

# **CITY OF TERRELL, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2009**

**CITY OF TERRELL, TEXAS**

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# **INTRODUCTORY SECTION**

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# CITY OF TERRELL

June 10, 2010

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

Hal Richards  
Mayor

The Finance Department and the City Manager's office are pleased to submit the basic financial statements for the City of Terrell, Texas (the "City") for the fiscal year ended September 30, 2009.

Ricky Jordan  
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.

Jack Jones  
Deputy Mayor Pro tem

Tommy Spencer  
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.

Don Thurman  
Council Member

## THE REPORT

Torry L. Edwards  
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.

Michael Sims  
Assistant City Manager

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.

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.

## **CITY PROFILE**

### **Location**

The City of Terrell, Texas is located on U. S. 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.

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 the 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...

	ASSESSED PROPERTY VALUATIONS (in millions)	SALES TAX COLLECTIONS (in millions)
2000	\$ 506,373,987	\$ 5,468,815
2001	586,621,575	5,662,562
2002	603,618,789	5,756,021
2003	665,698,525	6,008,287
2004	727,025,258	6,595,836
2005	834,587,541	6,683,382
2006	894,542,447	7,002,351
2007	931,051,598	6,976,566
2008	1,014,913,277	7,123,040
2009	1,005,646,462	6,528,921

### 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 September 30, 2010.

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, 2009, all idle cash totaling \$6,085,097 was invested in certificates of deposit. The overall portfolio provided \$145,661 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.

### Workers' Compensation Plan

The City is exposed to risk of loss due to injuries by employees while performing work-related duties. The City provides workers' 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.

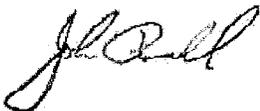
## **INDEPENDENT AUDIT**

The City Charter requires an annual audit by independent certified public accountants. The accounting firm of Pattillo, Brown, & Hill, L.L.P. was selected by the City Council to perform the fiscal 2009 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.

## **ACKNOWLEDGEMENTS**

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

# City of Terrell Organizational Chart



**CITY OF TERRELL, TEXAS**

**PRINCIPAL OFFICIALS**

**SEPTEMBER 30, 2009**

**CITY OFFICIALS**

Mayor.....Hal Richards

Council Members.....Jack Jones, Mayor Pro-Tem

Ricky Jordan, Deputy Mayor Pro-Tem

Don Thurman

Sandra Wilson

City Manager ..... Torry Edwards

City Secretary.....John Rounsavall

City Attorney ..... Mary Gayle Ramsey

# **FINANCIAL SECTION**

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## 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, 2009, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above 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, 2009, 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 10, 2010, on our consideration of the City of Terrell, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 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 required 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 combining and individual nonmajor 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-13, *Audits of States, Local Governments, and Nonprofit 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.

*Pattillo, Brown + Hill, L.L.P.*

June 10, 2010

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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## **Management's Discussion and Analysis**

As management of the City of Terrell, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2009. 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 i – iv 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 \$54,250,570 (net assets). Of this amount, \$14,492,580 (unrestricted net assets) may be used to meet the City'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 \$3,286,056 from operations.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$8,911,032, a decrease of \$1,545,150 in comparison with the prior fiscal year, due to spending the 2007A Bond proceeds. Approximately 56% of this total amount, \$4,965,752, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,615,671 or 11% of the total General Fund expenditures.
- The City's total long-term debt decreased by \$1,850,000 during the current fiscal year. The key factor in this decrease was the scheduled payments on all outstanding debt.

### **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).

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 (business-type activities).

- Governmental activities include general government and administration, public safety, library, and parks and recreation.
- Business-type activities include the City's water and sewer system and airport operations. Charges for services covers all or most of the cost for these services.

The government-wide financial statements can be found on pages 11– 13 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. Fund accounting is used by state and local governments to control and manage money for particular purposes and to ensure finance-related legal requirements. The City uses two fund types – governmental and proprietary.

- **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 funds 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 20 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, the C. O. Tax and Revenue Series 2004 Fund, and the 2007A Bond Fund, each of which are considered to be major funds. Data from the other 11 funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental funds financial statements can be found on pages 14 – 20 of this report.

- **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 and sewer utility and airport services. 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 self funded health insurance. Because these services predominantly benefit 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 and Sewer Utility, 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 fund financial statements can be found on pages 21 – 24 of this report.

### **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 25 – 48 of this report.

### **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds and Internal Service Funds are presented following the notes to the financial statements. Combining and individual statements and schedules can be found on pages 49 – 57 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Terrell, assets exceeded liabilities by \$54,250,570 as of September 30, 2009.

The largest portion of the City's net assets, 63% (\$34,328,223), 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 are 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		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 12,691,666	\$ 13,942,143	\$ 11,162,891	\$ 10,985,545	\$ 23,854,557	\$ 24,927,688
Capital assets	24,324,446	24,010,152	35,905,699	33,755,330	60,230,145	57,765,482
Total assets	37,016,112	37,952,295	47,068,590	44,740,875	84,084,702	82,693,170
Long-term liabilities	19,438,211	20,805,281	8,282,765	8,672,762	27,720,976	29,478,043
Other liabilities	1,327,848	1,514,723	785,308	735,890	2,113,156	2,250,613
Total liabilities	20,766,059	22,320,004	9,068,073	9,408,652	29,834,132	31,728,656
Net assets:						
Invested in capital assets, net of related debt	6,647,524	4,330,327	27,680,699	25,256,425	34,328,223	29,586,752
Restricted	4,816,965	7,807,136	612,802	600,597	5,429,767	8,407,733
Unrestricted	4,785,564	3,494,828	9,707,016	9,475,201	14,492,580	12,970,029
Total net assets	\$ 16,250,053	\$ 15,632,291	\$ 38,000,517	\$ 35,332,223	\$ 54,250,570	\$ 50,964,514

## Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended September 30, 2009 and 2008.

### CITY OF TERRELL'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,479,254	\$ 1,458,260	\$ 8,633,821	\$ 8,563,528	\$ 10,113,075	\$ 10,021,788
Operating grants and contributions	3,939,486	3,554,866	-	-	3,939,486	3,554,866
Capital grants and contributions	-	-	1,249,967	2,402,906	1,249,967	2,402,906
General revenues:						
Property taxes	6,896,120	6,475,894	-	-	6,896,120	6,475,894
Franchise taxes	1,442,858	1,424,429	-	-	1,442,858	1,424,429
Sales taxes	6,528,921	7,168,175	-	-	6,528,921	7,168,175
Other taxes	270,269	291,359	-	-	270,269	291,359
Interest	133,169	316,091	139,869	-	273,038	316,091
Miscellaneous	285,617	304,042	65,654	163,611	351,271	467,653
Gain on sale of capital assets	54,086	120,097	-	2,387	54,086	122,484
Contributed Capital	-	-	-	-	-	-
Transfers	593,645	1,558,375	( 593,645)	( 1,558,375)	-	-
Total revenues	<u>21,623,425</u>	<u>22,671,588</u>	<u>9,495,666</u>	<u>9,574,057</u>	<u>31,119,091</u>	<u>32,245,645</u>
<b>Expenses:</b>						
General government	6,975,179	8,517,384	-	-	6,975,179	8,517,384
Public welfare	3,034,093	2,918,930	-	-	3,034,093	2,918,930
Public safety	6,489,877	5,861,650	-	-	6,489,877	5,861,650
Highways and streets	2,467,985	2,747,788	-	-	2,467,985	2,747,788
Sanitation	639,177	615,335	-	-	639,177	615,335
Culture and recreation	620,997	636,509	-	-	620,997	636,509
Interest on long-term debt	778,355	879,840	-	-	778,355	879,840
Water and sewer	-	-	7,440,754	7,020,820	7,440,754	7,020,820
Airport	-	-	363,913	360,804	363,913	360,804
Total expenses	<u>21,005,663</u>	<u>22,177,436</u>	<u>7,804,667</u>	<u>7,381,624</u>	<u>28,810,330</u>	<u>29,559,060</u>
Change in net assets	617,762	494,152	1,690,999	2,192,433	2,308,761	2,686,585
Net assets, beginning	15,632,291	14,409,496	35,332,223	33,139,790	50,964,514	47,549,286
Prior period adjustment	-	728,643	977,295	-	977,295	728,643
Net assets, ending	<u>\$ 16,250,053</u>	<u>\$ 15,632,291</u>	<u>\$ 38,000,517</u>	<u>\$ 35,332,223</u>	<u>\$ 54,250,570</u>	<u>\$ 50,964,514</u>

**Governmental activities.** Of the City's \$3,286,056 overall increase in net assets, governmental activities net assets increased by \$617,762. The most significant governmental expense for the City was general government, which incurred expenses of \$6,975,179. These expenses were funded by revenues collected from a variety of sources, with one of the largest being from sales taxes, which are \$6,528,921 for the fiscal year ended September 30, 2009. Other significant governmental expenses for the City include public safety, which incurred \$6,489,877 in expenses.

**Business-type activities.** Business-type activities increased the City's net assets by \$2,668,294.

## **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 \$8,911,032. Approximately 56% of this total amount (\$4,965,752) 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 to (1) pay for capital projects (\$2,068,769), (2) pay for debt service (\$541,292), and (3) pay for investments held for resale (\$1,335,219).

In the General Fund, the City budgeted for an increase in the fund balance of \$1,436,606. Actual revenues being less than budgeted, the actual fund balance decreased for fiscal year 2009 by \$1,202,979.

### **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 the Water and Sewer Fund, \$27,249,585; and the Airport Fund, \$10,750,932. The Water and Sewer Fund's net assets increased in 2009 by \$208,600 and the Airport's net assets increased by \$2,459,694.

### **General Fund Budgetary Highlights**

The City made revisions to the original appropriations approved by the City Council. Overall, these changes resulted in an increase of budgeted General Fund expenditures from the original budget of \$45,541.

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 were less than the budgeted revenue amount by \$3,946,137.

## **CAPITAL ASSETS**

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$60,230,145 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

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

- \$3,906,945 was completed on various governmental and business-type construction projects that continue to be in progress; and
- \$1,786,832 was spent on the Municipal service center improvements.

**CITY OF TERRELL'S CAPITAL ASSETS AT YEAR-END  
Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 718,000	\$ 718,000	\$ 946,361	\$ 885,019	\$ 1,664,361	\$ 1,603,019
Buildings and improvements	2,265,575	2,276,282	9,243,982	8,803,968	11,509,557	11,080,250
Machinery and equipment	1,622,000	1,838,511	22,366,682	22,804,112	23,988,682	24,642,623
Infrastructure	16,836,832	17,709,944	-	-	16,836,832	17,709,944
Construction in progress	2,882,039	1,467,416	3,348,674	1,262,230	6,230,713	2,729,646
<b>Total capital assets</b>	<b>\$ 24,324,446</b>	<b>\$ 24,010,153</b>	<b>\$ 35,905,699</b>	<b>\$ 33,755,329</b>	<b>\$ 60,230,145</b>	<b>\$ 57,765,482</b>

The largest increase came from airport additions from the TxDOT RAMP grant, Bachelor Creek Improvements, and 400 Industrial renovations. Additional information on the City of Terrell's capital assets can be found in Note 4 on pages 37 – 38 of this report.

**DEBT ADMINISTRATION**

At the end of the current fiscal year, the City of Terrell had a total bonded debt of \$22,845,000. Of this amount, \$22,445,000 comprises bonded debt backed by the combination of property tax and water/sewer revenues and \$400,000 represents bonds secured solely by water and sewer revenues.

**CITY OF TERRELL'S OUTSTANDING DEBT AT YEAR-END**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 1,955,000	\$ 2,325,000	\$ -	\$ -	\$ 1,955,000	\$ 2,325,000
Certificates of obligation	12,665,000	13,760,000	7,825,000	8,110,000	20,490,000	21,870,000
Revenue bonds payable	-	-	400,000	500,000	400,000	500,000
	<b>\$ 14,620,000</b>	<b>\$ 16,085,000</b>	<b>\$ 8,225,000</b>	<b>\$ 8,610,000</b>	<b>\$ 22,845,000</b>	<b>\$ 24,695,000</b>

During the current fiscal year, the City's total bonded debt decreased by \$1,850,000 or 7%.

The City's bond ratings are listed below:

	<u>Investors Service</u>	<u>&amp; Poor's</u>
General Obligation Bonds	A1	AA
Revenue Bonds	A1	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 Note 4 on pages 40 – 42 of this report.

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

In the fiscal year 2009-10 budget, General Fund revenues and transfers in are budgeted to increase by 5% from the 2008-09 budget year, with sales taxes making up about 43% of General Fund budgeted revenues and transfers in. Certified assessed valuations decreased 1% over the preceding year. The tax base has increased by a strong annual average of 4% over the past five years. The City's budgets for all funds have benefited from an expanding local economy. However, the City's 2009-2010 budget reflects slower economic growth. The City of 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 decreased 9% for fiscal year 2008-2009; however, and appears to show signs of a marginal decrease during the 2009-2010 fiscal year. However, this revenue source is the most volatile and sensitive to changes in the local economy.

The budget for 2009-2010 reflects the allocation of resources necessary to continue projects and operations at approximately the same level as last year.

### **REQUESTS FOR INFORMATION**

The financial report is designed to provide our citizens, customers, investors and creditors with a 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 email [jrounsavall@cityofterrell.org](mailto:jrounsavall@cityofterrell.org).

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF TERRELL, TEXAS**

**STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2009**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 8,593,086	\$ 8,643,017	\$ 17,236,103
Receivables (net, where applicable, of allowances for uncollectibles)	1,693,752	1,626,635	3,320,387
Internal balances	78,525	( 78,525)	-
Due from other governments	31,465	-	31,465
Special assessments	836,910	-	836,910
Investment in land	1,335,219	-	1,335,219
Funds in escrow	46,685	-	46,685
Inventory, at cost	20,175	261,138	281,313
Restricted cash and investments	-	612,802	612,802
Deferred charges	55,849	97,824	153,673
Capital assets:			
Land	718,000	946,361	1,664,361
Buildings and improvements	3,414,764	17,469,214	20,883,978
Improvements other than buildings	1,222,020	-	1,222,020
Machinery and equipment	4,479,935	35,860,182	40,340,117
Infrastructure	38,010,556	-	38,010,556
Construction in progress	2,882,039	3,348,674	6,230,713
Less accumulated depreciation	<u>( 26,402,868)</u>	<u>( 21,718,732)</u>	<u>( 48,121,600)</u>
Total capital assets	<u>24,324,446</u>	<u>35,905,699</u>	<u>60,230,145</u>
Total assets	<u>37,016,112</u>	<u>47,068,590</u>	<u>84,084,702</u>
<b>LIABILITIES</b>			
Accounts payable	853,331	291,803	1,145,134
Accrued interest payable	99,916	49,644	149,560
Unearned revenue	72,112	-	72,112
Other accrued liabilities	302,489	60,861	363,350
Customer deposits	-	336,603	336,603
Due to other governments	-	46,397	46,397
Long-term liabilities:			
Due within one year	1,920,668	591,553	2,512,221
Due in more than one year	17,517,543	7,691,212	25,208,755
Total liabilities	<u>20,766,059</u>	<u>9,068,073</u>	<u>29,834,132</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,647,524	27,680,699	34,328,223
Restricted for:			
Debt service	576,066	612,802	1,188,868
Capital projects	4,240,899	-	4,240,899
Unrestricted	4,785,564	9,707,016	14,492,580
Total net assets	<u>\$ 16,250,053</u>	<u>\$ 38,000,517</u>	<u>\$ 54,250,570</u>

**The accompanying notes are an integral part of these financial statements.**

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government</b>				
Governmental activities:				
General government	\$ 6,975,179	\$ 325,845	\$ 575,075	\$ -
Public welfare	3,034,093	11,556	3,330,939	-
Public safety	6,489,877	423,753	-	-
Highways and streets	2,467,985	83,886	33,472	-
Sanitation	639,177	510,929	-	-
Culture and recreation	620,997	123,285	-	-
Interest on long-term debt	778,355	-	-	-
Total governmental activities	<u>21,005,663</u>	<u>1,479,254</u>	<u>3,939,486</u>	<u>-</u>
Business-type activities:				
Water and sewer	7,440,754	8,224,394	-	-
Airport	363,913	409,427	-	1,249,967
Total business-type activities	<u>7,804,667</u>	<u>8,633,821</u>	<u>-</u>	<u>1,249,967</u>
Total primary government	<u>\$ 28,810,330</u>	<u>\$ 10,113,075</u>	<u>\$ 3,939,486</u>	<u>\$ 1,249,967</u>

**General revenues:**

Taxes:  
Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Sales taxes  
Franchise taxes  
Other taxes  
Unrestricted investment earnings  
Miscellaneous  
Gain on sale of capital assets  
Transfers  
Total general revenues and transfers

Change in net assets

Net assets - beginning

Prior period adjustment

Net assets - ending

**The accompanying notes are an integral part of these financial statements.**

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ ( 6,074,259)	\$ -	\$ ( 6,074,259)
308,402	-	308,402
( 6,066,124)	-	( 6,066,124)
( 2,350,627)	-	( 2,350,627)
( 128,248)	-	( 128,248)
( 497,712)	-	( 497,712)
( 778,355)	-	( 778,355)
<u>( 15,586,923)</u>	<u>-</u>	<u>( 15,586,923)</u>
-	783,640	783,640
-	1,295,481	1,295,481
<u>-</u>	<u>2,079,121</u>	<u>2,079,121</u>
-	2,079,121	2,079,121
4,955,930	-	4,955,930
1,940,190	-	1,940,190
6,528,921	-	6,528,921
1,442,858	-	1,442,858
270,269	-	270,269
133,169	139,869	273,038
285,617	65,654	351,271
54,086	-	54,086
593,645	( 593,645)	-
<u>16,204,685</u>	<u>( 388,122)</u>	<u>15,816,563</u>
617,762	1,690,999	2,308,761
15,632,291	35,332,223	50,964,514
<u>-</u>	<u>977,295</u>	<u>977,295</u>
<u>\$ 16,250,053</u>	<u>\$ 38,000,517</u>	<u>\$ 54,250,570</u>

**CITY OF TERRELL, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2009**

	<u>General</u>	<u>Rent Supplement Section 8</u>	<u>Terrell Economic Development Corporation</u>
<b>ASSETS</b>			
Cash and investments	\$ 1,012,421	\$ 768,934	\$ 2,318,254
Taxes receivable, net	1,513,714	-	-
Due from other funds	211,416	-	9,699
Receivable from other governments	-	-	-
Special assessments	-	-	-
Investment in land	-	-	1,335,219
Other receivables	46,685	-	-
Inventories	<u>20,175</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 2,804,411</u>	 <u>\$ 768,934</u>	 <u>\$ 3,663,172</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 413,794	\$ 448	\$ 19,146
Accrued wages payable	294,391	-	-
Due to other funds	2,756	24,058	54,142
Deferred revenue	<u>477,799</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,188,740</u>	<u>24,506</u>	<u>73,288</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	1,335,219
Unreserved	<u>1,615,671</u>	<u>744,428</u>	<u>2,254,665</u>
Total fund balances	<u>1,615,671</u>	<u>744,428</u>	<u>3,589,884</u>
 Total liabilities and fund balances	 <u>\$ 2,804,411</u>	 <u>\$ 768,934</u>	 <u>\$ 3,663,172</u>

**The accompanying notes are an integral part of these financial statements.**

Certificates of Obligation Tax and Revenue Series 2004	2007A Bond	Other Governmental Funds	Total Governmental Funds
\$ 766,125	\$ 67,871	\$ 2,520,949	\$ 7,454,554
-	-	180,038	1,693,752
-	-	54,142	275,257
-	-	31,465	31,465
-	-	836,910	836,910
-	-	-	1,335,219
-	-	-	46,685
-	-	-	20,175
<u>\$ 766,125</u>	<u>\$ 67,871</u>	<u>\$ 3,623,504</u>	<u>\$ 11,694,017</u>
\$ -	\$ 198,537	\$ 103,742	\$ 735,667
-	-	-	294,391
-	-	115,776	196,732
-	-	1,078,396	1,556,195
<u>-</u>	<u>198,537</u>	<u>1,297,914</u>	<u>2,782,985</u>
-	-	541,292	541,292
766,125	( 130,666)	1,433,310	3,403,988
-	-	350,988	4,965,752
<u>766,125</u>	<u>( 130,666)</u>	<u>2,325,590</u>	<u>8,911,032</u>
<u>\$ 766,125</u>	<u>\$ 67,871</u>	<u>\$ 3,623,504</u>	<u>\$ 11,694,017</u>

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**CITY OF TERRELL, TEXAS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2009**

Total fund balance, governmental funds	\$ 8,911,032
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	23,052,221
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	1,484,083
The assets and liabilities of certain Internal Service Funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	2,277,367
Some liabilities, (such as notes payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	( 19,474,650)
Net assets of governmental activities in the Statement of Net Assets	\$ <u>16,250,053</u>

**The accompanying notes are an integral part of these financial statements.**

**CITY OF TERRELL, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>General</u>	<u>Rent Supplement Section 8</u>	<u>Terrell Economic Development Corporation</u>
<b>REVENUES</b>			
Taxes and special assessments	\$ 12,844,371	\$ -	\$ -
Licenses and permits	87,867	-	-
Hotel/motel occupancy taxes	-	-	-
Fees and fines	440,591	-	-
Intergovernmental	406,657	3,155,968	-
Charges for services	593,558	-	7,700
Investment earnings	31,725	4,227	23,167
Street assessments	-	-	-
Miscellaneous	<u>402,291</u>	<u>6,252</u>	<u>-</u>
Total revenues	<u>14,807,060</u>	<u>3,166,447</u>	<u>30,867</u>
<b>EXPENDITURES</b>			
Current:			
General government	5,469,984	277,271	441,075
Public welfare	-	2,797,371	-
Public safety	6,184,628	-	-
Highways and streets	1,513,219	-	-
Sanitation	615,740	-	-
Culture and recreation	546,471	-	-
Principal	400,734	-	199,998
Interest and other charges	33,002	-	121,086
Capital outlay	<u>70,052</u>	<u>-</u>	<u>130,863</u>
Total expenditures	<u>14,833,830</u>	<u>3,074,642</u>	<u>893,022</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>( 26,770)</u>	<u>91,805</u>	<u>( 862,155)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Gain on sale of capital assets	11,605	-	51,865
Transfers in	500,000	-	1,698,686
Transfers out	<u>( 1,687,814)</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>( 1,176,209)</u>	<u>-</u>	<u>1,750,551</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 1,202,979)</u>	<u>91,805</u>	<u>888,396</u>
<b>FUND BALANCES, BEGINNING</b>	<u>2,818,650</u>	<u>652,623</u>	<u>2,701,488</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,615,671</u>	<u>\$ 744,428</u>	<u>\$ 3,589,884</u>

**The accompanying notes are an integral part of these financial statements.**

Certificates of Obligation Tax and Revenue Series 2004	2007 A Bond	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,916,170	\$ 14,760,541
-	-	-	87,867
-	-	230,348	230,348
-	-	14,507	455,098
-	-	462,265	4,024,890
-	-	33,860	635,118
9,703	7,243	40,052	116,117
-	-	45	45
-	-	3	408,546
<u>9,703</u>	<u>7,243</u>	<u>2,697,250</u>	<u>20,718,570</u>
-	-	306,483	6,494,813
-	-	125,470	2,922,841
-	-	1,822	6,186,450
-	-	33,472	1,546,691
-	-	-	615,740
-	-	11,090	557,561
-	-	1,465,000	2,065,732
-	-	624,363	778,451
-	1,305,542	246,099	1,752,556
<u>-</u>	<u>1,305,542</u>	<u>2,813,799</u>	<u>22,920,835</u>
<u>9,703</u>	<u>( 1,298,299)</u>	<u>( 116,549)</u>	<u>( 2,202,265)</u>
-	-	-	63,470
-	-	923,112	3,121,798
-	-	( 840,339)	( 2,528,153)
-	-	82,773	657,115
9,703	( 1,298,299)	( 33,776)	( 1,545,150)
<u>756,422</u>	<u>1,167,633</u>	<u>2,359,366</u>	<u>10,456,182</u>
<u>\$ 766,125</u>	<u>\$( 130,666)</u>	<u>\$ 2,325,590</u>	<u>\$ 8,911,032</u>

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**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, 2009**

Net change in fund balances - total governmental funds: \$( 1,545,150)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period. 529,817

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 240,072

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. 2,065,732

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. ( 697,376)

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment maintenance and self-insurance, to individual funds. The net revenue (expense) of certain Internal Service Funds is reported with governmental activities. 24,667

Change in net assets of governmental activities \$ 617,762

**The accompanying notes are an integral part of these financial statements.**

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**CITY OF TERRELL, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 4,992,859	\$ 4,952,858	\$ 4,832,671	\$( 120,187)
Sales and miscellaneous taxes	8,804,500	8,804,500	8,011,700	( 792,800)
Fees and fines	582,340	582,340	440,591	( 141,749)
Licenses and permits	188,200	188,200	87,867	( 100,333)
Intergovernmental	259,100	2,763,205	406,657	( 2,356,548)
Charges for services	512,000	512,000	593,558	81,558
Investment earnings	93,000	93,000	31,725	( 61,275)
Miscellaneous	807,908	857,094	402,291	( 454,803)
Total revenues	<u>16,239,907</u>	<u>18,753,197</u>	<u>14,807,060</u>	<u>( 3,946,137)</u>
<b>EXPENDITURES</b>				
Current:				
General government	7,658,426	7,658,426	5,469,984	2,188,442
Public safety	6,468,584	6,514,125	6,184,628	329,497
Highways and street	1,473,163	1,473,163	1,513,219	( 40,056)
Sanitation	520,949	520,949	615,740	( 94,791)
Culture and recreation	715,552	715,552	546,471	169,081
Debt service:				
Principal	400,734	400,734	400,734	-
Interest and other charges	33,642	33,642	33,002	640
Capital outlay	-	-	70,052	( 70,052)
Total expenditures	<u>17,271,050</u>	<u>17,316,591</u>	<u>14,833,830</u>	<u>2,482,761</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>( 1,031,143)</u>	<u>1,436,606</u>	<u>( 26,770)</u>	<u>( 1,463,376)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Gain on sale of capital assets	-	-	11,605	11,605
Transfers in	-	-	500,000	500,000
Transfers out	-	-	( 1,687,814)	( 1,687,814)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>( 1,176,209)</u>	<u>( 1,176,209)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 1,031,143)</u>	<u>1,436,606</u>	<u>( 1,202,979)</u>	<u>( 2,639,585)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>2,818,650</u>	<u>2,818,650</u>	<u>2,818,650</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,787,507</u>	<u>\$ 4,255,256</u>	<u>\$ 1,615,671</u>	<u>\$( 2,639,585)</u>

**The accompanying notes are an integral part of these financial statements.**

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**CITY OF TERRELL, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2009**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 7,666,452	\$ 976,565	\$ 8,643,017	\$ 1,138,532
Cash and investments - restricted	612,802	-	612,802	-
Accounts receivable, net	1,371,308	255,327	1,626,635	-
Deferred charges	76,929	20,895	97,824	-
Due from other funds	108,833	94,199	203,032	-
Inventories at average cost	261,138	-	261,138	-
Total current assets	<u>10,097,462</u>	<u>1,346,986</u>	<u>11,444,448</u>	<u>1,138,532</u>
Non-current assets:				
Capital assets:				
Land	598,613	347,748	946,361	-
Buildings and improvements	4,846,314	12,622,900	17,469,214	-
Construction in progress	1,613,357	1,735,317	3,348,674	-
Machinery and equipment	35,722,983	137,199	35,860,182	3,657,541
Less accumulated depreciation	( 17,504,444)	( 4,214,288)	( 21,718,732)	( 2,385,316)
Total capital assets	<u>25,276,823</u>	<u>10,628,876</u>	<u>35,905,699</u>	<u>1,272,225</u>
Total non-current assets	<u>25,276,823</u>	<u>10,628,876</u>	<u>35,905,699</u>	<u>1,272,225</u>
Total assets	<u>35,374,285</u>	<u>11,975,862</u>	<u>47,350,147</u>	<u>2,410,757</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	283,164	8,639	291,803	117,664
Accrued interest payable	43,353	6,291	49,644	-
Due to other funds	281,557	-	281,557	-
Due to other governments	46,397	-	46,397	-
Other accrued expenses	60,861	-	60,861	8,098
Compensated absences	11,553	-	11,553	7,628
Bonds, notes and loans payable	515,000	65,000	580,000	-
Total current liabilities	<u>1,241,885</u>	<u>79,930</u>	<u>1,321,815</u>	<u>133,390</u>
Non-current liabilities:				
Compensated absences	46,212	-	46,212	-
Customer deposits	336,603	-	336,603	-
Bonds, notes and loans payable	6,500,000	1,145,000	7,645,000	-
Total non-current liabilities	<u>6,882,815</u>	<u>1,145,000</u>	<u>8,027,815</u>	<u>-</u>
Total liabilities	<u>8,124,700</u>	<u>1,224,930</u>	<u>9,349,630</u>	<u>133,390</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	18,261,823	9,418,876	27,680,699	1,272,225
Restricted for debt service	612,802	-	612,802	-
Unrestricted	8,374,960	1,332,056	9,707,016	1,005,142
Total net assets	<u>\$ 27,249,585</u>	<u>\$ 10,750,932</u>	<u>\$ 38,000,517</u>	<u>\$ 2,277,367</u>

**The accompanying notes are an integral part of these financial statements.**

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**CITY OF TERRELL, TEXAS**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 8,224,394	\$ -	\$ 8,224,394	\$ -
Rental income	-	409,427	409,427	-
Internal service revenues	-	-	-	2,287,633
Miscellaneous	6,270	59,384	65,654	129,320
Total operating revenues	<u>8,230,664</u>	<u>468,811</u>	<u>8,699,475</u>	<u>2,416,953</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and services	5,684,126	55,639	5,739,765	240,597
Administration	659,488	-	659,488	166,392
Utilities	-	-	-	395,410
Repairs and maintenance	-	-	-	65,060
Other supplies and expenses	-	-	-	235,398
Insurance claims and expenses	-	-	-	1,066,668
Depreciation	767,692	251,524	1,019,216	230,429
Total operating expenses	<u>7,111,306</u>	<u>307,163</u>	<u>7,418,469</u>	<u>2,399,954</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,119,358</u>	<u>161,648</u>	<u>1,281,006</u>	<u>16,999</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenues	127,075	12,794	139,869	17,052
Capital grants	-	313,958	313,958	-
Interest and fiscal charges	( 329,448)	( 56,750)	( 386,198)	-
Gain on disposal of assets	-	-	-	( 9,384)
Transfers in	714,727	114,740	829,467	-
Transfers out	<u>( 1,423,112)</u>	<u>-</u>	<u>( 1,423,112)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>( 910,758)</u>	<u>384,742</u>	<u>( 526,016)</u>	<u>7,668</u>
<b>CONTRIBUTED CAPITAL</b>	<u>-</u>	<u>936,009</u>	<u>936,009</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	208,600	1,482,399	1,690,999	24,667
<b>TOTAL NET ASSETS, BEGINNING</b>	27,040,985	8,291,238	35,332,223	2,252,700
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>977,295</u>	<u>977,295</u>	<u>-</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 27,249,585</u>	<u>\$ 10,750,932</u>	<u>\$ 38,000,517</u>	<u>\$ 2,277,367</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF TERRELL, TEXAS**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers and users	\$ 8,329,905	\$ 213,484	\$ 8,543,389	\$ 2,416,953
Cash paid for services and insurance claims	-	-	-	( 1,390,989)
Cash paid to suppliers for goods and services	( 5,563,656)	( 159,183)	( 5,722,839)	( 466,348)
Cash paid to employees for services	( 658,778)	-	( 658,778)	( 236,640)
Net cash provided (used) by operating activities	<u>2,107,471</u>	<u>54,301</u>	<u>2,161,772</u>	<u>322,976</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	714,727	114,740	829,467	-
Transfers out	( 1,423,112)	-	( 1,423,112)	-
Net cash used for noncapital financing activities	<u>( 708,385)</u>	<u>114,740</u>	<u>( 593,645)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	( 995,835)	53,512	( 942,323)	( 45,810)
Principal paid on long-term debt	( 325,000)	( 60,000)	( 385,000)	-
Interest and fiscal charges paid on debt	( 296,552)	( 54,740)	( 351,292)	21,520
Net cash used for capital and related financing activities	<u>( 1,617,387)</u>	<u>( 61,228)</u>	<u>( 1,678,615)</u>	<u>( 24,290)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment earnings	<u>127,075</u>	<u>12,794</u>	<u>139,869</u>	<u>17,052</u>
Net cash provided by investing activities	<u>127,075</u>	<u>12,794</u>	<u>139,869</u>	<u>17,052</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	( 91,226)	120,607	29,381	315,738
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>8,370,480</u>	<u>855,958</u>	<u>9,226,438</u>	<u>822,794</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 8,279,254</u>	<u>\$ 976,565</u>	<u>\$ 9,255,819</u>	<u>\$ 1,138,532</u>

(continued)

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Business-type			Governmental Activities Internal Service Funds
	Water and Sanitary Sewer	Airport	Total	
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,119,358	\$ 161,648	\$ 1,281,006	\$ 16,999
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	767,692	251,524	1,019,216	230,429
Changes in assets and liabilities:				
Decrease (increase) in assets:				
Customer receivable	65,787	( 255,327)	( 189,540)	-
Inventories	26,191	-	26,191	-
Due from other funds	10,687	( 104,886)	( 94,199)	-
Increase (decrease) in liabilities:				
Accounts payable	( 24,841)	1,342	( 23,499)	82,260
Accrued liabilities	5,707	-	5,707	2,767
Compensated absences	( 4,997)	-	( 4,997)	1,190
Due to other funds	96,313	-	96,313	( 10,669)
Due to other governments	12,120	-	12,120	-
Customer deposits	33,454	-	33,454	-
Net cash provided (used) by operating activities	<u>\$ 2,107,471</u>	<u>\$ 54,301</u>	<u>\$ 2,161,772</u>	<u>\$ 322,976</u>

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

# CITY OF TERRELL, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Terrell (the "City") was incorporated on September 6, 1875, under an act of the 14<sup>th</sup> 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 local governments. The following is a summary of the more significant accounting policies.

#### A. Reporting Entity

As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Based on these considerations, the Terrell Economic Development Corporation has been included in the City's reporting entity as blended component unit; although legally separate entity is in substance a 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 (the "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.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **B. 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 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 is 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.

### **C. 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 City 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 City.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the City'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 Rent Supplement Section 8 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 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 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 2007A Bond Fund is a Capital Projects Fund used to account for construction projects funded by the Series 2007 Bond issuance.

The City 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.

Additionally, the City 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:

Insurance Fund – to account for the City's insurance programs.

Equipment Replacement Fund – to track fleet maintenance, repair and replacement.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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 City 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 City'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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### D. Assets, Liabilities, and Net Assets or Equity

#### **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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Equity in Pooled Cash and Investments (Continued)**

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.

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.

**Investments**

State statutes authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, and repurchase agreements. Investments are stated at fair value.

**Investment in Land**

The Terrell Economic Development Corporation invests in land to sell to prospective businesses to enhance economic development. Investment in land is stated at cost.

**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.

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 \$1,014,913,277 and the tax rates were \$.4715 per \$100 valuation for maintenance and operations and \$.1785 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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**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.

**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 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.

**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 - 20
Improvements other than buildings	20 - 45
Public domain infrastructure	20 - 40
Vehicles	12
Heavy equipment	10 - 15
Office equipment	7
Computer equipment	5 - 7

**(continued)**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**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, 2009, there was no interest capitalized.

**Compensated Absences**

The City's vacation pay policy provides that vacation pay accrues 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, 2009, the liability for accrued vacation leave and accrued sick leave is \$1,156,265. The amount applicable to the Enterprise Funds (\$57,765) has been recorded in those funds, and the amount applicable to other funds (\$1,098,500) has been recorded in the Statement of Net Assets for governmental activities.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities, and Net Assets or Equity (Continued)

#### **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.

#### **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.

#### **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.

#### **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, 2009.

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.

## 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 \$(19,474,650) difference are as follows:

General obligation bonds	\$( 1,955,000)
Certificates of obligation	( 12,665,000)
Less: deferred charge for issuance costs (to be amortized over life of debt)	55,849
Interest payable	( 99,916)
Notes payable	( 3,056,922)
Compensated absences	( 1,090,872)
TMRS net pension obligation	( 229,851)
OPEB liability	( <u>432,938</u> )
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 \$( <u>19,474,650</u> )

### B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “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 \$529,817 difference are as follows:

Capital outlay	\$ 1,564,655
Depreciation expense	( <u>1,034,838</u> )
 Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 \$ <u>529,817</u>

(continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Another element of that reconciliation states, "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 \$240,072 difference are as follows:

Deferred property tax revenues	\$ 147,279
Deferred court fines	42,267
Deferred special assessments	<u>50,526</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 240,072</u>

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) 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, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$2,065,732 difference are as follows:

Principal repayments	\$ <u>2,065,732</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 2,065,732</u>

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.

(continued)

3. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. Budgetary Information (Continued)**

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 Highways and Street function by \$40,056 and the Sanitation function by \$94,791 in the General Fund.

**C. Deficit Fund Balance/Net Assets**

The 2007A Bond Fund had a deficit equity balance of \$130,666, the Public Improvement District Fund had a deficit equity balance of \$9,699, and the Certificates of Obligation Tax and Revenue Series 2002 Fund had a deficit equity balance of \$74,214 as of September 30, 2009. The deficit equity balances will be covered by future transfers from the General Fund.

4. **DETAILED NOTES ON ALL FUNDS**

**Deposits and Investments**

*Custodial Credit Risk.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2009, \$17,597,013 of the City's \$18,432,456 deposit balance was collateralized with securities held by the pledging financial institution. Of the remaining balance, \$500,000 was covered by FDIC insurance while \$335,443 was uncollateralized and exposed to custodial credit risk.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Deposits and Investments** (Continued)

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council's investment policies. All significant legal and contractual provisions for investments were complied with during the year.

**Receivables**

Receivables as of year-end for the City'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</u>	<u>Nonmajor and Other</u>	<u>Water Utilities</u>	<u>Airport</u>	<u>Total</u>
Receivables:					
Taxes	\$ 1,590,573	\$ 212,236	\$ -	\$ -	\$ 1,802,809
Due from other governments	-	31,465	-	-	31,465
Special assessment	-	1,226,137	-	-	1,226,137
Accounts	<u>463,569</u>	<u>-</u>	<u>1,490,591</u>	<u>255,327</u>	<u>2,209,487</u>
Gross receivables	2,054,142	1,469,838	1,490,591	255,327	5,269,898
Less: allowance for uncollectibles	<u>( 493,743)</u>	<u>( 421,425)</u>	<u>( 119,283)</u>	<u>-</u>	<u>( 1,034,451)</u>
Net total receivables	<u>\$ 1,560,399</u>	<u>\$ 1,048,413</u>	<u>\$ 1,371,308</u>	<u>\$ 255,327</u>	<u>\$ 4,235,447</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:

	<u>Unavailable</u>	<u>Unearned</u>
Street improvement assessments	\$ 836,911	\$ -
Grants	-	72,112
Adjudicated court fines	42,267	-
Property taxes	<u>604,905</u>	<u>-</u>
Total	<u>\$ 1,484,083</u>	<u>\$ 72,112</u>

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

##### **Primary Government**

	Beginning Balance	Additions	Deletions	Adjustments/ Reclassifications	Ending Balance
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 718,000	\$ -	\$ -	\$ -	\$ 718,000
Construction in progress	<u>1,467,415</u>	<u>1,512,415</u>	<u>( 97,791)</u>	<u>-</u>	<u>2,882,039</u>
Total assets not being depreciated	<u>2,185,415</u>	<u>1,512,415</u>	<u>( 97,791)</u>	<u>-</u>	<u>3,600,039</u>
Capital assets, being depreciated:					
Buildings	3,414,764	-	-	-	3,414,764
Improvements, other than buildings	1,124,229	97,791	-	-	1,222,020
Machinery and equipment	4,555,467	98,050	( 173,582)	-	4,479,935
Infrastructure	<u>38,010,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,010,556</u>
Total capital assets being depreciated	<u>47,105,016</u>	<u>195,841</u>	<u>( 173,582)</u>	<u>-</u>	<u>47,127,275</u>
Less accumulated depreciation:					
Buildings	1,528,399	81,984	-	-	1,610,383
Improvements, other than buildings	734,312	26,514	( 142,677)	-	618,149
Machinery and equipment	2,716,956	287,094	-	( 7,780)	2,996,270
Infrastructure	<u>20,300,612</u>	<u>869,674</u>	<u>-</u>	<u>7,780</u>	<u>21,178,066</u>
Total accumulated depreciation	<u>25,280,279</u>	<u>1,265,266</u>	<u>( 142,677)</u>	<u>-</u>	<u>26,402,868</u>
Total capital assets being depreciated, net	<u>21,824,737</u>	<u>( 1,069,425)</u>	<u>( 30,905)</u>	<u>-</u>	<u>20,724,407</u>
Governmental activities capital assets, net	<u>\$ 24,010,152</u>	<u>\$ 442,990</u>	<u>\$( 128,696)</u>	<u>\$ -</u>	<u>\$ 24,324,446</u>
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 885,019	\$ 61,342	\$ -	\$ -	\$ 946,361
Construction in progress	<u>1,262,230</u>	<u>1,595,222</u>	<u>( 308,086)</u>	<u>799,308</u>	<u>3,348,674</u>
Total assets not being depreciated	<u>2,147,249</u>	<u>1,656,564</u>	<u>( 308,086)</u>	<u>799,308</u>	<u>4,295,035</u>
Capital assets, being depreciated:					
Buildings and improvements	16,722,695	746,519	-	-	17,469,214
Machinery and equipment	<u>35,595,849</u>	<u>264,333</u>	<u>-</u>	<u>-</u>	<u>35,860,182</u>
Total capital assets being depreciated	<u>52,318,544</u>	<u>1,010,852</u>	<u>-</u>	<u>-</u>	<u>53,329,396</u>
Less accumulated depreciation:					
Buildings and improvements	7,918,727	306,505	-	-	8,225,232
Machinery and equipment	<u>12,791,737</u>	<u>701,763</u>	<u>-</u>	<u>-</u>	<u>13,493,500</u>
Total accumulated depreciation	<u>20,710,464</u>	<u>1,008,268</u>	<u>-</u>	<u>-</u>	<u>21,718,732</u>
Total capital assets being depreciated, net	<u>31,608,080</u>	<u>2,584</u>	<u>-</u>	<u>-</u>	<u>31,610,664</u>
Business-type activities capital assets, net	<u>\$ 33,755,329</u>	<u>\$ 1,659,148</u>	<u>\$( 308,086)</u>	<u>\$ 799,308</u>	<u>\$ 35,905,699</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Capital Assets** (Continued)

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

Governmental activities:		
General government	\$	45,930
Public safety		68,802
Highways and streets		873,981
Culture and recreation		46,124
Capital assets held by the City's internal service funds are charged to the various functions based on their usage		<u>230,429</u>
Total depreciation expense - governmental activities	\$	<u>1,265,266</u>
Business-type activities:		
Water and sanitary sewer	\$	756,744
Airport		<u>251,524</u>
Total depreciation expense - business-type activities	\$	<u>1,008,268</u>

**Construction Commitments**

The City has active construction projects as of September 30, 2009. The projects include street construction and expansion. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Contract Amounts</u>	<u>Spent to Date</u>	<u>Estimated Remaining Commitment</u>
Bachelor Creek Interceptor, Sewer	\$ 693,215	\$ 548,399	\$ 144,816
Bachelor Creek Interceptor, Phase I	1,615,789	\$ 46,550	\$ 1,569,239
2 million gallon storage tank	507,280	191,983	\$ 315,297
State Highway 34 relocation	154,500	62,983	\$ 91,517
Water and sewer improvement			
west airport	54,750	10,936	\$ 43,814
Water distribution system improvements	201,156	-	\$ 201,156
Municipal service center improvements	2,268,180	1,786,832	\$ 481,348
Utility relocations	172,554	-	\$ 172,554
South alley paving improvements	76,266	-	\$ 76,266

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Interfund Receivables and Payables and Transfers**

The composition of interfund balances as of September 30, 2009, is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Rent Supplement Section 8	\$ 24,058
	Water and sanitary sewer	187,358
Economic development corporation	Nonmajor governmental	9,699
Water and sanitary sewer	Nonmajor governmental	106,077
	General fund	2,756
Airport fund	Water and sanitary sewer	94,199
Nonmajor governmental	Economic development corporation	<u>54,142</u>
		<u>\$ 478,289</u>

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

**Interfund transfers:**

<u>Transfers out</u>	<u>Transfers in</u>	<u>Amount</u>
Nonmajor governmental	Airport fund	\$ 114,740
Nonmajor governmental	Water and sewer fund	714,727
General fund	TEDC	1,687,814
Water and sewer fund	General fund	500,000
Nonmajor governmental	TEDC	10,872
Water and sewer fund	Nonmajor governmental	<u>923,112</u>
		<u>\$ 3,951,265</u>

Transfers are used to move revenues from the fund required by statute or budget to collect them to the fund expending them.

(continued)

**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Debt**

**Bonded Debt**

Bonded debt of the City as of September 30, 2009, is comprised of the following individual issues:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>
<b>Water and Sewer Revenue Bonds:</b>					
Series 1973	4.10 - 4.15%	01/10/1973	01/10/2013	\$ 1,000,000	\$ <u>400,000</u>
					<u>400,000</u>
<b>Certificates of Obligation:</b>					
Series 1999	3.75 - 4.75%	03/02/1999	02/15/2016	4,500,000	3,095,000
Series 2002	3.60 - 4.90%	07/23/2002	02/15/2022	4,500,000	2,960,000
Series 2003	4.00 - 4.70%	03/21/2003	02/15/2023	1,500,000	1,210,000
Series 2004	3.00 - 4.50%	09/15/2004	02/15/2024	5,500,000	4,350,000
Series 2006	4.00 - 4.375%	08/15/2006	02/15/2026	1,570,000	1,045,000
Series 2007A	4.29%	04/15/2007	02/15/2027	2,030,000	1,215,000
Series 2007B	5.99%	04/15/2007	02/15/2027	2,030,000	1,735,000
Series 2008	4.46%	08/15/2008	02/15/2028	4,940,000	<u>4,880,000</u>
					<u>20,490,000</u>
<b>General Obligation Bonds:</b>					
Series 2004	2.00 - 3.375%	03/01/2005	02/15/2014	3,835,000	<u>1,955,000</u>
					<u>1,955,000</u>
					<u>\$ 22,845,000</u>

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

<u>Year Ending September 30,</u>	<u>Certificates of Obligation</u>		<u>Revenue Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,195,000	\$ 887,065	\$ 100,000	\$ 14,400	\$ 380,000	\$ 52,419
2011	1,255,000	833,337	100,000	10,300	390,000	42,306
2012	1,315,000	777,555	100,000	6,200	400,000	31,194
2013	1,380,000	718,088	100,000	2,075	420,000	18,881
2014	1,450,000	655,181	-	-	365,000	6,159
2015-2019	7,605,000	2,230,221	-	-	-	-
2020-2024	4,845,000	830,684	-	-	-	-
2025-2029	<u>1,445,000</u>	<u>121,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 20,490,000</u>	<u>\$ 7,053,661</u>	<u>\$ 400,000</u>	<u>\$ 32,975</u>	<u>\$ 1,955,000</u>	<u>\$ 150,959</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Debt** (Continued)

**Notes Payable**

As of September 30, 2009, the City's notes payable consisted of the following:

The Terrell Economic Development Corporation, a component unit of the City of Terrell, completed payment of the construction note from a local bank for funding of capital improvements to Airport Road.

The Terrell Economic Development Corporation (TEDC) entered into a note payable agreement with a local bank on September 18, 2005. As of September 30, 2009, the balance was \$2,587,714. The loan is secured by sales tax revenues of the Corporation and will service monthly over a 15-year period at 4.49% interest.

\$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.

\$345,979 equipment note to a bank for the purchase of a fire pumper. The note is due in five annual payments of \$75,225, including interest at 4.0%, with the final payment of unpaid balance due October 15, 2010. The note is secured by the fire pumper.

\$700,000 real estate note to a bank for the purchase of property at 1220 Brin. The note is due in five annual payments of \$159,855, including interest at 4.59%, with the final payment of unpaid balance due October 15, 2010. The note is secured by the real estate.

\$107,500 equipment note to a bank for the purchase of radio equipment for fire and police. The note is due in two annual payments of \$55,808, including interest at 4%, with the final payment of unpaid balance due January 10, 2010. The note is secured by the radio equipment.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Long-term Debt** (Continued)

**Notes Payable** (Continued)

Future maturities and amounts paid under the notes after September 30, 2009, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 607,494	\$ 124,114
2011	289,976	105,054
2012	229,290	92,176
2013	239,944	81,667
2014	250,791	70,675
2015-2019	<u>1,439,427</u>	<u>169,943</u>
Total	<u>\$ 3,056,922</u>	<u>\$ 643,629</u>

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>						
Compensated absences	\$ 1,062,627	\$ 35,873	\$ -	\$ -	\$ 1,098,500	\$ 218,174
Notes payable	3,657,654	-	600,732	-	3,056,922	607,494
Certificates of obligation	13,760,000	-	1,095,000	-	12,665,000	715,000
General obligation bonds	2,325,000	-	370,000	-	1,955,000	380,000
OPEB liability	-	432,938	-	-	432,938	-
Net pension obligation	-	229,851	-	-	229,851	-
Governmental activities long-term liabilities	<u>\$ 20,805,281</u>	<u>\$ 698,662</u>	<u>\$ 2,065,732</u>	<u>\$ -</u>	<u>\$ 19,438,211</u>	<u>\$ 1,920,668</u>
<b>Business-type activities</b>						
Compensated absences	\$ 62,762	\$ -	\$ 4,997	\$ -	\$ 57,765	\$ 11,553
Certificates of obligation	8,110,000	-	285,000	-	7,825,000	480,000
Revenue bonds	500,000	-	100,000	-	400,000	100,000
Business-type activities long-term liabilities	<u>\$ 8,672,762</u>	<u>\$ -</u>	<u>\$ 389,997</u>	<u>\$ -</u>	<u>\$ 8,282,765</u>	<u>\$ 591,553</u>

**Bond Covenants**

Bond covenants require the following disclosures:

	<u>Interest and Sinking</u>	<u>Reserve</u>
<b>First Lien Bonds:</b>		
Required ultimate balance	\$ -	\$ 212,240
Required present balance, end of year	30,650	212,240
Actual present balance, end of year	225,497	387,305

(continued)

#### 4. **DETAILED NOTES ON ALL FUNDS (Continued)**

##### **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 federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended September 30, 2009, 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.

##### **Insurance Plan**

The City has established an insurance plan for health care benefits that pays 100% of employee claims limited to \$20,000 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 reevaluated periodically to take into consideration settlement of claims, new claims, and other factors. As of September 30, 2009 and 2008, the estimated value of these liabilities was \$110,484 and \$28,726, respectively.

##### **Employee Retirement Systems and Pension Plans**

The City participates in the Texas Municipal Retirement System.

##### **Plan Description**

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

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

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**Employee Retirement Systems and Pension Plans (Continued)**

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

	<u>Plan Year 2008</u>	<u>Plan Year 2009</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

**Contributions**

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

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

Annual Required Contribution (ARC)	\$ 1,320,381
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost	1,320,381
Contributions Made	( 1,090,530)
Increase (Decrease) in Net Pension Obligation	229,851
Net Pension Obligation/(Asset), beginning of year	<u>-</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 229,851</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

**Employee Retirement Systems and Pension Plans (Continued)**

**Contributions (Continued)**

**Three-Year Trend Information**

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/07	\$ 906,103	\$ 906,103	100.00%	\$ -
09/30/08	1,138,280	1,138,280	100.00%	-
09/30/09	1,320,381	1,090,530	82.59%	229,851

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Actuarial Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial cost method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining amortization period	25 years - open	30 years - closed	29 years - closed
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return	7.0%	7.0%	7.5%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	N/A	2.1%	2.1%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/2006	\$ 12,435,490	\$ 17,730,583	70.1%	\$ 5,295,093	\$ 7,132,587	74.2%
12/31/2007	12,962,443	22,587,130	57.4%	9,624,687	7,286,011	132.1%
12/31/2008	13,238,540	22,835,955	58.0%	9,597,415	7,583,480	126.6%

(continued)

**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City’s annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	\$ 552,703
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost	552,703
Contributions Made	( 119,765)
Increase (Decrease) in Net Pension Obligation	432,938
Net Pension Obligation/(Asset), beginning of year	<u>-</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 432,938</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.0% discount rate, and level percent of pay amortization).

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
09/30/07	N/A	N/A	N/A	N/A
09/30/08	N/A	N/A	N/A	N/A
09/30/09	\$ 552,703	\$ 119,765	21.7%	\$ 432,938

**Funding Status and Funding Progress**

As of September 30, 2009, the actuarial accrued liability for benefits was \$5,499,140, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$7,065,071 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 77.8%.

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(continued)

**4. DETAILED NOTES ON ALL FUNDS (Continued)**

**Actuarial Methods and Assumptions**

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2009, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return and an annual payroll increase of 3.5%. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2009, was 30 years.

**Supplemental Death Benefits Fund**

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

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

Schedule of Contribution Rates

Accounting Year Ending	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed	Net Pension Obligation
09/30/07	.26%	.26%	100%	\$ -
09/30/08	.25%	.25%	100%	-
09/30/09	.22%	.22%	100%	-

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### **Risk Management**

The City is exposed to risk of loss due to injuries incurred by employees while performing work-related duties. The City provides workers' 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.

##### **Commitments**

During the fiscal year ended September 30, 2005, the City entered into 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 sell 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.

##### **Prior Period Adjustment**

The City has numerous capital projects at various stages of completion. As projects accumulate costs, they are carried as construction in progress. Once the projects are completed, they are reclassified to capital assets. Upon review of engineering documents associated with the Airport Maintenance Program grant, the City has some unfinished projects that had been left off the detailed listing of construction in progress. The net effect of this issue increased prior period net assets by \$799,308 in the Airport fund.

The City also found that an Airport fund customer was delinquent on three previous years' lease income that was noticed in fiscal year 2009. The City has an agreement with the lessee to pay the entire amount of back lease payments in fiscal year 2010. The net effect of the payments prior to fiscal year 2009 increased the Airport fund prior period net assets by \$177,987.

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# **COMBINING STATEMENTS**

## **NONMAJOR GOVERNMENTAL FUNDS**

***Housing Rehabilitation and 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.

***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.

***Red Light Camera Fund*** – to account for the receipt of traffic fines revenue produced from the photographic traffic signal enforcement system.

***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 and 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 Fees 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.

***Tax Increment Fund*** – to account for the City's accumulation of funds within the Tax increment zone.

***TDHCA Home Buyer Fund*** – to account for grant funds used with the TDHCA Home Buyer's Grant.

***County TIF #1 Fund*** – to account for the City's accumulation of funds within the County Tax increment zone.

***Police Grant*** – to account for grant funds used with the Police Grant.

***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, 2009**

	Housing Rehabilitation and Ownership Assistance	Tourism	Grant	Public Improvement District
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 147,270	\$ 40,829	\$ -
Taxes receivable, net	-	-	-	-
Due from other funds	-	-	-	-
Receivable from other governments	-	-	9,190	-
Special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,364</u>
 Total assets	 <u>\$ -</u>	 <u>\$ 147,270</u>	 <u>\$ 50,019</u>	 <u>\$ 46,364</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ 6,156	\$ -	\$ -
Due to other funds	-	-	2,322	9,699
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,364</u>
Total liabilities	<u>-</u>	<u>6,156</u>	<u>2,322</u>	<u>56,063</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Capital projects	-	-	-	-
Unreserved	<u>-</u>	<u>141,114</u>	<u>47,697</u>	<u>( 9,699)</u>
Total fund balances	<u>-</u>	<u>141,114</u>	<u>47,697</u>	<u>( 9,699)</u>
 Total liabilities and fund balances	 <u>\$ -</u>	 <u>\$ 147,270</u>	 <u>\$ 50,019</u>	 <u>\$ 46,364</u>

<u>Red Light Cameras</u>	<u>Permanent Street Improvement</u>	<u>Certificates Obligation Tax and Revenue Series 2002</u>	<u>Infrastructure Improvements</u>	<u>Impact Fees</u>	<u>Park Land/Park Dedication Fees</u>	<u>Tax Increment Fund</u>	<u>TDHCA Home Buyer Grant</u>
\$ 64,202	\$ 649,947	\$ -	\$ 16,996	\$ 732,104	\$ 65,758	\$ 37,698	\$ 47,859
-	-	-	-	-	-	-	-
-	54,142	-	-	-	-	-	-
-	-	-	22,275	-	-	-	-
-	790,546	-	-	-	-	-	-
<u>\$ 64,202</u>	<u>\$ 1,494,635</u>	<u>\$ -</u>	<u>\$ 39,271</u>	<u>\$ 732,104</u>	<u>\$ 65,758</u>	<u>\$ 37,698</u>	<u>\$ 47,859</u>
\$ -	\$ -	\$ 74,214	\$ 18,790	\$ 4,582	\$ -	\$ -	\$ -
-	10,325	-	-	-	-	-	-
-	790,547	-	-	-	-	-	-
-	800,872	74,214	18,790	4,582	-	-	-
-	-	-	-	-	-	-	-
-	693,763	( 74,214)	20,481	727,522	65,758	-	-
64,202	-	-	-	-	-	37,698	47,859
<u>64,202</u>	<u>693,763</u>	<u>( 74,214)</u>	<u>20,481</u>	<u>727,522</u>	<u>65,758</u>	<u>37,698</u>	<u>47,859</u>
<u>\$ 64,202</u>	<u>\$ 1,494,635</u>	<u>\$ -</u>	<u>\$ 39,271</u>	<u>\$ 732,104</u>	<u>\$ 65,758</u>	<u>\$ 37,698</u>	<u>\$ 47,859</u>

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**CITY OF TERRELL, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**(Continued)**  
**SEPTEMBER 30, 2009**

	<u>County TIF #1</u>	<u>Police Grant</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 17,220	\$ 77,009	\$ 624,057	\$ 2,520,949
Taxes receivable, net	-	-	180,038	180,038
Due from other funds	-	-	-	54,142
Receivable from other governments	-	-	-	31,465
Special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>836,910</u>
 Total assets	 <u>\$ 17,220</u>	 <u>\$ 77,009</u>	 <u>\$ 804,095</u>	 <u>\$ 3,623,504</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 103,742
Due to other funds	-	-	93,430	115,776
Deferred revenue	<u>-</u>	<u>72,112</u>	<u>169,373</u>	<u>1,078,396</u>
Total liabilities	<u>-</u>	<u>72,112</u>	<u>262,803</u>	<u>1,297,914</u>
Fund balances:				
Reserved for:				
Debt service	-	-	541,292	541,292
Capital projects	-	-	-	1,433,310
Unreserved	<u>17,220</u>	<u>4,897</u>	<u>-</u>	<u>350,988</u>
Total fund balances	<u>17,220</u>	<u>4,897</u>	<u>541,292</u>	<u>2,325,590</u>
 Total liabilities and fund balances	 <u>\$ 17,220</u>	 <u>\$ 77,009</u>	 <u>\$ 804,095</u>	 <u>\$ 3,623,504</u>

**CITY OF TERRELL, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Housing Rehabilitation and Ownership Assistance	Tourism	Grant	Public Improvement District
<b>REVENUES</b>				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	-	230,348	-	-
Fees and fines	-	-	-	-
Intergovernmental	-	-	101	-
Charges for services	-	-	-	-
Interest	-	2,800	825	96
Street assessments	-	-	-	-
Miscellaneous	-	-	3	-
Total revenues	<u>-</u>	<u>233,148</u>	<u>929</u>	<u>96</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	228,083	-	-
Public welfare	-	-	18,470	-
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay	-	11,772	11,175	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>-</u>	<u>239,855</u>	<u>29,645</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>( 6,707)</u>	<u>( 28,716)</u>	<u>96</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	( 10,872)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 10,872)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	( 6,707)	( 28,716)	( 10,776)
<b>FUND BALANCES, BEGINNING</b>	<u>-</u>	<u>147,821</u>	<u>76,413</u>	<u>1,077</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ 141,114</u>	<u>\$ 47,697</u>	<u>\$ ( 9,699)</u>

Red Light Cameras	Permanent Street Improvement	Certificates Obligation Tax and Revenue Series 2002	Infrastructure Improvements	Impact Fees	Park Land/Park Dedication Fees	Tax Increment Fund	TDHCA Home Buyer Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,692	\$ -
-	-	-	-	-	-	-	-
14,507	-	-	-	-	-	-	-
-	181,642	-	92,250	-	-	33,472	154,800
-	-	-	-	33,360	500	-	-
709	8,326	-	21	10,808	969	6	59
45	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>15,261</u>	<u>189,968</u>	<u>-</u>	<u>92,271</u>	<u>44,168</u>	<u>1,469</u>	<u>71,170</u>	<u>154,859</u>
-	6,610	-	71,790	-	-	-	-
-	-	-	-	-	-	-	107,000
1,822	-	-	-	-	-	-	-
-	-	-	-	-	11,090	-	-
-	-	-	-	-	-	33,472	-
-	194,480	-	-	28,672	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,822</u>	<u>201,090</u>	<u>-</u>	<u>71,790</u>	<u>28,672</u>	<u>11,090</u>	<u>33,472</u>	<u>107,000</u>
<u>13,439</u>	<u>( 11,122)</u>	<u>-</u>	<u>20,481</u>	<u>15,496</u>	<u>( 9,621)</u>	<u>37,698</u>	<u>47,859</u>
-	-	-	-	-	-	-	-
-	-	-	-	( 182,226)	-	-	-
-	-	-	-	( 182,226)	-	-	-
13,439	( 11,122)	-	20,481	( 166,730)	( 9,621)	37,698	47,859
<u>50,763</u>	<u>704,885</u>	<u>( 74,214)</u>	<u>-</u>	<u>894,252</u>	<u>75,379</u>	<u>-</u>	<u>-</u>
<u>\$ 64,202</u>	<u>\$ 693,763</u>	<u>\$ ( 74,214)</u>	<u>\$ 20,481</u>	<u>\$ 727,522</u>	<u>\$ 65,758</u>	<u>\$ 37,698</u>	<u>\$ 47,859</u>

(continued)

**CITY OF TERRELL, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS  
(Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	County TIF #1	Police Grant	Debt Service	Total Governmental Funds
<b>REVENUES</b>				
Ad valorem taxes	\$ 17,219	\$ -	\$ 1,861,259	\$ 1,916,170
Hotel/motel occupancy taxes	-	-	-	230,348
Fees and fines	-	-	-	14,507
Intergovernmental	-	-	-	462,265
Charges for services	-	-	-	33,860
Interest	1	4,897	10,535	40,052
Street assessments	-	-	-	45
Miscellaneous	-	-	-	3
Total revenues	<u>17,220</u>	<u>4,897</u>	<u>1,871,794</u>	<u>2,697,250</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	306,483
Public welfare	-	-	-	125,470
Public safety	-	-	-	1,822
Culture and recreation	-	-	-	11,090
Public works	-	-	-	33,472
Capital outlay	-	-	-	246,099
Principal	-	-	1,465,000	1,465,000
Interest and other charges	-	-	624,363	624,363
Total expenditures	<u>-</u>	<u>-</u>	<u>2,089,363</u>	<u>2,813,799</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>17,220</u>	<u>4,897</u>	<u>( 217,569)</u>	<u>( 116,549)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	923,112	923,112
Transfers out	-	-	( 647,241)	( 840,339)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>275,871</u>	<u>82,773</u>
<b>NET CHANGE IN FUND BALANCES</b>	17,220	4,897	58,302	( 33,776)
<b>FUND BALANCES, BEGINNING</b>	<u>-</u>	<u>-</u>	<u>482,990</u>	<u>2,359,366</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 17,220</u>	<u>\$ 4,897</u>	<u>\$ 541,292</u>	<u>\$ 2,325,590</u>

**CITY OF TERRELL, TEXAS**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**SEPTEMBER 30, 2009**

	<u>Insurance Fund</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 275,029	\$ 863,503	\$ 1,138,532
Total current assets	<u>275,029</u>	<u>863,503</u>	<u>1,138,532</u>
Non-current assets:			
Capital assets:			
Vehicles and equipment	-	3,657,541	3,657,541
Accumulated depreciation	-	( 2,385,316)	( 2,385,316)
Total non-current assets	<u>-</u>	<u>1,272,225</u>	<u>1,272,225</u>
Total assets	<u>275,029</u>	<u>2,135,728</u>	<u>2,410,757</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	110,484	7,180	117,664
Other accrued expenses	-	8,098	8,098
Compensated absences	-	7,628	7,628
Total current liabilities	<u>110,484</u>	<u>22,906</u>	<u>133,390</u>
Total liabilities	<u>110,484</u>	<u>22,906</u>	<u>133,390</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	-	1,272,225	1,272,225
Unrestricted	<u>164,545</u>	<u>840,597</u>	<u>1,005,142</u>
Total net assets	<u>\$ 164,545</u>	<u>\$ 2,112,822</u>	<u>\$ 2,277,367</u>

**CITY OF TERRELL, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**

**INTERNAL SERVICE FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>Insurance Fund</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Maintenance services	\$ -	\$ 735,368	\$ 735,368
Insurance premiums	1,552,265	-	1,552,265
Miscellaneous	<u>109,140</u>	<u>20,180</u>	<u>129,320</u>
Total operating revenues	<u>1,661,405</u>	<u>755,548</u>	<u>2,416,953</u>
<b>OPERATING EXPENSES</b>			
Personnel services	-	240,597	240,597
Miscellaneous services	-	166,392	166,392
Administrative fees	395,410	-	395,410
Repairs and maintenance	-	65,060	65,060
Supplies	-	235,398	235,398
Insurance claims and expenses	1,066,668	-	1,066,668
Depreciation	<u>-</u>	<u>230,429</u>	<u>230,429</u>
Total operating expenses	<u>1,462,078</u>	<u>937,876</u>	<u>2,399,954</u>
<b>OPERATING INCOME (LOSS)</b>	199,327	( 182,328)	16,999
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	4,613	12,439	17,052
Gain (loss) on disposal of assets	<u>-</u>	<u>( 9,384)</u>	<u>( 9,384)</u>
Total non-operating revenue (expenses)	<u>4,613</u>	<u>3,055</u>	<u>7,668</u>
<b>CHANGE IN NET ASSETS</b>	203,940	( 179,273)	24,667
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>( 39,395)</u>	<u>2,292,095</u>	<u>2,252,700</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 164,545</u>	<u>\$ 2,112,822</u>	<u>\$ 2,277,367</u>

**CITY OF TERRELL, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

	<u>Insurance Fund</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 1,661,405	\$ 755,548	\$ 2,416,953
Cash paid for services and insurance claims	( 1,390,989)	-	( 1,390,989)
Cash paid to suppliers for goods and services	-	( 466,348)	( 466,348)
Cash paid to employees for services	-	( 236,640)	( 236,640)
Net cash provided by operating activities	<u>270,416</u>	<u>52,560</u>	<u>322,976</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	-	( 45,810)	( 45,810)
Proceeds from disposal of capital assets	-	21,520	21,520
Net cash used for capital and related financing activities	<u>-</u>	<u>( 24,290)</u>	<u>( 24,290)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	<u>4,613</u>	<u>12,439</u>	<u>17,052</u>
Net cash provided by investing activities	<u>4,613</u>	<u>12,439</u>	<u>17,052</u>
<b>INCREASE IN CASH</b>	275,029	40,709	315,738
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>-</u>	<u>822,794</u>	<u>822,794</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 275,029</u>	<u>\$ 863,503</u>	<u>\$ 1,138,532</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 199,327	\$( 182,328)	\$ 16,999
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	-	230,429	230,429
Increase (decrease) in accounts payable	81,758	502	82,260
Increase (decrease) in accrued liabilities	-	2,767	2,767
Increase (decrease) in due to other funds	( 10,669)	-	( 10,669)
Increase (decrease) in compensated absences	-	1,190	1,190
Net cash provided by operating activities	<u>\$ 270,416</u>	<u>\$ 52,560</u>	<u>\$ 322,976</u>

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# **SINGLE AUDIT SECTION**

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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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 Honorable City Council  
City of Terrell, Texas

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Terrell, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City of Terrell, Texas' basic financial statements and have issued our report thereon dated June 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting, Items 2009-1 and 2007-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items 2009-1 and 2007-3 to be a material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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.

We noted certain matters that we reported to management of the City in a separate letter dated June 10, 2010.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

*Pattillo, Brown + Hill, L.L.P.*

June 10, 2010



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable City Council  
City of Terrell, Texas

**Compliance**

We have audited the compliance of the 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, 2009. 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 Nonprofit 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 the 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 on the City of Terrell, Texas' compliance with those requirements.

In our opinion, the 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, 2009.

## 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's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, others within the entity, and 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.

*Pattillo, Brown + Hill, L.L.P.*

June 10, 2010

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U. S. Department of Housing and Urban Development</u></b>			
Passed through Texas Department of Housing and Community Affairs:			
Home Investment Partnerships Program	14.239	N/A	\$ 100,000
Section 8 Housing Choice Vouchers Program	14.871	B-07-MC-48-0042	<u>3,128,438</u>
Total Passed through Texas Department of Housing and Community Affairs			<u>3,228,438</u>
Passed through Texas Department of Rural Affairs:			
Community Development Block Grant	14.228	724012	<u>43,000</u>
Total Passed through Texas Department of Rural Affairs			<u>43,000</u>
Total U. S. Department of Housing and Urban Development			<u>3,271,438</u>
<b><u>U. S. Department of Justice</u></b>			
Direct Program:			
Edward Byrne Memorial Justice Assistance Program	16.738	2005-DJ-BX-0113	<u>24,360</u>
Total Direct Program			<u>24,360</u>
Total U. S. Department of Justice			<u>24,360</u>
<b><u>U. S. Department of Transportation</u></b>			
Passed through Texas Department of Transportation:			
Airport Maintenance Program	20.106	7X1AV081	27,201
Airport Maintenance Program	20.106	0718TEREL	276,958
Airport Maintenance Program	20.106	0818TEREL	92,210
Airport Maintenance Program	20.106	08TBTEREL	152,732
Airport Maintenance Program	20.106	0918TEREL	600,882
Airport Maintenance Program	20.106	TER09153	<u>62,983</u>
Total Passed through Texas Department of Transportation			<u>1,212,966</u>
Total U. S. Department of Transportation			<u>1,212,966</u>
Total Expenditures of Federal Awards			<u>\$ 4,508,764</u>

**CITY OF TERRELL, TEXAS**

**NOTES TO SCHEDULE OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

**BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Terrell 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 Nonprofit 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**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**Summary of Auditors' Results**

Type of report on financial statements	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	2009-1, 2007-3
Significant deficiencies identified that are not considered to be material weakness(es)?	No
Internal control over major programs: Material weakness(es) identified?	None
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major programs	Unqualified
Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133 disclosed	None
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statement	The City was classified as a low-risk auditee in the context of OMB Circular A-133.
Major federal programs	Section 8 Rental Voucher Program, CFDA #14.871  Airport Maintenance Program CFDA #20.106

(continued)

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**Findings Relating to the Financial Statements Which are Required to be  
Reported in Accordance With Generally Accepted Auditing Standards**

**Item 2009-1**

- Condition: The City did not book capital assets constructed through the TxDOT Routine Airport Maintenance Program (RAMP) on their capital asset spreadsheets.
- Effect: The City could have failed to have a required single audit of this program. Also, construction in progress was misstated (see Item 2007-3).
- Cause: The City was not aware that assets constructed through this TxDOT program needed to be recorded. TxDOT spends the funds rather than the City which makes this a confusing issue.
- Recommendation: We recommend that the City contact the funding agency any time they are being reimbursed for expenditures or expenditures are paid on their behalf and inquire whether or not the agreement is subject to the Single Audit Act and OMB Circular A-133.
- Management's Response: The City will contact each funding agency and verify if there are any expenditures paid on their behalf. This will ensure that these items get included on the City's general ledger and that these expenditures get recorded on the Schedule of Expenditures of Federal Awards. In the event that the expenditures are for capital items, this process will allow the City to include the assets on their capital asset records.

**Findings and Questioned Costs for Federal Awards**

None

# CITY OF TERRELL, TEXAS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

### Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Auditing Standards

#### Item 2007-3

Condition: The City had an inventory of capital assets performed during the 2008 fiscal year. Upon completion, the City had to make a prior period adjustment to governmental capital asset balances to get them to agree to the detailed listing of capital assets.

Effect: The City overstated governmental capital asset balances and net assets in prior periods.

Cause: The City has been keeping a detailed listing of capital assets and the related depreciation of these assets. However, the City has not compared the list to an actual physical inventory in several years. This caused actual assets to deviate from those on the capital assets schedules by material amounts.

Recommendation: The City should periodically complete physical inventories over capital assets. This will aid in keeping the detailed list of capital assets in agreement with actual capital assets. By comparing the actual to the list, the City can evaluate differences and verify that assets are properly disposed of.

Management's Response: Staff acknowledges audit comment and concurs with the finding. In the 2007 fiscal year, the City retained the services of American Appraisal Associates to update the capital assets inventory. Additional dedicated resources are required to develop, set and sustain procedures and systems that will assure the timely identification, tracking, recording, and periodic physical inspection of the City's capital assets. Staff goals include:

- Reviewing the status and propriety of Capital Asset accounting ledgers.
- Extending the Capital Asset General Ledger reconciliation to the current year.
- Updating the fiscal year 2008 asset values on a timely basis.
- Perform controlled interim and year-end physical inventory at all warehouse locations.
- Implement formal test count procedures
- Document control and operational procedures.

Current Status: A prior period adjustment was required to increase construction in progress during the current audit. The adjustment was the result of determining that the airport renovations being performed by TxDOT constituted a grant and were required to be recorded on the City's general ledger. Due to the prior period adjustment, we consider this finding a material weakness.

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