

CITY OF TERRELL, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY AND
OTHER FINANCIAL INFORMATION
SEPTEMBER 30, 2005

**CITY OF TERRELL, TEXAS
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TABLE OF CONTENTS

	<u>Exhibit or Schedule</u>	<u>Page</u>
INTRODUCTORY SECTION		
Letters of Transmittal		i-iv
Organization Chart		v
Names of Principal Officers		vi
 FINANCIAL SECTION		
Independent Auditors' Report		1-2
Management's Discussion and Analysis		3-9
 Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	10
Statement of Activities	2	11
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	12-13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	6	16
Statement of Net Assets – Proprietary Funds	7	17
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	8	18
Statement of Cash Flows – Proprietary Funds	9	19
Notes to the Financial Statements		20-37
 Required Supplementary Information:		
Schedules of Funding Progress:		
Texas Municipal Retirement System	A-1	38
 Combining Statements:		
Nonmajor Governmental Funds:		39
Combining Balance Sheet	B-1	40
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	B-2	41

**CITY OF TERRELL, TEXAS
 BASIC FINANCIAL STATEMENTS AND
 REQUIRED SUPPLEMENTARY AND OTHER FINANCIAL INFORMATION
 SEPTEMBER 30, 2005**

TABLE OF CONTENTS

	<u>Exhibit or Schedule</u>	<u>Page</u>
Internal Service Funds:		42
Combining Statement of Net Assets	C-1	43
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	C-2	44
Combining Statement of Cash Flows	C-3	45
Capital Assets Used in the Operation of Governmental Funds:		
Schedule by Source	D-1	46
Schedule by Function and Activity	D-2	47
Schedule of Changes by Function and Activity	D-3	48
Additional Supplementary Information:		
General Fund:		
Detailed Schedule of Revenues – Budget and Actual	E-1	49
Detailed Schedule of Expenditures – Budget and Actual	E-2	50-53
Tourism Fund:		
Detailed Schedule of Revenues and Expenditures – Budget and Actual	F-1	54
Debt Service Fund:		
Detailed Schedule of Revenues and Expenditures – Budget and Actual	G-1	55
Equipment Replacement Fund:		
Detailed Schedule of Revenues and Expenses – Budget and Actual	H-1	56
Water and Sanitary Sewer Fund:		
Detailed Schedule of Revenues – Budget and Actual	I-1	57
Detailed Schedule of Expenses – Budget and Actual	I-2	58-59
Airport Fund:		
Detailed Schedule of Revenues and Expenses – Budget and Actual	J-1	60

**CITY OF TERRELL, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY AND OTHER FINANCIAL INFORMATION
SEPTEMBER 30, 2005**

TABLE OF CONTENTS

	<u>Exhibit or Schedule</u>	<u>Page</u>
SINGLE AUDIT SECTION		
Schedule of Expenditures of Federal Awards	K-1	61
Notes to the Schedule of Expenditures of Federal Awards	K-1	62
Summary Schedule of Prior Audit Findings		63
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		64
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		65-66
Schedule of Findings and Questioned Costs		67



June 23, 2006

Frances R. Anderson
Mayor

The Honorable Mayor and Members of the City Council
City of Terrell
Terrell, Texas

Tommy Spencer
Mayor Pro Tem

The Finance Department and the City Manager's office are pleased to submit the Basic Financial Statements for the City of Terrell, Texas (City) for the fiscal year ended September 30, 2005.

Hal Richards
Deputy Mayor Pro Tem

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.

Ricky Jordan
Council Member

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 the City as measured by the financial activity of its various funds and account groups. 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.

Jack Jones
Council Member

THE REPORT

Gordon C. Pierce
City Manager

This report is presented in three sections: Introductory, Financial, and Single Audit. The introductory section includes this transmittal letter, a listing of the city officials, and an organizational chart of the City. The financial section includes Management's 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. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Terrell's MD&A can be found immediately following the report of the independent auditors. The Single Audit section contains a schedule of federal expenditures and reports required by the Federal Single Audit Act of 1996.

The Financial Section described above is prepared in accordance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB) and other professional associations, as applicable.

CITY PROFILE

Location

The City of Terrell, Texas is located on US. Highway 80 just north of Interstate 20, and approximately 32 miles east of Dallas, Texas. The City, encompassing approximately 18.6 square miles, had a 2000 census population of 13,600 which is a 9% increase from the 1990 census population of 12,490.

P. O. Box 310 • 201 E. Nash Street • Terrell, Texas 75160 • (972) 551-6600

The mission of the City Council of the City of Terrell, Texas, is to create pride by serving the community in a proactive manner and to enhance the quality of life through providing the highest level of services in the most efficient manner.



The City operates under the Council-Manager form of government. The City Council is comprised of the Mayor and four Council members, who enact local laws, determine policies and adopt the annual budget. The City Manager is appointed by the City Council and is responsible for the daily management of the City. The Basic Financial Statements of the City include all government activities, organizations and functions for which the City is financially accountable as defined by the GASB. Based on these criteria no other governmental organizations are included in this report.

Services Provided

The City provides to its citizens those services that have proven to be necessary and meaningful and which the City at the least cost can provide. Major services provided under general government and enterprise functions are: police and fire protection, water and sewer services, sanitation services, park and recreational facilities, library services, street improvements and general administrative services. The City also offers an airport. Internal services of the City, accounted for on a cost reimbursement basis, are the fleet services operations and employee health coverage.

Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records of 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 internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City charter provides that the City Council shall adopt the annual budget prepared by City Management. This budget is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved 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, and are distributed monthly to City departmental and divisional management and 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 (items over \$5,000 and having a useful life of three or more years) are monitored and controlled item by item. Revenue budgets are reviewed monthly.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

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.

Terrell has a diversified industrial base consisting of manufacturers, distributors, and processors.

Two institutions of higher education are located here. They are Southwestern Christian College and Trinity Valley Community College.

The City actively works with the Terrell Economic Development Corporation and local industries to encourage expansions and relations to our community. Land is available for development and area has an abundant water supply. Incentives are also available to facilitate business expansions or relocations.

The outlook is encouraging with industrial, commercial, and residential development expected to continue. The potential for sustained development is present, and many people are working to promote positive economic growth.

Economic Signs...

ASSESED PROPERTY VALUATIONS SALES TAX COLLECTIONS

	(in millions)	(in millions)
2000	460,894,975	5,468,815
2001	506,373,987	5,662,562
2002	586,621,575	5,756,021
2003	603,618,789	6,008,287
2004	667,943,545	6,595,836
2005	736,093,827	6,683,382

Cash Management

The City awards its depository contract through official bidding procedures for a three-year period, with an option to extend the contract for an additional two years. The current depository contract with American National Bank expires July 15, 2006.

The City has a services-only contract, where a minimum amount of cash is held in interest bearing checking accounts to meet the City’s operational needs. The remaining idle cash is invested by City officials in securities as allowed by Texas Statutes and by the City’s investment policy.

At September 30, 2005, all idle cash totaling \$4,072,625 was invested in certificates of deposit. The overall portfolio provided \$147,477 in interest income during the year.

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. The Finance Department and a third party financial institution maintains evidence of the pledged collateral. Collateral is reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.

All safekeeping arrangements are in accordance with a safekeeping agreement approved by the City Manager that clearly defines the procedural steps for gaining access to pledge collateral on deposits should the City of Terrell determine that the City’s funds are in jeopardy. The safekeeping institution, or Custodian, is the Federal Home Loan Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement is a three-party contract between the City, the depository bank and the Federal Home Loan Bank as Custodian. The security is held in the name of the depository bank on behalf of the City. The original copy of all safekeeping statements is delivered to the City.

All collateral is subject to inspection and audit by the City Secretary and the City’s independent auditors.

Risk Management

Property and Liability Plans

The City is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions and natural disasters. A comprehensive insurance plan for property and casualty and general liability coverage has been established with the Texas Municipal League.

Worker's Compensation Plan

The City is exposed to risk of loss due to injuries incurred by employees while performing work-related duties. The City provides worker's compensation insurance coverage with the Texas Municipal League which provides statutory coverage against potential losses.

Health Plan

The City has established a self-insurance plan for health care benefits that pays 100% of employee claims limited to \$15,000 per employee and \$650,000 in aggregate. The City has insured claims in excess of plan limits.

INDEPENDENT AUDIT

The City Charter requires an annual audit by independent certified public accountants. The accounting firm of Gollob, Morgan, Peddy & Co., P.C. was selected by the City Council to perform the fiscal 2005 audit. In addition to meeting City Charter requirements, the audit also was designed to meet the requirements of the Federal Single Audit Act of 1996 and related OMB Circular A-133. The auditors' report on the basic financial statements is in the financial section.

ACKNOWLEDGMENTS

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of all City Departments. We would like to express our appreciation to all members of the City's staff who assisted and contributed to its preparation. We would also like to thank the mayor and city council members for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



John Rounsavall
City Secretary

FINANCIAL SECTION

Michael Gollob, CPA-Retired
Tony K. Morgan, CPA/ABV
Robert W. Peddy, CPA
Barbara R. Bass, CPA
Tommy J. Chambers, CPA
Lisa G. Robinson, CPA
Joe Wylie, CPA

GOLLOB MORGAN PEDDY & CO., P.C.

Certified Public Accountants

Members American Institute of Certified Public Accountants and Private Companies Practice Section

Harvey W. Jackson, CPA
Sharon C. Forsyth, CPA
Kevin R. Cashion, CPA
Brenda G. Watson, CPA
Dianne C. Johnston, CPA
Jeanne C. Lewis, CPA
Kristen L. Gusa, CPA
Patricia L. Kinnaird, CPA
Michael W. Stevens, CPA
Robert Shane Rohrbach, CPA
Raymond C. McKinney, CPA
Teresa J. Campbell, CPA

INDEPENDENT AUDITORS' REPORT

To the Honorable City Council
City of Terrell, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Terrell, Texas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2006 on our consideration of the City of Terrell's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Terrell, Texas' basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of

the basic financial statements of the City of Terrell, Texas. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Hall, Morgan, Peadar & Co., P.C.

Certified Public Accountants

Tyler, Texas
June 23, 2006

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
Year Ended September 30, 2005
(Unaudited)

As management of the City of Terrell, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2005. This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages v-viii of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Terrell exceeded its liabilities at the close of the most recent fiscal year by \$42,576,936 (Net assets). Of this amount, \$9,275,566 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$5,169,961.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$14,096,268, an increase of \$1,313,493 in comparison with the prior fiscal year, due to proceeds received from the issuance of debt. Approximately 36% of this total amount, \$5,077,369, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,052,773 or 42% of the total general fund expenditures.
- The City's total long-term debt increased by \$957,154 during the fiscal year due to the issuance of \$2,860,000 in notes payable.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) 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's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City'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 is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes earned but unused and compensated absences).

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
Year Ended September 30, 2005
(Unaudited)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, library, and parks and recreation. The business-type activities of the City include Water, Sewer and Airport operations. The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories-governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 14 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Section 8 Rent Supplement Fund, Terrell Economic Development Corporation Fund, and the C.O. Tax & Revenue Series 2004 Fund, each of which are considered to be major funds. Data from the other 10 funds are combined into a single, aggregated presentation. The basic governmental funds financial statements can be found on pages 12-16.

Proprietary Funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and airport. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet services and self-insurance. Because these services predominantly benefits governmental rather than business-type functions, it is included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, and Airport funds since they are considered to be major funds of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 17-19 of this report.

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
 Year Ended September 30, 2005
 (Unaudited)

Notes to the Financial Statements – The 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 on pages 20-37.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 38 of this report.

The combining statements referred to earlier in connection with internal service funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 40-45 and 49-60 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Terrell, assets exceeded liabilities by \$42,576,936 as of September 30, 2005.

The largest portion of the City's net assets, 56%, (\$23,987,497), reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service 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.

CITY OF TERRELL'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 16,053,064	\$ 15,457,353	\$ 4,472,772	\$ 3,153,873	\$ 20,525,836	\$ 18,611,226
Capital assets	19,605,292	17,109,218	28,133,687	27,247,072	47,738,979	44,356,290
Total assets	35,658,356	32,566,571	32,606,459	30,400,945	68,264,815	62,967,516
Long-term liabilities	22,291,366	19,225,876	2,268,432	2,248,947	24,559,798	21,474,823
Other Liabilities	644,934	3,478,093	483,147	616,219	1,128,081	4,094,312
Total liabilities	22,936,300	22,703,969	2,751,579	2,865,166	25,687,879	25,569,135
Net assets:						
Invested in capital assets, net of related debt	(1,936,189)	2,464,051	25,923,686	24,902,072	23,987,497	27,366,123
Restricted	9,018,899	2,780,279	294,974	482,059	9,313,873	3,262,338
Unrestricted	5,639,346	4,618,272	3,636,220	2,151,648	9,275,566	6,769,920
Total net assets	\$ 12,722,056	\$ 9,862,602	\$ 29,854,880	\$ 27,535,779	\$ 42,576,936	\$ 37,398,381

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
Year Ended September 30, 2005
(Unaudited)

Analysis of the City's Operations – The following table provides a summary of the City's operations for the years ended September 30, 2005 and 2004.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 2,702,638	\$ 1,744,055	\$ 8,688,384	\$ 5,791,555	\$ 11,391,022	\$ 7,535,610
Operating grants and contributions	4,482,733	3,607,809	-	-	4,482,733	3,607,809
Capital grants and contributions	-	-	311,338	2,683,274	311,338	2,683,274
General revenues:						
Property taxes	4,885,222	4,359,451	-	-	4,885,222	4,359,451
Franchise taxes	1,513,702	1,382,414	-	-	1,513,702	1,382,414
Sales Taxes	6,683,382	6,604,430	-	-	6,683,382	6,604,430
Hotel/motel occupancy taxes	173,719	151,142	-	-	173,719	151,142
Special assessments	-	-	-	-	-	-
Investment earnings	126,523	100,584	20,954	19,111	147,477	119,695
Gain on sale of assets	211,486	106,456	-	-	211,486	106,456
Transfers	442,531	(3,901,517)	(442,531)	3,901,517	-	-
Total revenues and transfers	\$ 21,221,936	\$ 14,154,824	\$ 8,578,145	\$ 12,395,457	\$ 29,800,081	\$ 26,550,281
Expenses:						
General government	5,518,792	4,311,181	-	-	5,518,792	4,311,181
Public safety	5,380,118	5,100,563	-	-	5,380,118	5,100,563
Streets	2,403,168	3,197,391	-	-	2,403,168	3,197,391
Sanitation	456,663	431,228	-	-	456,663	431,228
Culture and recreation	1,010,405	1,081,113	-	-	1,010,405	1,081,113
Public welfare	2,786,831	2,847,272	-	-	2,786,831	2,847,272
Interest on long-term debt	815,099	581,704	-	-	815,099	581,704
Water and sewer	-	-	5,817,199	7,360,386	5,817,199	7,360,386
Capital project	-	-	8,500	11,500	8,500	11,500
Airport	-	-	433,345	207,668	433,345	207,668
Total expenses	18,371,076	17,550,452	6,259,044	7,579,554	24,630,120	25,130,006
Change in net assets	2,850,860	(3,395,628)	2,319,101	4,815,903	5,169,961	1,420,275
Net assets - October 1, 2004	9,871,196	13,266,824	27,535,779	22,719,876	37,406,975	35,986,700
Net assets - September 30, 2005	\$ 12,722,056	\$ 9,871,196	\$ 29,854,880	\$ 27,535,779	\$ 42,576,936	\$ 37,406,975

Governmental activities - Of the City's \$5,169,961 overall increase in net assets, governmental activities net assets increased by \$2,850,860. The most significant governmental expense for the city was in providing public safety, which incurred expenses of \$5,380,118. These expenses were funded by revenues collected from a variety of sources, with the largest being from sales taxes, which are \$6,683,382 for the fiscal year ending September 30, 2005. The most significant portion of public safety is the cost of personnel, which was \$4,444,328. Other significant governmental expenses for the City include general government, which incurred \$5,518,792 in expenses, and included \$1,752,525 in personnel charges and \$1,028,544 in economic development expenses.

Business-type activities - Business-type activities increased the City's net assets by \$2,319,101.

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
Year Ended September 30, 2005
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds – The focus of the City of Terrell's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$14,096,268. Approximately 36% of this total amount (\$5,077,369) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay for capital projects (\$6,772,224), (2) to pay for debt service (\$285,146), (3) to pay for investments held for resale (\$1,442,530) and (4) other miscellaneous reservations (\$518,999).

In the general fund, the City budgeted for a decrease in the fund balance of \$1,285,387, which was due to transfers to other funds of \$1,500,000. Actual revenues being more than budgeted, the actual fund balance increased for fiscal year 2005 by \$774,707

Proprietary funds – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the respective proprietary funds are Water and Sewer- \$21,254,157, and Airport-\$8,527,666. The Water and Sewer Fund's net assets increased in 2005 by \$ 2,326,364 and the Airport's net assets decreased by \$96,787.

General Fund Budgetary Highlights – The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in a decrease of budgeted general fund expenditures from the original budget of \$681,624.

The City had budgeted for little or no increase in most revenue categories from the prior year collections based on economic conditions. However, actual revenues exceeded the budgeted revenue amount by \$347,276.

CAPITAL ASSETS

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2005 amounts to \$47,738,979, (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

Major capital asset events during the current fiscal year included the following:

- \$2,229,449 was completed on road and bridge improvements.
- \$1,355,443 was completed on the North Texas Water District water main and recovery station.
- \$389,129 was completed on various water/sewer improvements.

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
Year Ended September 30, 2005
(Unaudited)

Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 137,200	\$ 137,200	\$ 885,019	\$ 885,019	\$ 1,022,219	\$ 1,022,219
Buildings and improvements	2,579,547	2,591,951	11,939,945	11,093,522	14,519,492	13,685,473
Machinery & equipment	2,335,510	2,112,209	13,208,480	13,758,937	15,543,990	15,871,146
Infrastructure	13,958,180	6,212,923	-	-	13,958,180	6,212,923
Construction in progress	594,855	6,054,935	2,100,243	1,509,594	2,695,098	7,564,529
Total	\$19,605,292	\$17,109,218	\$28,133,687	\$27,247,072	\$47,738,979	\$44,356,290

Additional information on the City of Terrell's capital assets can be found in note 6 on pages 28-29 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Terrell had a total bonded debt of \$18,310,000. Of this amount, \$17,540,000 comprises bonded debt backed by the combination of property tax and water/sewer revenues and \$770,000 represents bonds secured solely by water and sewer revenues.

Bonds Payable

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 3,470,000	\$ 3,835,000	\$ -	\$ -	\$ 3,470,000	\$ 3,835,000
Certificate of Obligations	12,630,000	13,335,000	1,440,000	1,490,000	14,070,000	14,825,000
Revenue Bonds Payable	-	-	770,000	855,000	770,000	855,000
Total	\$ 16,100,000	\$ 17,170,000	\$ 2,210,000	\$ 2,345,000	\$ 18,310,000	\$ 19,515,000

During the fiscal year, the City's total bonded debt decreased by \$1,205,000 or 6%.

The City's Bond ratings are listed below:

	Moody's Investors Services	Standard & Poor's
Certificates of Obligation	Aaa	AA
Revenue Bonds	Aaa	AA

Several of the City's Bonds are insured thus holding a Triple A credit rating from both Moody's and Standard & Poor's. Additional information on the City of Terrell's long term-debt can be found in footnote 8 on pages 30-34 of this report.

CITY OF TERRELL, TEXAS

Management's Discussion and Analysis
Year Ended September 30, 2005
(Unaudited)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the fiscal year 2005-06 Budget, General fund revenues and transfers-in are budgeted to increase by 7.85% from the 2004-05 budget year with sales taxes making up about 47% of general fund budgeted revenues and transfers in. Certified assessed valuations increased 15.43% over the preceding year. The tax base has increased by a strong annual average of 9.5% over the past five years. The City's budgets for all funds have benefited from an expanding local economy however, the City's 2005-2006 budget reflects a slower recovery in economic growth. Terrell's favorable location continues to attract distribution firms and residential development. The City has imposed an impact fee for single-family housing developments. Sales tax receipts increased 5.50% for fiscal year 2004-05 and appears to continue to show signs of a marginal increase during the 2005-06 fiscal year. However, this revenue source is the most volatile and sensitive to changes in the local economy.

The budget for 2005-06 reflects the allocation of resources necessary to continue projects and operations at approximately the same level as last year.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Office of the City Secretary / Finance Director John Rounsavall at 972-551-6600 or e-mail jrounsavall@cityofterrell.org

BASIC FINANCIAL STATEMENTS

CITY OF TERRELL, TEXAS
STATEMENT OF NET ASSETS
September 30, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Cash and cash equivalents	\$ 12,296,384	\$ 2,330,130	\$ 14,626,514
Receivables (net, where applicable, of allowances for uncollectibles)	2,185,095	1,348,250	3,533,345
Internal balances	(30,070)	30,070	-
Investments - land	1,442,530	-	1,442,530
Inventory, at cost	22,595	127,722	150,317
Restricted assets			
Cash and investments, at cost or amortized cost	-	575,566	575,566
Bond issue costs (net of amortization)	136,530	61,034	197,564
Capital assets (net of accumulated depreciation):			
Land	137,200	885,019	1,022,219
Buildings and improvements	2,579,547	11,939,945	14,519,492
Machinery and equipment	2,335,510	13,208,480	15,543,990
Construction in progress	594,855	2,100,243	2,695,098
Infrastructure	13,958,180	-	13,958,180
Total assets	35,658,356	32,606,459	68,264,815
Liabilities			
Current liabilities (payable from current assets)			
Accounts payable and accrued expenses	566,434	187,712	754,146
Accrued interest payable	78,500	14,843	93,343
Deposits	-	280,592	280,592
Non-current liabilities:			
Due within one year	1,958,485	149,739	2,108,224
Due in more than one year	20,332,881	2,118,693	22,451,574
Total liabilities	22,936,300	2,751,579	25,687,879
Net Assets			
Invested in capital assets (net of related debt)	(1,936,189)	25,923,686	23,987,497
Restricted for:			
Economic development	1,675,730	-	1,675,730
Debt service	285,146	294,974	580,120
Capital projects	6,772,224	-	6,772,224
Other purposes	285,799	-	285,799
Unrestricted	5,639,346	3,636,220	9,275,566
Total net assets	\$ 12,722,056	\$ 29,854,880	\$ 42,576,936

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

EXHIBIT 2

CITY OF TERRELL, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Program Activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government								
Governmental activities:								
General government		\$ 5,518,792	\$ 1,388,953	\$ 411,399	\$ -	\$ (3,718,440)	\$ -	\$ (3,718,440)
Public safety		5,380,118	372,897	-	-	(5,007,221)	-	(5,007,221)
Highways and streets		2,403,168	75,280	-	-	(2,327,888)	-	(2,327,888)
Sanitation		456,663	489,214	-	-	32,551	-	32,551
Culture and recreation		1,010,405	48,452	-	-	(961,953)	-	(961,953)
Public welfare		2,786,831	327,842	4,071,334	-	1,612,345	-	1,612,345
Interest and fiscal charges		815,099	-	-	-	(815,099)	-	(815,099)
Total governmental activities		18,371,076	2,702,638	4,482,733	-	(11,185,705)	-	(11,185,705)
Business-type activities:								
Water and sewer		5,817,199	8,432,926	-	-	-	2,615,727	2,615,727
Airport		433,345	255,458	-	72,838	-	(105,049)	(105,049)
Capital Project		8,500	-	-	238,500	-	230,000	230,000
Total business-type activities		6,259,044	8,688,384	-	311,338	-	2,740,678	2,740,678
Total primary government		\$ 24,630,120	\$ 11,391,022	\$ 4,482,733	\$ 311,338	\$ (11,185,705)	\$ 2,740,678	\$ (8,445,027)
General revenues:								
Property taxes						4,885,222	-	4,885,222
Franchise taxes						1,513,702	-	1,513,702
Sales and use taxes						6,683,382	-	6,683,382
Hotel/motel occupancy taxes						173,719	-	173,719
Interest income						126,523	20,954	147,477
Gain on sale of assets						211,486	-	211,486
Transfers						442,531	(442,531)	-
Total general revenues and transfers						14,036,565	(421,577)	13,614,988
Change in net assets						2,850,860	2,319,101	5,169,961
Net assets, beginning of year, as originally stated						9,862,602	27,535,779	37,398,381
Prior period adjustment						8,594	-	8,594
Net assets - beginning of year, as restated						9,871,196	27,535,779	37,406,975
Net assets - end of year						\$ 12,722,056	\$ 29,854,880	\$ 42,576,936

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

CITY OF TERRELL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2005

	MAJOR FUNDS					Total Governmental Funds
	General	Rent Supplement Section 8	Terrell Economic Development Corp. Fund	C.O. Tax & Revenue Series 2004	Other Non-Major Governmental Funds	
Assets						
Cash and cash equivalents	\$ 4,295,975	\$ 299,411	\$ 829,481	\$ 5,284,140	\$ 1,180,106	\$ 11,889,113
Receivables (net, where applicable, of allowances for uncollectibles):						
Taxes	1,416,335	-	-	-	96,271	1,512,606
Accounts	1,630	6,491	-	-	-	8,121
Special assessment	-	-	-	-	664,368	664,368
Investments - land	-	-	1,442,530	-	-	1,442,530
Due from other funds	231,599	-	18,841	-	210,953	461,393
Inventories	22,595	-	-	-	-	22,595
Total assets	\$ 5,968,134	\$ 305,902	\$ 2,290,852	\$ 5,284,140	\$ 2,151,698	\$ 16,000,726
Liabilities						
Accounts payable	\$ 366,292	\$ 12,334	\$ -	\$ -	\$ 99,596	\$ 478,222
Due to other funds	45,722	36,509	54,143	-	281,670	418,044
Deferred revenues	247,553	-	-	-	760,639	1,008,192
Total liabilities	659,567	48,843	54,143	-	1,141,905	1,904,458
Fund Balances:						
Reserved for:						
Inventory	22,594	-	-	-	-	22,594
Developer's incentives	233,200	-	-	-	-	233,200
Debt service	-	-	-	-	285,146	285,146
Investments held for resale	-	-	1,442,530	-	-	1,442,530
Grants and donations	-	257,059	-	-	6,146	263,205
Capital projects	-	-	794,179	5,284,140	693,905	6,772,224
Total reserved fund balances	255,794	257,059	2,236,709	5,284,140	985,197	9,018,899
Unreserved fund balances	5,052,773	-	-	-	24,596	5,077,369
Total fund balances	5,308,567	257,059	2,236,709	5,284,140	1,009,793	14,096,268
Total liabilities and fund balances	\$ 5,968,134	\$ 305,902	\$ 2,290,852	\$ 5,284,140	\$ 2,151,698	

(continued)

**CITY OF TERRELL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2005**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit 1)

	<u>Total Governmental Funds</u>
Total fund balances governmental funds (Exhibit 3)	\$ 14,096,268
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	17,798,619
Certain receivables will be collected next year but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.	1,008,192
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet.	(78,500)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. (Net of the amount of net expenditures allocated to business-type activities).	1,776,460
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.	<u>(21,878,983)</u>
Net assets of governmental activities	<u>\$ 12,722,056</u>

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

CITY OF TERRELL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 Year Ended September 30, 2005

	MAJOR FUNDS						Total Governmental Funds
	General	Terrell		C. O. Tax & Revenue Series 2004	Other Non-Major Governmental Funds	Elimination	
		Rent Supplement Section 8	Economic Development Corp. Fund				
Revenue:							
Taxes and special assessments	\$ 11,655,396	\$ -	\$ -	\$ 1,355,567	\$ -	\$ -	\$ 13,010,963
Licenses and permits	237,544	-	-	-	-	-	237,544
Hotel/motel occupancy taxes	-	-	-	173,719	-	-	173,719
Intergovernmental	411,399	3,082,334	-	989,000	-	-	4,482,733
Charges for services	868,946	-	-	146,868	-	-	1,015,814
Fines, forfeits and penalties	319,861	-	-	-	-	-	319,861
Interest	44,890	894	854	60,742	25,944	-	133,324
Street assessments	-	-	-	-	38,138	-	38,138
Miscellaneous	271,082	9,924	19,216	-	659	-	300,881
Total revenues	13,809,118	3,093,152	20,070	60,742	2,729,895	-	19,712,977
Expenditures:							
Current							
General Government	3,287,763	332,165	1,028,544	-	219,749	-	4,868,221
Public welfare	-	2,779,882	-	-	-	-	2,779,882
Public safety	5,142,244	-	-	-	-	-	5,142,244
Highways and streets	1,323,698	-	-	-	-	-	1,323,698
Sanitation	456,663	-	-	-	-	-	456,663
Culture and recreation	998,483	-	-	-	-	-	998,483
Capital outlay	753,145	-	2,643,927	15,105	386,920	-	3,799,097
Debt Service:							
Principal retirement	-	-	673,096	-	1,094,977	-	1,768,073
Interest and fiscal charges	-	-	142,788	-	634,352	-	777,140
Total expenditures	11,961,996	3,112,047	4,488,355	15,105	2,335,998	-	21,913,501
Excess (deficiency) of revenue over expenditures	1,847,122	(18,895)	(4,468,285)	45,637	393,897	-	(2,200,524)
Other financing sources (uses)							
Transfers in	22,393	-	2,658,552	-	728,728	(2,967,142)	442,531
Transfers out	(1,704,808)	-	(100,000)	(181,689)	(980,645)	2,967,142	-
Proceeds from bank note	610,000	-	-	-	-	-	610,000
Proceeds from line of credit	-	-	2,250,000	-	-	-	2,250,000
Sale of capital assets	-	-	211,486	-	-	-	211,486
Total other financing sources (uses)	(1,072,415)	-	5,020,038	(181,689)	(251,917)	-	3,514,017
Net change in fund balances	774,707	(18,895)	551,753	(136,052)	141,980	-	1,313,493
Fund balance at beginning of year, as originally stated	3,318,801	275,954	1,684,956	5,420,192	867,813	-	11,567,716
Prior period adjustment	1,215,059	-	-	-	-	-	1,215,059
Fund balance at beginning of year, as restated	4,533,860	275,954	1,684,956	5,420,192	867,813	-	12,782,775
Fund balance at end of year	\$ 5,308,567	\$ 257,059	\$ 2,236,709	\$ 5,284,140	\$ 1,009,793	\$ -	\$ 14,096,268

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

CITY OF TERRELL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (Exhibit 4)	\$ 1,313,493
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,392,950
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,193,270)
The internal service funds are used by management to charge the costs of fleet management to individual funds. The net expenditures of the internal service funds are reported with governmental activities, net of amount allocated to business-type activities of \$73,057.	239,070
Revenues in the statement of activities that do not require the use of current financial resources are not reported as revenues in the funds.	98,012
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.	<u>605</u>
Change in net assets of governmental activities	<u>\$ 2,850,860</u>

CITY OF TERRELL, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE-BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
General property taxes and local taxes	\$ 11,106,409	\$ 11,106,409	\$ 11,655,396	\$ 548,987
Licenses and permits	205,400	205,400	237,544	32,144
Fines, fees, forfeits and penalties	252,500	252,500	319,861	67,361
Charges for services	804,431	808,471	868,946	60,475
Intergovernmental and other agencies	388,500	398,585	411,399	12,814
Revenues from use of money or property	40,000	40,000	44,890	4,890
Miscellaneous	42,530	650,477	271,082	(379,395)
Total revenues	<u>12,839,770</u>	<u>13,461,842</u>	<u>13,809,118</u>	<u>347,276</u>
Expenditures				
General government	5,156,467	3,782,588	3,403,936	378,652
Public safety	5,581,355	6,300,352	5,640,487	659,865
Highways and streets	1,487,170	1,451,189	1,328,748	122,441
Sanitation	469,160	466,206	456,663	9,543
Culture and recreation	1,234,701	1,246,894	1,132,162	114,732
Total expenditures	<u>13,928,853</u>	<u>13,247,229</u>	<u>11,961,996</u>	<u>1,285,233</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,089,083)</u>	<u>214,613</u>	<u>1,847,122</u>	<u>1,632,509</u>
Other financing sources (uses):				
Proceeds from bank note	-	-	610,000	610,000
Transfers In	-	-	22,393	22,393
Transfers Out	-	(1,500,000)	(1,704,808)	(204,808)
Total other financing sources (uses)	<u>-</u>	<u>(1,500,000)</u>	<u>(1,072,415)</u>	<u>427,585</u>
Net change in fund balance	<u>(1,089,083)</u>	<u>(1,285,387)</u>	<u>774,707</u>	<u>2,060,094</u>
Fund balance, beginning of year, as originally stated	3,318,801	3,318,801	3,318,801	-
Prior Period Adjustment	<u>1,215,059</u>	<u>1,215,059</u>	<u>1,215,059</u>	<u>-</u>
Fund balance, beginning of year, as restated	<u>4,533,860</u>	<u>4,533,860</u>	<u>4,533,860</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,444,777</u>	<u>\$ 3,248,473</u>	<u>\$ 5,308,567</u>	<u>\$ 2,060,094</u>

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

CITY OF TERRELL, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2005

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	Water and Sanitary Sewer Fund	Airport Fund	Capital Project	Total Enterprise Funds	Internal Service Funds
Assets					
Current assets					
Cash	\$ 1,394,346	\$ 932,284	\$ 3,500	\$ 2,330,130	\$ 407,271
Accounts receivable (net)	1,348,250	-	-	1,348,250	-
Due from other funds -	143,790	4,642	-	148,432	-
Inventories - at average cost	127,722	-	-	127,722	-
Total current assets	<u>3,014,108</u>	<u>936,926</u>	<u>3,500</u>	<u>3,954,534</u>	<u>407,271</u>
Restricted current Assets					
Temporarily restricted					
Customer deposits	280,592	-	-	280,592	-
Debt service accounts	294,974	-	-	294,974	-
Construction accounts	-	-	-	-	-
Total restricted assets	<u>575,566</u>	<u>-</u>	<u>-</u>	<u>575,566</u>	<u>-</u>
Non-Current Assets					
Capital assets:					
Land	537,271	347,748	-	885,019	-
Buildings and improvements	7,015,957	11,876,381	-	18,892,338	-
Machinery and equipment	24,067,043	137,199	-	24,204,242	3,653,479
Construction in progress	2,100,243	-	-	2,100,243	-
Less accumulated depreciation	33,720,514	12,361,328	-	46,081,842	3,653,479
Total capital assets, net of accumulated depreciation	<u>19,016,336</u>	<u>9,117,351</u>	<u>-</u>	<u>28,133,687</u>	<u>1,806,673</u>
Bond issue costs (net)	29,187	31,847	-	61,034	-
Total non-current assets	<u>19,045,523</u>	<u>9,149,198</u>	<u>-</u>	<u>28,194,721</u>	<u>1,806,673</u>
Total assets	<u>\$ 22,635,197</u>	<u>\$ 10,086,124</u>	<u>\$ 3,500</u>	<u>\$ 32,724,821</u>	<u>\$ 2,213,944</u>
Liabilities					
Current liabilities payable from current assets					
Accounts payable and accrued expenses	\$ 181,683	\$ 2,529	\$ 3,500	\$ 187,712	\$ 88,211
Compensated absences	58,432	-	-	58,432	9,130
Due to other funds	83,265	108,154	-	191,419	363
Note payable - current portion	-	-	-	-	74,865
Total Current liabilities	<u>323,380</u>	<u>110,683</u>	<u>3,500</u>	<u>437,563</u>	<u>172,569</u>
Current liabilities payable from restricted assets					
Revenue bond payable-current portion	85,000	-	-	85,000	-
Customer deposits	280,592	-	-	280,592	-
Certificates of obligation payable	-	55,000	-	55,000	-
Accrued interest payable	7,068	7,775	-	14,843	-
Total current liabilities payable from restricted assets	<u>372,660</u>	<u>62,775</u>	<u>-</u>	<u>435,435</u>	<u>-</u>
Non-current liabilities:					
Revenue bonds payable	685,000	-	-	685,000	-
Certificates of obligation	-	1,385,000	-	1,385,000	-
Note payable	-	-	-	-	191,858
Total non-current liabilities	<u>685,000</u>	<u>1,385,000</u>	<u>-</u>	<u>2,070,000</u>	<u>191,858</u>
Total liabilities	<u>1,381,040</u>	<u>1,558,458</u>	<u>3,500</u>	<u>2,942,998</u>	<u>364,427</u>
Net Assets					
Invested in capital assets, net of related debt	18,246,335	7,677,351	-	25,923,686	1,539,950
Restricted for debt service	294,974	-	-	294,974	-
Restricted for capital projects	-	-	-	-	-
Unrestricted	2,712,848	850,315	-	3,563,163	309,567
Total net assets	<u>\$ 21,254,157</u>	<u>\$ 8,527,666</u>	<u>\$ -</u>	<u>29,781,823</u>	<u>\$ 1,849,517</u>
Reconciliation to government-wide statements of net assets:					
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			prior year	(16,467)	
			current year	89,524	
Net assets of business-type activities				<u>\$ 29,854,880</u>	

CITY OF TERRELL, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended September 30, 2005

	<u>Business-Type Activities</u>			<u>Governmental</u>	
	<u>Enterprise Funds</u>				<u>Internal</u>
	<u>Water and Sanitary Sewer Fund</u>	<u>Airport Fund</u>	<u>Capital Project</u>		
	<u>Total Enterprise Funds</u>		<u>Total Enterprise Funds</u>		
Operating revenues					
Sales and charges for services	\$ 7,164,469	\$ -	\$ -	\$ 7,164,469	\$ 1,031,751
Rental income	-	255,458	-	255,458	-
Contributions	-	-	-	-	1,234,801
Miscellaneous	1,268,457	-	-	1,268,457	-
Insurance proceeds	-	-	-	-	632,820
Total operating revenues	<u>8,432,926</u>	<u>255,458</u>	<u>-</u>	<u>8,688,384</u>	<u>2,899,372</u>
Operating expenses					
Costs of sales and services	4,580,922	53,294	-	4,634,216	1,960,663
Administration	595,170	-	8,500	603,670	312,654
Depreciation	647,903	242,896	-	890,799	293,063
Total operating expenses	<u>5,823,995</u>	<u>296,190</u>	<u>8,500</u>	<u>6,128,685</u>	<u>2,566,380</u>
Operating income (loss)	<u>2,608,931</u>	<u>(40,732)</u>	<u>(8,500)</u>	<u>2,559,699</u>	<u>332,992</u>
Non-operating revenues (expenses)					
Grant revenue	-	72,838	238,500	311,338	-
Grant expense	-	(72,838)	-	(72,838)	-
Interest and fiscal charges	(79,486)	(64,317)	-	(143,803)	(6,748)
Amortization	(3,242)	-	-	(3,242)	-
Interest income	12,692	8,262	-	20,954	2,350
Total non-operating revenues (expenses)	<u>(70,036)</u>	<u>(56,055)</u>	<u>238,500</u>	<u>112,409</u>	<u>(4,398)</u>
Income (loss) before transfers and contributed capital	<u>2,538,895</u>	<u>(96,787)</u>	<u>230,000</u>	<u>2,672,108</u>	<u>328,594</u>
Transfers in	230,000	-	-	230,000	-
Transfers out	(442,531)	-	(230,000)	(672,531)	-
Change in net assets	2,326,364	(96,787)	-	2,229,577	328,594
Net assets, beginning of year	<u>18,927,793</u>	<u>8,624,453</u>	<u>-</u>	<u>-</u>	<u>1,520,923</u>
Net assets, end of year	<u>\$ 21,254,157</u>	<u>\$ 8,527,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,849,517</u>
Reconciliation to government-wide statements of net assets:					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				89,524	
Change in net assets of business-type activities				<u>\$ 2,319,101</u>	

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

CITY OF TERRELL, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended September 30, 2005

	<u>Business-Type Activities</u>				<u>Governmental Activities</u>
	<u>Enterprise Funds</u>				
	<u>Water and Sanitary Sewer Fund</u>	<u>Airport Fund</u>	<u>Capital Project</u>	<u>Total Enterprise Funds</u>	
<u>Cash flows from operating activities</u>					
Cash received from customers	\$ 8,162,872	\$ 250,816	\$ -	\$ 8,413,688	\$ 2,899,372
Cash paid to suppliers	(2,903,239)	(51,286)	(5,000)	(2,959,525)	(779,531)
Cash paid to employees	(2,241,685)	-	-	(2,241,685)	(1,325,832)
Insurance claims paid	-	-	-	-	(185,662)
Net cash provided (used) by operating activities	<u>3,017,948</u>	<u>199,530</u>	<u>(5,000)</u>	<u>3,212,478</u>	<u>608,347</u>
<u>Cash flows from non-capital financing activities</u>					
Grant revenue received	-	-	238,500	238,500	-
Transfers in from other funds	230,000	-	-	230,000	-
Transfers out to other funds	(442,531)	-	(230,000)	(672,531)	-
Net cash provided by non-capital financing activities	<u>(212,531)</u>	<u>-</u>	<u>8,500</u>	<u>(204,031)</u>	<u>-</u>
<u>Cash flows from capital and related activities</u>					
Refund from state for unexpended grant match	-	43,570	-	43,570	(73,139)
Principal payments on long-term debt	(85,000)	(50,000)	-	(135,000)	-
Interest paid on long-term debt	(80,245)	(63,890)	-	(144,135)	(6,748)
Purchase of capital assets	(1,817,889)	-	-	(1,817,889)	(396,187)
Net cash provided (used) by capital related financing activities	<u>(1,983,134)</u>	<u>(70,320)</u>	<u>-</u>	<u>(2,053,454)</u>	<u>(476,074)</u>
<u>Cash flows from investing activities</u>					
Interest received	12,692	8,262	-	20,954	2,350
Net cash provided by investing activities	<u>12,692</u>	<u>8,262</u>	<u>-</u>	<u>20,954</u>	<u>2,350</u>
Increase (Decrease) in cash	834,975	137,472	3,500	975,947	134,623
Cash and cash equivalents, beginning of year	1,134,937	794,812	-	1,929,749	272,648
Cash and cash equivalents, end of year	<u>\$ 1,969,912</u>	<u>\$ 932,284</u>	<u>\$ 3,500</u>	<u>\$ 2,905,696</u>	<u>\$ 407,271</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>					
Operating income (loss)	\$ 2,608,931	\$ (40,732)	\$ (8,500)	\$ 2,559,699	\$ 332,992
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation expense	647,903	242,896	-	890,799	293,063
(Increase)Decrease in net accounts receivable	(266,154)	-	-	(266,154)	-
(Increase)Decrease in inventory	(45,613)	-	-	(45,613)	-
(Increase)Decrease in due from other funds	50,701	(4,642)	-	46,059	3,736
Increase(Decrease) in due to other funds	5,424	519	-	5,943	-
Increase(Decrease) in payables and accruals	11,187	1,489	3,500	16,176	(21,444)
Increase(Decrease) in customer deposits	5,569	-	-	5,569	-
Net cash provided (used) by operating activities	<u>\$ 3,017,948</u>	<u>\$ 199,530</u>	<u>\$ (5,000)</u>	<u>\$ 3,212,478</u>	<u>\$ 608,347</u>

CITY OF TERRELL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 – Summary of Significant Accounting Policies

A. General Statement

The City of Terrell was incorporated on September 6, 1875, under an act of the 14th Legislature of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Terrell conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

B. The Reporting Entity

These financial statements present all the funds of the City and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

The Terrell Economic Development Corporation (“TEDC”) was incorporated in 1990 under the provisions of the Development Corporation Act of 1979, as amended. TEDC operates under a five-member Board of Directors appointed by the City Council. The purpose of TEDC is to promote and develop commercial, industrial, and manufacturing enterprises to create and enhance local job opportunities. The City Council maintains organizational control over TEDC in addition to significant managerial control over the assets and operations. TEDC has been incorporated into these financial statements as a major governmental fund. Essential disclosures are included in separately issued financial statements of the TEDC. These statements may be obtained at the City’s administrative office.

The Terrell Development Corporation was created in 1979 for the special purpose of promoting and developing commercial, industrial and manufacturing enterprise and encouraging employment in the City. The members of the Board of the Corporation are appointed by the City Council. The Corporation is authorized to issue industrial development revenue bonds after approval of the City Council. During 1997, the Corporation issued \$7,600,000 of development revenue bonds. The bonds do not constitute indebtedness of the City and are secured solely by the revenues received from the commercial organization on whose behalf they were issued. The City assumes no responsibility for the operating expenses of the Corporation as they are financed by fees charged to the commercial organization. The Corporation has been excluded from the City’s financial statements.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The C.O. Tax and Revenue Series 2004 fund is a capital projects fund used to account for construction projects funded by the Series 2004 bond issuance.

The Terrell Economic Development fund is a component unit of the City and accounts for ½ cent sales tax revenues used to promote and develop commercial, industrial and manufacturing enterprises to create and enhance job opportunities.

The Section 8 Rent Supplement fund is a special revenue fund used to account for federal funds received under contract from the Department of Housing and Urban Development for housing rental assistance.

The government reports the following major proprietary funds:

The Water and Sanitary Sewer Fund is used to account for sale of water and wastewater treatment by the City to businesses and residential customers and to surrounding communities.

The Airport Fund is used to account for operations of the Terrell Municipal Airport.

The Capital Project Fund accounts for construction of sewer system improvements funded by grant proceeds.

Additionally, the government reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City reports the following internal service funds:

Equipment replacement fund – to track fleet maintenance, repair and replacement.

Self-Insurance fund – to account for the City's self-insurance programs.

Private-sector standards of accounting and financial reporting issued prior to December 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not

conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are charges between the government's water utilities function and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Assets, Liabilities, and Net Assets or Equity

1. Equity in Pooled Cash and Investments

The City reclassifies certain of its cash and investments into "equity in pooled cash and investments." Each fund participates on a daily transaction basis and income for all assets included in "pooled cash and investments" is allocated to individual funds based on their respective balance in "equity in pooled cash and investments."

For the purpose of the statements of cash flows for the Proprietary Funds, the City considers all assets included in "equity in pooled cash and investments" to be "cash and cash equivalents."

All assets in "equity in pooled cash and investments" and demand deposits on hand have been considered as cash equivalents for purposes of the statement of cash flows.

Additionally, deposits and investments continue to be held separately by several of the City's funds. Income on these assets is recorded in the respective fund holding the deposits and investments.

2. Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements. The Terrell Economic Development Corporation invests in land to sale to prospective businesses to enhance economic development. Investments are stated at cost or amortized cost.

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible.

The City provides an allowance for doubtful accounts based upon the anticipated collectibility of each specific account as determined by experience. A detail schedule of receivables can be found at Note 5.

Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. The total assessed value of property was \$736,093,827 and the tax rates were \$.47 per \$100 valuation for maintenance and operations and \$.18 per \$100 valuation for debt service. Unpaid taxes attach as an enforceable lien on property as of January 31. Revenue from taxes assessed is recorded as deferred revenue on October 1. The deferred revenue from taxes is then recognized as revenue during the year as the taxes are actually received.

4. Inventories and Prepaid Items

Inventories of materials and supplies are accounted for using the consumption method. Under the consumption method, inventories are recorded as expenditures when they are used with significant amounts on hand reported on the balance sheet at average cost. In governmental funds, reported inventories do not represent available spendable resources and are, therefore, equally offset by a fund balance reservation.

5. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The C.O. Series 2003 Fund account is used to report those proceeds of revenue bond issuance that are restricted for use in construction of airport improvements. The Water and Sanitary Sewer Fund Debt Service Fund account is used to segregate resources accumulated for debt service payments over the life of the bonds.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Building improvements	10 to 20
Improvements other than buildings	20 to 45
Public domain infrastructure	20 to 40
Vehicles	12
Heavy equipment	10 to 15
Office equipment	7
Computer equipment	5 to 7

7. Construction-in-Progress

Expenditures on incomplete capital projects have been capitalized as construction-in-progress. The assets resulting from these projects will be transferred from the construction-in-progress accounts to the appropriate asset account as the projects are completed. Interest incurred, when material, during the construction phase of business-type activities is included as a part of the capitalized value of the constructed asset. During the fiscal year ended September 30, 2005, there was no interest capitalized.

8. Compensated Absences

The City's vacation pay policy provides that vacation pay accrue at various rates based on length of service up to the maximum of 21 days per year. Generally, sick leave is not paid upon termination except for firemen and policemen. Firemen and policemen accumulate unused sick leave up to a maximum of 90 days. All other employees are paid only upon illness while in the employ of the City.

As of September 30, 2005, the liability for accrued vacation leave and accrued sick leave is \$887,015. The amounts applicable to the Enterprise Funds (\$58,433) have been recorded in those funds, and the amount applicable to other funds (\$828,582) has been recorded in the Statement of Net Assets for Governmental Activities.

9. Fund Equity

Reserves of fund balance or retained earnings are used to indicate that a portion of fund equity is not available for expenditure or is legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

10. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets. Net assets reported as restricted are those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations.

11. Deferred Bond Issue Costs

Deferred bond issue costs are amortized using the effective interest method over the remaining life of the bond.

12. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

13. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in Governmental Funds. Encumbrances outstanding at year-end are reported as reservations of Fund balances since they do not constitute expenditures or liabilities. There were no encumbrances outstanding at September 30, 2005.

In accordance with the budgetary policies of the City, encumbrance accounting is also employed by Proprietary Fund-Types for management control purposes. Encumbrances outstanding at year-end are not reported as reservations of retained earnings nor have they been included as expenses or liabilities of Proprietary Fund-Types.

NOTE 2 – Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(21,879,983) difference are as follows:

Certificates of obligations payable	\$(12,630,000)
General obligation bonds	(3,470,000)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	136,531
Notes payable	(5,096,061)
Compensated absences	<u>(819,453)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ (21,879,983)</u>

Another element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$17,798,619 difference are as follows:

Capital assets, October 1, 2004, net of accumulated depreciation	\$15,405,669
Capital asset additions, net of retirements	3,184,742
Depreciation of capital assets, current year	<u>(791,792)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$17,798,619</u>

Another element of that reconciliation states that “Certain receivables will be collected next year but are not available soon enough to pay for the current period’s expenditures and, therefore, are reported as deferred revenues in the funds.” The details of this \$1,008,192 difference are as follows:

Deferred property tax revenues	\$ 343,824
Deferred special assessments	<u>664,368</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$1,008,192</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$2,392,950 difference are as follows:

Capital outlay	\$3,184,742
Depreciation expense	<u>(791,792)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$2,392,950</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities”. The details of this \$(1,193,270) difference are as follows:

Issuance of general obligation notes	\$(610,000)
Line of credit obtained	(2,250,000)
Change in compensated absences	(60,376)
Principal repayments	1,768,073
Amortization of bond issuance costs	(31,816)
Change in interest receivable	<u>(9,151)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$(1,193,270)</u>

NOTE 3 – Stewardship, Compliance and Accountability

A. Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to October 1, the budget is legally enacted through passage of an ordinance.
3. The City Council approves, by ordinance, budget appropriations on a departmental basis. The City Manager is authorized to transfer budget amounts within any department; however, any revisions that alter the total departmental appropriation must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations for each department.
4. A formal budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

5. Several budget amendments were made during the year.
6. Appropriations lapse at year-end.

B. Expenditures Over Appropriations

Expenditures exceeded appropriations in the Equipment Replacement Fund by \$56,189 and the Tourism Fund by \$22,076. As of September 30, 2005, no individual Fund had a deficit fund balance or retained earnings.

NOTE 4 – Deposits and Investments

As of September 30, 2005, the City had the following deposits and investments:

	<u>BOOK BALANCE</u>	<u>BANK BALANCE</u>
Depository Accounts		
Insured	\$ 100,000	\$ 100,000
Collateral held by pledging bank's Trust Department in City's name	<u>5,967,543</u>	<u>7,220,830</u>
Total Depository Accounts	\$ 6,067,543	\$ 7,320,830
Certificates of Deposit – Collateral held by pledging bank's Trust Department in City's name	<u>9,133,437</u>	<u>9,133,437</u>
Total Cash at bank	15,200,980	16,454,267
Petty Cash on hand	<u>1,100</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 15,202,080</u>	<u>\$ 16,454,267</u>

Interest Rate Risk – The City's investment policy allows for portfolio maturities to be structured to meet the obligations of the City first, and then to achieve the highest rate of return.

NOTE 5 – Receivables

Receivables as of year-end for the government's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General and Internal Service Fund</u>	<u>Rent Supplement Section 8</u>	<u>Nonmajor and Other Funds</u>	<u>Water Utilities Fund</u>	<u>Total</u>
Receivables:					
Taxes	\$1,460,021	\$ -	\$ 113,259	\$ -	\$1,513,280
Special assessment Accounts	<u>1,630</u>	<u>6,491</u>	<u>1,012,093</u>	<u>1,408,420</u>	<u>1,012,093</u>
Gross receivables	1,461,651	6,491	1,125,352	1,408,420	4,001,914
Less: Allowance for Uncollectibles	<u>43,686</u>	<u>-</u>	<u>364,713</u>	<u>60,170</u>	<u>468,569</u>
Net total receivables	<u>\$1,417,965</u>	<u>\$ 6,491</u>	<u>\$ 760,639</u>	<u>\$1,348,250</u>	<u>\$3,553,345</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Street improvement assessments	\$ 664,368
Property taxes	<u>343,824</u>
	<u>\$ 1,008,192</u>

NOTE 6 – Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 137,200	\$ -	\$ -	\$ 137,200
Construction in Progress	<u>6,054,935</u>	<u>2,875,924</u>	<u>8,336,004</u>	<u>594,855</u>
Total capital assets, not being depreciated	6,192,135	2,875,924	8,336,004	732,055
Capital assets, being depreciated:				
Buildings	3,672,095	61,367	-	3,733,462
Improvements, other than buildings	1,111,968	54,721	-	1,166,689
Machinery and equipment	3,911,779	588,917	-	4,500,696
Infrastructure	<u>23,496,732</u>	<u>8,336,004</u>	-	<u>31,832,736</u>
Total capital assets, being depreciated	32,192,574	9,041,009	-	41,233,583
Less accumulated depreciation for:				
Buildings	1,581,800	82,579	-	1,664,379
Improvements, other than buildings	610,312	45,913	-	656,225
Machinery and equipment	1,799,569	365,617	-	2,165,186
Infrastructure	<u>17,283,809</u>	<u>590,747</u>	-	<u>17,874,556</u>
Total accumulated depreciation	21,275,490	1,084,856	-	22,360,346
Total capital assets, being depreciated, net	<u>10,917,084</u>	<u>7,956,154</u>	-	<u>18,873,237</u>
Governmental activities capital assets, net	<u>\$ 17,109,219</u>	<u>\$ 10,832,078</u>	<u>\$ 8,336,004</u>	<u>\$ 19,605,292</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 885,019	\$ -	\$ -	\$ 885,019
Construction in progress	<u>1,509,594</u>	<u>1,744,574</u>	<u>1,153,925</u>	<u>2,100,243</u>
Total capital assets, not being depreciated	2,394,613	1,744,574	1,153,925	2,985,262

Capital assets, being depreciated:				
Buildings and improvements	17,708,667	1,227,241	43,570	18,892,338
Machinery and equipment	<u>24,204,242</u>	<u>-</u>	<u>-</u>	<u>24,204,242</u>
Total capital assets, being depreciated	41,912,909	1,227,241	43,570	43,096,580
Less accumulated depreciation for:				
Buildings and improvements	6,615,145	337,248	-	6,952,393
Machinery and equipment	<u>10,445,305</u>	<u>550,457</u>	<u>-</u>	<u>10,995,762</u>
Total accumulated depreciation	17,060,450	887,705	-	17,948,155
Total capital assets, being depreciated, net	<u>24,852,459</u>	<u>339,536</u>	<u>43,570</u>	<u>25,148,425</u>
Business-Type activities capital assets, net	<u>\$27,247,072</u>	<u>\$2,084,110</u>	<u>\$1,197,495</u>	<u>\$28,133,687</u>

Depreciation was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 60,399
Public safety	54,294
Highways and streets, including depreciation of general infrastructure assets	596,116
Culture and recreation	80,983
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>293,064</u>
Total depreciation expense – governmental activities	<u>\$1,084,856</u>
Business-type activities:	
Water	\$ 647,903
Airport	<u>239,802</u>
Total depreciation expense – business-type activities	<u>\$ 887,705</u>

Construction commitments

The government has active construction projects as of September 30, 2005. The projects include street construction and expansion. At year-end, the government's commitments with contractors are as follows:

Project	Contract <u>Amounts</u>	Spent-to-date	Estimated Remaining <u>Commitment</u>
Various street and utilities improvements	<u>\$ 14,165,022</u>	<u>\$ 2,695,099</u>	<u>\$ 11,470,923</u>

NOTE 7 – Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2005 is as follow:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 231,599	\$ -
Infrastructure Grant	-	48,287
Utility	-	78,623
Payroll	-	50,466
Housing Rehab	-	5,190
Sec 8 Housing	-	27,434
Utility		-
Debt Service	143,790	
Payroll	-	93,430
Permanent Street Improvements	-	2,756
Equipment Replacement	-	10,325
General	-	362
		36,917
Airport	4,642	
Utility		4,642
TEDC	18,841	
Public Improvement District	-	18,841
Tourism	3,000	
General		3,000
Debt Service	107,635	
Airport	-	107,635
Permanent Street Improvement	43,818	
TEDC	-	43,818
	<u>\$ 553,325</u>	<u>\$ 553,325</u>

Transfers In

	<u>Terrell Economic Development Corp Fund</u>	<u>Permanent Street Improvement Fund</u>	<u>Water and Sanitary Sewer Fund</u>	<u>Total</u>
Transfers out:				
General Fund	\$1,682,415	\$ -	\$ -	\$1,682,415
Terrell Economic Development Corporation Fund	-	100,000	-	100,000
Public Improvement District Fund	36,137	-	-	36,137
Debt Service Fund	-	-	442,531	442,531
C.O. Tax & Revenue Series 2002	-	-	181,688	181,688
	<u>\$1,718,552</u>	<u>\$ 100,000</u>	<u>\$ 624,219</u>	<u>\$2,442,771</u>

NOTE 8 – Long-Term Debt

Bonded debt

Bonded debt of the City as of September 30, 2005 is comprised of the following individual issues:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Issued</u>	<u>Outstanding</u>
Water and sewer revenue bonds					
Series 1973	4.10 – 4.15%	1/10/1973	1/10/2013	\$ 1,000,000	\$ 700,000
Series 1970	3.65 – 3.70%	7/10/1970	1/10/2007	730,000	70,000
Total water and sewer revenue bonds				<u>\$ 1,730,000</u>	<u>\$ 770,000</u>

Certificates of obligation						
Series 1999	3.75 – 4.75%	3/2/1999	2/15/2016	\$ 4,500,000	\$ 3,965,000	
Series 2002	3.60 – 4.90%	7/23/2002	2/15/2022	4,500,000	3,550,000	
Series 2003	4.00 – 4.70%	3/21/2003	2/15/2023	1,500,000	1,440,000	
Series 2004	3.00 – 4.50%	9/15/2004	2/15/2024	<u>5,500,000</u>	<u>5,115,000</u>	
Total certificates of obligation				<u>\$16,000,000</u>	<u>\$14,070,000</u>	
General obligation bonds						
Series 2004	2.00 – 3.375%	3/1/2005	2/15/2014	\$ 3,835,000	\$ 3,470,000	
Total general obligation bonds				<u>\$ 3,835,000</u>	<u>\$ 3,470,000</u>	

Annual debt service requirements to maturity for bonded debt are as follows:

Fiscal Year	Certificates of Obligation Tax Supported		Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 570,000	\$ 589,019	\$ 85,000	\$ 29,641	\$ 375,000	\$ 84,644
2007	595,000	562,526	85,000	26,314	385,000	77,044
2008	630,000	535,956	100,000	22,600	385,000	69,344
2009	660,000	508,779	100,000	18,500	370,000	61,331
2010	690,000	480,482	100,000	14,400	380,000	52,419
2011-2015	3,950,000	1,955,675	300,000	18,575	1,575,000	98,540
2016-2020	4,159,000	1,021,979	-	-	-	-
2021-2025	<u>2,380,000</u>	<u>181,880</u>	-	-	-	-
	<u>\$14,070,000</u>	<u>\$5,836,796</u>	<u>\$770,000</u>	<u>\$130,030</u>	<u>\$3,470,000</u>	<u>\$ 443,322</u>

Notes Payable

As of September 30, 2005, the City's notes payable consisted of the following:

The Terrell Economic Development Corporation, a component unit of the City of Terrell, had outstanding \$1,123,518 of its \$3,500,000 construction note from a local bank for funding of the capital improvements to Airport Road. The note is secured by sales tax revenues of the Corporation and will service monthly over a five-year period at 3.65% interest.

The Terrell Economic Development Corporation (TEDC) entered into a line of credit agreement with a local bank on December 18, 2003. The maximum line of credit is \$3,500,000. As of September 30, 2005, TEDC had withdrawn proceeds of \$3,336,634. The loan is secured by sales tax revenues of the Corporation and will service monthly over a fifteen-year period at 4.9% interest.

\$25,908 construction note from a local bank for funding of the renovation costs of a historical library building. The note is due on demand from the lender. If no demand is made, the note will service annually over a five-year period at 5.4% interest.

\$102,060 equipment note to a bank for the purchase of a 2004 jet truck. The note is due in four annual payments of \$27,118, including interest at 2.5%, with the final payment of unpaid balance due November 30, 2008. The note is secured by the 2004 jet truck.

\$19,196 equipment note to a bank for the purchase of a 2004 New Holland tractor. The note is due in two annual payments of \$9,883, including interest at 2%, with the final payment of unpaid balance due November 30, 2006. The note is secured by the 2004 New Holland tractor.

\$122,982 equipment note to a bank for the purchase of a 2004 Elgin street sweeper. The note is due in four annual payments of \$32,677, including interest at 2.5%, with the final payment of unpaid balance due November 30, 2008. The note is secured by the 2004 Elgin street sweeper.

\$22,485 equipment note to a bank for the purchase of a vacuum trailer. The note is due in two annual payments of \$11,646, including interest at 2%, with the final payment of unpaid balance due November 30, 2006. The note is secured by the vacuum trailer.

\$610,000 lease purchase agreement with Wells Fargo for the purchase of a records management system for police department. The agreement calls for five annual payments of \$133,349, including interest at 3.48%, with the final payment of the unpaid balance due October 14, 2009.

Future maturities and amounts paid under the notes after September 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 930,388	\$ 193,768
2007	930,380	166,251
2008	421,833	139,136
2009	390,008	124,220
2010	345,396	109,038
2011-2015	1,241,000	364,420
2016-2020	<u>1,103,779</u>	<u>(60,256)</u>
	<u>\$ 5,362,784</u>	<u>\$ 1,036,577</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2005 was as follows:

	<u>Balance</u> <u>10/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/05</u>	<u>Due Within</u> <u>One Year</u>	<u>Due After</u> <u>One Year</u>
Governmental Activities:						
Compensated balances	\$ 766,912	\$ 61,670	\$ -	\$ 828,582	\$ 138,097	\$ 690,485
Notes payable	3,273,995	2,860,000	771,211	5,362,784	930,388	4,432,396
Certificates of obligation	13,335,000	-	705,000	12,630,000	515,000	12,115,000
General obligation Bonds	<u>3,835,000</u>	<u>-</u>	<u>365,000</u>	<u>3,470,000</u>	<u>375,000</u>	<u>3,095,000</u>
	<u>\$21,210,907</u>	<u>\$ 2,921,670</u>	<u>\$1,841,211</u>	<u>\$ 22,291,366</u>	<u>\$1,958,485</u>	<u>\$20,332,881</u>
Business-type Activities:						
Compensated absences	\$ 46,737	\$ 11,695	\$ -	\$ 58,432	\$ 9,739	\$ 48,693
Certificates of obligation	1,490,000	-	50,000	1,440,000	55,000	1,385,000
Revenue bonds	<u>855,000</u>	<u>-</u>	<u>85,000</u>	<u>770,000</u>	<u>85,000</u>	<u>685,000</u>
	<u>\$ 2,391,737</u>	<u>\$ 11,695</u>	<u>\$ 135,000</u>	<u>\$ 2,268,432</u>	<u>\$ 149,739</u>	<u>\$2,118,693</u>

Bond Covenants

Bond covenants require the following disclosures:

	<u>Interest and Sinking Funds</u>	<u>Reserve Funds</u>
First Lien Bonds		
Required Ultimate Balance	\$ -	\$212,240
Required Present Balance (at FY end)	\$30,492	\$212,240
Actual Present Balance (at FY end)	\$93,498	\$238,017

The following information concerning insurance coverage as of September 30, 2005 is also required to be disclosed.

TYPE OF COVERAGE	INSURANCE CARRIER	LIMITS OF COVERAGE	PER OCCURRENCE DEDUCTIBLE
LIABILITY <u>TML-IRP Contract Number: 5205</u>	Texas Municipal League (TML)		
GENERAL LIABILITY			
General Liability involving pollution		\$2,000,000	\$1,000
General Liability annual aggregate	TML	2,000,000	1,000
<u>Law Enforcement Liability</u>			
Per occurrence	TML	5,000,000	2,500
Annual aggregate		10,000,000	
<u>Errors and Omissions Liability</u>			
Each wrongful act	TML	5,000,000	5,000
Annual aggregate		10,000,000	
AUTOMOBILE			
<u>Automobile Liability</u>			
Limit of liability	TML	1,000,000	1,000
Medical payments limit		25,000	
<u>Automobile Physical Damage</u>			
Each vehicle	TML	Per schedule	1,000
Each occurrence		Per schedule	10,000
AVIATION			
<u>Airport Owner & Operator</u>			
<u>General Liability</u>			
Limit of liability	TML	1,000,000	0
Fire damage, any one fire		50,000	0
Personal/advertising injury		1,000,000	0
Products/completed operations		1,000,000	0
Hangarkeeper's liability		1,000,000	2,500
Total of liability premiums			
PROPERTY <u>TML-IRP Contract Number: 5205-02</u>			
<u>Real and Personal Property</u>			
Blanket coverage includes:	TML		
Windstorm coverage		26,687,039	2,500

Data processing equipment Transit limit Replacement cost		1,000,000	
<u>Mobile Equipment</u> Replacement cost	TML	1,840,736	1,000
<u>Boiler & Machinery – Comprehensive</u> Per accident		8,000,000	1,000
Total property premium			
WORKER'S COMPENSATION			
Annual contribution	TML	125,535	
SURETY BONDS			
<u>City Employee</u>	Western Surety	25,000	
<u>Bond Principal and Interest</u> Tax & Waterworks & Sewer System Surplus Revenue C.O. 2004	XL Capital Assurance		
General Obligation Refunding Bonds, Series 2004	MBIA		

The effective date for all insurance coverage is October 1, 2004 to October 1, 2005.

Other Required Information

Number of water connections/sewer connections at fiscal year end 4,987/4,816

Water Loss	
Total water pumped	1,493,390,000 gallons
Water use	1,345,730,000 gallons
Percentage of water loss	10%

NOTE 9 – Contingent Liabilities

The City is defendant in various lawsuits. Although the outcome of the lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City participates in a number of federally assisted grant programs, principal of which are the HUD Section 8 Housing and Airport Improvement Project. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended September 30, 2005 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

On November 28, 1997, the City was issued an Administrative Order from Region VI of the U.S. Environmental Protection Agency ("EPA") for apparent violations of the City's National Pollution Discharge Elimination System Permit ("NPDES" Permit) for exceeding the allowable amount of silver which could be discharged from the City's wastewater treatment plant. Failure of the City to comply with the Order could result in substantial penalties being assessed against the City.

NOTE 10 – Self-Insurance Plan

The City has established a self-insurance plan for health care benefits that pays 100% of employee claims limited to \$15,000 per employee and \$650,000 in aggregate. The City has insured claims in excess of plan limits. Accrued claims payable include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid each claimant. The provision for claims incurred but not yet reported is estimated based on the City's experience. Claims liabilities are re-evaluated periodically to take into consideration settlement of claims, new claims, and other factors. As of September 30, 2005 and 2004, the estimated value of these liabilities was \$77,108 and \$89,323, respectively.

NOTE 11 – Retirement Commitments

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 801 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 7% and the City matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect, (i.e., December 31, 2004 valuation is effective for rates beginning January 2006). Six-year historical trend information of actuarial liabilities and funding progress may be found in the financial section of this report.

The City of Terrell is one of 794 municipalities having the benefit plan administered by TMRS. Each of the 801 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2004

valuations are contained in the 2004TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

Actuarial Assumptions

Actuarial cost method	Unit credit
Amortization method	Level percent of payroll
Remaining amortization period	25 years – open period
Asset valuation method	Amortized costs (to accurately reflect the requirements of GASB statement No. 25, paragraphs 36e and 138)
Investment rate of return	7%
Projected salary increases	None
Includes inflation at	None
Cost-of-living adjustments	None

NOTE 12 – Risk Management

The City is exposed to risk of loss due to injuries incurred by employees while performing work-related duties. The City provides worker’s compensation insurance coverage with the Texas Municipal League which provides statutory coverage against potential losses.

The City is exposed to various risks of loss related to torts; damage to, and destruction of assets; errors and omissions and natural disasters. A comprehensive insurance plan for property and casualty and general liability coverage has been established with the Texas Municipal League.

NOTE 13 – Operating Leases

The City has various operating lease agreements with an office equipment manufacturer for copiers. Under the lease agreements, the City pays monthly rents totaling \$1,102. The rental expenditures paid to the vendor totaled \$12,195 during the fiscal year ended September 30, 2005. The future minimum lease payments for these leases are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2006	\$ 15,922
2007	14,487
2008	3,640
2009	<u>3,640</u>
 Total	 <u>\$ 37,689</u>

NOTE 14 – Commitments

During the fiscal year ended September 30, 2005, the City entered an agreement with North Texas Municipal Water District (“the District”). Under the agreement, the District has agreed to acquire property and construct a transmission line in order to sale water to the City. As part of the agreement, the project will be financed by a bond issue in the amount of \$12,470,000 issued in the name of the District. The District is responsible for the cost of the project only to the extent of the bond issue and any additional construction costs are the responsibility of the City. During the construction phase, the City is responsible for the monthly transfer of funds to the District in order to pay the debt service obligation of the bonds and to fund any necessary reserve funds established by the bond ordinance.

Upon completion of the project, the rights, title and interest in the project will rest irrevocably with the City. This transaction shall result in the automatic sale and delivery of the project to the City in consideration of the agreement of the City to perform its obligations under the agreement.

NOTE 15 – Prior Period Adjustments

During the current year, the City changed its policy to be in compliance with the provisions of GASB Statement No. 33 regarding sales tax revenue. As a result of this change, the City has recorded a prior period adjustment of \$1,206,466 to restate the beginning fund balance for the General Fund to record sales tax receivable at the beginning of the year.

During the current year, it was determined that revenues for mixed beverage taxes in the prior year for the government wide statement of net assets had been understated. Accordingly, a prior period adjustment has been recorded in the current year statement of activities in the amount of \$8,594 to restate the beginning net assets

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF TERRELL, TEXAS
REQUIRED SUPPLEMENTAL INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF ACTUARIAL LIABILITIES AND FUNDING PROGRESS
 September 30, 2005

Actuarial valuation date	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Actuarial value of assets	\$ 11,777,623	\$ 12,871,291	\$ 12,352,152	\$ 11,878,013	\$ 10,712,279	\$ 9,661,946
Actuarial accrued liability	\$ 15,956,385	\$ 17,274,745	\$ 15,845,615	\$ 15,037,138	\$ 13,549,629	\$ 12,042,188
Percentage funded	73.8%	74.5%	78%	79%	79.2%	80.2%
Unfunded actuarial accrued liability (UAAL)	\$ 4,178,762	\$ 4,403,454	\$ 3,493,463	\$ 3,159,125	\$ 2,837,350	\$ 2,380,242
Annual covered payroll	\$ 6,240,183	\$ 6,171,618	\$ 5,741,161	\$ 4,990,267	\$ 4,357,028	\$ 4,242,465
UAAL as a percentage of covered payroll	67.0%	71.4%	60.8%	63.3%	65.1%	56.1%
Contributions Made	\$ 874,475	\$ 792,580	\$ 759,012	\$ 659,740	\$ 576,022	\$ 560,877
Net pension obligation (NPO)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

COMBINING STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Housing Rehabilitation & Ownership Assistance Fund – to account for Federal block grants awarded by the Texas Department of Community Affairs for housing rehabilitation and first time home buyer assistance of privately owned dwellings by primarily low income citizens.

Tourism Fund – to account for expenditures designated for the promotion of local tourism. Resources are provided from the collection of hotel/motel occupancy tax revenues.

Payroll Fund – to account for the receipt and disbursement of payroll related transfers from other funds. The fund clears all employee paychecks, income tax withholding, social security and other payroll related disbursements.

Grant Fund – to account for receipt and disbursement of grant funds used to construct a new road to a new business.

Public Improvement District – to account for costs of street improvements to Airport Road. Financing is provided from \$3,500,000 note proceeds from a local bank through the Terrell Economic Development Corporation and \$1,000,000 in assessments of property owners for a portion of the cost.

Permanent Street Improvement Fund – to account for the cost of street improvements within the City. Financing is provided by the sale of general obligation bonds and assessments of property owners for a portion of the cost.

C.O. Tax & Revenue Series 2002 Fund – to account for construction projects funded by the Series 2002 bond issuance.

Infrastructure Improvements – to account for street and utility service construction for Pioneer Terraces multifamily housing subdivision.

Impact Fess Fund – to account for fees charged on developments in order to improve current existing infrastructure.

Park Land/Park Dedication Fees Fund – to account for fees charged on new residential construction for future parks development.

Debt Service Fund – to account for the accumulation of resources for payment of interest and principal on general obligation long-term bonded debt. A portion of the annual ad valorem tax levy is designated for debt service.

CITY OF TERRELL, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	SPECIAL REVENUE FUNDS										CAPITAL PROJECT FUNDS										Total Nonmajor Governmental Funds
	Housing Rehabilitation & Assistance Fund	Tourism Fund	Payroll Fund	Grant Fund	Total Special Revenue Funds	Public Improvement District Fund	Permanent Street Improvement Fund	C.O. Tax & Revenue Series 2002	Infrastructure Grant Fund	Impact Fees Fund	Park Land/ Park Dedication Fees Fund	Total Capital Project Funds	Debt Service Fund								
Assets																					
Cash and cash equivalents	\$ 11,336	\$ 25,912	\$ 55,093	\$ 6,200	\$ 98,541	\$ 18,841	\$ 595,960	\$ -	\$ 48,529	\$ 147,294	\$ -	\$ 810,624	\$ 270,941	\$ 1,180,106							
Taxes receivable, net of uncollectibles	-	-	-	-	-	65,198	599,170	-	-	-	-	664,368	96,271	96,271							
Special assessments	-	3,000	-	-	3,000	-	43,818	-	-	-	-	100,318	-	664,368							
Due from other funds	-	-	-	-	-	-	-	-	-	-	56,500	-	-	107,635							
Total assets	\$ 11,336	\$ 28,912	\$ 55,093	\$ 6,200	\$ 101,541	\$ 84,039	\$ 1,238,948	\$ -	\$ 48,529	\$ 147,294	\$ 56,500	\$ 1,575,310	\$ 474,847	\$ 2,151,698							
Liabilities and fund balance																					
Liabilities:																					
Accounts payable	\$ -	\$ 4,316	\$ 1,871	\$ -	\$ 6,187	\$ -	\$ 19,195	\$ 74,214	\$ -	\$ -	\$ -	\$ 93,409	\$ -	\$ 99,596							
Due to other funds	5,190	-	53,222	6,200	64,612	18,841	599,170	-	48,287	56,500	-	123,628	93,430	281,670							
Deferred revenues	-	-	-	-	-	65,198	-	-	-	-	-	664,368	96,271	760,639							
Total liabilities	5,190	4,316	55,093	6,200	70,799	84,039	618,365	74,214	48,287	56,500	-	881,405	189,701	1,141,905							
Fund balances:																					
Reserved for debt service	-	-	-	-	-	-	-	-	-	-	-	-	285,146	285,146							
Reserved for capital projects	-	-	-	-	-	-	620,583	(74,214)	242	90,794	56,500	693,905	-	693,905							
Reserved for grants / donations	6,146	-	-	-	6,146	-	-	-	-	-	-	-	-	6,146							
Unreserved fund balance	-	24,596	-	-	24,596	-	-	-	-	-	-	-	-	24,596							
Total fund balance	6,146	24,596	-	-	30,742	-	620,583	(74,214)	242	90,794	56,500	693,905	285,146	1,009,793							
Total liabilities and fund balance	\$ 11,336	\$ 28,912	\$ 55,093	\$ 6,200	\$ 101,541	\$ 84,039	\$ 1,238,948	\$ -	\$ 48,529	\$ 147,294	\$ 56,500	\$ 1,575,310	\$ 474,847	\$ 2,151,698							

CITY OF TERRELL, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	SPECIAL REVENUE FUNDS										CAPITAL PROJECT FUNDS					Total Nominal Governmental Funds
	Housing Rehabilitation & Ownership Assistance Fund	Tourism Fund	Payroll Fund	Grant Fund	Special Revenue Funds	Total Special Revenue Funds	Public Improvement District Fund	Permanent Street Improvement Fund	C.O. Tax & Revenue Series 2002	Infrastructure Grant Fund	Impact Fees Fund	Park Land/ Park Fees Fund	Total Capital Project Funds	Debt Service Fund		
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,355,567	
Ad valorem taxes	-	-	-	-	173,719	173,719	-	-	-	-	-	-	-	-	173,719	
Hotel/motel occupancy taxes	-	-	-	-	989,000	989,000	-	-	-	-	-	-	-	-	989,000	
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-	146,868	
Charges for services	-	709	-	-	709	709	1,800	-	97	90,368	56,500	146,868	-	-	25,944	
Interest	-	-	-	-	-	-	2,661	-	-	426	-	38,138	22,873	-	38,138	
Street assessments	-	-	-	-	35,477	35,477	659	-	-	-	-	659	-	-	659	
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total revenue	174,428	-	-	989,000	1,163,428	1,163,428	36,136	4,461	97	90,794	56,500	188,027	1,378,440	-	2,729,895	
Expenditures																
Current	-	-	-	49,000	219,749	219,749	-	-	-	-	-	-	-	-	219,749	
General government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	386,920	
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Debt service	-	-	-	-	24,977	24,977	-	-	-	-	-	-	1,070,000	-	1,094,977	
Principal retirement	-	2,550	-	-	2,550	2,550	-	-	-	-	-	-	631,802	-	634,352	
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total expenditures	198,276	-	-	49,000	247,276	247,276	386,920	-	-	90,794	56,500	386,920	1,701,802	-	2,335,998	
Excess (deficiency) of revenues over expenditures	(23,848)	-	-	940,000	916,152	916,152	36,136	(382,459)	97	90,794	56,500	(198,893)	(323,362)	-	393,897	
Other Financing Sources (Uses)																
Transfers out	-	-	-	(940,000)	(940,000)	(940,000)	(36,136)	(4,509)	-	-	-	(40,645)	-	-	(980,645)	
Transfers in	-	-	-	-	281,688	281,688	281,688	4,509	-	-	-	286,197	442,531	-	728,728	
Total other financing sources (uses)	-	-	-	(940,000)	(940,000)	(940,000)	(36,136)	277,179	-	-	-	245,552	442,531	-	(251,917)	
Net change in fund balances	(23,848)	-	-	-	(23,848)	(23,848)	-	(105,280)	97	90,794	56,500	46,659	119,169	-	141,980	
Fund balance at beginning of year	6,146	48,444	-	-	54,590	54,590	-	725,863	145	-	-	647,246	165,977	-	867,813	
Fund balance at end of year	\$ 6,146	\$ 24,596	\$ -	\$ -	\$ 30,742	\$ 30,742	\$ -	\$ 620,583	\$ 242	\$ 90,794	\$ 56,500	\$ 693,905	\$ 285,146	\$ -	\$ 1,009,793	

INTERNAL SERVICE FUNDS

Self-Insurance Fund – to account for the receipt and disbursement of medical insurance expenditures and related transfers from other funds.

Equipment Replacement Fund – to account for the acquisition, maintenance and other operation expenses of the City's fleet assets. Revenues are generated from the rental of equipment to various departments within the City.

CITY OF TERRELL, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2005

	SELF- INSURANCE FUND	EQUIPMENT REPLACEMENT FUND	TOTAL
Assets			
Current assets			
Cash	\$ 151,766	\$ 255,505	\$ 407,271
Due from other funds	-	-	-
Total current assets	<u>151,766</u>	<u>255,505</u>	<u>407,271</u>
Capital assets			
Vehicles and equipment	-	3,653,479	3,653,479
Accumulated depreciation	-	(1,846,806)	(1,846,806)
Net capital assets	<u>-</u>	<u>1,806,673</u>	<u>1,806,673</u>
Total assets	<u>151,766</u>	<u>2,062,178</u>	<u>2,213,944</u>
Liabilities			
Current liabilities			
Accounts payable	77,108	2,068	79,176
Accrued expenses	-	9,035	9,035
Due to other funds	-	363	363
Compensated absences	-	9,130	9,130
Note payable	-	74,865	74,865
Total current liabilities	<u>77,108</u>	<u>95,461</u>	<u>172,569</u>
Long-term liabilities (net of current portion)			
Note payable	-	191,858	191,858
Total long-term liabilities	<u>-</u>	<u>191,858</u>	<u>191,858</u>
Total liabilities	<u>77,108</u>	<u>287,319</u>	<u>364,427</u>
Net Assets			
Invested in capital assets, net of related debt	-	1,539,950	1,539,950
Unrestricted	<u>74,658</u>	<u>234,909</u>	<u>309,567</u>
Total net assets	<u>\$ 74,658</u>	<u>\$ 1,774,859</u>	<u>\$ 1,849,517</u>

CITY OF TERRELL, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended September 30, 2005

	SELF- INSURANCE FUND	EQUIPMENT REPLACEMENT FUND	TOTAL
Operating revenues			
Charges for services	\$ -	\$ 1,031,751	\$ 1,031,751
Contributions	1,234,801	-	1,234,801
Insurance proceeds	604,854	27,966	632,820
Total operating revenue	<u>1,839,655</u>	<u>1,059,717</u>	<u>2,899,372</u>
Operating expenses			
Personnel services	-	183,394	183,394
Supplies	-	214,070	214,070
Repairs and maintenance	-	64,882	64,882
Miscellaneous services and sundry charges	-	184,371	184,371
Insurance claims	1,313,946	-	1,313,946
Administrative fees	312,654	-	312,654
Depreciation	-	293,063	293,063
Total operating expenses	<u>1,626,600</u>	<u>939,780</u>	<u>2,566,380</u>
Total operating income (loss)	<u>213,055</u>	<u>119,937</u>	<u>332,992</u>
Non-operating revenues (expenses):			
Interest income	319	2,031	2,350
Loss on sale of fixed assets	-	-	-
Interest expense	-	(6,748)	(6,748)
Total non-operating revenue (expense)	<u>319</u>	<u>(4,717)</u>	<u>(4,398)</u>
Change in net assets	213,374	115,220	328,594
Net assets, beginning of year	<u>(138,716)</u>	<u>1,659,639</u>	<u>1,520,923</u>
Net assets, end of year	<u>\$ 74,658</u>	<u>\$ 1,774,859</u>	<u>\$ 1,849,517</u>

CITY OF TERRELL, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2005

	SELF- INSURANCE FUND	EQUIPMENT REPLACEMENT FUND	TOTAL
<u>Cash flows from operating activities</u>			
Cash received from customers and users	\$ 1,839,655	\$ 1,059,717	\$ 2,899,372
Cash paid to suppliers	(312,654)	(466,877)	(779,531)
Insurance claims paid	(1,325,832)	-	(1,325,832)
Cash paid for personnel services	-	(185,662)	(185,662)
Net cash provided (used) by operating activities	<u>201,169</u>	<u>407,178</u>	<u>608,347</u>
<u>Cash flows from capital and related financing activities</u>			
Purchase of capital assets	-	(396,187)	(396,187)
Principal payments on long-term debt	-	(73,139)	(73,139)
Interest payments on long-term debt	-	(6,748)	(6,748)
Proceeds from notes payable	-	-	-
Net cash used by capital and related financing activities	<u>-</u>	<u>(476,074)</u>	<u>(476,074)</u>
<u>Cash flows from investing activities</u>			
Interest received	319	2,031	2,350
Net cash provided by investing activities	<u>319</u>	<u>2,031</u>	<u>2,350</u>
Increase (decrease) in cash	201,488	(66,865)	134,623
Cash and cash equivalents, at beginning of year	<u>(49,722)</u>	<u>322,370</u>	<u>272,648</u>
Cash and cash equivalents, at end of year	<u>\$ 151,766</u>	<u>\$ 255,505</u>	<u>\$ 407,271</u>
<u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities</u>			
Operating income (loss)	\$ 213,055	\$ 119,937	\$ 332,992
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation	-	293,063	293,063
(Increase)Decrease in due from other funds	-	3,736	3,736
Increase(Decrease) in accounts payable	(11,886)	(5,853)	(17,739)
Increase(Decrease) in accrued expenses	-	(5,001)	(5,001)
Increase(Decrease) in due to other funds	-	-	-
Increase(Decrease) in compensated absences	-	1,296	1,296
Net cash provided (used) for operating activities	<u>\$ 201,169</u>	<u>\$ 407,178</u>	<u>\$ 608,347</u>

**CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS**

CITY OF TERRELL, TEXAS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE (1)
September 30, 2005

Governmental Funds Capital Assets:	
Land	\$ 137,200
Buildings	3,733,462
Improvements other than buildings	1,166,689
Machinery and equipment	847,217
Infrastructure	31,832,736
Construction in progress	<u>594,855</u>
Total governmental funds capital assets	<u>\$ 38,312,159</u>
Investment in Governmental Funds Capital Assets by Source:	
General funds	3,585,029
Capital projects funds	34,513,418
Donations	<u>213,712</u>
Total governmental funds capital assets	<u>\$ 38,312,159</u>

(1) - This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF TERRELL, TEXAS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY (1)
September 30, 2005

Function and activity	Land	Buildings	Improvements other than Buildings	Machinery and Equipment	Infrastructure	Construction in progress	Total
General government:							
Legislative	\$ -	\$ 221,126	\$ 27,600	\$ 69,500	\$ -	\$ -	\$ 318,226
Administration	-	-	-	6,000	-	-	6,000
Animal control	-	67,890	6,100	7,800	-	-	81,790
Municipal building	137,200	1,657,167	52,600	8,800	-	-	1,855,767
Municipal court	-	22,402	-	-	-	-	22,402
Municipal development	-	-	-	12,890	-	-	12,890
Engineering	-	-	-	26,177	-	-	26,177
Library	-	565,454	36,800	54,761	-	-	657,015
Section 8	-	-	-	28,857	-	-	28,857
Total general government	<u>137,200</u>	<u>2,534,039</u>	<u>123,100</u>	<u>214,785</u>	<u>-</u>	<u>-</u>	<u>3,009,124</u>
Public safety:							
Police	-	-	-	272,043	-	-	272,043
Fire	-	478,000	33,500	152,635	-	-	664,135
Total public safety	<u>-</u>	<u>478,000</u>	<u>33,500</u>	<u>424,678</u>	<u>-</u>	<u>-</u>	<u>936,178</u>
Streets	<u>-</u>	<u>67,000</u>	<u>6,300</u>	<u>40,700</u>	<u>26,372,656</u>	<u>6,054,935</u>	<u>32,541,591</u>
Parks & recreation	<u>-</u>	<u>676,825</u>	<u>1,003,789</u>	<u>144,652</u>	<u>-</u>	<u>-</u>	<u>1,825,266</u>
Total general capital assets	<u>\$ 137,200</u>	<u>\$ 3,755,864</u>	<u>\$ 1,166,689</u>	<u>\$ 824,815</u>	<u>\$ 26,372,656</u>	<u>\$ 6,054,935</u>	<u>\$ 38,312,159</u>

(1) - This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF TERRELL, TEXAS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY (1)
For the fiscal year ended September 30, 2005

<u>Function and activity</u>	<u>Governmental Funds Capital Assets October 1, 2004</u>	<u>Transfers & Additions</u>	<u>Transfers & Deductions</u>	<u>Governmental Funds Capital Assets September 30, 2005</u>
General government:				
Legislative	\$ 318,226	\$ -	\$ -	\$ 318,226
Administration	6,000	-	-	6,000
Animal control	81,790	-	-	81,790
Municipal building	1,794,400	61,367	-	1,855,767
Municipal court	-	22,402	-	22,402
Municipal development	12,890	-	-	12,890
Engineering	26,177	-	-	26,177
Library	657,015	-	-	657,015
Section 8	7,900	20,957	-	28,857
Total general government	<u>2,904,398</u>	<u>104,726</u>	<u>-</u>	<u>3,009,124</u>
Public safety:				
Police	216,888	55,155	-	272,043
Fire	619,777	44,358	-	664,135
Total public safety	<u>836,665</u>	<u>99,513</u>	<u>-</u>	<u>936,178</u>
Streets	29,665,667	2,875,924	-	32,541,591
Parks & recreation	1,720,687	104,579	-	1,825,266
Total general capital assets	<u>\$ 35,127,417</u>	<u>\$ 3,184,742</u>	<u>\$ -</u>	<u>\$ 38,312,159</u>

(1) - This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF TERRELL, TEXAS
GENERAL FUND
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General property and local taxes				
Current ad valorem taxes	\$ 3,283,409	\$ 3,283,409	\$ 3,274,545	\$ (8,864)
Delinquent ad valorem taxes	100,000	100,000	90,150	(9,850)
Penalty and interest	80,000	80,000	60,474	(19,526)
Sales and use taxes	6,200,000	6,200,000	6,683,382	483,382
Mixed drink tax	25,000	25,000	33,143	8,143
Gross receipt taxes	1,418,000	1,418,000	1,513,702	95,702
Total general property & local taxes	<u>11,106,409</u>	<u>11,106,409</u>	<u>11,655,396</u>	<u>548,987</u>
Licenses and permits				
Business licenses and permits	<u>205,400</u>	<u>205,400</u>	<u>237,544</u>	<u>32,144</u>
Fines, fees, forfeits and penalties				
Municipal court fines	240,000	240,000	306,132	66,132
Library	12,500	12,500	13,729	1,229
Total fines, fees, forfeits and penalties	<u>252,500</u>	<u>252,500</u>	<u>319,861</u>	<u>67,361</u>
Charges for services				
Sanitation and waste disposal	400,000	400,000	477,823	77,823
Landfill	10,000	10,000	11,391	1,391
Section 8 Housing	336,071	336,071	311,372	(24,699)
Swimming pool	23,500	23,500	26,868	3,368
Other	34,860	38,900	41,492	2,592
Total charges for services	<u>804,431</u>	<u>808,471</u>	<u>868,946</u>	<u>60,475</u>
Intergovernmental and other agencies				
Administrative overhead	300,000	300,000	300,000	-
County	73,500	73,500	67,500	(6,000)
State and other	15,000	25,085	43,899	18,814
Total intergovernmental	<u>388,500</u>	<u>398,585</u>	<u>411,399</u>	<u>12,814</u>
Revenues from use of money or property				
Interest	40,000	40,000	44,890	4,890
Miscellaneous				
Donations	250	1,750	1,600	(150)
Other	42,280	648,727	269,482	(379,245)
Total miscellaneous	<u>42,530</u>	<u>650,477</u>	<u>271,082</u>	<u>(379,395)</u>
Other Financing Sources				
Proceeds from bank note	-	-	610,000	610,000
Transfers in	-	-	22,393	22,393
Total other financing sources	<u>-</u>	<u>-</u>	<u>632,393</u>	<u>632,393</u>
Total Revenues	<u>\$ 12,839,770</u>	<u>\$ 13,461,842</u>	<u>\$ 14,441,511</u>	<u>\$ 979,669</u>

CITY OF TERRELL, TEXAS
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General Government				
Legislative				
Personnel services	\$ 59	\$ 59	\$ 59	\$ -
Supplies	14,250	19,390	20,262	(872)
Miscellaneous	1,804,750	301,921	204,925	96,996
Capital outlay	-	-	-	-
Total legislative department	<u>1,819,059</u>	<u>321,370</u>	<u>225,246</u>	<u>96,124</u>
Administrative department				
Personnel services	949,771	979,002	911,667	67,335
Supplies	31,310	30,884	29,549	1,335
Repairs and maintenance	21,510	22,343	14,819	7,524
Miscellaneous	449,840	444,707	415,414	29,293
Capital outlay	18,720	20,958	21,873	(915)
Total administrative	<u>1,471,151</u>	<u>1,497,894</u>	<u>1,393,322</u>	<u>104,572</u>
Municipal court				
Personnel services	79,485	79,752	78,620	1,132
Supplies	2,800	2,752	1,030	1,722
Repairs and maintenance	2,750	2,750	2,635	115
Miscellaneous	39,000	41,332	37,349	3,983
Capital outlay	30,000	27,449	22,402	5,047
Total municipal court	<u>154,035</u>	<u>154,035</u>	<u>142,036</u>	<u>11,999</u>
Legal department				
Special services	204,400	198,137	206,751	(8,614)
Total legal	<u>204,400</u>	<u>198,137</u>	<u>206,751</u>	<u>(8,614)</u>
Municipal building				
Personnel services	106,355	109,675	105,438	4,237
Supplies	51,900	62,021	63,073	(1,052)
Repairs and maintenance	183,600	169,871	130,785	39,086
Miscellaneous services	186,300	188,300	201,736	(13,436)
Capital outlay	-	73,000	61,415	11,585
Total municipal building	<u>528,155</u>	<u>602,867</u>	<u>562,447</u>	<u>40,420</u>

(Continued)

CITY OF TERRELL, TEXAS
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
General government (continued)				
Public works				
Personnel services	\$ 708,667	\$ 721,908	\$ 656,741	\$ 65,167
Supplies	13,900	14,831	7,941	6,890
Repairs and maintenance	11,650	12,261	12,216	45
Miscellaneous	175,450	188,805	186,753	2,052
Capital outlay	70,000	70,480	10,483	59,997
Total public works	<u>979,667</u>	<u>1,008,285</u>	<u>874,134</u>	<u>134,151</u>
Total general government	<u>5,156,467</u>	<u>3,782,588</u>	<u>3,403,936</u>	<u>378,652</u>
Public safety				
Police services				
Personnel services	3,288,864	3,373,372	3,059,693	313,679
Supplies	89,100	73,375	84,017	(10,642)
Repairs and maintenance	28,100	28,100	25,644	2,456
Miscellaneous	379,680	386,894	383,963	2,931
Capital outlay	63,200	682,994	444,530	238,464
Total police department	<u>3,848,944</u>	<u>4,544,735</u>	<u>3,997,847</u>	<u>546,888</u>
Fire department				
Personnel services	1,339,668	1,346,271	1,282,947	63,324
Supplies	35,150	16,972	26,188	(9,216)
Repairs and maintenance	35,300	60,300	36,227	24,073
Miscellaneous	111,350	116,805	103,246	13,559
Capital outlay	50,000	51,372	45,731	5,641
Total fire department	<u>1,571,468</u>	<u>1,591,720</u>	<u>1,494,339</u>	<u>97,381</u>
Animal control				
Personnel services	126,533	126,633	101,688	24,945
Supplies	7,410	8,842	6,941	1,901
Repairs and maintenance	600	600	441	159
Miscellaneous	18,200	19,792	31,249	(11,457)
Capital outlay	8,200	8,030	7,982	48
Total animal control	<u>160,943</u>	<u>163,897</u>	<u>148,301</u>	<u>15,596</u>
Total public safety	<u>5,581,355</u>	<u>6,300,352</u>	<u>5,640,487</u>	<u>659,865</u>

(Continued)

CITY OF TERRELL, TEXAS
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Highways and streets				
Street department				
Personnel services	\$ 556,501	\$ 578,283	\$ 522,884	\$ 55,399
Supplies	113,100	116,597	86,622	29,975
Repairs and maintenance	359,550	291,361	246,097	45,264
Miscellaneous	248,019	254,948	251,878	3,070
Capital outlay	10,000	10,000	5,050	4,950
Total street department	<u>1,287,170</u>	<u>1,251,189</u>	<u>1,112,531</u>	<u>138,658</u>
Street lighting				
Miscellaneous - electricity	200,000	200,000	216,217	(16,217)
Total street lighting	<u>200,000</u>	<u>200,000</u>	<u>216,217</u>	<u>(16,217)</u>
Total highways and streets	<u>1,487,170</u>	<u>1,451,189</u>	<u>1,328,748</u>	<u>122,441</u>
Sanitation				
Miscellaneous	444,400	441,446	437,702	3,744
Total sanitation	<u>444,400</u>	<u>441,446</u>	<u>437,702</u>	<u>3,744</u>
Landfill				
Personnel services	9,130	9,130	8,221	909
Supplies	1,000	1,139	983	156
Repairs and maintenance	4,200	3,461	1,076	2,385
Miscellaneous	10,430	11,030	8,681	2,349
Total landfill	<u>24,760</u>	<u>24,760</u>	<u>18,961</u>	<u>5,799</u>
Total sanitation department	<u>469,160</u>	<u>466,206</u>	<u>456,663</u>	<u>9,543</u>
Culture and recreation				
Park				
Personnel services	345,444	345,444	309,494	35,950
Supplies	17,550	15,350	9,949	5,401
Repairs and maintenance	23,700	25,200	25,108	92
Miscellaneous	114,650	115,902	110,160	5,742
Capital outlay	55,000	55,000	54,858	142
Total park	<u>556,344</u>	<u>556,896</u>	<u>509,569</u>	<u>47,327</u>

(Continued)

CITY OF TERRELL, TEXAS
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Culture and recreation (continued)				
Swimming pool				
Personnel services	\$ 47,749	\$ 47,809	\$ 38,668	\$ 9,141
Supplies	21,800	15,519	14,308	1,211
Repairs and maintenance	3,500	5,000	4,275	725
Miscellaneous	2,100	2,100	836	1,264
Capital outlay	50,000	54,721	54,721	-
Total swimming pool	<u>125,149</u>	<u>125,149</u>	<u>112,808</u>	<u>12,341</u>
Library				
Personnel services	407,208	407,208	356,466	50,742
Supplies	64,150	60,041	63,870	(3,829)
Repairs and maintenance	13,350	24,601	24,498	103
Miscellaneous services	45,750	43,268	40,851	2,417
Capital outlay	22,750	29,731	24,100	5,631
Total library	<u>553,208</u>	<u>564,849</u>	<u>509,785</u>	<u>55,064</u>
Total culture and recreation department	<u>1,234,701</u>	<u>1,246,894</u>	<u>1,132,162</u>	<u>114,732</u>
Other Financing Uses				
Transfers out	<u>-</u>	<u>1,500,000</u>	<u>1,704,808</u>	<u>(204,808)</u>
Total Expenditures	<u>\$ 13,928,853</u>	<u>\$ 14,747,229</u>	<u>\$ 13,666,804</u>	<u>\$ 1,080,425</u>

CITY OF TERRELL, TEXAS
TOURISM FUND
DETAILED SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Hotel/motel occupancy taxes	\$ 146,914	\$ 146,914	\$ 173,719	\$ 26,805
Interest	-	-	709	709
Miscellaneous	-	-	-	-
Total revenues	<u>146,914</u>	<u>146,914</u>	<u>174,428</u>	<u>27,514</u>
Expenditures				
General government:				
Tourism	176,200	176,200	170,749	5,451
Debt service:				
Principal	-	-	24,779	(24,779)
Interest	-	-	2,748	(2,748)
Total expenditures	<u>176,200</u>	<u>176,200</u>	<u>198,276</u>	<u>(22,076)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (29,286)</u>	<u>\$ (29,286)</u>	(23,848)	<u>\$ 5,438</u>
Fund balance, beginning of year			<u>48,444</u>	
Fund balance, end of year			<u>\$ 24,596</u>	

CITY OF TERRELL, TEXAS
DEBT SERVICE FUND
DETAILED SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 1,414,485	\$ 1,414,485	\$ 1,355,567	\$ (58,918)
Interest	3,190	3,190	22,873	19,683
Total Revenues	<u>1,417,675</u>	<u>1,417,675</u>	<u>1,378,440</u>	<u>(39,235)</u>
Expenditures				
Certificates of obligation principal	1,120,000	1,120,000	1,070,000	50,000
Certificates of obligation interest	697,663	697,663	630,422	67,241
Service charges	5,000	5,000	1,380	3,620
Total expenditures	<u>1,822,663</u>	<u>1,822,663</u>	<u>1,701,802</u>	<u>120,861</u>
Excess (deficiency) of revenues over expenditures	<u>(404,988)</u>	<u>(404,988)</u>	<u>(323,362)</u>	<u>81,626</u>
Other Financing Sources (Uses)				
Transfers in	556,421	556,421	442,531	998,952
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>556,421</u>	<u>556,421</u>	<u>442,531</u>	<u>998,952</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 151,433</u>	<u>\$ 151,433</u>	119,169	<u>\$ (32,264)</u>
Fund balance, beginning of year			<u>165,977</u>	
Fund balance, end of year			<u>\$ 285,146</u>	

CITY OF TERRELL, TEXAS
EQUIPMENT REPLACEMENT FUND
DETAILED SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL

For the Fiscal Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Rental income and miscellaneous	\$ 1,035,500	\$ 1,035,500	\$ 1,059,717	\$ 24,217
Lease purchase proceeds	-	-	-	-
Interest income	800	800	2,031	1,231
Total revenues - Budget basis	<u>\$ 1,036,300</u>	<u>\$ 1,036,300</u>	<u>1,061,748</u>	<u>\$ 25,448</u>
Financial statement adjustments:				
Lease purchase proceeds			<u> </u>	
Total revenues - GAAP basis			<u>\$ 1,061,748</u>	
Expenses				
Personnel services	\$ 206,977	\$ 189,403	\$ 183,394	\$ 6,009
Supplies	183,600	198,766	214,070	(15,304)
Repairs and maintenance	60,100	63,946	64,882	(936)
Miscellaneous services and sundry charges	204,100	196,826	184,371	12,455
Debt Service	81,325	81,325	79,887	1,438
Capital outlay	330,500	336,336	396,187	(59,851)
Total expenses - Budget basis	<u>\$ 1,066,602</u>	<u>\$ 1,066,602</u>	<u>1,122,791</u>	<u>\$ (56,189)</u>
Financial statement adjustments:				
Capital outlay items not expensed			(396,187)	
Principal payments not expensed			(73,139)	
Depreciation expense			<u>293,063</u>	
Total expenses - GAAP basis			<u>\$ 946,528</u>	

CITY OF TERRELL, TEXAS
WATER AND SANITARY SEWER FUND
DETAILED SCHEDULE OF REVENUES
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Water sales	\$ 3,964,622	\$ 3,964,622	\$ 4,155,120	\$ 190,498
Sanitation	2,764,623	2,764,623	2,793,694	29,071
Other charges	184,618	184,618	215,655	31,037
Miscellaneous	1,338,000	2,088,000	1,268,457	(819,543)
Interest	23,311	23,311	12,692	(10,619)
Transfers in	250,000	250,000	230,000	(20,000)
Total revenues - Budget basis	<u>\$ 8,525,174</u>	<u>\$ 9,275,174</u>	\$ 8,675,618	<u>\$ (599,556)</u>
Financial statement adjustments:				
Reconciling items			-	
Total revenues - GAAP basis			<u>\$ 8,675,618</u>	

CITY OF TERRELL, TEXAS
WATER AND SANITARY SEWER FUND
DETAILED SCHEDULE OF EXPENSES -
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Water production				
Personnel services	\$ 522,124	\$ 541,493	\$ 496,254	\$ 45,239
Supplies	171,250	248,596	254,244	(5,648)
Repairs and maintenance	48,000	57,221	50,156	7,065
Miscellaneous services and sundry charges	468,250	443,321	453,109	(9,788)
Capital outlay	<u>22,000</u>	<u>15,000</u>	<u>12,603</u>	<u>2,397</u>
Total water production	1,231,624	1,305,631	1,266,366	39,265
Water distribution				
Personnel services	331,619	310,787	335,313	(24,526)
Supplies	8,600	8,633	5,665	2,968
Repairs and maintenance	69,050	61,050	63,096	(2,046)
Miscellaneous services and sundry charges	147,100	146,092	146,901	(809)
Capital outlay	<u>1,959,000</u>	<u>2,709,000</u>	<u>1,802,177</u>	<u>906,823</u>
Total water distribution	2,515,369	3,235,562	2,353,152	882,410
Water pollution control				
Personnel services	282,400	285,208	290,910	(5,702)
Supplies	33,700	34,376	24,341	10,035
Repairs and maintenance	33,200	48,964	39,843	9,121
Miscellaneous services and sundry charges	345,950	316,702	325,196	(8,494)
Capital outlay	<u>52,200</u>	<u>18,000</u>	<u>23,685</u>	<u>(5,685)</u>
Total water pollution control	747,450	703,250	703,975	(725)
Sewage collection				
Personnel services	388,430	346,862	326,460	20,402
Supplies	12,500	13,941	9,366	4,575
Repairs and maintenance	35,000	27,000	21,067	5,933
Miscellaneous services and sundry charges	90,500	99,600	96,890	2,710
Capital outlay	<u>27,500</u>	<u>27,500</u>	<u>10,000</u>	<u>17,500</u>
Total sewage collection	553,930	514,903	463,783	51,120

(continued)

CITY OF TERRELL, TEXAS
WATER AND SANITARY SEWER FUND
DETAILED SCHEDULE OF EXPENSES -
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Special projects				
Personnel services	\$ 230,603	\$ 249,519	\$ 258,789	\$ (9,270)
Supplies	12,500	20,746	21,236	(490)
Maintenance	3,000	3,050	3,387	(337)
Miscellaneous services and sundry charges	<u>119,100</u>	<u>118,315</u>	<u>116,659</u>	<u>1,656</u>
Total special projects	365,203	391,630	400,071	(8,441)
Administrative				
Personnel services	449,018	472,676	486,023	(13,347)
Supplies	17,100	23,621	27,444	(3,823)
Repairs and maintenance	352,900	100,345	94,322	6,023
Miscellaneous services and sundry charges	307,450	592,426	634,250	(41,824)
Bad debts	-	-	60,170	(60,170)
Rental charge	235,000	235,000	235,000	-
Administration charge	300,000	300,000	300,000	-
Revenue bonds	565,500	660,000	687,236	(27,236)
Capital outlay	<u>32,000</u>	<u>32,000</u>	<u>-</u>	<u>32,000</u>
Total administrative	2,258,968	2,416,068	2,524,445	(108,377)
Total expenses - Budget basis	<u>\$ 7,672,544</u>	<u>\$ 8,567,044</u>	7,711,792	<u>\$ 855,252</u>
Financial statement adjustments:				
Depreciation			647,903	
Amortization			3,242	
Capital outlay items not expensed			(1,848,465)	
Bond principal payments not expensed			<u>(165,218)</u>	
Total expenses - GAAP basis			<u>\$ 6,349,254</u>	

CITY OF TERRELL, TEXAS
AIRPORT FUND
DETAILED SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Rental income and miscellaneous	\$ 167,656	\$ 167,656	\$ 255,458	\$ 87,802
Interest income	3,000	3,000	8,262	5,262
Total revenues - budget basis	<u>\$ 170,656</u>	<u>\$ 170,656</u>	263,720	<u>\$ 93,064</u>
Financial statement adjustments:				
In-kind grant revenue			<u>72,838</u>	
Total revenues - GAAP basis			<u>\$ 336,558</u>	
Expenses				
Supplies	\$ 1,700	\$ 1,700	\$ 18	\$ 1,682
Repairs and maintenance	9,500	10,344	8,053	2,291
Miscellaneous services and sundry charges	103,450	77,606	159,540	(81,934)
Capital outlay	133,890	133,890	-	133,890
Total expenses - budget basis	<u>\$ 248,540</u>	<u>\$ 223,540</u>	167,611	<u>\$ 55,929</u>
Financial statement adjustments:				
Principal payment on certificate of obligation			(50,000)	
In-kind grant expense			72,838	
Depreciation expense			<u>242,896</u>	
Total expenses - GAAP basis			<u>\$ 433,345</u>	

SINGLE AUDIT SECTION

**CITY OF TERRELL, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

FEDERAL GRANTOR/PASS- THROUGH GRANTOR/PROGRAM TITLE	<u>PASS- THROUGH GRANTORS NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Programs:			
Section 8 Housing Choice Vouchers Program	TX493	14.871	\$ 3,112,047
HOME Investment Partnerships Program	-	14.239	<u>6,200</u>
Total Direct Programs			<u>3,118,247</u>
Passed Through Office of Rural Community Affairs:			
Community Development Block Grants - State's Program	723801	14.228	238,500
Passed Through Texas Department of Agriculture:			
Community Development Block Grants - State's Program	724012	14.228	<u>989,000</u>
Total Community Development Block Grants			<u>1,227,500</u>
Total U.S. Department of Housing and Urban Development			<u>4,345,747</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Programs:			
Local Law Enforcement Block Grant	2003-LB-BX-0010	16.592	12,889
Local Law Enforcement Block Grant	2004-LB-BX-1437	16.592	<u>6,164</u>
Total Local Law Enforcement Block Grant			<u>19,053</u>
Total U.S. Department of Justice			<u>19,053</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,364,800</u>

CITY OF TERRELL, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Terrell and presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF TERRELL, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2005**

None.

Michael Gollob, CPA-Retired
Tony K. Morgan, CPA/ABV
Robert W. Peddy, CPA
Barbara R. Bass, CPA
Tommy J. Chambers, CPA
Lisa G. Robinson, CPA
Joe Wylie, CPA

**GOLLOB MORGAN
PEDDY & CO., P.C.**
Certified Public Accountants

Members American Institute of Certified Public Accountants and Private Companies Practice Section

Harvey W. Jackson, CPA
Sharon C. Forsyth, CPA
Kevin R. Cashion, CPA
Brenda G. Watson, CPA
Dianne C. Johnston, CPA
Jeanne C. Lewis, CPA
Kristen L. Gusa, CPA
Patricia L. Kinnaird, CPA
Michael W. Stevens, CPA,CFE
Robert Shane Rohrbach, CPA
Raymond C. McKinney, CPA
Teresa J. Campbell, CPA

**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 Terrell, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas, as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Terrell's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of City of Terrell, Texas in a separate letter dated June 23, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Terrell's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the City of Terrell, Texas in a separate letter dated June 23, 2006.

This report is intended solely for the information and use of the audit committee, management, City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Tyler, Texas
June 23, 2006

Michael Gollob, CPA-Retired
Tony K. Morgan, CPA/ABV
Robert W. Peddy, CPA
Barbara R. Bass, CPA
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**REPORT OF COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the City Council
City of Terrell, Texas

Compliance

We have audited the compliance of City of Terrell, Texas with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The City of Terrell, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Terrell, Texas' management. Our responsibility is to express an opinion on the City of Terrell, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Terrell, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Terrell, Texas' compliance with those requirements.

In our opinion, City of Terrell, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the City of Terrell, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Terrell, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We

noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council, pass-through entities and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hollis, Morgan, Peddy & Co., P.C.

Certified Public Accountants

Tyler, Texas
June 23, 2006

**CITY OF TERRELL, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Rental Voucher Program
14.228	Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ _____ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II -- Financial Statement Findings

No matters requiring reporting under *Government Auditing Standards* were noted.

Section III -- Federal Award Findings and Questioned Costs

None.

TERRELL ECONOMIC DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

TERRELL ECONOMIC DEVELOPMENT CORPORATION

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position, September 30, 2005	2
Statement of Activities, for the Year Ended September 30, 2005	3
Statement of Functional Expenses, for the Year Ended September 30, 2005	4
Statement of Cash Flows, for the Year Ended September 30, 2005	5
Notes to Financial Statements, September 30, 2005	6-8

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Terrell Economic Development Corporation

We have audited the accompanying statement of financial position of Terrell Economic Development Corporation (a non-profit corporation) as of September 30, 2005 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Terrell Economic Development Corporation as of September 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants

Tyler, Texas
June 23, 2006

TERRELL ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
September 30, 2005

Assets

Current assets		
Cash and cash equivalents	\$	829,481
Due from City of Terrell		<u>18,841</u>
Total current assets		848,322
Property and equipment		
Equipment		18,535
Infrastructure		<u>6,968,862</u>
		6,987,397
Less: accumulated depreciation		<u>(4,189)</u>
Total property and equipment		6,983,208
Other assets		
Land held for resale		<u>1,442,530</u>
Total assets	\$	<u><u>9,274,060</u></u>

Liabilities and net assets

Current liabilities		
Due to City of Terrell	\$	54,142
Current portion of long-term debt		<u>709,651</u>
Total current liabilities		763,793
Long-term liabilities		
Notes payable- net of current portion		<u>3,750,502</u>
Total liabilities		4,514,295
Net assets		
Unrestricted		<u>4,759,765</u>
Total liabilities and net assets	\$	<u><u>9,274,060</u></u>

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

TERRELL ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
For the year ended September 30, 2005

Revenues, gains, and other support	
Sales tax	\$ 1,682,415
Contributions - City of Terrell Public Improvement District Fund	36,136
Interest and other income	20,068
Grant revenue	940,000
Gain on sale of assets	<u>211,486</u>
Total revenues, gains, and other support	<u>2,890,105</u>
Expenses	
Program services	1,126,097
Support services	<u>268,995</u>
Total Expenses and Losses	<u>1,395,092</u>
 Changes in net assets	 1,495,013
Net assets, beginning of year	<u>3,264,752</u>
 Net assets, end of year	 <u>\$ 4,759,765</u>

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

TERRELL ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended September 30, 2005

	<u>PROGRAM SERVICES</u>	<u>SUPPORT SERVICES</u>	<u>Totals</u>
	<u>Project Costs</u>	<u>Operations Expenses</u>	
Property maintenance	\$ -	\$ 248,400	\$ 24,840
Chamber of Commerce services	-	72,000	72,000
Dues, advertising, marketing and surveys	-	15,046	15,046
Professional fees	-	13,717	13,717
Economic development	1,023,018	-	1,023,018
Other	-	604	604
Interest	-	142,788	142,788
Transfer to City of Terrell Permanent Street Improvement Fund	100,000	-	100,000
Depreciation	3,079	-	3,079
	<u>\$ 1,126,097</u>	<u>\$ 492,555</u>	<u>\$ 1,395,092</u>

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

TERRELL ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
For the year ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,271,453
Adjustments to change in net assets to cash provided by (used in) operating activities:	
Depreciation	3,079
Gain on sale of land	(211,486)
Decrease in contributions receivable	21,763
Increase in contributions payable	54,142
Decrease in accounts payable	<u>(458,875)</u>
Total Adjustments	<u>(591,377)</u>
Net Cash Provided by Operating Activities	<u>680,076</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of construction in progress	(2,523,245)
Proceeds from sale of land	<u>311,360</u>
Net Cash Used in Investing Activities	<u>(2,211,885)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	2,250,000
Principal payments on notes payable	<u>(673,095)</u>
Net Cash Provided by Financing Activities	<u>1,576,905</u>
Net Increase in Cash	45,096
Cash and cash equivalents, beginning of year	<u>560,825</u>
Cash and cash equivalents, end of year	<u><u>\$ 605,921</u></u>
 SUPPLEMENTAL INFORMATION:	
Cash paid for interest	<u><u>\$ 142,788</u></u>

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

G. Land held for resale

Land held for resale is stated at cost.

H. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash in banks and all highly liquid investments (including restricted assets) with a remaining maturity of three months or less.

I. Deposits

As of September 30, 2005, the total carrying amount of the organization's bank deposits was \$829,481, and the bank balance was \$818,023. The bank balance was fully covered by federal depository insurance and securities pledged in the City's name at year end.

J. Income Tax

The Corporation is a non-profit corporation that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - Long-term Debt

Long-term debt consists of the following notes payable:

Note payable to American National Bank, Terrell, at an interest rate of 3.65% per annum, due in monthly installments of \$46,739, including interest. The note is due October 11, 2007. The note is secured by sales tax revenues of the Corporation.	\$1,123,519
Line of credit from American National Bank, Terrell, maximum \$3,500,000, at an interest rate of 4.49% per annum, due in monthly installments of \$26,757, including interest. The note is due December 18, 2019. The note is secured by sales tax revenues of the Corporation.	<u>3,336,634</u> 4,460,153
Less: Current portion	<u>(709,651)</u>
Total Long-Term Debt	<u>\$3,750,502</u>

The annual debt service requirements for the years subsequent to September 30, 2005 are as follows:

2006	\$ 709,651
2007	737,569
2008	244,575
2009	207,049
2010	216,531
2011-2015	1,241,000
2016-2019	<u>1,103,778</u>
	<u>\$ 4,460,153</u>

NOTE 3 - Commitments

The Corporation has spent-to-date \$4,875,915 for a construction contract for improvements to Airport Road which services a local industrial park. This project was completed during the fiscal year ended September 30, 2005. The Corporation has committed to reimburse the City of Terrell \$500,000 in five annual payments of \$100,000 beginning October 1, 2003 for capital improvements incurred by the City related to economic development.

The Corporation has committed to provide job grants to various industrial businesses relocating to the local area. The job grants are business specific and are typically based on new employees hired by the business during a specific time period. The total job grants commitment is \$1,384,000. The Corporation anticipates paying this amount during years 2006 to 2007 if all hiring quotas are met.

NOTE 4 – Operating Lease

The Corporation leases a portion of a 312 acre tract under an operating lease agreement. The lease term is for five years and calls for annual payments of \$1,000 through maturity at February 28, 2006. During the fiscal year ended September 30, 2005, the Corporation received \$2,000 as payment for the final two years of the agreement. The tenant has the right to renew the agreement for an additional five years.

CITY OF TERRELL, TEXAS
MANAGEMENT LETTER MEMORANDUM
FOR THE YEAR ENDED SEPTEMBER 30, 2005

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The Honorable City Council
City of Terrell, Texas

In planning and performing our audit of the financial statements of the City of Terrell, Texas for the year ended September 30, 2005, we considered its internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 23, 2006 on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



Certified Public Accountants

Tyler, Texas
June 23, 2006

The following suggestions are provided to the City as opportunities for strengthening internal controls and operating efficiency:

Cash

The City has numerous bank accounts that are not being accounted for on the City's general ledger. In order to reflect a complete set of accounting records, all cash account activity should be accounted for on the City's books. Those accounts not being accounted for on the City's general ledger are as follows:

Grant Account; 2003 TCDP Sewer Grant Account; City 148/I-20 Terrell Account; Zoonosis Grant Account; Facility Rentals Account.

We suggest that all bank accounts and cash activity be accounted for on the City's general ledger.

Also, the City has twenty four separate cash accounts. In order to reduce the workload associated with having so many cash accounts, we suggest the City consider consolidating those cash accounts not required to be kept separate into one pooled cash account.

Accounts Payable

Instances were noted where invoices for engineering services that were provided prior to year end were not included in accounts payable. As part of normal year end procedures, the City should carefully review all invoices received subsequent to year end to determine the need to reflect the disbursements as accounts payable at year end. This is a repeat from a prior year.

Personnel Files

Personnel Action Forms showing cost of living increases and other pay increases were found in Personnel files. However, many forms did not reflect the actual approved pay rate, only the percentage increase was shown.

Since the Personnel Action Form is the document that serves as support of an employee's pay rate for the year, we recommend the pay rate portion be completed on each Personnel Action Form completed for an employee.

Compensated Absences

In verifying accrued vacation and sick time, we found that the City calculates this time for fire department employees differently than other City employees. We found that in testing these accruals that the number of hours used to compute compensated absences for fire department employees could not be substantiated by the City's human resources department.

We suggest that the City develop written documentation in its personnel manual as to how the hours used to derive compensated absences for the fire department are calculated.

Self Insured Fund Disbursements

The City does not have specific procedures for documentation of payments for Group & Pension Administrators administrative monthly billing. We noted that for some months there was a purchase order/check request written up with approval documentation without the monthly statement from the vendor attached while other months the vendor statement was attached to the copy of the check without a purchase order/check request. We also noted that the initial month for this vendor (October 2004) the purchase order/check request that had been written up and approved did not agree to the attached statement from the vendor.

We suggest that procedures for payment approval of these monthly administrative fees be established and strictly followed.

Credit Card Billing Reconciliation

The City of Terrell uses Bank of America Credit Cards for certain purchases. When Accounting receives the current month billing the department heads are given copies of their department's charges for the month. The City's policy is for the department heads to complete the credit card log sheets showing the charges reconciled and approved and returning all this information to Accounting within 5 days in order for Accounting to agree the log sheets to the credit card statement and submit payment. However this policy is not being adhered to and Accounting is paying the credit card statement prior to receiving the approved credit card logs and receipts from

department heads. The payments on the credit card account are posted to a suspense account and as the completed credit card logs and receipts are received from the department heads, accounting posts journal entries to clear out the suspense account. This deviation from policy is unacceptable due to the potential of fraud occurring and not being detected.

We suggest that the current City policy be strictly adhered and payments on the credit card account only be made once completed credit card logs and receipts are received from department heads.

Disbursements

Instances were noted where disbursements were made without proper authorization for payment on the check request.

We recommend that City Management be diligent in complying with established procedures.

Escrow Funds

It was noted that there is not a process in place for escrow accounts in the General Fund. These escrow funds have been received by the City for disbursement for City required testing. These amounts are estimated by the City and the contractor places funds in escrow based on these estimates. The actual amounts disbursed may vary. These accounts are not being reconciled and balances are being carried on the City's books that should be either refunded to the contractor or balances that need to be collected from the contractor.

We recommend that the City establish a procedure for reconciling these accounts at the end of the required testing project and either send an additional billing or refund as is indicated from the reconciliation to the contractor.

Impact Fees

The City began collecting Impact Fees in 2004. These funds are restricted and are required by Texas Local Government Code Chapter 395 to be kept in a separate interest bearing account. The City does not currently have these monies segregated as required.

We recommend that the City place these funds in a separate interested bearing account as required.

Park Land/Park Dedication Fees

The City of Terrell has both Impact Fees and Park Land/Park Dedication Fees in the same Fund. These monies, although both are restricted, are governed separately.

We recommend that the City move the funds related to the Park Land/Park Dedication Fees into a separate fund for tracking purposes and into another cash account in order to be in compliance with Texas Local Government Code.

Airport Hangar Leases

The City doesn't currently have a system in place to follow up on the status of the Hangar Leases payments or follow up on a timely basis for lessee that is in default of lease.

We recommend that the City implement a system to follow up on the payment status of Airport leases and institute proper collection procedures.

Utility Inventory

It was noted that the inventory count sheets in some instances did not have current unit prices and some of the price extensions were not calculated correctly. This is a repeat from the prior year.

We recommend that the City maintain current unit pricing on the count sheets and make sure that price extensions are calculated correctly.

It was also noted that some items that had not been purchased in the current fiscal year were on the current year physical inventory but not on the prior year inventory. Upon inquiry we were told that supervisors had

performed the physical inventory count for the current fiscal year and field employees had performed the count for the prior year.

We recommend that supervisors oversee the physical inventory count regardless of who is performing the actual count to serve as a double check to the physical inventory count process.

Journal Entries

We noted several journal entries did not have adequate supporting documentation attached and there was no written documentation that the journal entries were approved by management. This is a repeat from the prior year.

We suggest the City adopt and strictly enforce a policy stating all journal entries input into the accounting system must have adequate documentation verifying the reason for the adjustment and an approved member of management must provide written approval for each entry. Implementation and adherence to such a policy will reduce the risk of inappropriate entries being posted.

Reconciliation of Housing Admin Expenditures

The Housing Department's administrative expenditures are paid out of the General Fund by the Finance Department. Each month the Finance Department forwards reports from the accounting system to the Housing Department so a reimbursement check can be paid from the Section 8 Program to the General Fund. As a result of the audit, it was determined that the Section 8 Program owed the General Fund additional monies at year end. Additional monies were owed due to the fact that some of the reports furnished to the Housing Department were cut off before all activity for the month was included. The Finance Department should exercise due care when generating these reports to ensure the cut off period is correct. Also, a reconciliation of Housing Administrative expenditures per the City's General Fund and the Housing Department's records should be performed after the City's year end to ensure agreement of the expenditures and to identify any additional amounts owed by the Housing Department in a timely manner.

Local Law Enforcement Block Grant Expenditure Reports

Expenditures per the quarterly financial reports did not agree to expenditures per the City's general ledger. Backup used to prepare the financial reports was not maintained. It was also noted that the match requirement was reported as being expended however, the match had not been transferred to the Local Law Enforcement Block Grant Fund to be expended and no match expenditures were incurred in another fund.

We recommend that all supporting documents used to complete the financial reports be maintained. Also, match requirements should not be reported as being expended until the actual expenditure takes place.

In addition, it was noted that the remaining balance on an older grant that was not expended was carried over to be spent with the new grant. The grantor agency should be contacted to determine what should be done with unexpended grant funds.

Texas Capital Fund Grants

It was determined that three of the four quarterly reports due to the State were not submitted by the required due date. Reports should be submitted to grantor agencies within the required timeframe in order to avoid delaying the payment of reimbursement requests to the City.