	51	81	-	-
Other Revenue	250,522	845,674	720	126,846
Total Revenues	<u>1,751,247</u>	<u>2,318,514</u>	<u>2,662,056</u>	<u>2,788,328</u>
Expenses:				
General Government	1,280,581	1,322,341	-	-
Public Safety	710,941	924,148	-	-
Public Works	465,461	359,175	-	-
Parks, Recreation and Culture	165,045	212,249	-	-
Water	-	-	854,469	798,013
Wastewater	-	-	352,881	359,640
Sanitation	-	-	486,597	463,725
Economic Development and Assistance	-	-	-	-
Bond Payments, Principal, and Interest	-	431	-	-
Total Expenses	<u>2,622,028</u>	<u>2,818,344</u>	<u>1,693,947</u>	<u>1,621,378</u>
Increase (Decrease) in Net Assets before transfers and special items	(870,781)	(499,830)	968,109	1,166,950
Transfers	1,124,888	1,077,639	(1,124,888)	(1,077,639)
Net Increase (Decrease)	254,107	577,809	(156,779)	89,311
Net Position at Beginning	5,997,765	5,419,956	1,052,182	899,700
Prior Period Adjustment	(282,012)	-	(93,904)	63,171
Net Position at Ending	<u>\$ 5,969,860</u>	<u>\$ 5,997,765</u>	<u>\$ 801,499</u>	<u>\$ 1,052,182</u>

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

Government Fund Activities

The City's general fund revenues increased when compared to the prior year by 4 percent or \$56,289. The assessed value of the property in the City was \$94.8 million, an increase compared to the prior year of 86.4 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**

	2020	2019	Increase (Decrease)
Taxes	\$ 941,359	\$ 914,384	\$ 26,975
Licenses and Permits	102,998	35,469	67,529
Intergovernmental	36,926	21,630	15,296
Fines and Penalties	23,588	37,390	(13,802)
Other	184,020	223,729	(39,709)
Total General Revenues	<u>\$ 1,288,891</u>	<u>\$ 1,232,602</u>	<u>\$ 56,289</u>

The most significant governmental expense for the City was in the general government which incurred expenditures of \$778,596.

Enterprise Fund Activities

Revenues of the City's Utility Funds were \$2.6 million for the fiscal year ending September 30, 2020. Operating expenses were \$1.6 million for the year, resulting in net revenues of \$1,00,742 before transfers out is taken into account. The most significant expense of the Utility Fund was \$603,441 for purchased services.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2020, 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**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 10,524	\$ 10,524	\$ -	\$ -	\$ 10,524	\$ 10,524
Buildings	2,726,686	2,720,486	32,668	32,668	2,759,354	2,753,154
Improvements	3,130,596	3,130,596	-	-	3,130,596	3,130,596
Equipment	1,731,946	1,702,235	593,896	535,336	2,325,842	2,237,571
Vehicles	750,184	945,148	-	-	750,184	945,148
Infrastructure	11,489,065	11,420,238	-	-	11,489,065	11,420,238
Construction In Progress	9,300	-	-	-	9,300	-
Water System	-	-	2,127,722	2,092,319	2,127,722	2,092,319
Sewer System	-	-	8,163,143	8,163,141	8,163,143	8,163,141
Total Capital Assets	<u>\$ 19,848,301</u>	<u>\$ 19,929,227</u>	<u>\$ 10,917,429</u>	<u>\$ 10,823,464</u>	<u>\$ 30,765,730</u>	<u>\$ 30,752,691</u>

Debt

At year-end, the City of Taft had \$4,860,078 in Certificates of Obligations, note payables and capital leases as compared to \$5,087,837 at the end of the prior fiscal year. Table 5 below reflects outstanding long-term debt overall decrease of 4 percent.

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Series 2010 Combination Tax and Surplus Rev CO (TWDB)	\$ -	\$ -	\$ 4,236,000	\$ 4,429,000	\$ 4,236,000	\$ 4,429,000
Series 2010 Certificate of Oblig	-	-	421,537	493,341	421,537	493,341
Note Payable	-	-	11,264	37,084	11,264	37,084
Capital Leases	85,114	128,412	106,163	-	191,277	128,412
Total Outstanding Debt	<u>\$ 85,114</u>	<u>\$ 128,412</u>	<u>\$ 4,774,964</u>	<u>\$ 4,959,425</u>	<u>\$ 4,860,078</u>	<u>\$ 5,087,837</u>

During the current fiscal year, the City of Taft paid principal of \$330,339 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, 2020**

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2020, the governmental funds of the City reported a combined fund balance of \$1,165,412. This ending total fund balance(s) include an increase in the fund balance of \$578,582 including results of overall operational gain of \$578,582 in the City's Governmental funds. The ending General Fund balance resulted in an ending fund balance of \$554,826 with operations resulting in a gain of \$550,394.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In March 2020, the US Federal Government declared a National Emergency due to Covid-19. During March 1- May 31, 2020, 42 US States and territories issued stay-at-home orders due to Covid-19, one of them being Texas. The City of Taft suffered the loss of sales tax revenue with the city shutdown and continued to lose additional sales tax revenue due to small businesses not open to full capacity after the shutdown. As the city slowly worked on opening businesses, the City of Taft sales tax revenue slowly increased.

The loss of jobs due to Covid-19 had an impact on the overall economy. The City of Taft budget suffered a revenue loss in the General Fund of approximately 11.5%. It is expected that the revenue base will increase for the 2020-2021 Budget year.

The Taft Economic Development Corporation, will continue with the downtown revitalization and sidewalk project. They have obtained additional funding through TXDOT 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. Economic Growth is expected to continue as many major companies continue to express interest in the Coastal Bend area due to the gas industry.

Taft still continues to rebuild and repair after the effects of Hurricane Harvey. There has been new home construction and this will increase property values. We will see an increase in the 2020-2021 Ad Valorem Taxes and service fees.

Housing is still in demand and the City of Taft will continue to entertain all inquiries for land development. It is expected that more farmland will be made available for housing or retail development. The City of Taft will take advantage of Federal Funding Programs available to help cities overcome the effects of the Covid-19 pandemic. These programs will help with the purchase of supplies needed during the pandemic, repairs to facilities to adhere to social distancing requirements and preventative measures against Covid-19

We anticipate that revenues will increase for budget year 2020-2021 as the effects of the Covid-19 pandemic start to improve, businesses resume back to normal, the unemployment rate improves and the health of our citizens. These are all factors that will get our economy thriving again.

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.

BASIC FINANCIAL STATEMENTS

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CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental	Business -	Total	Nonmajor
	Activities	Type		Component
		Activities		Units
ASSETS				
Cash and Cash Equivalents	\$ 699,953	\$ -	\$ 699,953	\$ 199,935
Investments - Current	10,202	-	10,202	131,685
Taxes Receivable, Net	230,700	-	230,700	-
Accounts Receivable - Net	245,151	794,621	1,039,772	8,384
Due from Other Funds	1,405	(1,405)	-	-
Due from Fiduciary Funds	979,250	88,307	1,067,557	-
Inventories	-	9,012	9,012	-
Prepaid Items	-	6,712	6,712	-
Capital Assets:				
Land Purchase and Improvements	10,524	-	10,524	415,920
Infrastructure, Net	3,244,754	5,393,027	8,637,781	-
Buildings, Net	1,590,979	-	1,590,979	-
Furniture and Equipment, Net	187,950	172,918	360,868	69,352
Construction in Progress	9,300	-	9,300	-
Total Assets	7,210,168	6,463,192	13,673,360	825,276
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	63,683	72,648	136,331	-
Deferred Resource Outflow Related to OPEB	24,161	9,869	34,030	-
Total Deferred Outflows of Resources	87,844	82,517	170,361	-
LIABILITIES				
Accounts Payable	3,718	-	3,718	-
Wages and Salaries Payable	7,142	2,986	10,128	-
Payroll Taxes Payable	37,237	2,816	40,053	-
Compensated Absences Payable	42,256	63,591	105,847	-
Sales Tax Payable	-	111,179	111,179	-
Meter Deposits Payable	-	157,034	157,034	-
Due to Fiduciary Funds	239,909	381,028	620,937	-
Due to Others	27,798	-	27,798	-
Due to Component Unit	35,904	-	35,904	(35,904)
Accrued Interest Payable	-	2,650	2,650	336
Deferred Revenue	315,570	-	315,570	-
Noncurrent Liabilities:				
Due Within One Year	22,046	303,418	325,464	42,028
Due In More Than One Year	63,068	4,471,546	4,534,614	245,160
Net Pension Liability	373,258	152,456	525,714	-
Net OPEB Liability	73,944	30,203	104,147	-
Total Liabilities	1,241,850	5,678,907	6,920,757	251,619
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan	61,036	54,983	116,019	-
Deferred Resource Inflow Related to OPEB	25,266	10,320	35,586	-
Total Deferred Inflows of Resources	86,302	65,303	151,605	-
NET POSITION				
Net Investment in Capital Assets	4,918,415	790,981	5,709,396	198,084
Restricted for:				
Restricted for Federal or State Grants	3	-	3	-
Restricted for Debt Service	336,382	-	336,382	-
Restricted for Other Purposes	394,063	-	394,063	-
Unrestricted	320,997	10,518	331,515	375,574
Total Net Position	\$ 5,969,860	\$ 801,499	\$ 6,771,359	\$ 573,658

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, 2020

		Program Revenues	
		Charges for Services	Operating Grants and Contributions
	Expenses		
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 812,057	\$ -	\$ 36,926
Finance	192,589	-	-
Municipal Court	53,562	29,228	-
Administrative	32,685	-	-
Legislative	44,594	-	-
Tax Collection	15,875	-	-
Public Safety	710,941	-	-
Animal Control	58,707	-	-
Code Enforcement	44,538	102,998	-
Highways and Streets	465,461	16,563	-
Health and Welfare	6,308	-	-
Library	47,486	-	-
Parks	117,559	-	-
Community Centers	15,226	-	-
Interest on Debt	4,440	-	-
Total Governmental Activities	2,622,028	148,789	36,926
BUSINESS-TYPE ACTIVITIES:			
Water Fund	854,469	1,313,583	-
Waste- Water Fund	352,881	738,446	-
Sanitation Fund	486,597	609,307	-
Total Business-Type Activities	1,693,947	2,661,336	-
TOTAL PRIMARY GOVERNMENT	\$ 4,315,975	\$ 2,810,125	\$ 36,926
Component Unit:			
Nonmajor Component Unit	130,602	-	-
TOTAL COMPONENT UNIT	\$ 130,602	\$ -	\$ -

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 Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	Nonmajor Component Units
(775,131)	-	(775,131)	-
(192,589)	-	(192,589)	-
(24,334)	-	(24,334)	-
(32,685)	-	(32,685)	-
(44,594)	-	(44,594)	-
(15,875)	-	(15,875)	-
(710,941)	-	(710,941)	-
(58,707)	-	(58,707)	-
58,460	-	58,460	-
(448,898)	-	(448,898)	-
(6,308)	-	(6,308)	-
(47,486)	-	(47,486)	-
(117,559)	-	(117,559)	-
(15,226)	-	(15,226)	-
(4,440)	-	(4,440)	-
(2,436,313)	-	(2,436,313)	-
-	459,114	459,114	-
-	385,565	385,565	-
-	122,710	122,710	-
-	967,389	967,389	-
(2,436,313)	967,389	(1,468,924)	-
-	-	-	(130,602)
-	-	-	(130,602)
480,124	-	480,124	-
260,277	-	260,277	-
63,187	-	63,187	-
370,815	-	370,815	-
115,954	-	115,954	-
2,760	-	2,760	-
21,842	-	21,842	-
250,522	720	251,242	227,179
51	-	51	-
1,124,888	(1,124,888)	-	-
2,690,420	(1,124,168)	1,566,252	227,179
254,107	(156,779)	97,328	96,577
5,997,765	1,052,182	7,049,947	477,080
(282,012)	(93,904)	(375,916)	-
\$ 5,969,860	\$ 801,499	\$ 6,771,359	\$ 573,658

CITY OF TAFT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

EXHIBIT C-1

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ -	\$ 337,315	\$ 362,638	\$ 699,953
Investments - Current	10,202	-	-	10,202
Taxes Receivable	167,998	77,530	-	245,528
Allowance for Uncollectible Taxes (credit)	(8,400)	(6,428)	-	(14,828)
Accounts Receivable, Net	194,105	51,046	-	245,151
Due from Other Funds	933,807	-	64,428	998,235
Total Assets	<u>\$ 1,297,712</u>	<u>\$ 459,463</u>	<u>\$ 427,066</u>	<u>\$ 2,184,241</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 3,718	\$ 3,718
Wages and Salaries Payable	7,142	-	-	7,142
Payroll Taxes Payable	37,237	-	-	37,237
Due to Other Funds	168,208	935	88,346	257,489
Due to Others	-	-	27,798	27,798
Due to Component Unit	35,904	-	-	35,904
Unearned Revenues	52,226	-	-	52,226
Deferred Revenue	282,570	-	33,000	315,570
Total Liabilities	<u>583,287</u>	<u>935</u>	<u>152,862</u>	<u>737,084</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	159,599	122,146	-	281,745
Total Deferred Inflows of Resources	<u>159,599</u>	<u>122,146</u>	<u>-</u>	<u>281,745</u>
FUND BALANCES				
Federal or State Funds Grant Restriction	-	-	3	3
Retirement of Long-Term Debt	-	336,382	-	336,382
Other Restricted Fund Balance	-	-	394,063	394,063
Unassigned Fund Balance	554,826	-	(119,862)	434,964
Total Fund Balances	<u>554,826</u>	<u>336,382</u>	<u>274,204</u>	<u>1,165,412</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,297,712</u>	<u>\$ 459,463</u>	<u>\$ 427,066</u>	<u>\$ 2,184,241</u>

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

CITY OF TAFT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

Total Fund Balances - Governmental Funds	\$ 1,165,412
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.	5,461,024
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 2020 capital outlays and debt principal payments is to increase (decrease) net position.	(22,749)
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 \$(373,258), a deferred resource inflow in the amount of \$(61,036), and a deferred resource outflow in the amount of \$63,683. This resulted in an increase/(decrease) in net position by \$(75,049).	(370,611)
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 \$(73,944), a deferred resource inflow in the amount of \$(25,266), and a deferred resource outflow in the amount of \$24,161. This resulted in an increase/(decrease) in net position by \$(75,049).	(75,049)
The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(519,824)
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.	331,657
Net Position of Governmental Activities	\$ 5,969,860

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, 2020

EXHIBIT C-3

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 471,813	\$ 260,277	\$ -	\$ 732,090
Taxes Delinquent	33,429	29,756	-	63,185
General Sales and Use Taxes	295,560	-	75,255	370,815
Franchise Tax	115,954	-	-	115,954
Hotel/Motel Tax	2,761	-	-	2,761
Penalty and Interest on Taxes	21,842	-	-	21,842
Licenses and Permits	102,998	-	-	102,998
Intergovernmental Revenue and Grants	36,926	-	-	36,926
Charges for Services	-	-	16,563	16,563
Fines	23,588	-	5,742	29,330
Investment Earnings	51	-	-	51
Other Revenue	183,969	-	68,404	252,373
Total Revenues	<u>1,288,891</u>	<u>290,033</u>	<u>165,964</u>	<u>1,744,888</u>
EXPENDITURES:				
Current:				
General Government:				
General Government	778,596	-	-	778,596
Finance	192,589	-	-	192,589
Municipal Court	53,562	-	-	53,562
Administration	32,685	-	-	32,685
Legislative	44,594	-	-	44,594
Tax Collection	15,875	-	-	15,875
Public Safety:				
Police	487,161	-	4,167	491,328
Fire Protection	-	-	3,520	3,520
Emergency Medical Service	195,590	-	-	195,590
Animal Control	53,914	-	4,793	58,707
Code Enforcement	44,538	-	-	44,538
Public Works:				
Highways and Streets	246,236	-	77,125	323,361
Health and Welfare	-	-	6,308	6,308
Culture and Recreation:				
Library	47,486	-	-	47,486
Parks	61,312	-	-	61,312
Community Centers	15,226	-	-	15,226
Debt Service:				
Principal on Debt	22,443	-	-	22,443
Interest on Debt	4,475	-	-	4,475
Total Expenditures	<u>2,296,282</u>	<u>-</u>	<u>95,913</u>	<u>2,392,195</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,007,391)</u>	<u>290,033</u>	<u>70,051</u>	<u>(647,307)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	101,000	-	-	101,000
Transfers In	1,556,760	-	81,278	1,638,038
Transfers Out (Use)	(99,975)	(308,438)	(104,736)	(513,149)
Total Other Financing Sources (Uses)	<u>1,557,785</u>	<u>(308,438)</u>	<u>(23,458)</u>	<u>1,225,889</u>
Net Change in Fund Balances	550,394	(18,405)	46,593	578,582
Fund Balance - October 1 (Beginning)	126,287	354,787	227,611	708,685
Prior Period Adjustment	(121,855)	-	-	(121,855)
Fund Balance - September 30 (Ending)	<u>\$ 554,826</u>	<u>\$ 336,382</u>	<u>\$ 274,204</u>	<u>\$ 1,165,412</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, 2020

Total Net Change in Fund Balances - Governmental Funds	\$ 578,582
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 2020 capital outlays and debt principal payments is to increase (decrease) the change in net position.	137,408
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 12/31/19 caused the change in the ending net position to increase in the amount of \$95,324. 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 (\$89,438). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$54,052. The result of these changes is to increase/(decrease) the change in net position by \$59,938.	59,938
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 12/31/19 caused the change in the ending net position to increase in the amount of \$1,653. 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 (\$1,904). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense increased/(decreased) the change in net position by (\$5,789). The result of these changes is to increase/(decrease) the change in net position by (\$6,041).	(6,041)
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.	(519,824)
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.	4,044
Change in Net Position of Governmental Activities	\$ 254,107

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, 2020

	Business-Type Activities - Enterprise Funds			
	Water Fund	Waste- Water Fund	Sanitation Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Accounts Receivable, Net	\$ 397,375	\$ 219,469	\$ 177,777	\$ 794,621
Due from Fiduciary Funds	-	88,307	-	88,307
Inventories	9,012	-	-	9,012
Prepaid Items	-	6,712	-	6,712
Total Current Assets	406,387	314,488	177,777	898,652
Noncurrent Assets:				
Capital Assets:				
Infrastructure, Net	424,886	4,968,141	-	5,393,027
Machinery and Equipment, Net	133,994	38,524	400	172,918
Total Noncurrent Assets	558,880	5,006,665	400	5,565,945
Total Assets	965,267	5,321,153	178,177	6,464,597
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	34,426	19,126	19,096	72,648
Deferred Resource Outflow Related to OPEB	4,675	2,597	2,597	9,869
Total Deferred Outflows of Resources	39,101	21,723	21,693	82,517
LIABILITIES				
Current Liabilities:				
Wages and Salaries Payable	1,303	759	924	2,986
Payroll Taxes Payable	224	1,181	1,411	2,816
Compensated Absences Payable	57,847	3,483	2,261	63,591
Sales Tax Payable	-	-	111,179	111,179
Meter Deposits Payable	157,034	-	-	157,034
Due to Other Funds	1,405	-	-	1,405
Due to Fiduciary Funds	230,983	4,416	145,629	381,028
Accrued Interest Payable	-	2,650	-	2,650
Debt Due Within One Year	29,258	274,160	-	303,418
Total Current Liabilities	478,054	286,649	261,404	1,026,107
Noncurrent Liabilities:				
Debt Due In More Than One Year	58,638	4,412,908	-	4,471,546
Net Pension Liability	72,216	40,120	40,120	152,456
Net OPEB Liability	14,307	7,948	7,948	30,203
Total Noncurrent Liabilities	145,161	4,460,976	48,068	4,654,205
Total Liabilities	623,215	4,747,625	309,472	5,680,312
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan	26,045	14,469	14,469	54,983
Deferred Resource Inflow Related to OPEB	4,888	2,716	2,716	10,320
Total Deferred Inflows of Resources	30,933	17,185	17,185	65,303
NET POSITION				
Net Investment in Capital Assets	470,984	319,597	400	790,981
Unrestricted	(120,764)	258,469	(127,187)	10,518
Total Net Position	\$ 350,220	\$ 578,066	\$ (126,787)	\$ 801,499

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, 2020

	Business-Type Activities - Enterprise Funds			
	Water Fund	Waste- Water Fund	Sanitation Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Services	\$ 1,313,583	\$ 738,446	\$ 609,307	\$ 2,661,336
Other Revenue	720	-	-	720
Total Operating Revenues	<u>1,314,303</u>	<u>738,446</u>	<u>609,307</u>	<u>2,662,056</u>
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	189,356	104,770	86,347	380,473
Purchased Professional & Technical Services	603,441	51,844	400,050	1,055,335
Depreciation	56,087	169,219	200	225,506
Total Operating Expenses	<u>848,884</u>	<u>325,833</u>	<u>486,597</u>	<u>1,661,314</u>
Operating Income	<u>465,419</u>	<u>412,613</u>	<u>122,710</u>	<u>1,000,742</u>
NONOPERATING REVENUES (EXPENSES):				
Interest Expense - Non-Operating	(5,585)	(27,048)	-	(32,633)
Total Nonoperating Revenue (Expenses)	<u>(5,585)</u>	<u>(27,048)</u>	<u>-</u>	<u>(32,633)</u>
Income Before Transfers	459,834	385,565	122,710	968,109
Nonoperating Transfers In	40,189	295,674	-	335,863
Transfers Out (Use)	<u>(608,662)</u>	<u>(644,691)</u>	<u>(207,398)</u>	<u>(1,460,751)</u>
Change in Net Position	(108,639)	36,548	(84,688)	(156,779)
Total Net Position - October 1 (Beginning)	552,763	541,518	(42,099)	1,052,182
Prior Period Adjustment	<u>(93,904)</u>	<u>-</u>	<u>-</u>	<u>(93,904)</u>
Total Net Position - September 30 (Ending)	<u>\$ 350,220</u>	<u>\$ 578,066</u>	<u>\$ (126,787)</u>	<u>\$ 801,499</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, 2020

	Business-Type Activities - Enterprise Funds			
	Water Fund	Waste- Water Fund	Sanitation Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 1,314,303	\$ 738,446	\$ 609,307	\$ 2,662,056
Cash Payments to Employees for Services	(199,772)	(110,556)	(92,133)	(402,461)
Cash Payments for Other Operating Expenses	(432,948)	9,978	(309,776)	(732,746)
Net Cash Provided by Operating Activities	<u>681,583</u>	<u>637,868</u>	<u>207,398</u>	<u>1,526,849</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Operating Transfer In	40,189	295,674	-	335,863
Operating Transfer Out	(608,662)	(644,691)	(207,398)	(1,460,751)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(568,473)</u>	<u>(349,017)</u>	<u>(207,398)</u>	<u>(1,124,888)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition of Capital Assets	(64,433)	(29,530)	-	(93,963)
Proceeds from Capital Lease	-	29,530	-	29,530
Principal and Interest Paid on Long-Term Debt	(48,677)	(291,851)	-	(340,528)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(113,110)</u>	<u>(291,851)</u>	<u>-</u>	<u>(404,961)</u>
Net Increase in Cash and Cash Equivalents	-	-	-	-
Cash and Cash Equivalents at the Beginning of the Year	-	-	-	-
Cash and Cash Equivalents at the End of the Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>				
Operating Income	\$ 465,419	\$ 412,613	\$ 122,710	\$ 1,000,742
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:				
Depreciation	56,087	169,219	200	225,506
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (Increase) in Receivables	9,878	63,957	(14,326)	59,509
Decrease (Increase) in Inventories	1,131	-	-	1,131
Decrease (Increase) in Prepaid Expenses	-	(6,712)	-	(6,712)
Increase (Decrease) in Accounts Payable	159,484	7,577	104,600	271,661
Increase (Decrease) in Payroll Deductions	(10,416)	(5,786)	(5,786)	(21,988)
Net Cash Provided by Operating Activities	<u>\$ 681,583</u>	<u>\$ 640,868</u>	<u>\$ 207,398</u>	<u>\$ 1,529,849</u>

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

CITY OF TAFT, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2020

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 650,744
Due from Other Funds	620,937
Total Assets	<u>\$ 1,271,681</u>
LIABILITIES	
Accounts Payable	\$ 204,125
Due to Other Funds	1,067,556
Total Liabilities	<u>\$ 1,271,681</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

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**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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, 2020**

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, 2020

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, 2020**

E. BUDGETARY INFORMATION

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

The appropriated budgets are prepared by fund and function. Any revisions that alter the total appropriations of any fund must be approved by City Council. All budget amounts presented reflect the original budget and the final amended budget, which has been adjusted for legally authorized revisions or appropriations to the original budgets during the fiscal year. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

- a. Prior to August 6th each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
- b. Advertised public hearings are conducted.
- c. The budget is required to be approved by September 20th.
- d. The tax rates are approved after the budget has been approved.
- e. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

F. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2020.

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, 2020

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, 2020

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, 2020**

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, 2020**

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, 2020**

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, 2020, the City's deferred outflows totaled \$170,361.

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, 2020, the City's deferred inflow totaled \$151,605.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2020, the City's deferred inflowed totaled \$281,745.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 2 DEPOSITS AND INVESTMENT

At September 30, 2020, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,350,697 and the bank balance was \$1,781,461. The City's cash deposits at September 30, 2020 and during the period ended September 30, 2020, 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, 2020, 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, 2020

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 \$740,167 were assessed on property values totaling \$94,824,211 using a tax rate of \$0.800790 (\$0.547927 for general operations and \$0.252863 for debt service) per \$100 assessed value. Additional Ad valorem taxes of \$52,182 were assessed on disannexed property with values totaling \$21,145,106 using a tax rate of \$0.246954 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, 2020, were as follows:

	Property Taxes	Due From Other Funds	Other	Total Receivables
Governmental Funds:				
General Fund	\$ 159,599	\$ 933,807	\$ 194,105	\$ 1,287,511
Major Governmental Funds	122,146	-	51,046	173,192
Non-major Governmental Funds	-	64,428	-	64,428
Total - Governmental Funds	<u>\$ 281,745</u>	<u>\$ 998,235</u>	<u>\$ 245,151</u>	<u>\$ 1,525,131</u>

Payables at September 30, 2020, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Funds	Total Payables
Governmental Funds:				
General Fund	\$ -	\$ 44,379	\$ 168,208	\$ 212,587
Major Governmental Fund	-	-	935	935
Non-major Governmental Fund	3,718	-	88,346	92,064
Total - Governmental Funds	<u>\$ 3,718</u>	<u>\$ 44,379</u>	<u>\$ 257,489</u>	<u>\$ 305,586</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 5 CAPITAL ASSETS

Capital Assets for governmental activities are as follows:

	Beginning Balance October 1, 2019	Additions	Deletions	Ending Balance September 30, 2020
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 10,524	\$ -	\$ -	\$ 10,524
Construction in Progress	-	9,300	-	9,300
Total Capital assets, not being depreciated	<u>10,524</u>	<u>9,300</u>	<u>-</u>	<u>19,824</u>
Capital Asset being depreciated:				
Buildings	2,720,486	6,200	-	2,726,686
Improvements	3,130,596	-	-	3,130,596
Equipment	1,702,235	29,711	-	1,731,946
Vehicles	945,148	101,891	(296,855)	750,184
Infrastructure	11,420,238	68,827	-	11,489,065
Total capital assets, being depreciated	<u>19,918,703</u>	<u>206,629</u>	<u>(296,855)</u>	<u>19,828,477</u>
Less accumulated depreciation for:				
Buildings	(1,879,930)	(149,170)	-	(2,029,100)
Improvements	(2,237,204)	-	-	(2,237,204)
Equipment	(1,643,188)	(19,414)	-	(1,662,601)
Vehicles	(621,131)	(25,290)	14,843	(631,579)
Infrastructure	(7,918,360)	(325,950)	-	(8,244,310)
Total accumulated depreciation	<u>(14,299,813)</u>	<u>(519,824)</u>	<u>14,843</u>	<u>(14,804,794)</u>
Total capital assets being depreciated, net	5,618,890	(313,195)	(282,012)	5,023,683
Governmental activities capital assets, net	<u>\$ 5,629,414</u>	<u>\$ (303,895)</u>	<u>\$ (282,012)</u>	<u>\$ 5,043,507</u>

Depreciation expense was charged as follows:

Governmental Activities:	
General Government and Administration	\$ 94,345
Public Works - Street Department	240,638
Parks and Recreation	56,247
Public Safety - Police Department	57,384
Public Safety - Fire Department	71,210
Total Depreciation Expense - Governmental Activities	<u>\$ 519,824</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Capital Assets for Business-type activities are as follows:

	Beginning Balance October 1, 2019	Additions	Deletions	Ending Balance September 30, 2020
Business-type Activities				
Capital Assets, being depreciated				
Buildings	\$ 32,668	\$ -	\$ -	\$ 32,668
Equipment	535,336	58,560	-	593,896
Water System	2,092,319	35,403	-	2,127,722
Sewer System	8,163,143	-	-	8,163,143
Total capital assets, being depreciated	<u>10,823,466</u>	<u>93,963</u>	<u>-</u>	<u>10,917,429</u>
Less accumulated depreciation for:				
Buildings	(32,668)	-	-	(32,668)
Equipment	(404,480)	(16,500)	-	(420,980)
Water System	(1,657,565)	(45,272)	-	(1,702,836)
Sewer System	<u>(3,031,265)</u>	<u>(163,735)</u>	<u>-</u>	<u>(3,195,000)</u>
Total accumulated depreciation	<u>(5,125,977)</u>	<u>(225,507)</u>	<u>-</u>	<u>(5,351,484)</u>
Total capital assets, being depreciated, net	<u>5,697,488</u>	<u>(131,544)</u>	<u>-</u>	<u>5,565,945</u>
Business-type activities capital assets, net	<u>\$ 5,697,488</u>	<u>\$ (131,544)</u>	<u>\$ -</u>	<u>\$ 5,565,945</u>

Depreciation expense was charged as follows:

Business-type Activities:	
Water System	\$ 45,272
Sewer System	163,735
Machinery and Equipment/Buildings	16,500
Total Depreciation Expense - Business-type Activities	<u>\$ 225,507</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 6 INTERFUND TRANSACTIONS AND BALANCES

Inter-fund balances at September 30, 2020 consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds
General Fund:		
Special Revenue Fund	-	17,580
Enterprise Funds	1,405	-
Agency Fund	932,402	150,628
Total General Fund	<u>933,807</u>	<u>168,208</u>
Special Revenue Fund:		
General Fund	17,580	-
Agency Fund	46,847	88,346
	<u>64,428</u>	<u>88,346</u>
Debt Service:		
Agency Fund	-	935
	<u>-</u>	<u>935</u>
Enterprise Funds:		
Enterprise Funds	-	1,405
Agency Fund	88,307	381,028
	<u>88,307</u>	<u>382,433</u>
Agency Funds:		
General Fund	150,628	932,402
Debt Service Fund	935	-
Special Revenue Funds	88,346	46,847
Enterprise Funds	381,028	88,307
	<u>620,937</u>	<u>1,067,556</u>
Total	<u>\$ 1,707,479</u>	<u>\$ 1,707,479</u>

NOTE 7 INTERFUND TRANSFERS

The inter-fund balances at September 30, 2020 are generally short-term loans to cover temporary cash flows and reimbursements for various funds. Inter-fund transfers during the year ended September 30, 2020 were as follows:

Transfer In	General Fund	Debt Service Fund	Special Revenue Funds	Utility Fund	Total
Utility Fund	\$ 1,437,972	\$ -	\$ -	\$ -	\$ 1,437,972
General Fund	-	-	77,196	40,189	117,385
Debt Service Fund	14,051	-	4,082	295,674	313,808
Special Revenue Fund	104,736	-	-	-	104,736
Total	<u>1,556,760</u>	<u>-</u>	<u>81,278</u>	<u>335,863</u>	<u>1,973,901</u>
Less Transfers	<u>(99,975)</u>	<u>(308,438)</u>	<u>(104,736)</u>	<u>(1,460,751)</u>	<u>(1,973,901)</u>
Net Transfers	<u>\$ 1,456,784</u>	<u>\$ (308,438)</u>	<u>\$ (23,458)</u>	<u>(1,124,888)</u>	<u>\$ 0</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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, 2020.

Long-term debt at September 30, 2020, 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	\$ 4,236,000
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\$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.	421,537
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Capital Leases

Payable out of the General Fund	85,114
Payable out of the Utility Fund	106,163

Notes Payable

Payable out of the Utility Fund	11,264
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Total long-term debt	<u>\$4,860,078</u>
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CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

The following is a summary of long-term debt activity for September 30, 2020.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and leases payable					
Capital Leases Payable	\$ 128,412	\$ 101,000	\$ 144,298	\$ 85,114	\$ 22,046
Total bonds and leases payable	<u>128,412</u>	<u>101,000</u>	<u>144,298</u>	<u>85,114</u>	<u>22,046</u>
Other long-term liabilities					
Accumulated compensated absences	39,943	10,589	12,903	37,630	-
Net pension liability	593,311	-	220,053	373,258	-
Net OPEB liability	89,825	-	15,881	73,944	-
Total other long-term liabilities	<u>723,079</u>	<u>10,589</u>	<u>248,837</u>	<u>410,888</u>	<u>-</u>
Total Governmental Activities	<u>\$ 851,491</u>	<u>\$ 111,589</u>	<u>\$ 393,135</u>	<u>\$ 496,001</u>	<u>\$ 22,046</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds and leases payable					
Series 2010 Combination Tax and Surplus Revenue CO (TWDB)	\$ 4,429,000	\$ -	\$ 193,000	\$ 4,236,000	\$ 193,000
Series 2010 Certificate of Obligation	493,341	-	71,804	421,537	75,680
Capital Leases Payable	-	123,434	17,272	106,163	23,474
Total bonds and leases payable	<u>4,922,341</u>	<u>123,434</u>	<u>282,076</u>	<u>4,763,700</u>	<u>292,154</u>
Other long-term liabilities					
Notes Payable	37,084	-	25,820	11,264	11,264
Accumulated compensated absences	17,813	5,127	5,998	16,942	-
Net pension liability	242,338	-	89,882	152,456	-
Net OPEB liability	36,689	-	6,486	30,203	-
Total other long-term liabilities	<u>333,924</u>	<u>5,127</u>	<u>128,186</u>	<u>210,865</u>	<u>11,264</u>
Total Business-type Activities	<u>\$ 5,256,265</u>	<u>\$ 128,562</u>	<u>\$ 410,261</u>	<u>\$ 4,974,565</u>	<u>\$ 303,418</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

The annual requirements for bonds for years subsequent to September 30, 2020, are as follows:

Year Ending September 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ -	\$ -	\$ -	\$ 268,680	\$ 20,720	\$ 289,400
2022	-	-	-	272,767	16,523	289,290
2023	-	-	-	277,075	12,099	289,173
2024	-	-	-	281,615	7,436	289,051
2025	-	-	-	286,400	2,522	288,922
Thereafter	-	-	-	3,271,000	-	3,271,000
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,657,537</u>	<u>\$ 59,299</u>	<u>\$4,716,836</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 \$ 241,826. Accumulated depreciation of \$35,732 has been recorded against the assets under capital lease. The leases are payable out of the general fund. Capital lease obligations at September 30, 2020 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 \$ 2,691

Lease payable to Government Capital Corporation for a 2 – Ford Interceptors
Annual installments of \$22,808 including principal and interest through
April 29, 2024; interest rate of 4.19 percent 82,423

Total Governmental Activities Capital Lease Payable \$ 85,114

Business-Type Activities Capital Lease Payable:

Lease payable to Government Capital Corporation for a 2018 Case Backhoe;
Annual installments of \$21,206 including principal and interest through
March 30, 2024; interest rate of 4.19 percent \$ 76,633

Lease payable to Government Capital Corporation for a Ford F250 Regular Cab
Annual installments of \$6,711 including principal and interest through
October 16, 2024; interest rate of 4.55 percent 29,530

Total Business-Type Activities Capital Lease Payable \$ 106,163

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Capital lease future payments are as follows:

	Governmental Activities			Business-type Activities		
<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 22,046	\$ 3,505	\$ 25,551	\$ 23,474	\$ 4,444	\$ 27,918
2022	20,166	2,643	22,809	24,367	3,552	27,918
2023	21,011	1,798	22,809	25,408	2,510	27,918
2024	21,892	917	22,809	26,494	1,424	27,918
2025	-	-	-	6,420	292	6,712
Thereafter	-	-	-	-	-	-
Total	<u>\$ 85,114</u>	<u>\$ 8,863</u>	<u>\$ 93,977</u>	<u>\$ 106,163</u>	<u>\$ 12,222</u>	<u>\$ 118,385</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, 2020.

The future minimum lease payments are as follows:

<u>Year Ending September 30</u>	<u>Total</u>
2021	\$ 16,137
2022	<u>5,379</u>
Total	<u>\$ 21,516</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	336,382
Other Restricted Fund Balance	394,063
Unassigned Fund Balance	<u>434,964</u>
Total Fund Balance	<u>\$ 1,165,412</u>

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

NOTE 12 PENSION PLAN

A. Plan Description

The City of Taft participates as one of 888 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.tmrs.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 2019	Plan Year 2020
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, 2020**

Employees covered by benefit terms

At the December 31, 2019 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	71
Active employees	27
Total	<u>114</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 16.71% and 17.88% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$181,294 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year. Adjusted down for population declines, if any
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 are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in December 31, 2019 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. 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 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.26%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate:

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

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2018	\$ 3,441,160	\$ 2,605,509	\$ 835,651
Changes for the year:			
Service cost	208,017	-	208,017
Interest	229,330	-	229,330
Change of benefit terms	-	-	-
Difference between expected and actual experience	(106,121)	-	(106,121)
Changes of assumptions	8,098	-	8,098
Contributions - employer	-	176,267	(176,267)
Contributions - employee	-	72,952	(72,952)
Net investment income	-	402,386	(402,386)
Benefit payments, including refunds of employee contributions	(295,368)	(295,368)	-
Administrative expense	-	(2,276)	2,276
Other changes	-	(69)	69
Net changes	43,956	353,893	(309,937)
Balance at 12/31/2019	\$ 3,485,116	\$ 2,959,402	\$ 525,715

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 965,519	\$ 525,715	\$ 164,539

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.tmrs.com.

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

For the year ended September 30, 2020, the City recognized pension expense of \$100,163.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 27,513
Changes in actuarial assumptions	2,099	-
Difference between projected and actual investment earnings (net of current year amortization)	-	88,507
Contributions subsequent to the measurement date	134,261	-
Total	<u>\$ 136,360</u>	<u>\$ 116,020</u>

\$134,261 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, 2020. 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:	
2021	\$ (51,215)
2022	(25,681)
2023	8,277
2024	(45,302)
2025	-
Thereafter	-

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.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Employees covered by benefit terms

At the December 31, 2019 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	3
Active employees	27
Total	45

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 0.36% and 0.31% in calendar year 2019 and 2020 respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$3,329 and were equal to the required contributions.

Net Pension Liability

The City's Net OPEB Liability was measured as of December 31, 2019, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.50% to 11.5% per year - including inflation
Discount rate*	2.75%
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, 2019.*

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 – 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Mortality rates – disabled retirees – 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.75%. 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 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.

Total OPEB Liability:

	Increase (Decrease) Total OPEB Liability
Balance at 12/31/2018	\$ 126,514
Changes for the year:	
Service cost	3,439
Interest	4,736
Change of benefit terms	-
Difference between expected and actual experience	(43,046)
Changes of assumptions	13,650
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	(1,146)
Administrative expense	-
Other changes	-
Net changes	(22,367)
Balance at 12/31/2019	\$ 104,147

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 2.75%, 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 (1.75%) or 1 percentage point higher (3.75%) than the current rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City's total OPEB liability	\$ 121,930	\$ 104,147	\$ 90,411

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

For the year ended September 30, 2020, the City recognized OPEB expense in the amount of \$9,300.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 19,472	\$ 32,772
Changes in actuarial assumptions	12,230	2,814
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	2,328	-
Total	<u>\$ 34,030</u>	<u>\$ 35,586</u>

\$2,328 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, 2020. 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:	
2021	\$ 1,125
2022	393
2023	(4,070)
2024	(1,332)
2025	-
Thereafter	-

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

NOTE 14 HEALTH CARE COVERAGE

During the year ended September 30, 2020, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$562 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 suits. The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

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 2020, 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, 2020**

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, 2020, the State Fees Fund had a deficit fund balance of (\$119,862) and the Sanitation Fund had a deficit fund balance of (\$126,787).

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	Finance	\$ 2,413
General Fund	Municipal Court	2,250
General Fund	Highways and Streets	30,565

NOTE 18 COMPLIANCE WITH THE TEXAS WATER DEVELOPMENT BOARD'S RULES AND REGULATIONS

Insurance policies in place are compliant with bond covenant requirements for insurance coverage, and all insurance premiums for required policies are paid in full as required.

The City of Taft is compliant with applicable requirements of Section 16.356 of the Texas Water Code relating to transfers of funds associated with Economically Distressed Areas Program (EDAP) funded projects. All revenues derived from the EDAP projects are used solely for utility purposes.

NOTE 19 PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of (\$121,855) was made to the general fund to reclassify prior fiscal year capital lease proceeds as deferred revenue in fiscal year 2020, which resulted in a decrease in net position and fund balance. Additionally, a prior period adjustment of (\$160,157) was made to the government-wide fund to remove prior fiscal year capitalized asset. A prior period adjustment of (\$93,904) was made to the water fund to correctly reflect capital lease liability, which resulted in a decrease in net position and fund balance.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

NOTE 20 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 January 27, 2022 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, 2020

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 460,000	\$ 460,000	\$ 471,813	\$ 11,813
Taxes Delinquent	75,000	75,000	33,429	(41,571)
General Sales and Use Taxes	260,000	260,000	295,560	35,560
Franchise Tax	117,000	117,000	115,954	(1,046)
Hotel/Motel Tax	3,000	3,000	2,761	(239)
Penalty and Interest on Taxes	25,000	25,000	21,842	(3,158)
Licenses and Permits	34,300	34,300	102,998	68,698
Intergovernmental Revenue and Grants	-	-	36,926	36,926
Fines	56,400	56,400	23,588	(32,812)
Investment Earnings	50	50	51	1
Other Revenue	118,900	118,900	183,969	65,069
Total Revenues	1,149,650	1,149,650	1,288,891	139,241
EXPENDITURES:				
Current:				
General Government	801,300	801,300	778,596	22,704
Finance	190,176	190,176	192,589	(2,413)
Municipal Court	51,312	51,312	53,562	(2,250)
Administration	106,639	106,639	32,685	73,954
Legislative	59,806	59,806	44,594	15,212
Tax Collection	18,500	18,500	15,875	2,625
Police	641,080	641,080	487,161	153,919
Emergency Medical Service	204,200	204,200	195,590	8,610
Animal Control	59,932	59,932	53,914	6,018
Code Enforcement	51,950	51,950	44,538	7,412
Highways and Streets	215,671	215,671	246,236	(30,565)
Library	67,375	67,375	47,486	19,889
Parks	73,521	73,521	61,312	12,209
Community Centers	19,267	19,267	15,226	4,041
Debt Service:				
Principal on Debt	22,443	22,443	22,443	-
Interest on Debt	4,475	4,475	4,475	-
Total Expenditures	2,587,647	2,587,647	2,296,282	291,365
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,437,997)	(1,437,997)	(1,007,391)	430,606
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	-	101,000	101,000
Transfers In	1,437,997	1,437,997	1,556,760	118,763
Transfers Out (Use)	-	-	(99,975)	(99,975)
Total Other Financing Sources (Uses)	1,437,997	1,437,997	1,557,785	119,788
Net Change in Fund Balances	-	-	550,394	550,394
Fund Balance - October 1 (Beginning)	126,287	126,287	126,287	-
Prior Period Adjustment	-	-	(121,855)	(121,855)
Fund Balance - September 30 (Ending)	\$ 126,287	\$ 126,287	\$ 554,826	\$ 428,539

CITY OF TAFT, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
A. Total Pension Liability			
Service Cost	\$ 208,017	\$ 168,576	\$ 182,378
Interest (on the Total Pension Liability)	229,330	225,316	213,745
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(106,121)	(75,996)	(123)
Changes of Assumptions	8,098	-	-
Benefit Payments, Including Refunds of Employee Contributions	(295,368)	(260,923)	(174,425)
Net Change in Total Pension Liability	\$ 43,956	\$ 56,973	\$ 221,575
Total Pension Liability - Beginning	3,441,160	3,384,187	3,162,612
Total Pension Liability - Ending	<u>\$ 3,485,116</u>	<u>\$ 3,441,160</u>	<u>\$ 3,384,187</u>
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 176,267	\$ 140,360	\$ 142,494
Contributions - Employee	72,952	61,237	68,933
Net Investment Income	402,386	(82,359)	330,661
Benefit Payments, Including Refunds of Employee Contributions	(295,368)	(260,923)	(174,425)
Administrative Expense	(2,276)	(1,591)	(1,712)
Other	(68)	(82)	(87)
Net Change in Plan Fiduciary Net Position	\$ 353,893	\$ (143,358)	\$ 365,864
Plan Fiduciary Net Position - Beginning	2,605,510	2,748,868	2,383,004
Plan Fiduciary Net Position - Ending	<u>\$ 2,959,403</u>	<u>\$ 2,605,510</u>	<u>\$ 2,748,868</u>
C. Net Pension Liability	<u>\$ 525,713</u>	<u>\$ 835,650</u>	<u>\$ 635,319</u>
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.92%	75.72%	81.23%
E. Covered Payroll	\$ 1,042,171	\$ 874,813	\$ 984,762
F. Net Pension Liability as a Percentage of Covered Payroll	50.44%	95.52%	64.51%

Note: GASB Codification, Vol. 2, P20.146 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.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

FY 2017 Plan Year 2016		FY 2016 Plan Year 2015		FY 2015 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 2020

	2020	2019	2018
Actuarially Determined Contribution	\$ 181,294	\$ 139,238	\$ 132,585
Contributions in Relation to the Actuarially Determined Contributions	(181,294)	(139,238)	(132,585)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,029,037	\$ 894,088	\$ 985,310
Contributions as a Percentage of Covered Payroll	17.62%	15.57%	13.46%

Note: GASB Codification, Vol. 2, P20.146 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.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

2017		2016	
\$	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 PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

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, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
Total OPEB Liability			
Service Cost	\$ 3,439	\$ 3,674	\$ 3,742
Interest on the Total OPEB Liability	4,736	3,031	3,017
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(43,046)	35,500	-
Changes of Assumptions	13,650	(5,130)	5,693
Benefit Payments*	(1,146)	(612)	(689)
Net Change in Total OPEB Liability	(22,367)	36,463	11,763
Total OPEB Liability - Beginning	126,514	90,051	78,288
Total OPEB Liability - Ending	\$ 104,147	\$ 126,514	\$ 90,051
Covered Payroll	\$ 1,042,171	\$ 874,813	\$ 984,762
Total OPEB Liability as a Percentage of Covered Payroll	9.99%	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, 2020

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
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and
Other Information:	There were no benefit changes during the year.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF TAFT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	TDA Grant Fund	Fireman's Pension Fund	Fireman's Operating Fund	Police Department Fund
ASSETS				
Cash and Cash Equivalents	\$ 3	\$ 27,549	\$ 119,088	\$ 2,426
Due from Other Funds	-	-	-	-
Due from Fiduciary Funds	-	-	-	-
Total Assets	<u>\$ 3</u>	<u>\$ 27,549</u>	<u>\$ 119,088</u>	<u>\$ 2,426</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Fiduciary Funds	-	-	-	-
Due to Others	-	-	-	-
Deferred Revenue	-	-	33,000	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>33,000</u>	<u>-</u>
FUND BALANCES				
Federal or State Funds Grant Restriction	3	-	-	-
Other Restricted Fund Balance	-	27,549	86,088	2,426
Unassigned Fund Balance	-	-	-	-
Total Fund Balances	<u>3</u>	<u>27,549</u>	<u>86,088</u>	<u>2,426</u>
Total Liabilities and Fund Balances	<u>\$ 3</u>	<u>\$ 27,549</u>	<u>\$ 119,088</u>	<u>\$ 2,426</u>

EXHIBIT H-1 (Cont'd)

Taft Building & Security Fund	Taft Court Technology Fund	Juvenile Case Manager Fund	Pride of Taft Fund	Municipal Court Jury Fund	Police Dept. A/C Donation Fund	Municipal Court Fund	Street Fund
\$ -	\$ -	\$ -	\$ 11,703	\$ -	\$ 33,787	\$ 55,539	\$ 103,882
-	-	-	-	-	-	-	17,580
17,678	28,925	240	-	5	-	-	-
<u>\$ 17,678</u>	<u>\$ 28,925</u>	<u>\$ 240</u>	<u>\$ 11,703</u>	<u>\$ 5</u>	<u>\$ 33,787</u>	<u>\$ 55,539</u>	<u>\$ 121,462</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
17,678	28,925	240	11,703	5	33,787	55,539	121,462
-	-	-	-	-	-	-	-
<u>17,678</u>	<u>28,925</u>	<u>240</u>	<u>11,703</u>	<u>5</u>	<u>33,787</u>	<u>55,539</u>	<u>121,462</u>
<u>\$ 17,678</u>	<u>\$ 28,925</u>	<u>\$ 240</u>	<u>\$ 11,703</u>	<u>\$ 5</u>	<u>\$ 33,787</u>	<u>\$ 55,539</u>	<u>\$ 121,462</u>

CITY OF TAFT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

EXHIBIT H-1

	State Fees Fund	Drug Seizure Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ -	\$ 8,661	\$ 362,638	\$ 362,638
Due from Other Funds	-	-	17,580	17,580
Due from Fiduciary Funds	-	-	46,848	46,848
Total Assets	<u>\$ -</u>	<u>\$ 8,661</u>	<u>\$ 427,066</u>	<u>\$ 427,066</u>
LIABILITIES				
Accounts Payable	\$ 3,718	\$ -	\$ 3,718	\$ 3,718
Due to Fiduciary Funds	88,346	-	88,346	88,346
Due to Others	27,798	-	27,798	27,798
Deferred Revenue	-	-	33,000	33,000
Total Liabilities	<u>119,862</u>	<u>-</u>	<u>152,862</u>	<u>152,862</u>
FUND BALANCES				
Federal or State Funds Grant Restriction	-	-	3	3
Other Restricted Fund Balance	-	8,661	394,063	394,063
Unassigned Fund Balance	(119,862)	-	(119,862)	(119,862)
Total Fund Balances	<u>(119,862)</u>	<u>8,661</u>	<u>274,204</u>	<u>274,204</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 8,661</u>	<u>\$ 427,066</u>	<u>\$ 427,066</u>

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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, 2020

	TDA Grant Fund	Fireman's Pension Fund	Fireman's Operating Fund	Police Department Fund
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ -	\$ -	\$ -	\$ -
Charges for Services	-	-	-	-
Fines	-	-	-	-
Other Revenue	-	-	50,814	1,053
Total Revenues	-	-	50,814	1,053
EXPENDITURES:				
Public Safety:				
Police	-	-	-	-
Fire Protection	-	1,980	1,540	-
Animal Control	-	-	-	-
Public Works:				
Highways and Streets	-	-	-	-
Health and Welfare	-	-	-	-
Total Expenditures	-	1,980	1,540	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,980)	49,274	1,053
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	77,196	-
Transfers Out (Use)	-	-	(80,907)	-
Total Other Financing Sources (Uses)	-	-	(3,711)	-
Net Change in Fund Balance	-	(1,980)	45,563	1,053
Fund Balance - October 1 (Beginning)	3	29,529	40,525	1,373
Fund Balance - September 30 (Ending)	\$ 3	\$ 27,549	\$ 86,088	\$ 2,426

Taft Building & Security Fund	Taft Court Technology Fund	Juvenile Case Manager Fund	Pride of Taft Fund	Municipal Court Jury Fund	Police Dept. A/C Donation Fund	Municipal Court Fund	Street Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,255
-	-	-	-	-	-	-	16,563
441	470	240	-	5	-	4,586	-
-	-	-	15,863	-	674	-	-
441	470	240	15,863	5	674	4,586	91,818
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	4,793	-	-
-	-	-	-	-	-	-	77,125
-	-	-	6,308	-	-	-	-
-	-	-	6,308	-	4,793	-	77,125
441	470	240	9,555	5	(4,119)	4,586	14,693
-	-	-	-	-	-	-	4,082
-	-	-	-	-	-	-	(23,829)
-	-	-	-	-	-	-	(19,747)
441	470	240	9,555	5	(4,119)	4,586	(5,054)
17,237	28,455	-	2,148	-	37,906	50,953	126,516
\$ 17,678	\$ 28,925	\$ 240	\$ 11,703	\$ 5	\$ 33,787	\$ 55,539	\$ 121,462

CITY OF TAFT, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

	State Fees Fund	Drug Seizure Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ -	\$ -	\$ 75,255	\$ 75,255
Charges for Services	-	-	16,563	16,563
Fines	-	-	5,742	5,742
Other Revenue	-	-	68,404	68,404
Total Revenues	-	-	165,964	165,964
EXPENDITURES:				
Public Safety:				
Police	-	4,167	4,167	4,167
Fire Protection	-	-	3,520	3,520
Animal Control	-	-	4,793	4,793
Public Works:				
Highways and Streets	-	-	77,125	77,125
Health and Welfare	-	-	6,308	6,308
Total Expenditures	-	4,167	95,913	95,913
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(4,167)	70,051	70,051
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	81,278	81,278
Transfers Out (Use)	-	-	(104,736)	(104,736)
Total Other Financing Sources (Uses)	-	-	(23,458)	(23,458)
Net Change in Fund Balance	-	(4,167)	46,593	46,593
Fund Balance - October 1 (Beginning)	(119,862)	12,828	227,611	227,611
Fund Balance - September 30 (Ending)	\$ (119,862)	\$ 8,661	\$ 274,204	\$ 274,204

CITY OF TAFT, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	BALANCE OCTOBER 1 2019	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30 2020
POOLED CASH				
Assets:				
Cash and Cash Equivalents	\$ 474,030	\$ 4,921,610	\$ 4,744,897	\$ 650,744
Due From Other Funds	85,956	3,564,653	3,029,673	620,937
Total Assets	<u>\$ 559,987</u>	<u>\$ 8,486,264</u>	<u>\$ 7,774,570</u>	<u>\$ 1,271,681</u>
Liabilities:				
Accounts Payable	\$ 118,230	\$ 3,337,151	\$ 3,251,256	\$ 204,125
Due to Other Funds	441,756	4,708,388	4,082,588	1,067,556
Total Liabilities	<u>\$ 559,987</u>	<u>\$ 8,045,539</u>	<u>\$ 7,333,844</u>	<u>\$ 1,271,681</u>
TOTAL AGENCY FUNDS				
Assets:				
Cash and Cash Equivalents	\$ 474,030	\$ 4,921,610	\$ 4,744,897	\$ 650,744
Due From Other Funds	85,956	3,564,653	3,029,673	620,937
Total Assets	<u>\$ 559,987</u>	<u>\$ 8,486,264</u>	<u>\$ 7,774,570</u>	<u>\$ 1,271,681</u>
Liabilities:				
Accounts Payable	\$ 118,230	\$ 3,337,151	\$ 3,251,256	\$ 204,125
Due to Other Funds	441,756	4,708,388	4,082,588	1,067,556
Total Liabilities	<u>\$ 559,987</u>	<u>\$ 8,045,539</u>	<u>\$ 7,333,844</u>	<u>\$ 1,271,681</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, 2020

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 291,308	\$ 291,308	\$ 260,277	\$ (31,031)
Taxes Delinquent	-	-	29,756	29,756
Total Revenues	291,308	291,308	290,033	(1,275)
EXPENDITURES:				
Debt Service:				
Principal on Debt	264,804	264,804	-	264,804
Interest on Debt	25,703	25,703	-	25,703
Other Debt Service	801	801	-	801
Total Expenditures	291,308	291,308	-	291,308
Excess of Revenues Over Expenditures	-	-	290,033	290,033
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	(308,438)	(308,438)
Total Other Financing Sources (Uses)	-	-	(308,438)	(308,438)
Change in Fund Balance	-	-	(18,405)	(18,405)
Fund Balance - October 1 (Beginning)	354,787	354,787	354,787	-
Fund Balance - September 30 (Ending)	\$ 354,787	\$ 354,787	\$ 336,382	\$ (18,405)

REPORT 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, 2020, 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 January 27, 2022.

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 2020-001, 2020-002, and 2020-003 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 2020-001, 2020-002, and 2020-003 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) 2020-001, 2020-002, and 2020-003.

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

January 27, 2022

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards - N/A

Internal control over major programs:

One or more material weaknesses identified? Yes 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
N/A	

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, 2020**

B. Financial Statement Findings

Finding No. 2020-001.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the pooled cash reconciliation, bank account reconciliations, accounts receivable, tax receivable, accounts payable, fixed assets, 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. Process has not progressed as expected, however, the City is making moderate improvements to their accounting.

Finding No. 2020-002.

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, 2020**

Finding No. 2020-003.

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.

C. Federal Award Findings and Questioned Costs
NONE

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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.

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, 2020.

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.

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, 2020.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Finding No. 2018-003.

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 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, 2020.

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.

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 is deemed to be resolved at fiscal year ending September 30, 2020.

**CITY OF TAFT, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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.