

CITY OF TERRELL, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

CITY OF TERRELL, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2010

	<u>Page Number</u>
INTRODUCTORY SECTION	
Letter of Transmittal	i – iv
Organization Chart.....	v
Principal Officials	vi
FINANCIAL SECTION	
Independent Auditors’ Report.....	1 – 2
Management’s Discussion and Analysis	3 – 10
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities.....	12 – 13
Fund Financial Statements	
Balance Sheet – Governmental Funds	14 – 15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17 – 18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19

(continued)

CITY OF TERRELL, TEXAS

**TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2010**

	<u>Page Number</u>
FINANCIAL SECTION (Continued)	
Fund Financial Statements (Continued)	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds.....	23 – 24
Notes to Financial Statements.....	25 – 48
Combining Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	49 – 51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	52 – 54
Internal Service Funds	
Combining Statement of Net Assets	55
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	56
Combining Statement of Cash Flows	57

(continued)

CITY OF TERRELL, TEXAS

**TABLE OF CONTENTS
(Continued)
SEPTEMBER 30, 2010**

**Page
Number**

SINGLE AUDIT SECTION

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	58 – 59
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	60 – 61
Schedule of Expenditures of Federal Awards.....	62
Notes to the Schedule of Expenditures of Federal Awards	63
Schedule of Findings and Questioned Costs.....	64
Summary Schedule of Prior Audit Findings.....	65 – 66

THIS PAGE LEFT BLANK INTENTIONALLY

INTRODUCTORY SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



June 6, 2011

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, 2010.

Jack Jones
Mayor Pro tem

This report is published to provide the City Council, City staff, our citizens, our bondholders, and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

Ricky Jordan
Deputy Mayor Pro tem

Don Thurman
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. 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.

Sandra Wilson
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 Expenditures and Federal Awards 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. Promotion and development of commercial, industrial, and manufacturing enterprises that create and enhance local job opportunities are provided through a legally separate entity. The Terrell Economic Development Corporation (“TEDC”) which functions, in essence, as a department of the City of Terrell has been included as an integral part of the City of Terrell’s financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements (see Note I.A.).

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, along with airport services. 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, which include 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.

Assessed property valuations and sales tax collected for the 10 previous years are as follows:

	ASSESSED PROPERTY VALUATIONS (in millions)	SALES TAX COLLECTIONS (in millions)
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
2010	1,023,058,460	6,744,263

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 October 31, 2014.

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, 2010, all idle cash totaling \$4,436,957 was invested in certificates of deposit. The overall portfolio provided \$187,930 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 \$50,000 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 2010 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

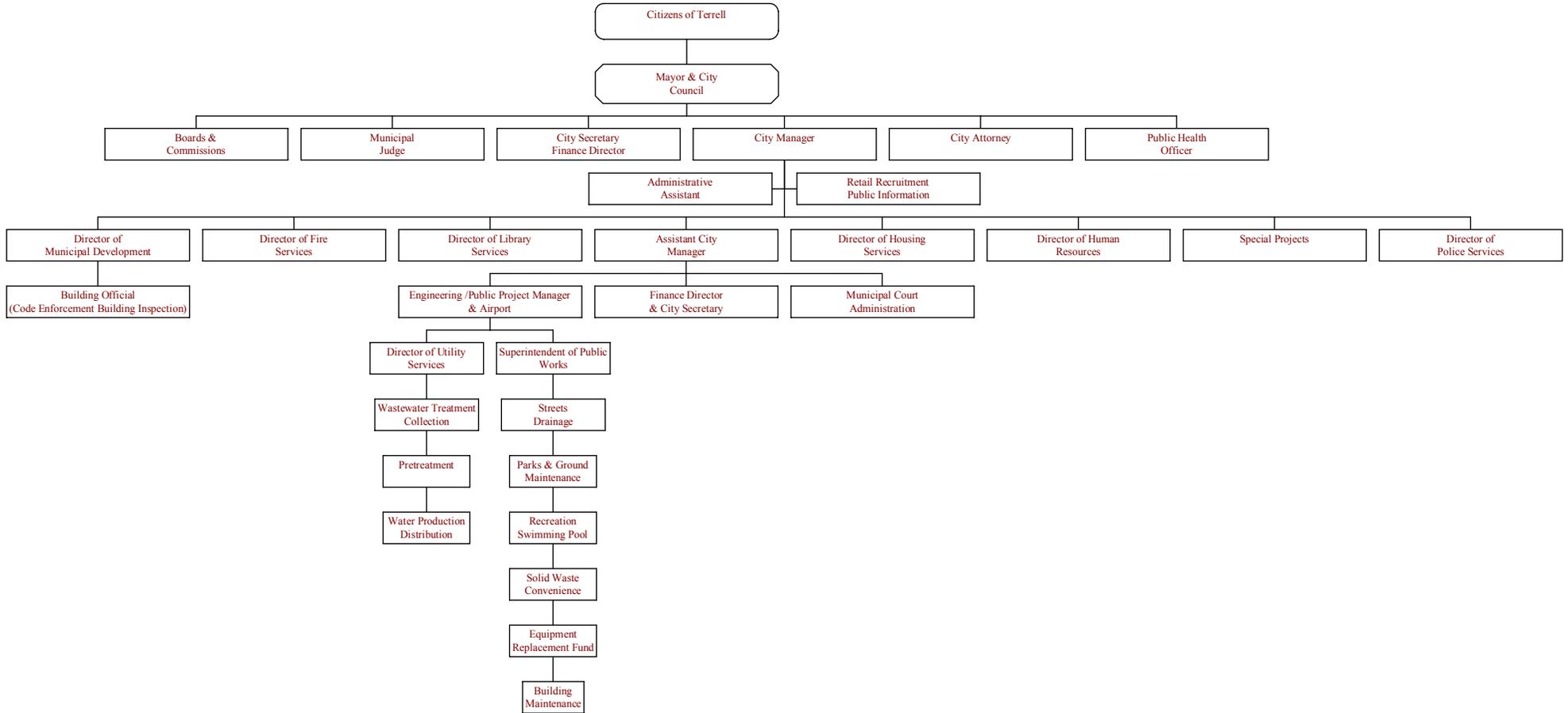
The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of all City departments. We would like to express our appreciation to all members of the City's staff who assisted and contributed to its preparation. We would also like to thank 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, 2010

CITY OFFICIALS

MayorHal 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

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2010, 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, 2010, 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 6, 2011, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Terrell, Texas' financial statements as a whole. 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 financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Pattillo, Brown & Hill, L.L.P.

June 6, 2011

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2010. 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 \$58,729,240 (net assets). Of this amount, \$13,446,650 (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 \$4,478,670 from operations.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$9,709,536, an increase of \$798,504 in comparison with the prior fiscal year. Approximately 52% of this total amount, \$5,015,116, 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 \$2,207,747 or 16% of the total General Fund expenditures.
- The City's total long-term debt decreased by \$510,089 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, the 2007A Bond Fund, and the Permanent Street Improvement 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 \$58,729,240 as of September 30, 2010.

The largest portion of the City's net assets, 68% (\$39,727,162), 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 13,178,104	\$ 12,691,666	\$ 10,868,727	\$ 11,162,891	\$ 24,046,831	\$ 23,854,557
Capital assets	<u>23,953,693</u>	<u>24,324,446</u>	<u>40,384,897</u>	<u>35,905,699</u>	<u>64,338,590</u>	<u>60,230,145</u>
Total assets	<u>37,131,797</u>	<u>37,016,112</u>	<u>51,253,624</u>	<u>47,068,590</u>	<u>88,385,421</u>	<u>84,084,702</u>
Long-term liabilities	19,503,908	19,438,211	7,706,979	8,282,765	27,210,887	27,720,976
Other liabilities	<u>1,236,927</u>	<u>1,327,848</u>	<u>1,208,367</u>	<u>785,308</u>	<u>2,445,294</u>	<u>2,113,156</u>
Total liabilities	<u>20,740,835</u>	<u>20,766,059</u>	<u>8,915,346</u>	<u>9,068,073</u>	<u>29,656,181</u>	<u>29,834,132</u>
Net assets:						
Invested in capital assets, net of related debt	6,987,265	6,647,524	32,739,897	27,680,699	39,727,162	34,328,223
Restricted	4,938,903	4,816,965	616,525	612,802	5,555,428	5,429,767
Unrestricted	<u>4,464,794</u>	<u>4,785,564</u>	<u>8,981,856</u>	<u>9,707,016</u>	<u>13,446,650</u>	<u>14,492,580</u>
Total net assets	<u>\$ 16,390,962</u>	<u>\$ 16,250,053</u>	<u>\$ 42,338,278</u>	<u>\$ 38,000,517</u>	<u>\$ 58,729,240</u>	<u>\$ 54,250,570</u>

Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended September 30, 2010 and 2009.

CITY OF TERRELL'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,393,877	\$ 1,479,254	\$ 9,952,285	\$ 8,633,821	\$ 11,346,162	\$ 10,113,075
Operating grants and contributions	4,325,280	3,939,486	-	-	4,325,280	3,939,486
Capital grants and contributions	-	-	1,221,619	1,249,967	1,221,619	1,249,967
General revenues:						
Property taxes	6,692,572	6,896,120	-	-	6,692,572	6,896,120
Franchise taxes	1,265,384	1,442,858	-	-	1,265,384	1,442,858
Sales taxes	6,745,645	6,528,921	-	-	6,745,645	6,528,921
Other taxes	300,880	270,269	-	-	300,880	270,269
Interest	89,663	133,169	98,264	139,869	187,927	273,038
Miscellaneous	179,818	285,617	47,516	65,654	227,334	351,271
Gain on sale of capital assets	3,156	54,086	-	-	3,156	54,086
Contributed Capital	-	-	-	-	-	-
Transfers	(808,986)	593,645	808,986	(593,645)	-	-
Total revenues	<u>20,187,289</u>	<u>21,623,425</u>	<u>12,128,670</u>	<u>9,495,666</u>	<u>32,315,959</u>	<u>31,119,091</u>
Expenses:						
General government	6,121,362	6,975,179	-	-	6,121,362	6,975,179
Public welfare	3,012,076	3,034,093	-	-	3,012,076	3,034,093
Public safety	6,354,682	6,489,877	-	-	6,354,682	6,489,877
Highways and streets	2,636,481	2,467,985	-	-	2,636,481	2,467,985
Sanitation	565,793	639,177	-	-	565,793	639,177
Culture and recreation	669,093	620,997	-	-	669,093	620,997
Interest on long-term debt	686,893	778,355	-	-	686,893	778,355
Water and sewer	-	-	7,411,898	7,440,754	7,411,898	7,440,754
Airport	-	-	379,011	363,913	379,011	363,913
Total expenses	<u>20,046,380</u>	<u>21,005,663</u>	<u>7,790,909</u>	<u>7,804,667</u>	<u>27,837,289</u>	<u>28,810,330</u>
Change in net assets	140,909	617,762	4,337,761	1,690,999	4,478,670	2,308,761
Net assets, beginning	16,250,053	15,632,291	38,000,517	35,332,223	54,250,570	50,964,514
Prior period adjustment	-	-	-	977,295	-	977,295
Net assets, ending	<u>\$ 16,390,962</u>	<u>\$ 16,250,053</u>	<u>\$ 42,338,278</u>	<u>\$ 38,000,517</u>	<u>\$ 58,729,240</u>	<u>\$ 54,250,570</u>

Governmental activities. Of the City's \$4,478,670 overall increase in net assets, governmental activities net assets increased by \$140,909. The most significant governmental expense for the City was general government, which incurred expenses of \$6,121,362. These expenses were funded by revenues collected from a variety of sources, with one of the largest being from sales taxes, which are \$6,745,645 for the fiscal year ended September 30, 2009. Other significant governmental expenses for the City include public safety, which incurred \$6,354,682 in expenses.

Business-type activities. Business-type activities increased the City's net assets by \$4,337,761.

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 \$9,709,536. Approximately 52% of this total amount (\$5,015,116) 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 (\$1,549,155), (2) pay for debt service (\$593,217), and (3) pay for investments held for resale (\$2,552,048).

In the General Fund, the City budgeted for an increase in the fund balance of \$787,495. Actual revenues being less than budgeted, the actual fund balance increased for fiscal year 2010 by \$592,076.

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, \$29,070,576; and the Airport Fund, \$13,267,702. The Water and Sewer Fund's net assets increased in 2010 by \$1,820,991 and the Airport's net assets increased by \$2,516,770.

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 \$735,672.

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 \$786,879.

CAPITAL ASSETS

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$64,338,590 (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:

- \$12,416,937 was completed on various governmental and business-type construction projects that continue to be in progress; and

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

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 718,000	\$ 718,000	\$ 997,340	\$ 946,361	\$ 1,715,340	\$ 1,664,361
Buildings and improvements	5,456,596	2,265,575	11,872,245	9,243,982	17,328,841	11,509,557
Machinery and equipment	1,580,871	1,622,000	22,467,793	22,366,682	24,048,664	23,988,682
Infrastructure	16,198,226	16,836,832	-	-	16,198,226	16,836,832
Construction in progress	-	2,882,039	5,047,520	3,348,674	5,047,520	6,230,713
Total capital assets	\$ 23,953,693	\$ 24,324,446	\$ 40,384,898	\$ 35,905,699	\$ 64,338,591	\$ 60,230,145

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 \$21,205,000. Of this amount, \$20,905,000 comprises bonded debt backed by the combination of property tax and water/sewer revenues and \$300,000 represents bonds secured solely by water and sewer revenues.

CITY OF TERRELL’S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 4,760,000	\$ 2,325,000	\$ -	\$ -	\$ 4,760,000	\$ 2,325,000
Certificates of obligation	8,800,000	13,760,000	7,345,000	7,345,000	16,145,000	21,105,000
Revenue bonds payable	-	-	300,000	300,000	300,000	300,000
	\$ 13,560,000	\$ 16,085,000	\$ 7,645,000	\$ 7,645,000	\$ 21,205,000	\$ 23,730,000

During the current fiscal year, the City’s total bonded debt decreased by \$2,525,000 or 11%.

The City's bond ratings are listed below:

	<u>Moody's Investors Service</u>	<u>Standard & 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 – 43 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the fiscal year 2010-11 budget, General Fund revenues and transfers in are budgeted to decrease by \$2,054,163 from the 2009-10 budget year, with sales taxes making up about 44% of General Fund budgeted revenues and transfers in. Certified assessed valuations decreased over the preceding year. The tax base has increased by a strong annual average of over the past five years. The City's budgets for all funds have decreased from a declining local economy. However, the City's 2010-2011 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 for fiscal year 2008-2009; however, and appears to show signs of a marginal decrease during the 2010-2011 fiscal year. However, this revenue source is the most volatile and sensitive to changes in the local economy.

The budget for 2010-2011 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.

**BASIC
FINANCIAL STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TERRELL, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 7,569,520	\$ 8,673,656	\$ 16,243,176
Receivables (net, where applicable, of allowances for uncollectibles)	1,872,736	1,391,396	3,264,132
Internal balances	119,264	(119,264)	-
Due from other governments	46,640	6,221	52,861
Special assessments	46,364	-	46,364
Investment in land	2,552,048	-	2,552,048
Funds in escrow	858,690	-	858,690
Inventory, at cost	18,746	215,378	234,124
Restricted cash and investments	-	616,525	616,525
Deferred charges	94,096	84,815	178,911
Capital assets:			
Land	718,000	997,340	1,715,340
Buildings and improvements	6,146,430	57,026,570	63,173,000
Improvements other than buildings	1,823,085	-	1,823,085
Machinery and equipment	4,729,401	137,199	4,866,600
Infrastructure	38,329,128	-	38,329,128
Construction in progress	-	5,047,520	5,047,520
Less accumulated depreciation	<u>(27,792,351)</u>	<u>(22,823,732)</u>	<u>(50,616,083)</u>
Total capital assets	<u>23,953,693</u>	<u>40,384,897</u>	<u>64,338,590</u>
Total assets	<u>37,131,797</u>	<u>51,253,624</u>	<u>88,385,421</u>
LIABILITIES			
Accounts payable	732,647	640,367	1,373,014
Accrued interest payable	69,314	45,799	115,113
Unearned revenue	125,666	80,812	206,478
Other accrued liabilities	309,300	66,931	376,231
Customer deposits	-	319,176	319,176
Due to other governments	-	55,282	55,282
Long-term liabilities:			
Due within one year	1,869,964	617,396	2,487,360
Due in more than one year	<u>17,633,944</u>	<u>7,089,583</u>	<u>24,723,527</u>
Total liabilities	<u>20,740,835</u>	<u>8,915,346</u>	<u>29,656,181</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,987,265	32,739,897	39,727,162
Restricted for:			
Debt service	866,470	616,525	1,482,995
Capital projects	4,072,433	-	4,072,433
Unrestricted	<u>4,464,794</u>	<u>8,981,856</u>	<u>13,446,650</u>
Total net assets	<u>\$ 16,390,962</u>	<u>\$ 42,338,278</u>	<u>\$ 58,729,240</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, 2010

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 6,121,362	\$ 210,728	\$ 971,483	\$ -
Public welfare	3,012,076	21,206	3,353,797	-
Public safety	6,354,682	381,584	-	-
Highways and streets	2,636,481	148,579	-	-
Sanitation	565,793	509,195	-	-
Culture and recreation	669,093	122,585	-	-
Interest on long-term debt	686,893	-	-	-
Total governmental activities	<u>20,046,380</u>	<u>1,393,877</u>	<u>4,325,280</u>	<u>-</u>
Business-type activities:				
Water and sewer	7,411,898	9,589,474	-	5,630
Airport	379,011	362,811	-	1,215,989
Total business-type activities	<u>7,790,909</u>	<u>9,952,285</u>	<u>-</u>	<u>1,221,619</u>
Total primary government	<u>\$ 27,837,289</u>	<u>\$ 11,346,162</u>	<u>\$ 4,325,280</u>	<u>\$ 1,221,619</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				
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
\$(4,939,151)	\$ -	\$(4,939,151)
362,927	-	362,927
(5,973,098)	-	(5,973,098)
(2,487,902)	-	(2,487,902)
(56,598)	-	(56,598)
(546,508)	-	(546,508)
(686,893)	-	(686,893)
<u>(14,327,223)</u>	<u>-</u>	<u>(14,327,223)</u>
-	2,183,206	2,183,206
-	1,199,789	1,199,789
<u>-</u>	<u>3,382,995</u>	<u>3,382,995</u>
<u>-</u>	<u>3,382,995</u>	<u>3,382,995</u>
4,781,730	-	4,781,730
1,910,842	-	1,910,842
6,745,645	-	6,745,645
1,265,384	-	1,265,384
300,880	-	300,880
89,663	98,264	187,927
179,818	47,516	227,334
3,156	-	3,156
(808,986)	808,986	-
<u>14,468,132</u>	<u>954,766</u>	<u>15,422,898</u>
140,909	4,337,761	4,478,670
<u>16,250,053</u>	<u>38,000,517</u>	<u>54,250,570</u>
<u>\$ 16,390,962</u>	<u>\$ 42,338,278</u>	<u>\$ 58,729,240</u>

CITY OF TERRELL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	<u>General</u>	<u>Rent Supplement Section 8</u>	<u>Terrell Economic Development Corporation</u>
ASSETS			
Cash and investments	\$ 1,362,590	\$ 870,194	\$ 1,561,873
Taxes receivable, net	1,678,846	-	-
Due from other funds	230,747	-	9,699
Receivable from other governments	-	2,455	-
Special assessments	-	-	-
Investment in land	-	-	2,552,048
Other receivables	54,636	-	-
Inventories	<u>18,746</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 3,345,565</u>	<u>\$ 872,649</u>	<u>\$ 4,123,620</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 288,348	\$ 25,524	\$ 19,842
Accrued wages payable	301,903	-	-
Due to other funds	38,746	-	54,142
Deferred revenue	<u>508,821</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,137,818</u>	<u>25,524</u>	<u>73,984</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	2,552,048
Unreserved	<u>2,207,747</u>	<u>847,125</u>	<u>1,497,588</u>
Total fund balances	<u>2,207,747</u>	<u>847,125</u>	<u>4,049,636</u>
Total liabilities and fund balances	<u>\$ 3,345,565</u>	<u>\$ 872,649</u>	<u>\$ 4,123,620</u>

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

Certificates of Obligation Tax and Revenue Series 2004	2007A Bond	Permanent Street Improvement	Other Governmental Funds	Total Governmental Funds
\$ 773,522	\$ 22,998	\$ 498,907	\$ 1,699,302	\$ 6,789,386
-	-	-	193,890	1,872,736
-	-	54,142	35,990	330,578
-	-	-	44,185	46,640
-	-	-	46,364	46,364
-	-	-	-	2,552,048
-	-	804,054	-	858,690
-	-	-	-	18,746
<u>\$ 773,522</u>	<u>\$ 22,998</u>	<u>\$ 1,357,103</u>	<u>\$ 2,019,731</u>	<u>\$ 12,515,188</u>
\$ -	\$ 198,537	\$ 4,665	\$ 92,956	\$ 629,872
-	-	-	-	301,903
-	-	10,325	108,101	211,314
-	-	806,555	347,187	1,662,563
-	198,537	821,545	548,244	2,805,652
-	-	-	593,217	593,217
773,522	(175,539)	535,558	415,614	4,101,203
-	-	-	462,656	5,015,116
<u>773,522</u>	<u>(175,539)</u>	<u>535,558</u>	<u>1,471,487</u>	<u>9,709,536</u>
<u>\$ 773,522</u>	<u>\$ 22,998</u>	<u>\$ 1,357,103</u>	<u>\$ 2,019,731</u>	<u>\$ 12,515,188</u>

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TERRELL, TEXAS

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

SEPTEMBER 30, 2010

Total fund balance, governmental funds	\$ 9,709,536
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.	22,833,034
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.	1,536,897
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.	1,781,912
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.	<u>(19,470,417)</u>
Net assets of governmental activities in the Statement of Net Assets	\$ <u>16,390,962</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, 2010

	General	Rent Supplement Section 8	Terrell Economic Development Corporation
REVENUES			
Taxes and special assessments	\$ 11,143,197	\$ -	\$ 1,652,956
Licenses and permits	88,856	-	-
Hotel/motel occupancy taxes	-	-	-
Fees and fines	432,077	-	-
Intergovernmental	907,684	3,232,744	-
Charges for services	622,722	-	8,400
Investment earnings	17,886	8,712	20,209
Street assessments	-	-	-
Miscellaneous	<u>187,633</u>	<u>4,372</u>	<u>544</u>
Total revenues	<u>13,400,055</u>	<u>3,245,828</u>	<u>1,682,109</u>
EXPENDITURES			
Current:			
General government	4,554,507	303,801	643,645
Public welfare	-	2,839,330	-
Public safety	5,870,015	-	-
Highways and streets	1,260,377	-	-
Sanitation	553,608	-	-
Culture and recreation	469,327	-	-
Principal	398,194	-	272,155
Interest and other charges	20,710	-	122,680
Capital outlay	<u>669,503</u>	<u>-</u>	<u>14,165</u>
Total expenditures	<u>13,796,241</u>	<u>3,143,131</u>	<u>1,052,645</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(396,186)</u>	<u>102,697</u>	<u>629,464</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from long-term debt	-	-	1,020,000
Payment to bond escrow agent	-	-	-
Gain on sale of capital assets	2,490	-	-
Transfers in	1,286,916	-	-
Transfers out	<u>(301,144)</u>	<u>-</u>	<u>(1,189,712)</u>
Total other financing sources and uses	<u>988,262</u>	<u>-</u>	<u>(169,712)</u>
NET CHANGE IN FUND BALANCES	592,076	102,697	459,752
FUND BALANCES, BEGINNING	<u>1,615,671</u>	<u>744,428</u>	<u>3,589,884</u>
FUND BALANCES, ENDING	<u>\$ 2,207,747</u>	<u>\$ 847,125</u>	<u>\$ 4,049,636</u>

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

Certificates of Obligation Tax and Revenue Series 2004	2007 A Bond	Permanent Street Improvement	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,920,181	\$ 14,716,334
-	-	-	-	88,856
-	-	-	257,460	257,460
-	-	-	-	432,077
-	-	-	254,036	4,394,464
-	-	-	133,021	764,143
7,397	465	6,120	18,649	79,438
-	-	-	2,709	2,709
-	-	2,050	-	194,599
<u>7,397</u>	<u>465</u>	<u>8,170</u>	<u>2,586,056</u>	<u>20,930,080</u>
-	-	32,194	275,297	5,809,444
-	-	-	115,594	2,954,924
-	-	-	85,345	5,955,360
-	-	-	-	1,260,377
-	-	-	-	553,608
-	-	-	-	469,327
-	-	-	1,150,000	1,820,349
-	-	-	551,170	694,560
-	45,338	126,798	-	855,804
<u>-</u>	<u>45,338</u>	<u>158,992</u>	<u>2,177,406</u>	<u>20,373,753</u>
<u>7,397</u>	<u>(44,873)</u>	<u>(150,822)</u>	<u>408,650</u>	<u>556,327</u>
-	-	-	3,185,000	4,205,000
-	-	-	(3,156,327)	(3,156,327)
-	-	-	-	2,490
-	-	82,617	1,000,814	2,370,347
-	-	(90,000)	(1,598,477)	(3,179,333)
-	-	(7,383)	(568,990)	242,177
7,397	(44,873)	(158,205)	(160,340)	798,504
<u>766,125</u>	<u>(130,666)</u>	<u>693,763</u>	<u>1,631,827</u>	<u>8,911,032</u>
<u>\$ 773,522</u>	<u>\$(175,539)</u>	<u>\$ 535,558</u>	<u>\$ 1,471,487</u>	<u>\$ 9,709,536</u>

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2010

Net change in fund balances - total governmental funds:	\$ 798,504
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.	(219,187)
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.	52,814
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.	760,746
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.	(756,513)
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.	(<u>495,455</u>)
Change in net assets of governmental activities	\$ <u>140,909</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TERRELL, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 4,876,702	\$ 4,876,702	\$ 4,741,704	\$(134,998)
Sales and miscellaneous taxes	6,656,450	6,656,450	6,401,493	(254,957)
Fees and fines	598,000	598,000	432,077	(165,923)
Licenses and permits	127,200	127,200	88,856	(38,344)
Intergovernmental	514,868	1,068,094	907,684	(160,410)
Charges for services	592,630	609,630	622,722	13,092
Investment earnings	32,000	32,000	17,886	(14,114)
Miscellaneous	<u>201,858</u>	<u>218,858</u>	<u>187,633</u>	<u>(31,225)</u>
Total revenues	<u>13,599,708</u>	<u>14,186,934</u>	<u>13,400,055</u>	<u>(786,879)</u>
EXPENDITURES				
Current:				
General government	4,653,382	4,806,185	4,554,507	251,678
Public safety	6,280,825	6,208,592	5,870,015	338,577
Highways and street	1,377,040	1,369,412	1,260,377	109,035
Sanitation	574,173	579,756	553,608	26,148
Culture and recreation	510,998	519,904	469,327	50,577
Debt service:				
Principal	398,269	398,269	398,194	75
Interest and other charges	19,787	19,787	20,710	(923)
Capital outlay	<u>-</u>	<u>648,241</u>	<u>669,503</u>	<u>(21,262)</u>
Total expenditures	<u>13,814,474</u>	<u>14,550,146</u>	<u>13,796,241</u>	<u>753,905</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(214,766)</u>	<u>(363,212)</u>	<u>(396,186)</u>	<u>(32,974)</u>
OTHER FINANCING SOURCES (USES)				
Gain on sale of capital assets	-	-	2,490	2,490
Transfers in	732,336	1,243,513	1,286,916	43,403
Transfers out	<u>(165,000)</u>	<u>(92,806)</u>	<u>(301,144)</u>	<u>(208,338)</u>
Total other financing sources and uses	<u>567,336</u>	<u>1,150,707</u>	<u>988,262</u>	<u>(162,445)</u>
NET CHANGE IN FUND BALANCES	352,570	787,495	592,076	(195,419)
FUND BALANCES, BEGINNING	<u>1,615,671</u>	<u>1,615,671</u>	<u>1,615,671</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,968,241</u>	<u>\$ 2,403,166</u>	<u>\$ 2,207,747</u>	<u>\$(195,419)</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TERRELL, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 7,146,324	\$ 1,527,332	\$ 8,673,656	\$ 780,134
Cash and investments - restricted	616,525	-	616,525	-
Accounts receivable, net	1,391,396	-	1,391,396	-
Deferred charges	66,009	18,806	84,815	-
Due from other funds	108,833	85,832	194,665	-
Due from other governments	6,221	-	6,221	-
Inventories at average cost	215,378	-	215,378	-
Total current assets	<u>9,550,686</u>	<u>1,631,970</u>	<u>11,182,656</u>	<u>780,134</u>
Non-current assets				
Capital assets:				
Land	649,592	347,748	997,340	-
Buildings and improvements	41,460,503	15,566,067	57,026,570	-
Construction in progress	3,778,664	1,268,856	5,047,520	-
Machinery and equipment	-	137,199	137,199	3,736,690
Less accumulated depreciation	(18,349,035)	(4,474,697)	(22,823,732)	(2,616,031)
Total capital assets	<u>27,539,724</u>	<u>12,845,173</u>	<u>40,384,897</u>	<u>1,120,659</u>
Total non-current assets	<u>27,539,724</u>	<u>12,845,173</u>	<u>40,384,897</u>	<u>1,120,659</u>
Total assets	<u>37,090,410</u>	<u>14,477,143</u>	<u>51,567,553</u>	<u>1,900,793</u>
LIABILITIES				
Current liabilities:				
Accounts payable	638,957	1,410	640,367	102,775
Accrued interest payable	39,820	5,979	45,799	-
Due to other funds	313,929	-	313,929	-
Due to other governments	55,282	-	55,282	-
Deferred revenue	23,760	57,052	80,812	-
Other accrued expenses	66,931	-	66,931	7,397
Compensated absences	12,396	-	12,396	8,709
Bonds, notes and loans payable	540,000	65,000	605,000	-
Total current liabilities	<u>1,691,075</u>	<u>129,441</u>	<u>1,820,516</u>	<u>118,881</u>
Non-current liabilities				
Compensated absences	49,583	-	49,583	-
Customer deposits	319,176	-	319,176	-
Bonds, notes and loans payable	5,960,000	1,080,000	7,040,000	-
Total non-current liabilities	<u>6,328,759</u>	<u>1,080,000</u>	<u>7,408,759</u>	<u>-</u>
Total liabilities	<u>8,019,834</u>	<u>1,209,441</u>	<u>9,229,275</u>	<u>118,881</u>
NET ASSETS				
Invested in capital assets, net of related debt	21,039,724	11,700,173	32,739,897	1,120,659
Restricted for debt service	616,525	-	616,525	-
Unrestricted	7,414,327	1,567,529	8,981,856	661,253
Total net assets	<u>\$ 29,070,576</u>	<u>\$ 13,267,702</u>	<u>\$ 42,338,278</u>	<u>\$ 1,781,912</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TERRELL, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 9,589,474	\$ -	\$ 9,589,474	\$ -
Rental income	-	362,811	362,811	-
Internal service revenues	-	-	-	1,777,247
Miscellaneous	<u>47,516</u>	<u>-</u>	<u>47,516</u>	<u>340,737</u>
Total operating revenues	<u>9,636,990</u>	<u>362,811</u>	<u>9,999,801</u>	<u>2,117,984</u>
OPERATING EXPENSES				
Cost of sales and services	5,626,853	64,897	5,691,750	234,628
Administration	608,047	-	608,047	98,911
Utilities	-	-	-	404,512
Repairs and maintenance	-	-	-	67,246
Other supplies and expenses	-	-	-	248,931
Insurance claims and expenses	-	-	-	1,339,387
Depreciation	<u>855,514</u>	<u>260,408</u>	<u>1,115,922</u>	<u>230,715</u>
Total operating expenses	<u>7,090,414</u>	<u>325,305</u>	<u>7,415,719</u>	<u>2,624,330</u>
OPERATING INCOME (LOSS)	<u>2,546,576</u>	<u>37,506</u>	<u>2,584,082</u>	<u>(506,346)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenues	87,923	10,341	98,264	10,225
Capital grants	5,630	8,138	13,768	-
Interest and fiscal charges	(321,484)	(53,706)	(375,190)	-
Gain on disposal of assets	-	-	-	666
Transfers in	1,472,359	1,306,640	2,778,999	-
Transfers out	<u>(1,970,013)</u>	<u>-</u>	<u>(1,970,013)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(725,585)</u>	<u>1,271,413</u>	<u>545,828</u>	<u>10,891</u>
CONTRIBUTED CAPITAL	<u>-</u>	<u>1,207,851</u>	<u>1,207,851</u>	<u>-</u>
CHANGE IN NET ASSETS	1,820,991	2,516,770	4,337,761	(495,455)
TOTAL NET ASSETS, BEGINNING	<u>27,249,585</u>	<u>10,750,932</u>	<u>38,000,517</u>	<u>2,277,367</u>
TOTAL NET ASSETS, ENDING	<u>\$ 29,070,576</u>	<u>\$ 13,267,702</u>	<u>\$ 42,338,278</u>	<u>\$ 1,781,912</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, 2010

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and users	\$ 9,623,235	\$ 618,138	\$ 10,241,373	\$ 2,117,984
Cash paid for services and insurance claims	-	-	-	(1,784,671)
Cash paid to suppliers for goods and services	(5,190,264)	(6,707)	(5,196,971)	(389,205)
Cash paid to employees for services	(597,763)	-	(597,763)	(234,248)
Net cash provided (used) by operating activities	<u>3,835,208</u>	<u>611,431</u>	<u>4,446,639</u>	<u>(290,140)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	1,472,359	1,306,640	2,778,999	-
Transfers out	(1,970,013)	-	(1,970,013)	-
Net cash used for noncapital financing activities	<u>(497,654)</u>	<u>1,306,640</u>	<u>808,986</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(3,118,415)	(1,268,854)	(4,387,269)	(79,149)
Principal paid on long-term debt	(515,000)	(65,000)	(580,000)	-
Capital contributions	5,630	8,138	13,768	-
Interest and fiscal charges paid on debt	(314,097)	(51,929)	(366,026)	666
Net cash used for capital and related financing activities	<u>(3,941,882)</u>	<u>(1,377,645)</u>	<u>(5,319,527)</u>	<u>(78,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	87,923	10,341	98,264	10,225
Net cash provided by investing activities	<u>87,923</u>	<u>10,341</u>	<u>98,264</u>	<u>10,225</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(516,405)	550,767	34,362	(358,398)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>8,279,254</u>	<u>976,565</u>	<u>9,255,819</u>	<u>1,138,532</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 7,762,849</u>	<u>\$ 1,527,332</u>	<u>\$ 9,290,181</u>	<u>\$ 780,134</u>

(continued)

CITY OF TERRELL, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	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)	\$ 2,546,576	\$ 37,506	\$ 2,584,082	\$(506,346)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	855,514	260,408	1,115,922	230,715
Changes in assets and liabilities:				
Decrease (increase) in assets:				
Customer receivable	(20,088)	255,327	235,239	-
Other receivable	(6,221)	-	(6,221)	-
Inventories	45,760	-	45,760	-
Due from other funds	-	8,367	8,367	-
Increase (decrease) in liabilities:				
Accounts payable	355,793	(7,229)	348,564	(14,889)
Accrued liabilities	6,070	-	6,070	(701)
Deferred revenue	23,760	57,052	80,812	-
Compensated absences	4,214	-	4,214	1,081
Due to other funds	32,372	-	32,372	-
Due to other governments	8,885	-	8,885	-
Customer deposits	(17,427)	-	(17,427)	-
Net cash provided (used) by operating activities	<u>\$ 3,835,208</u>	<u>\$ 611,431</u>	<u>\$ 4,446,639</u>	<u>\$(290,140)</u>

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

CITY OF TERRELL, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the City of Terrell conform to generally accepted accounting principles as applicable to 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.

(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 \$1,023,058,460 and the tax rates were \$.4637 per \$100 valuation for maintenance and operations and \$.1819 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, 2010, 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, 2010, the liability for accrued vacation leave and accrued sick leave is \$1,196,430. The amount applicable to the Enterprise Funds (\$61,979) has been recorded in those funds, and the amount applicable to other funds (\$1,134,451) 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, 2010.

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 \$(19,470,417) difference are as follows:

General obligation bonds	\$(4,760,000)
Certificates of obligation	(8,800,000)
Less: deferred charge for issuance costs (to be amortized over life of debt)	94,096
Interest payable	(69,314)
Notes payable	(3,406,428)
Compensated absences	(1,125,742)
TMRS net pension obligation	(523,840)
OPEB liability	<u>(879,189)</u>
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$(19,470,417)</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 \$(219,187) difference are as follows:

Capital outlay	\$ 939,581
Depreciation expense	<u>(1,158,768)</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>\$(219,187)</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 \$52,814 difference are as follows:

Deferred property tax revenues	\$ 30,687
Deferred court fines	8,619
Deferred special assessments	<u>13,508</u>
 Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 \$ <u>52,814</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 \$760,746 difference are as follows:

Principal repayments	\$ 1,820,494
Refunding debt issued	<u>(1,059,748)</u>
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 \$ <u>760,746</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 for interest expense by \$923 and capital outlay by \$21,262 in the General Fund.

C. Deficit Fund Balance/Net Assets

The 2007A Bond Fund had a deficit equity balance of \$173,539, the Public Improvement District Fund had a deficit equity balance of \$9,699, the Certificates of Obligation Tax and Revenue Series 2002 Fund had a deficit equity balance of \$74,214, and the Police Grant had a deficit equity balance of \$71,794 as of September 30, 2010. 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, 2010, \$17,133,614 of the City's \$17,633,614 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance was covered by FDIC insurance.

(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>Total</u>
Receivables:				
Taxes	\$ 1,766,069	\$ 228,106	\$ -	\$ 1,994,175
Due from other governments	-	46,640	-	46,640
Special assessment	-	1,293,673	-	1,293,673
Accounts	<u>443,280</u>	<u>-</u>	<u>1,730,152</u>	<u>2,173,432</u>
Gross receivables	2,209,349	1,568,419	1,730,152	5,507,920
Less: allowance for uncollectibles	<u>(475,867)</u>	<u>(477,471)</u>	<u>(338,756)</u>	<u>(1,292,094)</u>
Net total receivables	<u>\$ 1,733,482</u>	<u>\$ 1,090,948</u>	<u>\$ 1,391,396</u>	<u>\$ 4,215,826</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	\$ 850,419	\$ -
Grants	-	125,666
Adjudicated court fines	50,886	-
Property taxes	635,592	-
Other	<u>-</u>	<u>80,812</u>
Total	<u>\$ 1,536,897</u>	<u>\$ 206,478</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

Primary Government

	Beginning Balance	Additions	Deletions	Adjustments/ Reclassifications	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 718,000	\$ -	\$ -	\$ -	\$ 718,000
Construction in progress	<u>2,882,039</u>	<u>45,338</u>	<u>(2,927,377)</u>	<u>-</u>	<u>-</u>
Total assets not being depreciated	<u>3,600,039</u>	<u>45,338</u>	<u>(2,927,377)</u>	<u>-</u>	<u>718,000</u>
Capital assets, being depreciated:					
Buildings	3,414,764	2,741,266	-	(9,600)	6,146,430
Improvements, other than buildings	1,222,020	601,065	-	-	1,823,085
Machinery and equipment	4,479,935	239,866	-	9,600	4,729,401
Infrastructure	<u>38,010,556</u>	<u>318,572</u>	<u>-</u>	<u>-</u>	<u>38,329,128</u>
Total capital assets being depreciated	<u>47,127,275</u>	<u>3,900,769</u>	<u>-</u>	<u>-</u>	<u>51,028,044</u>
Less accumulated depreciation:					
Buildings	1,610,383	672,321	-	(571,308)	1,711,396
Improvements, other than buildings	618,149	52,861	-	130,513	801,523
Machinery and equipment	2,996,270	287,145	-	(134,885)	3,148,530
Infrastructure	<u>21,178,066</u>	<u>377,156</u>	<u>-</u>	<u>575,680</u>	<u>22,130,902</u>
Total accumulated depreciation	<u>26,402,868</u>	<u>1,389,483</u>	<u>-</u>	<u>-</u>	<u>27,792,351</u>
Total capital assets being depreciated, net	<u>20,724,407</u>	<u>2,511,286</u>	<u>-</u>	<u>-</u>	<u>23,235,693</u>
Governmental activities capital assets, net	<u>\$ 24,324,446</u>	<u>\$ 2,556,624</u>	<u>\$(2,927,377)</u>	<u>\$ -</u>	<u>\$ 23,953,693</u>
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 946,361	\$ 50,979	\$ -	\$ -	\$ 997,340
Construction in progress	<u>3,348,674</u>	<u>3,612,086</u>	<u>(1,913,240)</u>	<u>-</u>	<u>5,047,520</u>
Total assets not being depreciated	<u>4,295,035</u>	<u>3,663,065</u>	<u>(1,913,240)</u>	<u>-</u>	<u>6,044,860</u>
Capital assets, being depreciated:					
Buildings and improvements	17,469,214	2,942,614	-	-	20,411,828
Machinery and equipment	<u>35,860,182</u>	<u>891,759</u>	<u>-</u>	<u>-</u>	<u>36,751,941</u>
Total capital assets being depreciated	<u>53,329,396</u>	<u>3,834,373</u>	<u>-</u>	<u>-</u>	<u>57,163,769</u>
Less accumulated depreciation:					
Buildings and improvements	8,225,232	314,351	-	-	8,539,583
Machinery and equipment	<u>13,493,500</u>	<u>790,649</u>	<u>-</u>	<u>-</u>	<u>14,284,149</u>
Total accumulated depreciation	<u>21,718,732</u>	<u>1,105,000</u>	<u>-</u>	<u>-</u>	<u>22,823,732</u>
Total capital assets being depreciated, net	<u>31,610,664</u>	<u>2,729,373</u>	<u>-</u>	<u>-</u>	<u>34,340,037</u>
Business-type activities capital assets, net	<u>\$ 35,905,699</u>	<u>\$ 6,392,438</u>	<u>\$(1,913,240)</u>	<u>\$ -</u>	<u>\$ 40,384,897</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	\$ 62,852
Public safety	77,036
Highways and streets	958,412
Culture and recreation	60,469
Capital assets held by the City's internal service funds are charged to the various functions based on their usage	<u>230,714</u>
Total depreciation expense - governmental activities	<u>\$ 1,389,483</u>
Business-type activities:	
Water and sanitary sewer	\$ 844,592
Airport	<u>260,408</u>
Total depreciation expense - business-type activities	<u>\$ 1,105,000</u>

Construction Commitments

The City has active construction projects as of September 30, 2010. 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, Phase I	\$ 1,615,789	\$ 1,340,741	\$ 275,048
Bachelor Creek Interceptor, Phase II	721,959	-	721,959
2 million gallon storage tank	3,229,523	596,508	2,633,015
State Highway 34 relocation	1,807,273	138,615	1,668,658
Rose Hill Road 20" water line	911,145	-	911,145

(continued)

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

Interfund Receivables and Payables and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ 2,650
	Water and sanitary sewer	228,097
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	85,832
Nonmajor governmental	General fund	35,990
Permanent street improvement	Economic development corporation	<u>54,142</u>
		<u>\$ 525,243</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	\$ 116,928
	Water and sewer fund	1,472,359
	Nonmajor governmental	9,190
Permanent street improvement	General fund	90,000
TEDC	Airport fund	1,189,712
General fund	Nonmajor governmental	301,144
Water and sewer fund	General fund	1,196,916
	Nonmajor governmental	<u>773,097</u>
		<u>\$ 5,149,346</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, 2010, 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>
Water and Sewer Revenue Bonds:					
Series 1973	4.10 - 4.15%	01/10/1973	01/10/2013	\$ 1,000,000	\$ <u>300,000</u>
					<u>300,000</u>
Certificates of Obligation:					
Series 2002	3.60 - 4.90%	07/23/2002	02/15/2022	4,500,000	2,795,000
Series 2003	4.00 - 4.70%	03/21/2003	02/15/2023	1,500,000	1,145,000
Series 2004	3.00 - 4.50%	09/15/2004	02/15/2024	5,500,000	4,140,000
Series 2006	4.00 - 4.375%	08/15/2006	02/15/2026	1,570,000	1,000,000
Series 2007A	4.29%	04/15/2007	02/15/2027	2,030,000	1,170,000
Series 2007B	5.99%	04/15/2007	02/15/2027	2,030,000	1,560,000
Series 2008	4.46%	08/15/2008	02/15/2028	4,940,000	4,640,000
Series 2009	3.05%	12/17/2009	02/15/2019	3,185,000	<u>2,880,000</u>
					<u>19,330,000</u>
General Obligation Bonds:					
Series 2004	2.00 - 3.375%	03/01/2005	02/15/2014	3,835,000	<u>1,575,000</u>
					<u>1,575,000</u>
					<u>\$ 21,205,000</u>

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

Year Ending September 30,	Certificates of Obligation Tax Supported		Revenue Bonds		General Obligation Bonds		Certificates of Obligation Revenue Supported	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 770,000	\$ 453,643	\$ 100,000	\$ 10,300	\$ 390,000	\$ 42,306	\$ 505,000	\$ 338,209
2012	805,000	426,914	100,000	6,200	400,000	31,194	530,000	312,191
2013	830,000	398,416	100,000	2,075	420,000	18,881	565,000	284,644
2014	870,000	368,261	-	-	365,000	6,159	590,000	255,753
2015	900,000	336,169	-	-	-	-	620,000	225,643
2016-2020	4,725,000	1,139,534	-	-	-	-	2,355,000	707,929
2021-2025	2,815,000	309,646	-	-	-	-	1,405,000	320,815
2026-2030	<u>270,000</u>	<u>11,763</u>	-	-	-	-	<u>775,000</u>	<u>52,974</u>
Total	<u>\$ 11,985,000</u>	<u>\$ 3,444,346</u>	<u>\$ 300,000</u>	<u>\$ 18,575</u>	<u>\$ 1,575,000</u>	<u>\$ 98,540</u>	<u>\$ 7,345,000</u>	<u>\$ 2,498,158</u>

(continued)

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

Long-term Debt (Continued)

Notes Payable

As of September 30, 2010, the City's notes payable consisted of the following:

The Terrell Economic Development Corporation (TEDC) entered into a note payable agreement with a local bank on September 18, 2005. As of September 30, 2010, the balance was \$2,378,693. The loan is secured by sales tax revenues of the Corporation and will service monthly over a 15-year period at 4.49% interest.

\$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.

On May 21, 2010, the TEDC entered into a note payable agreement with a local bank. As of September 30, 2010, the balance was \$957,010. The note has a maturity date of May 21, 2015, and is due in equal monthly installments of \$18,438.

Future maturities and amounts paid under the notes after September 30, 2010, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 483,074	\$ 133,211
2012	428,738	113,983
2013	445,950	96,915
2014	463,572	79,149
2015	407,963	60,956
2016-2019	<u>1,177,141</u>	<u>110,763</u>
Total	<u>\$ 3,406,438</u>	<u>\$ 594,977</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	\$ 1,098,500	\$ 35,951	\$ -	\$ 1,134,451	\$ 226,890
Notes payable	3,056,922	1,020,000	670,494	3,406,428	483,074
Certificates of obligation	12,665,000	3,185,000	3,865,000	11,985,000	770,000
General obligation bonds	1,955,000	-	380,000	1,575,000	390,000
OPEB liability	432,938	554,559	108,308	879,189	-
Net pension obligation	<u>229,851</u>	<u>1,460,229</u>	<u>1,166,240</u>	<u>523,840</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 19,438,211</u>	<u>\$ 6,255,739</u>	<u>\$ 6,190,042</u>	<u>\$ 19,503,908</u>	<u>\$ 1,869,964</u>
Business-type activities					
Compensated absences	\$ 57,765	\$ 4,214	\$ -	\$ 61,979	\$ 12,396
Certificates of obligation	7,825,000	-	480,000	7,345,000	505,000
Revenue bonds	<u>400,000</u>	<u>-</u>	<u>100,000</u>	<u>300,000</u>	<u>100,000</u>
Business-type activities long-term liabilities	<u>\$ 8,282,765</u>	<u>\$ 4,214</u>	<u>\$ 580,000</u>	<u>\$ 7,706,979</u>	<u>\$ 617,396</u>

Bond Covenants

Bond covenants require the following disclosures:

	Interest and Sinking	Reserve
First Lien Bonds:		
Required ultimate balance	\$ -	\$ 212,240
Required present balance, end of year	68,667	212,240
Actual present balance, end of year	224,672	391,853

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt (Continued)

Refunding Debt

The City issued \$3,185,000 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,095,000 of certificates of obligation. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$189,093. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$178,573 and resulted in an economic gain of \$157,245.

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, 2010, 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, 2010 and 2009, the estimated value of these liabilities was \$69,299 and \$110,484, respectively.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

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.

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>	<u>Plan Year 2010</u>
Employee deposit rate	7.0%	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	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.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems and Pension Plans (Continued)

Contributions (Continued)

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)	\$ 1,457,025
Interest on Net Pension Obligation	17,239
Adjustment to the ARC	(14,035)
Annual Pension Cost	1,460,229
Contributions Made	(1,166,240)
Increase (Decrease) in Net Pension Obligation	293,989
Net Pension Obligation/(Asset), beginning of year	<u>229,851</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 523,840</u>

Three-Year Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/08	\$ 1,138,280	\$ 1,138,280	100.00%	\$ -
09/30/09	1,320,381	1,090,530	82.59%	229,851
09/30/10	1,460,229	1,166,240	79.87%	293,989

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	Projected 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	30 years - closed	29 years - closed	29 years - closed
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment rate of return	7.0%	7.5%	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	2.1%	2.1%	2.1%

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems and Pension Plans (Continued)

Contributions (Continued)

The funded status as of December 31, 2009, 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
12/31/2007	\$ 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%
12/31/2009	14,765,212	25,349,369	58.2%	10,584,157	8,091,992	130.8%

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	17,318
Adjustment to the ARC	(15,462)
Annual Pension Cost	554,559
Contributions Made	(108,308)
Increase (Decrease) in Net Pension Obligation	446,251
Net Pension Obligation/(Asset), beginning of year	<u>432,938</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 879,189</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
09/30/08	N/A	N/A	N/A	N/A
09/30/09	\$ 552,703	\$ 119,765	21.7%	\$ 432,938
09/30/10	554,559	108,308	19.5%	446,251

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems and Pension Plans (Continued)

Funding Status and Funding Progress

As of September 30, 2010, the actuarial accrued liability for benefits was \$5,852,295, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$7,312,348 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 80%.

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.

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, 2010, 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, 2010, was 29 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.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems and Pension Plans (Continued)

Supplemental Death Benefits Fund (Continued)

Schedule of Contribution Rates

<u>Accounting Year Ending</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
09/30/08	.25%	.25%	100%	\$ -
09/30/09	.22%	.22%	100%	-
09/30/10	.19%	.19%	100%	-

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.

THIS PAGE LEFT BLANK INTENTIONALLY

COMBINING STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

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.

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.

Housing Grant – to account for grant funds used in housing projects.

Home Grant – to account for grant funds used with the Home 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, 2010

	<u>Tourism</u>	<u>Grant</u>	<u>Public Improvement District</u>
ASSETS			
Cash and cash equivalents	\$ 125,021	\$ 41,224	\$ -
Taxes receivable, net	-	-	-
Due from other funds	-	-	-
Receivable from other governments	-	-	-
Special assessments	<u>-</u>	<u>-</u>	<u>46,364</u>
 Total assets	 <u>\$ 125,021</u>	 <u>\$ 41,224</u>	 <u>\$ 46,364</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	2,322	9,699
Deferred revenue	<u>-</u>	<u>-</u>	<u>46,364</u>
Total liabilities	<u>-</u>	<u>2,322</u>	<u>56,063</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	-
Unreserved	<u>125,021</u>	<u>38,902</u>	<u>(9,699)</u>
Total fund balances	<u>125,021</u>	<u>38,902</u>	<u>(9,699)</u>
 Total liabilities and fund balances	 <u>\$ 125,021</u>	 <u>\$ 41,224</u>	 <u>\$ 46,364</u>

<u>Red Light Cameras</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>
\$ 56,871	\$ -	\$ 709	\$ 399,626	\$ 66,395	\$ 37,726	\$ 57,991
-	-	-	-	-	-	-
-	-	-	-	-	35,990	-
-	-	44,185	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 56,871</u>	<u>\$ -</u>	<u>\$ 44,894</u>	<u>\$ 399,626</u>	<u>\$ 66,395</u>	<u>\$ 73,716</u>	<u>\$ 57,991</u>
\$ -	\$ 74,214	\$ -	\$ 18,437	\$ -	\$ -	\$ -
-	-	2,650	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>74,214</u>	<u>2,650</u>	<u>18,437</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
-	(74,214)	42,244	381,189	66,395	-	-
<u>56,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,716</u>	<u>57,991</u>
<u>56,871</u>	<u>(74,214)</u>	<u>42,244</u>	<u>381,189</u>	<u>66,395</u>	<u>73,716</u>	<u>57,991</u>
<u>\$ 56,871</u>	<u>\$ -</u>	<u>\$ 44,894</u>	<u>\$ 399,626</u>	<u>\$ 66,395</u>	<u>\$ 73,716</u>	<u>\$ 57,991</u>

(continued)

CITY OF TERRELL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2010

	<u>County</u> <u>TIF #1</u>	<u>Police</u> <u>Grant</u>	<u>Housing</u> <u>Grant</u>	<u>Home</u> <u>Grant</u>	<u>Debt</u> <u>Service</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS						
Cash and cash equivalents	\$ 33,335	\$ 623	\$ 49,554	\$ 158,313	\$ 671,914	\$ 1,699,302
Taxes receivable, net	-	-	-	-	193,890	193,890
Due from other funds	-	-	-	-	-	35,990
Receivable from other governments	-	-	-	-	-	44,185
Special assessments	-	-	-	-	-	46,364
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 33,335</u>	<u>\$ 623</u>	<u>\$ 49,554</u>	<u>\$ 158,313</u>	<u>\$ 865,804</u>	<u>\$ 2,019,731</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ 305	\$ -	\$ -	\$ -	\$ 92,956
Due to other funds	-	-	-	-	93,430	108,101
Deferred revenue	-	72,112	49,554	-	179,157	347,187
Total liabilities	<u> </u>	<u>72,417</u>	<u>49,554</u>	<u> </u>	<u>272,587</u>	<u>548,244</u>
Fund balances:						
Reserved for:						
Debt service	-	-	-	-	593,217	593,217
Capital projects	-	-	-	-	-	415,614
Unreserved	<u>33,335</u>	<u>(71,794)</u>	<u> </u>	<u>158,313</u>	<u> </u>	<u>462,656</u>
Total fund balances	<u>33,335</u>	<u>(71,794)</u>	<u> </u>	<u>158,313</u>	<u>593,217</u>	<u>1,471,487</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 33,335</u>	<u>\$ 623</u>	<u>\$ 49,554</u>	<u>\$ 158,313</u>	<u>\$ 865,804</u>	<u>\$ 2,019,731</u>

THIS PAGE LEFT BLANK INTENTIONALLY

CITY OF TERRELL, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Tourism</u>	<u>Grant</u>	<u>Public Improvement District</u>
REVENUES			
Ad valorem taxes	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	257,460	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Interest	1,744	395	-
Street assessments	-	-	-
Total revenues	<u>259,204</u>	<u>395</u>	<u>-</u>
EXPENDITURES			
Current:			
General government	275,297	-	-
Public welfare	-	-	-
Public safety	-	-	-
Principal	-	-	-
Interest and other charges	-	-	-
Total expenditures	<u>275,297</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(16,093)</u>	<u>395</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of bonds	-	-	-
Payment to bond escrow agent	-	-	-
Transfers in	-	-	-
Transfers out	-	<u>(9,190)</u>	-
Total other financing sources and uses	<u>-</u>	<u>(9,190)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(16,093)</u>	<u>(8,795)</u>	<u>-</u>
FUND BALANCES, BEGINNING	<u>141,114</u>	<u>47,697</u>	<u>(9,699)</u>
FUND BALANCES, ENDING	<u>\$ 125,021</u>	<u>\$ 38,902</u>	<u>\$(9,699)</u>

<u>Red Light Cameras</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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,990	\$ -
-	-	-	-	-	-	-
-	-	146,840	-	-	-	105,455
-	-	-	133,021	-	-	-
581	-	23	6,144	637	28	30
-	-	-	-	-	-	2,457
<u>581</u>	<u>-</u>	<u>146,863</u>	<u>139,165</u>	<u>637</u>	<u>36,018</u>	<u>107,942</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	107,000
7,912	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>7,912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,000</u>
(7,331)	-	146,863	139,165	637	36,018	942
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	136,144	-	-	-	9,190
-	-	(261,244)	(485,498)	-	-	-
-	-	(125,100)	(485,498)	-	-	9,190
(7,331)	-	21,763	(346,333)	637	36,018	10,132
<u>64,202</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>\$ 56,871</u>	<u>\$(74,214)</u>	<u>\$ 42,244</u>	<u>\$ 381,189</u>	<u>\$ 66,395</u>	<u>\$ 73,716</u>	<u>\$ 57,991</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, 2010**

	County TIF #1	Police Grant	Housing Grant	Home Grant	Debt Service	Total Governmental Funds
REVENUES						
Ad valorem taxes	\$ 16,095	\$ -	\$ -	\$ -	\$ 1,868,096	\$ 1,920,181
Hotel/motel occupancy taxes	-	-	-	-	-	257,460
Intergovernmental	-	438	-	1,303	-	254,036
Charges for services	-	-	-	-	-	133,021
Interest	20	304	-	604	8,139	18,649
Street assessments	-	-	-	-	252	2,709
Total revenues	<u>16,115</u>	<u>742</u>	<u>-</u>	<u>1,907</u>	<u>1,876,487</u>	<u>2,586,056</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	275,297
Public welfare	-	-	-	8,594	-	115,594
Public safety	-	77,433	-	-	-	85,345
Principal	-	-	-	-	1,150,000	1,150,000
Interest and other charges	-	-	-	-	551,170	551,170
Total expenditures	<u>-</u>	<u>77,433</u>	<u>-</u>	<u>8,594</u>	<u>1,701,170</u>	<u>2,177,406</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,115</u>	<u>(76,691)</u>	<u>-</u>	<u>(6,687)</u>	<u>175,317</u>	<u>408,650</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of bonds	-	-	-	-	3,185,000	3,185,000
Payment to bond escrow agent	-	-	-	-	(3,156,327)	(3,156,327)
Transfers in	-	-	-	165,000	690,480	1,000,814
Transfers out	-	-	-	-	(842,545)	(1,598,477)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,000</u>	<u>(123,392)</u>	<u>(568,990)</u>
NET CHANGE IN FUND BALANCES	16,115	(76,691)	-	158,313	51,925	(160,340)
FUND BALANCES, BEGINNING	<u>17,220</u>	<u>4,897</u>	<u>-</u>	<u>-</u>	<u>541,292</u>	<u>1,631,827</u>
FUND BALANCES, ENDING	<u>\$ 33,335</u>	<u>\$(71,794)</u>	<u>\$ -</u>	<u>\$ 158,313</u>	<u>\$ 593,217</u>	<u>\$ 1,471,487</u>

INTERNAL SERVICE FUNDS

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

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

CITY OF TERRELL, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Insurance Fund</u>	<u>Equipment Replacement</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 279,519	\$ 500,615	\$ 780,134
Total current assets	<u>279,519</u>	<u>500,615</u>	<u>780,134</u>
Non-current assets:			
Capital assets:			
Vehicles and equipment	-	3,736,690	3,736,690
Accumulated depreciation	<u>-</u>	<u>(2,616,031)</u>	<u>(2,616,031)</u>
Total non-current assets	<u>-</u>	<u>1,120,659</u>	<u>1,120,659</u>
Total assets	<u>279,519</u>	<u>1,621,274</u>	<u>1,900,793</u>
LIABILITIES			
Current liabilities:			
Accounts payable	69,712	33,063	102,775
Other accrued expenses	-	7,397	7,397
Compensated absences	<u>-</u>	<u>8,709</u>	<u>8,709</u>
Total current liabilities	<u>69,712</u>	<u>49,169</u>	<u>118,881</u>
Total liabilities	<u>69,712</u>	<u>49,169</u>	<u>118,881</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	1,120,659	1,120,659
Unrestricted	<u>209,807</u>	<u>451,446</u>	<u>661,253</u>
Total net assets	<u>\$ 209,807</u>	<u>\$ 1,572,105</u>	<u>\$ 1,781,912</u>

CITY OF TERRELL, TEXAS

INTERNAL SERVICE FUNDS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Insurance Fund	Equipment Replacement	Total
	<u> </u>	<u> </u>	<u> </u>
OPERATING REVENUES			
Maintenance services	\$ -	\$ 325,170	\$ 325,170
Insurance premiums	1,452,077	-	1,452,077
Miscellaneous	<u>334,984</u>	<u>5,753</u>	<u>340,737</u>
Total operating revenues	<u>1,787,061</u>	<u>330,923</u>	<u>2,117,984</u>
OPERATING EXPENSES			
Personnel services	-	234,628	234,628
Miscellaneous services	-	98,911	98,911
Administrative fees	404,512	-	404,512
Repairs and maintenance	-	67,246	67,246
Supplies	-	248,931	248,931
Insurance claims and expenses	1,339,387	-	1,339,387
Depreciation	<u>-</u>	<u>230,715</u>	<u>230,715</u>
Total operating expenses	<u>1,743,899</u>	<u>880,431</u>	<u>2,624,330</u>
OPERATING INCOME (LOSS)	43,162	(549,508)	(506,346)
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	2,100	8,125	10,225
Gain (loss) on disposal of assets	<u>-</u>	<u>666</u>	<u>666</u>
Total non-operating revenue (expenses)	<u>2,100</u>	<u>8,791</u>	<u>10,891</u>
CHANGE IN NET ASSETS	45,262	(540,717)	(495,455)
TOTAL NET ASSETS, BEGINNING	<u>164,545</u>	<u>2,112,822</u>	<u>2,277,367</u>
TOTAL NET ASSETS, ENDING	<u>\$ 209,807</u>	<u>\$ 1,572,105</u>	<u>\$ 1,781,912</u>

CITY OF TERRELL, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

	<u>Insurance Fund</u>	<u>Equipment Replacement</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 1,787,061	\$ 330,923	\$ 2,117,984
Cash paid for services and insurance claims	(1,784,671)	-	(1,784,671)
Cash paid to suppliers for goods and services	-	(389,205)	(389,205)
Cash paid to employees for services	-	(234,248)	(234,248)
Net cash provided (used) by operating activities	<u>2,390</u>	<u>(292,530)</u>	<u>(290,140)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	(79,149)	(79,149)
Proceeds from disposal of capital assets	-	666	666
Net cash used for capital and related financing activities	<u>-</u>	<u>(78,483)</u>	<u>(78,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	<u>2,100</u>	<u>8,125</u>	<u>10,225</u>
Net cash provided by investing activities	<u>2,100</u>	<u>8,125</u>	<u>10,225</u>
INCREASE (DECREASE) IN CASH	4,490	(362,888)	(358,398)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>275,029</u>	<u>863,503</u>	<u>1,138,532</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 279,519</u>	<u>\$ 500,615</u>	<u>\$ 780,134</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 43,162	\$(549,508)	\$(506,346)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	-	230,715	230,715
Increase (decrease) in accounts payable	(40,772)	25,883	(14,889)
Increase (decrease) in accrued liabilities	-	(701)	(701)
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in compensated absences	-	1,081	1,081
Net cash provided (used) by operating activities	<u>\$ 2,390</u>	<u>\$(292,530)</u>	<u>\$(290,140)</u>

SINGLE AUDIT SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



**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, 2010, which collectively comprise the City of Terrell, Texas' basic financial statements and have issued our report thereon dated June 6, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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 6, 2011.

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 used and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

June 6, 2011



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON 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 City of Terrell, Texas' compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that could have a direct and material effect on each of the City of Terrell, Texas' major federal programs for the year ended September 30, 2010. 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 could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 6, 2011

CITY OF TERRELL, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

<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>
<u>U. S. Department of Housing and Urban Development</u>			
Passed through Texas Department of Rural Affairs:			
Community Development Block Grant	14.228	724012	\$ <u>146,840</u>
Total Passed through Texas Department of Rural Affairs			<u>146,840</u>
Passed through Texas Department of Housing and Community Affairs:			
Home Investment Partnerships Program	14.239	N/A	<u>105,455</u>
Total Passed through Texas Department of Housing and Community Affairs			<u>105,455</u>
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871	B-07-MC-48-0042	<u>3,232,744</u>
Total Direct Program			<u>3,232,744</u>
Total U. S. Department of Housing and Urban Development			<u>3,485,039</u>
<u>U. S. Department of Justice</u>			
Direct Program:			
Edward Byrne Memorial Justice Assistance Program	16.804	2005-DJ-BX-0113	<u>13,773</u>
Total Direct Program			<u>13,773</u>
Total U. S. Department of Justice			<u>13,773</u>
<u>U. S. Department of Transportation</u>			
Passed through Texas Department of Transportation:			
Airport Maintenance Program	20.106	08TBTEREL	89,727
Airport Maintenance Program	20.106	0918TEREL	<u>1,118,124</u>
Total Passed through Texas Department of Transportation			<u>1,207,851</u>
Total U. S. Department of Transportation			<u>1,207,851</u>
Total Expenditures of Federal Awards			\$ <u><u>4,706,663</u></u>

CITY OF TERRELL, TEXAS

NOTES TO SCHEDULE OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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, 2010

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal Awards:

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	None
--	------

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
#14.871	Section 8 Rental Voucher Program
#20.106	Airport Maintenance Program

Dollar threshold used to distinguish between type A and type B programs	\$300,000
---	-----------

Auditee qualified as low-risk auditee?	No
--	----

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

None

Findings and Questioned Costs for Federal Awards

None

CITY OF TERRELL, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

Item 2009-1

Condition: The City was not aware that the TxDOT Routine Airport Maintenance Program (RAMP) was a grant.

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 unaware that this program is a grant because TxDOT spends the money rather than reimbursing the City.

Current Status: The City recorded all expenditures and assets properly.

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.

(continued)

CITY OF TERRELL, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

Item 2007-3 (Continued)

- 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: This matter has been resolved.

THIS PAGE LEFT BLANK INTENTIONALLY