

CITY OF TERRELL, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2013

CITY OF TERRELL, TEXAS

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INTRODUCTORY SECTION

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June 17, 2014

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, 2013.

D.J. Ory
Mayor Pro Tem
District 5

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.

Tommy Spencer
Council Member
District 2

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
District 3

THE REPORT

Charles Whitaker
Deputy Mayor Pro Tem
District 4

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.

Torry L. Edwards
City Manager

Mike Sims
Asst. 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 20.04 square miles, had a 2010 census population of 15,816 which is a 16% increase from the 2000 census population of 13,600.

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)
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
2011	947,284,405	6,867,379
2012	937,009,347	6,841,251
2013	933,111,590	7,826,951

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, 2013, all idle cash totaling \$4,438,765 was invested in certificates of deposit. The overall portfolio provided \$38,993 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 2013 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

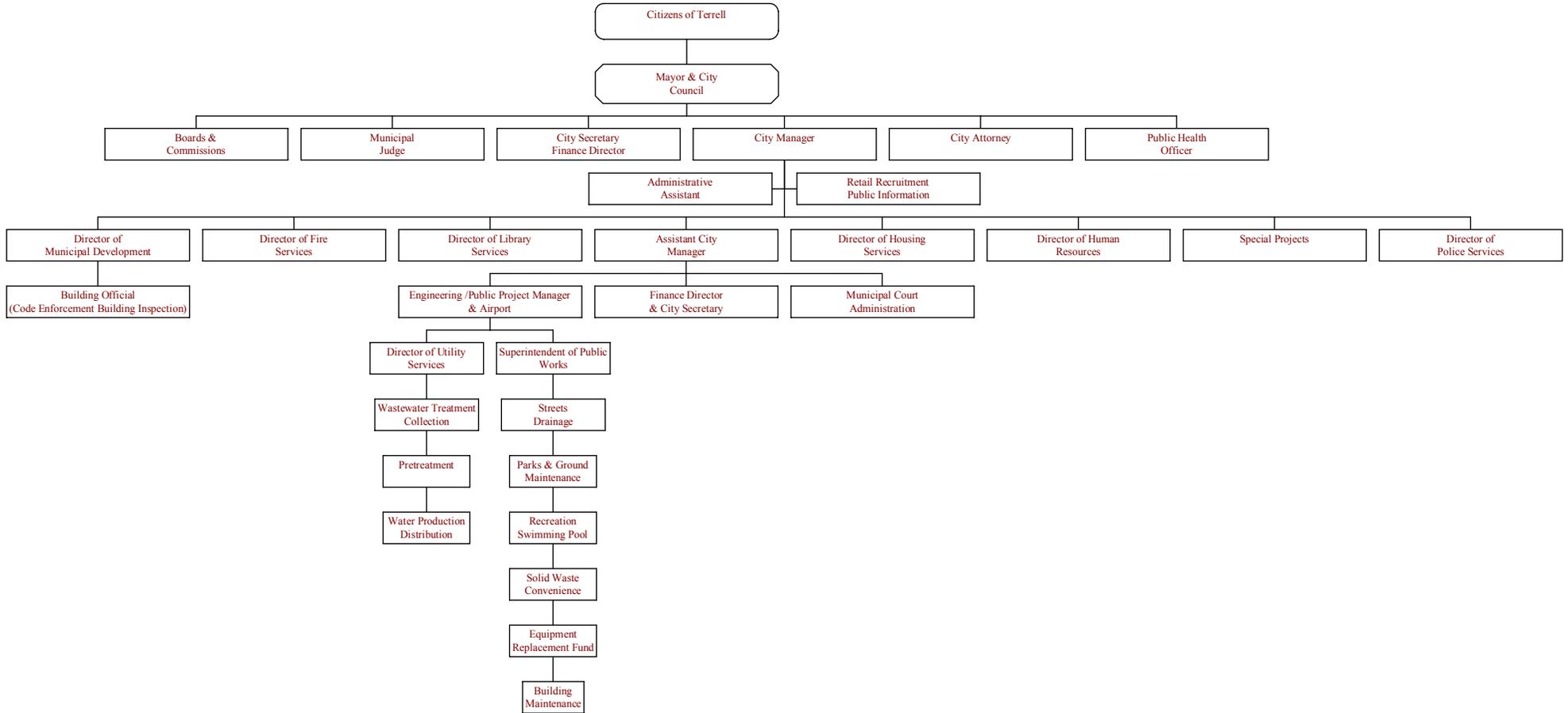
The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of all City departments. We would like to express our appreciation to all members of the City's staff who assisted and contributed to its preparation. We would also like to thank 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, 2013

CITY OFFICIALS

MayorHal Richards

Council Members.....D. J. Ory, Mayor Pro-Tem

Charles Whitaker, Deputy Mayor Pro-Tem

Tommy Spencer

Sandra Wilson

City Manager Torry Edwards

City Secretary.....John Rounsavall

City Attorney Mary Gayle Ramsey

FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014, 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* in considering City of Terrell, Texas' internal control over financial reporting and compliance.

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

Waco, Texas
June 17, 2014

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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Management's Discussion and Analysis

As management of the City of Terrell, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2013. 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 \$68,492,895 (net position). Of this amount, \$9,464,378 (unrestricted net position) 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 position increased by \$5,637,122 from operations.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$13,440,493, an increase of \$1,392,078 in comparison with the prior fiscal year. Approximately 34% of this total amount, \$4,537,416, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,553,816 or 31% of the total General Fund expenditures.
- The City's total long-term debt decreased by \$1,575,471 during the current fiscal year. The key factor in this decrease was the payment of scheduled debt principal payments.

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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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 cover all or most of the cost for these services.

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, and the Permanent Street Improvement Fund, Terrell TIRZ #1 and the Debt Service Fund, each of which are considered to be major funds. Data from the other 14 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.

- **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-funded health insurance plan. 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.

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.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position 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 \$68,492,895 as of September 30, 2013.

The largest portion of the City’s net position, 70% (\$47,777,903), 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 POSTION

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 19,248,447	\$ 15,081,838	\$ 9,439,251	\$ 9,678,131	\$ 28,687,698	\$ 24,759,969
Capital assets	<u>22,430,953</u>	<u>21,519,267</u>	<u>49,393,973</u>	<u>49,048,387</u>	<u>71,824,926</u>	<u>70,567,654</u>
Total assets	<u>41,679,400</u>	<u>36,601,105</u>	<u>58,833,224</u>	<u>58,726,518</u>	<u>100,512,624</u>	<u>95,327,623</u>
Long-term liabilities	18,430,697	19,275,041	10,336,421	11,067,548	28,767,118	30,342,589
Other liabilities	<u>2,100,884</u>	<u>1,105,543</u>	<u>1,151,727</u>	<u>1,023,718</u>	<u>3,252,611</u>	<u>2,129,261</u>
Total liabilities	<u>20,531,581</u>	<u>20,380,584</u>	<u>11,488,148</u>	<u>12,091,266</u>	<u>32,019,729</u>	<u>32,471,850</u>
Net position:						
Net investment in capital assets	8,658,930	6,313,763	39,118,973	38,043,387	47,777,903	44,357,150
Restricted	10,630,555	7,587,611	620,059	620,376	11,250,614	8,207,987
Unrestricted	<u>1,858,334</u>	<u>2,319,147</u>	<u>7,606,044</u>	<u>7,971,489</u>	<u>9,464,378</u>	<u>10,290,636</u>
Total net position	<u>\$ 21,147,819</u>	<u>\$ 16,220,521</u>	<u>\$ 47,345,076</u>	<u>\$ 46,635,252</u>	<u>\$ 68,492,895</u>	<u>\$ 62,855,773</u>

Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended September 30, 2013 and 2012.

CITY OF TERRELL'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,521,803	\$ 1,614,304	\$ 11,840,447	\$ 10,862,031	\$ 13,362,250	\$ 12,476,335
Operating grants and contributions	5,358,423	3,700,554	-	-	5,358,423	3,700,554
Capital grants and contributions	3,635,297	121,542	506,397	29,480	4,141,694	151,022
General revenues:						
Property taxes	5,940,090	5,948,902	-	-	5,940,090	5,948,902
Franchise taxes	1,254,717	1,418,532	-	-	1,254,717	1,418,532
Sales taxes	7,908,641	7,226,124	-	-	7,908,641	7,226,124
Other taxes	313,182	323,393	-	-	313,182	323,393
Interest	25,581	18,436	13,408	18,896	38,989	37,332
Miscellaneous	253,911	368,877	3,403	20,824	257,314	389,701
Gain on sale of capital assets	-	-	-	-	-	-
Contributed Capital	-	-	-	-	-	-
Transfers	1,793,120	2,282,891	(1,793,120)	(2,282,891)	-	-
Total revenues	<u>28,004,765</u>	<u>23,023,555</u>	<u>10,570,535</u>	<u>8,648,340</u>	<u>38,575,300</u>	<u>31,671,895</u>
Expenses:						
General government	7,391,407	7,139,679	-	-	7,391,407	7,139,679
Public welfare	3,098,469	3,175,446	-	-	3,098,469	3,175,446
Public safety	7,480,442	6,969,200	-	-	7,480,442	6,969,200
Highways and streets	3,338,168	2,669,939	-	-	3,338,168	2,669,939
Sanitation	591,460	552,158	-	-	591,460	552,158
Culture and recreation	685,055	626,728	-	-	685,055	626,728
Interest on long-term debt	492,468	633,369	-	-	492,468	633,369
Water and sewer	-	-	9,242,169	8,301,229	9,242,169	8,301,229
Airport	-	-	618,542	579,408	618,542	579,408
Total expenses	<u>23,077,467</u>	<u>21,766,519</u>	<u>9,860,711</u>	<u>8,880,637</u>	<u>32,938,178</u>	<u>30,647,156</u>
Change in net position	4,927,298	1,257,036	709,824	(232,297)	5,637,122	1,024,739
Net position, beginning	16,220,521	14,963,484	46,635,252	48,057,261	62,855,773	63,020,745
Prior period adjustment	-	-	-	(1,189,712)	-	(1,189,712)
Net position, ending	<u>\$ 21,147,819</u>	<u>\$ 16,220,520</u>	<u>\$ 47,345,076</u>	<u>\$ 46,635,252</u>	<u>\$ 68,492,895</u>	<u>\$ 62,855,772</u>

Governmental activities. Of the City's \$5,637,122 overall increase in net position, governmental activities net position increased by \$4,927,298. The most significant governmental expense for the City was general government, which incurred expenses of \$7,391,407. These expenses were funded by revenues collected from a variety of sources, with one of the largest being from sales taxes, which are \$7,908,641 for the fiscal year ended September 30, 2013. Other significant governmental expenses for the City include public safety, which incurred \$7,480,442 in expenses.

Business-type activities. Business-type activities increased the City's net position by \$709,824.

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, unassigned 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 \$13,440,493. Approximately 34% of this total amount (\$4,537,416) constitutes unassigned 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 (\$3,754,121), (2) pay for debt service (\$1,181,136), (3) pay for tourism/economic development (\$3,117,825), (4) pay for grants \$708,037, (5) pay for law enforcement \$52,592, and (6) pay for park development \$69,164.

In the General Fund, the City budgeted for an increase in the fund balance of -\$19,106. Actual revenues being less than budgeted, the actual fund balance increased for fiscal year 2012 by \$236,858.

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 position of the respective proprietary funds are the Water and Sewer Fund, \$32,828,018; and the Airport Fund, \$14,517,058. The Water and Sewer Fund's net position increased in 2013 by \$808,469 and the Airport's net position decreased by \$98,645.

General Fund Budgetary Highlights

The City made slight 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 \$156,555.

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 \$244,678.

CAPITAL ASSETS

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$71,824,926 (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:

- \$4,412,680 was completed on various water distribution projects including a 2 million gallon water storage facility.

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 718,000	\$ 718,000	\$ 1,077,278	\$ 1,077,278	\$ 1,795,278	\$ 1,795,278
Buildings and improvements	4,769,398	4,980,410	25,446,627	21,328,491	30,216,025	26,308,901
Machinery and equipment	1,008,393	1,226,926	20,498,324	21,543,500	21,506,717	22,770,426
Infrastructure	14,011,056	14,320,558	-	-	14,011,056	14,320,558
Construction in progress	<u>1,924,106</u>	<u>273,372</u>	<u>2,371,744</u>	<u>5,099,118</u>	<u>4,295,850</u>	<u>5,372,490</u>
Total capital assets	\$ <u>22,430,953</u>	\$ <u>21,519,266</u>	\$ <u>49,393,973</u>	\$ <u>49,048,387</u>	\$ <u>71,824,926</u>	\$ <u>70,567,653</u>

The largest increase came from airport additions from the Bachelor Creek improvements, and new storage tank and Phase 1 of utility system improvements. Additional information on the City of Terrell's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Terrell had a total bonded debt of \$21,855,000. Of this amount, \$21,855,000 comprises bonded debt backed by the combination of property tax and water/sewer revenues and \$0 represents bonds secured solely by water and sewer revenues.

CITY OF TERRELL'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 5,960,000	\$ 785,000	\$ -	\$ -	\$ 5,960,000	\$ 785,000
Certificates of obligation	5,620,000	11,925,000	10,275,000	10,905,000	15,895,000	22,830,000
Revenue bonds payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
	\$ <u>11,580,000</u>	\$ <u>12,710,000</u>	\$ <u>10,275,000</u>	\$ <u>11,005,000</u>	\$ <u>21,855,000</u>	\$ <u>23,715,000</u>

During the current fiscal year, the City's total bonded debt decreased by \$1,860,000 or 8%. This was due to the payment of regularly scheduled principal payments.

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 the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the fiscal year 2013 – 2014 budget, General Fund revenues and transfers in are budgeted to increase by \$297,417 from the 2012 – 2013 budget year, with sales taxes making up about 43% of General Fund budgeted revenues and transfers in. Certified assessed valuations increased over the preceding year by 3%. The City's budget for all funds increased slightly. The City's 2013 – 2014 budget reflects the stabilization in tax valuations, a slow but sustained economic recovery with increasing commercial construction and business park development activity. The City of Terrell's favorable location continues to attract distribution firms and residential development. The Municipal Development Department indicators show an increase in building activity including renovations and remodeling, as well as new business and commercial development. Building inspections increased 67% and continues to be sustained at that level.

The budget for 2013 – 2014 reflects the allocations 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**

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CITY OF TERRELL, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 10,921,408	\$ 6,560,755	\$ 17,482,163
Receivables (net, where applicable, of allowances for uncollectibles)	1,903,716	1,808,360	3,712,076
Internal balances	256,246	(256,246)	-
Due from other governments	2,463,754	288,802	2,752,556
Special assessments	977,972	-	977,972
Investment in land	1,269,241	-	1,269,241
Investment in building	1,216,829	-	1,216,829
Funds in escrow	58,073	-	58,073
Inventory, at cost	20,202	208,387	228,589
Restricted cash and investments	-	620,059	620,059
Deferred charges	161,006	209,134	370,140
Capital assets:			
Land	718,000	1,077,278	1,795,278
Buildings and improvements	6,088,130	71,711,504	77,799,634
Improvements other than buildings	1,823,085	-	1,823,085
Machinery and equipment	4,739,733	765,480	5,505,213
Infrastructure	39,033,918	-	39,033,918
Construction in progress	1,924,106	2,371,744	4,295,850
Less accumulated depreciation	(31,896,019)	(26,532,033)	(58,428,052)
Total capital assets	22,430,953	49,393,973	71,824,926
Total assets	41,679,400	58,833,224	100,512,624
LIABILITIES			
Accounts payable	1,628,662	644,429	2,273,091
Accrued interest payable	48,043	69,801	117,844
Other accrued liabilities	424,179	92,654	516,833
Customer deposits	-	342,180	342,180
Due to other governments	-	2,663	2,663
Long-term liabilities:			
Due within one year	2,151,956	672,284	2,824,240
Due in more than one year	16,278,741	9,664,137	25,942,878
Total liabilities	20,531,581	11,488,148	32,019,729
NET POSITION			
Net investment in capital assets	8,658,930	39,118,973	47,777,903
Restricted for:			
Tourism/economic development	3,117,825	-	3,117,825
Grants	708,037	-	708,037
Law enforcement	52,592	-	52,592
Highway projects	1,934,769	-	1,934,769
Capital projects	4,732,094	-	4,732,094
Park development	69,164	-	69,164
Debt service	16,074	620,059	636,133
Unrestricted	1,858,334	7,606,044	9,464,378
Total net position	\$ 21,147,819	\$ 47,345,076	\$ 68,492,895

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

CITY OF TERRELL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 7,391,407	\$ 233,559	\$ 329,158	\$ 500,714
Public welfare	3,098,469	7,032	3,093,531	-
Public safety	7,480,442	319,312	965	-
Highways and streets	3,338,168	299,514	1,934,769	3,134,583
Sanitation	591,460	501,040	-	-
Culture and recreation	685,055	161,346	-	-
Interest on long-term debt	492,468	-	-	-
Total governmental activities	<u>23,077,467</u>	<u>1,521,803</u>	<u>5,358,423</u>	<u>3,635,297</u>
Business-type activities:				
Water and sewer	9,242,169	11,678,021	-	246,000
Airport	618,542	162,426	-	260,397
Total business-type activities	<u>9,860,711</u>	<u>11,840,447</u>	<u>-</u>	<u>506,397</u>
Total primary government	<u>\$ 32,938,178</u>	<u>\$ 13,362,250</u>	<u>\$ 5,358,423</u>	<u>\$ 4,141,694</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
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Net position - ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$(6,327,976)	\$ -	\$(6,327,976)
2,094	-	2,094
(7,160,165)	-	(7,160,165)
2,030,698	-	2,030,698
(90,420)	-	(90,420)
(523,709)	-	(523,709)
(492,468)	-	(492,468)
<u>(12,561,944)</u>	<u>-</u>	<u>(12,561,944)</u>
-	2,681,852	2,681,852
<u>-</u>	<u>(195,719)</u>	<u>(195,719)</u>
<u>-</u>	<u>2,486,133</u>	<u>2,486,133</u>
<u>\$(12,561,944)</u>	<u>2,486,133</u>	<u>(10,075,811)</u>
4,240,408	-	4,240,408
1,699,682	-	1,699,682
7,908,641	-	7,908,641
1,254,717	-	1,254,717
313,182	-	313,182
25,581	13,408	38,989
253,911	3,403	257,314
<u>1,793,120</u>	<u>(1,793,120)</u>	<u>-</u>
<u>17,489,242</u>	<u>(1,776,309)</u>	<u>15,712,933</u>
4,927,298	709,824	5,637,122
<u>16,220,521</u>	<u>46,635,252</u>	<u>62,855,773</u>
<u>\$ 21,147,819</u>	<u>\$ 47,345,076</u>	<u>\$ 68,492,895</u>

CITY OF TERRELL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	<u>General</u>	<u>Rent Supplement Section 8</u>	<u>Terrell Economic Development Corporation</u>
ASSETS			
Cash and investments	\$ 3,122,472	\$ 619,828	\$ 503,896
Taxes receivable, net	1,756,296	-	-
Due from other funds	866,474	-	20,423
Receivable from other governments	-	-	-
Special assessments	-	-	-
Investment in land	-	-	1,269,241
Investment in building	-	-	1,216,829
Other receivables	38,192	1,537	-
Inventories	<u>20,202</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 5,803,636</u>	 <u>\$ 621,365</u>	 <u>\$ 3,010,389</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 382,349	\$ 4,338	\$ -
Accrued wages payable	414,093	-	-
Due to other funds	31,978	26,822	54,142
Deferred revenue	<u>401,198</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,229,618</u>	<u>31,160</u>	<u>54,142</u>
Fund balances:			
Non-spendable	20,202	-	-
Restricted:			
Tourism/economic development	-	-	2,956,247
Grants	-	590,205	-
Law enforcement	-	-	-
Capital projects	-	-	-
Park development	-	-	-
Debt service	-	-	-
Unassigned	<u>4,553,816</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>4,574,018</u>	<u>590,205</u>	<u>2,956,247</u>
 Total liabilities and fund balances	 <u>\$ 5,803,636</u>	 <u>\$ 621,365</u>	 <u>\$ 3,010,389</u>

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

<u>Permanent Street Improvement</u>	<u>Terrell TIRZ #1</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 38,023	\$ 2,421,586	\$ 1,268,141	\$ 2,599,843	\$ 10,573,789
-	1	147,419	-	1,903,716
54,142	-	-	-	941,039
500,714	1,934,769	-	28,271	2,463,754
977,972	-	-	-	977,972
-	-	-	-	1,269,241
-	-	-	-	1,216,829
-	-	-	18,344	58,073
-	-	-	-	20,202
<u>\$ 1,570,851</u>	<u>\$ 4,356,356</u>	<u>\$ 1,415,560</u>	<u>\$ 2,646,458</u>	<u>\$ 19,424,615</u>
\$ 80,232	\$ 928,230	\$ -	\$ 35,153	\$ 1,430,302
-	-	-	-	414,093
60,325	-	93,430	418,096	684,793
<u>977,973</u>	<u>1,934,769</u>	<u>140,994</u>	<u>-</u>	<u>3,454,934</u>
<u>1,118,530</u>	<u>2,862,999</u>	<u>234,424</u>	<u>453,249</u>	<u>5,984,122</u>
-	-	-	-	20,202
-	-	-	161,578	3,117,825
-	-	-	117,832	708,037
-	-	-	52,592	52,592
452,321	1,493,357	-	1,808,443	3,754,121
-	-	-	69,164	69,164
-	-	1,181,136	-	1,181,136
-	-	-	(16,400)	4,537,416
<u>452,321</u>	<u>1,493,357</u>	<u>1,181,136</u>	<u>2,193,209</u>	<u>13,440,493</u>
<u>\$ 1,570,851</u>	<u>\$ 4,356,356</u>	<u>\$ 1,415,560</u>	<u>\$ 2,646,458</u>	<u>\$ 19,424,615</u>

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CITY OF TERRELL, TEXAS

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

SEPTEMBER 30, 2013

Total fund balance, governmental funds \$ 13,440,493

Amounts reported for governmental activities in the Statement of Position 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 Position. 21,824,272

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 Position. 3,454,934

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 Position. 736,203

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 Position. (18,308,083)

Net position of governmental activities in the Statement of Net Position \$ 21,147,819

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, 2013

	General	Rent Supplement Section 8	Terrell Economic Development Corporation
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes and special assessments	\$ 11,505,854	\$ -	\$ 1,943,306
Licenses and permits	158,444	-	-
Hotel/motel occupancy taxes	-	-	-
Fees and fines	301,293	-	-
Intergovernmental	419,389	2,721,296	-
Charges for services	608,687	-	8,000
Investment earnings	6,781	1,507	1,402
Miscellaneous	294,598	-	-
Total revenues	<u>13,295,046</u>	<u>2,722,803</u>	<u>1,952,708</u>
EXPENDITURES			
Current:			
General government	4,808,656	313,729	732,424
Public welfare	-	2,636,477	-
Public safety	7,081,807	-	-
Highways and streets	1,333,580	-	-
Sanitation	565,395	-	-
Culture and recreation	577,805	-	-
Principal	-	-	466,907
Interest and other charges	-	-	69,722
Capital outlay	375,256	-	230,791
Total expenditures	<u>14,742,499</u>	<u>2,950,206</u>	<u>1,499,844</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,447,453)</u>	<u>(227,403)</u>	<u>452,864</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issuance	321,401	-	-
Payment to bond escrow agent	-	-	-
Gain on sale of capital assets	29,629	-	-
Transfers in	1,343,464	-	-
Transfers out	(10,183)	-	(814,087)
Total other financing sources and uses	<u>1,684,311</u>	<u>-</u>	<u>(814,087)</u>
NET CHANGE IN FUND BALANCES	236,858	(227,403)	(361,223)
FUND BALANCES, BEGINNING	<u>4,337,160</u>	<u>817,608</u>	<u>3,317,470</u>
FUND BALANCES, ENDING	<u>\$ 4,574,018</u>	<u>\$ 590,205</u>	<u>\$ 2,956,247</u>

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

Permanent Street Improvement	Terrell TIRZ #1	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 15,988	\$ 1,709,836	\$ -	\$ 15,174,984
-	-	-	-	158,444
-	-	-	278,251	278,251
-	-	-	9,806	311,099
500,714	3,134,583	-	360,600	7,136,582
-	-	-	254,131	870,818
3,219	4,569	2,580	4,653	24,711
-	-	-	19,780	314,378
<u>503,933</u>	<u>3,155,140</u>	<u>1,712,416</u>	<u>927,221</u>	<u>24,269,267</u>
614,138	-	-	324,608	6,793,555
-	-	-	325,442	2,961,919
-	-	-	120	7,081,927
-	2,670,831	-	-	4,004,411
-	-	-	-	565,395
-	-	-	75	577,880
-	-	1,375,000	-	1,841,907
-	-	483,195	-	552,917
-	-	-	121,244	727,291
<u>614,138</u>	<u>2,670,831</u>	<u>1,858,195</u>	<u>771,489</u>	<u>25,107,202</u>
(110,205)	484,309	(145,779)	155,732	(837,935)
-	-	5,880,000	-	6,201,401
-	-	(5,792,975)	-	(5,792,975)
-	-	-	-	29,629
372,729	814,087	1,317,187	-	3,847,467
-	-	(1,200,579)	(30,660)	(2,055,509)
<u>372,729</u>	<u>814,087</u>	<u>203,633</u>	<u>(30,660)</u>	<u>2,230,013</u>
262,524	1,298,396	57,854	125,072	1,392,078
<u>189,797</u>	<u>194,961</u>	<u>1,123,282</u>	<u>2,068,137</u>	<u>12,048,415</u>
<u>\$ 452,321</u>	<u>\$ 1,493,357</u>	<u>\$ 1,181,136</u>	<u>\$ 2,193,209</u>	<u>\$ 13,440,493</u>

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CITY OF TERRELL, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances - total governmental funds:	\$ 1,392,078
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.	1,119,045
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.	1,941,508
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.	1,433,481
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.	(528,688)
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>(430,126)</u>
Change in net position of governmental activities	<u>\$ 4,927,298</u>

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

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CITY OF TERRELL, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 4,310,438	\$ 4,286,047	\$ 4,250,871	\$(35,176)
Sales and miscellaneous taxes	6,724,100	7,310,700	7,254,983	(55,717)
Fees and fines	345,000	345,000	301,293	(43,707)
Licenses and permits	181,550	194,800	158,444	(36,356)
Intergovernmental	357,133	357,633	419,389	61,756
Charges for services	602,250	683,350	608,687	(74,663)
Investment earnings	5,000	5,000	6,781	1,781
Miscellaneous	186,230	357,194	294,598	(62,596)
Total revenues	12,711,701	13,539,724	13,295,046	(244,678)
EXPENDITURES				
Current:				
General government	4,508,734	5,278,651	4,808,656	469,995
Public safety	7,170,916	6,971,823	7,081,807	(109,984)
Highways and street	1,283,940	1,344,907	1,333,580	11,327
Sanitation	562,650	528,917	565,395	(36,478)
Culture and recreation	568,090	570,886	577,805	(6,919)
Capital outlay	802,300	358,001	375,256	(17,255)
Total expenditures	14,896,630	15,053,185	14,742,499	310,686
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,184,929)	(1,513,461)	(1,447,453)	66,008
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	-	321,401	321,401
Gain on sale of capital assets	-	-	29,629	29,629
Transfers in	1,256,327	1,494,355	1,343,464	(150,891)
Transfers out	-	-	(10,183)	(10,183)
Total other financing sources and uses	1,256,327	1,494,355	1,684,311	189,956
NET CHANGE IN FUND BALANCES	(928,602)	(19,106)	236,858	255,964
FUND BALANCES, BEGINNING	4,337,160	4,337,160	4,337,160	-
FUND BALANCES, ENDING	\$ 3,408,558	\$ 4,318,054	\$ 4,574,018	\$ 255,964

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

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CITY OF TERRELL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 4,966,340	\$ 1,594,415	\$ 6,560,755	\$ 347,619
Cash and investments - restricted	620,059	-	620,059	-
Accounts receivable, net	1,808,360	-	1,808,360	-
Deferred charges	197,523	11,611	209,134	-
Due from other funds	138,834	151,682	290,516	-
Due from other governments	242,500	46,302	288,802	-
Inventories	208,387	-	208,387	-
Total current assets	<u>8,182,003</u>	<u>1,804,010</u>	<u>9,986,013</u>	<u>347,619</u>
Non-current assets:				
Capital assets:				
Land	729,530	347,748	1,077,278	-
Buildings and improvements	53,626,973	18,084,531	71,711,504	-
Construction in progress	2,371,744	-	2,371,744	-
Machinery and equipment	-	765,480	765,480	3,623,159
Less accumulated depreciation	(21,000,107)	(5,531,926)	(26,532,033)	(3,016,478)
Total capital assets	<u>35,728,140</u>	<u>13,665,833</u>	<u>49,393,973</u>	<u>606,681</u>
Total non-current assets	<u>35,728,140</u>	<u>13,665,833</u>	<u>49,393,973</u>	<u>606,681</u>
Total assets	<u>43,910,143</u>	<u>15,469,843</u>	<u>59,379,986</u>	<u>954,300</u>
LIABILITIES				
Current liabilities:				
Accounts payable	636,557	7,872	644,429	198,360
Accrued interest payable	64,888	4,913	69,801	-
Due to other funds	546,762	-	546,762	-
Due to other governments	2,663	-	2,663	-
Other accrued expenses	92,654	-	92,654	10,086
Compensated absences	12,284	-	12,284	9,651
Bonds, notes and loans payable	585,000	75,000	660,000	-
Total current liabilities	<u>1,940,808</u>	<u>87,785</u>	<u>2,028,593</u>	<u>218,097</u>
Non-current liabilities:				
Compensated absences	49,137	-	49,137	-
Customer deposits	342,180	-	342,180	-
Bonds, notes and loans payable	8,750,000	865,000	9,615,000	-
Total non-current liabilities	<u>9,141,317</u>	<u>865,000</u>	<u>10,006,317</u>	<u>-</u>
Total liabilities	<u>11,082,125</u>	<u>952,785</u>	<u>12,034,910</u>	<u>218,097</u>
NET POSITION				
Net investment in capital assets	26,393,140	12,725,833	39,118,973	606,681
Restricted for debt service	620,059	-	620,059	-
Unrestricted	5,814,819	1,791,225	7,606,044	129,522
Total net position	<u>\$ 32,828,018</u>	<u>\$ 14,517,058</u>	<u>\$ 47,345,076</u>	<u>\$ 736,203</u>

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

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CITY OF TERRELL, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 11,678,021	\$ -	\$ 11,678,021	\$ -
Rental income	-	162,426	162,426	-
Internal service revenues	-	-	-	2,453,790
Miscellaneous	1,619	1,784	3,403	33,230
Total operating revenues	<u>11,679,640</u>	<u>164,210</u>	<u>11,843,850</u>	<u>2,487,020</u>
OPERATING EXPENSES				
Cost of sales and services	7,548,987	167,509	7,716,496	249,102
Administration	103,689	-	103,689	138,326
Utilities	-	-	-	465,874
Repairs and maintenance	-	-	-	57,899
Other supplies and expenses	-	-	-	326,185
Insurance claims and expenses	-	-	-	1,504,677
Depreciation	1,064,241	408,582	1,472,823	169,525
Total operating expenses	<u>8,716,917</u>	<u>576,091</u>	<u>9,293,008</u>	<u>2,911,588</u>
OPERATING INCOME (LOSS)	<u>2,962,723</u>	<u>(411,881)</u>	<u>2,550,842</u>	<u>(424,568)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenues	10,695	2,713	13,408	870
Capital grants	246,000	260,397	506,397	-
Interest and fiscal charges	(525,252)	(42,451)	(567,703)	-
Gain on disposal of assets	-	-	-	(7,590)
Transfers in	1,101,445	112,815	1,214,260	1,162
Transfers out	(2,987,142)	(20,238)	(3,007,380)	-
Total non-operating revenues (expenses)	<u>(2,154,254)</u>	<u>313,236</u>	<u>(1,841,018)</u>	<u>(5,558)</u>
CHANGE IN NET POSITION	808,469	(98,645)	709,824	(430,126)
TOTAL NET POSITION, BEGINNING	<u>32,019,549</u>	<u>14,615,703</u>	<u>46,635,252</u>	<u>1,166,329</u>
TOTAL NET POSITION, ENDING	<u>\$ 32,828,018</u>	<u>\$ 14,517,058</u>	<u>\$ 47,345,076</u>	<u>\$ 736,203</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, 2013

	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	\$ 11,344,252	\$ 164,210	\$ 11,508,462	\$ 2,487,020
Cash paid for services and insurance claims	-	-	-	(1,897,366)
Cash paid to suppliers for goods and services	(5,719,039)	(238,913)	(5,957,952)	(523,741)
Cash paid to employees for services	(2,093,078)	-	(2,093,078)	(248,176)
Net cash provided by operating activities	<u>3,532,135</u>	<u>(74,703)</u>	<u>3,457,432</u>	<u>(182,263)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	1,101,445	112,815	1,214,260	-
Transfers out	(2,987,142)	(20,238)	(3,007,380)	1,162
Net cash provided (used) for noncapital financing activities	<u>(1,885,697)</u>	<u>92,577</u>	<u>(1,793,120)</u>	<u>1,162</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(1,713,790)	(104,619)	(1,818,409)	37,834
Principal paid on long-term debt	(660,000)	(70,000)	(730,000)	-
Capital contributions	246,000	260,397	506,397	-
Interest and fiscal charges paid on debt	(501,354)	(39,193)	(540,547)	(7,590)
Net cash used for capital and related financing activities	<u>(2,629,144)</u>	<u>46,585</u>	<u>(2,582,559)</u>	<u>30,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	<u>10,695</u>	<u>2,713</u>	<u>13,408</u>	<u>870</u>
Net cash provided by investing activities	<u>10,695</u>	<u>2,713</u>	<u>13,408</u>	<u>870</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(972,011)	67,172	(904,839)	(149,987)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>6,558,410</u>	<u>1,527,243</u>	<u>8,085,653</u>	<u>497,606</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 5,586,399</u>	<u>\$ 1,594,415</u>	<u>\$ 7,180,814</u>	<u>\$ 347,619</u>

CITY OF TERRELL, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type			Governmental Activities Internal Service Funds
	Water and Sanitary Sewer	Airport	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 2,962,723	\$(411,881)	\$ 2,550,842	\$(424,568)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,064,241	408,582	1,472,823	169,525
Changes in assets and liabilities:				
Decrease (increase) in assets:				
Customer receivable	(320,075)	-	(320,075)	-
Inventories	42,703	-	42,703	-
Due from other funds	(30,001)	(21,105)	(51,106)	-
Increase (decrease) in liabilities:				
Accounts payable	207,257	(3,997)	203,260	71,854
Accrued liabilities	13,424	-	13,424	926
Compensated absences	(1,127)	-	(1,127)	-
Due to other funds	(80,786)	-	(80,786)	-
Due to other governments	(68,411)	-	(68,411)	-
Customer deposits	(15,313)	-	(15,313)	-
Net cash provided by operating activities	<u>\$ 3,532,135</u>	<u>\$(74,703)</u>	<u>\$ 3,457,432</u>	<u>\$(182,263)</u>

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

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CITY OF TERRELL, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

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.

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.

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 **Permanent Street Improvement Fund** is a Capital Projects Fund used to account for various street improvements.

The **Terrell TIRZ #1** is issued to account for the accumulation and expenditures of funds within the Tax Increment Zone.

The **Debit Service Fund** is issued to account for the tax collected for debt service expenditures.

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.

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.

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.

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 and Building

The Terrell Economic Development Corporation invests in land and buildings to sell to prospective businesses to enhance economic development. Investment in land and invested in building 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 \$933,111,590 and the tax rates were \$.4686 per \$100 valuation for maintenance and operations and \$.1807 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.

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 nonspendable fund balance designation.

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:

Assets	Years
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

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, 2013, 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, 2013, the liability for accrued vacation leave and accrued sick leave is \$1,410,097. The amount applicable to the Enterprise Funds \$61,421 has been recorded in those funds, and the amount applicable to other funds \$1,410,097 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.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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.

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 \$(18,308,083) difference are as follows:

General obligation bonds	\$(5,960,000)
Certificates of obligation	(5,620,000)
Less: deferred charge for issuance costs (to be amortized over life of debt)	161,006
Less: deferred loss on refunding (to be amortized over life of debt)	157,975
Interest payable	(48,043)
Notes payable	(2,349,998)
Developer agreement payable	(90,500)
Compensated absences	(1,400,446)
TMRS net pension obligation	(950,281)
OPEB liability	<u>(2,207,796)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(18,308,083)</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 \$3,157,759 difference are as follows:

Capital outlay	\$ 2,340,643
Depreciation expense	<u>(1,221,598)</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>\$ 1,119,045</u>

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 \$1,941,508 difference are as follows:

Deferred property tax revenues	\$(36,605)
Deferred court fines	(16,731)
Deferred special assessments	60,075
Deferred TxDOT grant revenue	<u>1,934,769</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,941,508</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 \$1,433,481 difference are as follows:

Principal repayments	\$ 1,841,907
Notes payable issued	(321,401)
Payment to escrow agent for refunding	5,792,975
Refunding debt issued	<u>(5,880,000)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,433,481</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.
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. Deficit Fund Balance/Net Assets

The Certificates of Obligation Tax and Revenue Series 2004 Fund had a deficit equity balance of \$(16,400) as of September 30, 2013. The TCDP Grant Fund had a deficit fund balance of \$55 as of September 30, 2013. 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, 2013, the City's deposit balance was collateralized with securities held by the pledging financial institution or by FDIC insurance.

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:

	General	Rent Supplement Section 8	Permanent Street Improvement	Debt Service	Terrell TIRZ #1	Nonmajor and Other	Water Utilities	Airport	Total
Receivables:									
Taxes	\$ 1,824,039	\$ -	\$ -	\$ 173,434	\$ 19,182	\$ -	\$ -	\$ -	\$ 2,016,655
Due from other governments	-	-	500,714	-	1,934,769	28,271	242,500	46,302	2,752,556
Special assessment	-	-	1,286,805	-	-	-	-	-	1,286,805
Accounts	<u>639,204</u>	<u>1,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,344</u>	<u>2,305,939</u>	<u>-</u>	<u>2,965,024</u>
Gross receivables	2,463,243	1,537	1,787,519	173,434	1,953,951	46,615	2,548,439	46,302	9,021,040
Less: allowance for uncollectibles	<u>(668,755)</u>	<u>-</u>	<u>(308,833)</u>	<u>(26,015)</u>	<u>(19,181)</u>	<u>-</u>	<u>(497,579)</u>	<u>-</u>	<u>(1,520,363)</u>
Net total receivables	<u>\$ 1,794,488</u>	<u>\$ 1,537</u>	<u>\$ 1,478,686</u>	<u>\$ 147,419</u>	<u>\$ 1,934,770</u>	<u>\$ 46,615</u>	<u>\$ 2,050,860</u>	<u>\$ 46,302</u>	<u>\$ 7,500,677</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>
Street improvement assessments	\$ 977,973
Adjudicated court fines	33,904
Property taxes	508,288
Grant receivable	<u>1,934,769</u>
Total	<u>\$ 3,454,934</u>

Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

Primary Government

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 718,000	\$ -	\$ -	\$ 718,000
Construction in progress	<u>273,372</u>	<u>2,090,475</u>	<u>(439,741)</u>	<u>1,924,106</u>
Total assets not being depreciated	<u>991,372</u>	<u>2,090,475</u>	<u>(439,741)</u>	<u>2,642,106</u>
Capital assets, being depreciated:				
Buildings	6,088,130	-	-	6,088,130
Improvements, other than buildings	1,823,085	-	-	1,823,085
Machinery and equipment	4,943,049	36,669	(239,985)	4,739,733
Infrastructure	<u>38,380,677</u>	<u>653,241</u>	<u>-</u>	<u>39,033,918</u>
Total capital assets being depreciated	<u>51,234,941</u>	<u>689,910</u>	<u>(239,985)</u>	<u>51,684,866</u>
Less accumulated depreciation:				
Buildings	2,011,059	152,461	-	2,163,520
Improvements, other than buildings	919,746	58,551	-	978,297
Machinery and equipment	3,716,123	217,367	(202,150)	3,731,340
Infrastructure	<u>24,060,119</u>	<u>962,743</u>	<u>-</u>	<u>25,022,862</u>
Total accumulated depreciation	<u>30,707,047</u>	<u>1,391,122</u>	<u>(202,150)</u>	<u>31,896,019</u>
Total capital assets being depreciated, net	<u>20,527,894</u>	<u>(701,212)</u>	<u>(37,835)</u>	<u>19,788,847</u>
Governmental activities capital assets, net	<u>\$ 21,519,266</u>	<u>\$ 1,389,263</u>	<u>\$(477,576)</u>	<u>\$ 22,430,953</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,077,278	\$ -	\$ -	\$ 1,077,278
Construction in progress	<u>5,099,118</u>	<u>1,555,446</u>	<u>(4,282,820)</u>	<u>2,371,744</u>
Total assets not being depreciated	<u>6,176,396</u>	<u>1,555,446</u>	<u>(4,282,820)</u>	<u>3,449,022</u>
Capital assets, being depreciated:				
Buildings and improvements	30,587,584	4,509,178	-	35,096,762
Machinery and equipment	<u>37,375,722</u>	<u>4,500</u>	<u>-</u>	<u>37,380,222</u>
Total capital assets being depreciated	<u>67,963,306</u>	<u>4,513,678</u>	<u>-</u>	<u>72,476,984</u>
Less accumulated depreciation:				
Buildings and improvements	9,259,093	391,042	-	9,650,135
Machinery and equipment	<u>15,832,222</u>	<u>1,049,676</u>	<u>-</u>	<u>16,881,898</u>
Total accumulated depreciation	<u>25,091,315</u>	<u>1,440,718</u>	<u>-</u>	<u>26,532,033</u>
Total capital assets being depreciated, net	<u>42,871,991</u>	<u>3,072,960</u>	<u>-</u>	<u>45,944,951</u>
Business-type activities capital assets, net	<u>\$ 49,048,387</u>	<u>\$ 4,628,406</u>	<u>\$(4,282,820)</u>	<u>\$ 49,393,973</u>

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

Governmental activities:	
General government	\$ 306,540
Public safety	72,026
Highways and streets	762,499
Culture and recreation	80,532
Capital assets held by the City's internal service funds are charged to the various functions based on their usage	<u>169,525</u>
Total depreciation expense - governmental activities	<u>\$ 1,391,122</u>
Business-type activities:	
Water and sanitary sewer	\$ 1,035,757
Airport	<u>404,961</u>
Total depreciation expense - business-type activities	<u>\$ 1,440,718</u>

Construction Commitments

The City has active construction projects as of September 30, 2013. 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>
Safe routes to school	\$ 699,692	\$ 422,981	\$ 276,711
Public safety mobile communications equipment	1,454,982	205,404	1,249,578
Spur 557 and ramps	5,537,255	3,254,203	2,283,052

Interfund Receivables and Payables and Transfers

The composition of interfund balances as of September 30, 2013, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ 394,572
	Water and sanitary sewer	395,080
	Rent supplement section 8	26,822
	Permanent street improvement	50,000
Water and sanitary sewer	Nonmajor governmental	23,524
	Permanent street improvement	10,325
	General fund	11,555
	Debt service	93,430
Airport fund	Water and sanitary sewer	151,682
Economic development corporation	General fund	20,423
Permanent street improvement	Economic development corporation	<u>54,142</u>
		<u>\$ 1,231,555</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	Water and sewer fund	\$ 4,660
	General fund	26,000
Debt service fund	Water and sewer fund	1,087,764
	Airport	112,815
Terrell economic development corporation	Terrell TIRZ #1	814,087
General fund	Equipment replacement fund	1,162
	Water and sewer fund	9,021
Airport fund	General fund	20,238
Water and sewer fund	General fund	1,297,226
	Debt service fund	1,317,187
	Permanent street improvement	<u>372,729</u>
		<u>\$ 5,062,889</u>

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

Long-term Debt

Bonded Debt

Bonded debt of the City as of September 30, 2013, is comprised of the following individual issues:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Certificates of Obligation:					
Series 2004	3.00 - 4.50%	09/15/2004	02/15/2024	\$ 5,500,000	\$ 250,000
Series 2006	4.00 - 4.375%	08/15/2006	02/15/2026	1,570,000	855,000
Series 2007A	4.29%	04/15/2007	02/15/2027	2,030,000	1,020,000
Series 2009	3.05%	12/17/2009	02/15/2019	3,185,000	2,010,000
Series 2011B	2-5.125%	02/15/2011	02/15/2041	1,545,000	<u>1,485,000</u>
					<u>5,620,000</u>
General Obligation Bonds:					
Series 2004	2.00 - 3.375%	03/01/2005	02/15/2014	3,835,000	365,000
Series 2012	1.89%	10/23/2012	02/15/2024	5,880,000	<u>5,595,000</u>
					<u>5,960,000</u>
					<u>\$ 11,580,000</u>

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

Year Ending September 30,	Certificates of Obligation				Certificates of Obligation	
	Tax Supported		General Obligation Bonds		Revenue Supported	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 700,000	\$ 268,617	\$ 630,000	\$ 109,400	\$ 660,000	\$ 540,163
2015	460,000	189,246	525,000	95,776	690,000	508,041
2016	475,000	173,698	545,000	85,664	735,000	473,311
2017	485,000	157,737	555,000	75,269	760,000	436,296
2018	505,000	141,291	565,000	64,685	525,000	405,817
2019-2023	1,250,000	525,946	2,770,000	157,910	1,985,000	1,747,648
2024-2028	820,000	314,712	370,000	3,497	1,865,000	1,275,903
2029-2033	285,000	200,065	-	-	870,000	891,559
2034-2038	370,000	118,240	-	-	1,225,000	541,856
2039-2043	<u>270,000</u>	<u>21,268</u>	<u>-</u>	<u>-</u>	<u>960,000</u>	<u>99,900</u>
Total	<u>\$ 5,620,000</u>	<u>\$ 2,110,820</u>	<u>\$ 5,960,000</u>	<u>\$ 592,201</u>	<u>\$ 10,275,000</u>	<u>\$ 6,920,494</u>

Notes Payable

As of September 30, 2013, 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, 2013, the balance was \$1,670,105. The loan is secured by sales tax revenues of the Corporation and will service monthly over a 15-year period at 4.49% interest.

On May 21, 2010, the TEDC entered into a note payable agreement with a local bank. As of September 30, 2013, the balance was \$358,492. The note has a maturity date of May 21, 2015, and is due in equal monthly installments of \$18,438.

On September 3, 2013, the City entered into a note payable agreement with a local bank. As of September 30, 2013, the balance was \$321,401. The note has a maturity date of October 15, 2017, and is due in equal annual installments of \$66,976.

Future maturities and amounts paid under the notes after September 30, 2013, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 627,543	\$ 23,557
2015	559,473	17,849
2016	418,354	11,491
2017	422,995	6,859
2018	<u>321,633</u>	<u>2,217</u>
Total	<u>\$ 2,349,998</u>	<u>\$ 61,973</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refunded</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities						
Compensated absences	\$ 1,270,305	\$ 1,410,097	\$ 1,270,305	\$ -	\$ 1,410,097	\$ 282,019
Notes payable	2,495,504	321,401	466,907	-	2,349,998	539,937
Certificates of obligation	11,925,000	-	670,000	5,635,000	5,620,000	700,000
General obligation bonds	785,000	5,880,000	705,000	-	5,960,000	630,000
Loss on bond refunding	-	(157,975)	-	-	(157,975)	-
Developer agreement payab	90,500	-	-	-	90,500	-
OPEB liability	1,749,332	562,622	104,158	-	2,207,796	-
Net pension obligation	<u>891,535</u>	<u>1,488,345</u>	<u>1,429,599</u>	<u>-</u>	<u>950,281</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 19,207,176</u>	<u>\$ 9,504,490</u>	<u>\$ 4,645,969</u>	<u>\$ 5,635,000</u>	<u>\$ 18,430,697</u>	<u>\$ 2,151,956</u>
Business-type activities						
Compensated absences	\$ 62,548	\$ 61,421	\$ 62,548	\$ -	\$ 61,421	\$ 12,284
Certificates of obligation	10,905,000	-	630,000	-	10,275,000	660,000
Revenue bonds	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 11,067,548</u>	<u>\$ 61,421</u>	<u>\$ 792,548</u>	<u>\$ -</u>	<u>\$ 10,336,421</u>	<u>\$ 672,284</u>

Bond Covenants

Bond covenants require the following disclosures:

	<u>Interest and Sinking</u>	<u>Reserve</u>
First Lien Bonds:		
Required ultimate balance	\$ -	\$ 212,240
Required present balance, end of year	61,950	212,240
Actual present balance, end of year	224,540	395,519

Bond Refunding

The City issued \$5,880,000 of general obligation refunding bonds to refund and defease certain maturities of its existing outstanding bond issuances. The refunding allowed the City to restructure future debt payments in order to extend their maturities. The refunding resulted in a decrease in total debt service payments in the next 12 years by \$622,161 which equates to a \$548,688 economic gain. The refunding provided resources to purchase direct obligations of the U.S. Government that were laced in a separate irrevocable trust for the purpose of generating resources for all future debt service payments of the debt being refunded. As a result, the bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position in the government-wide financial statements. The difference between the reacquisition price and the net carrying amount of the old debt (deferred amount on refunding of \$157,975) will be amortized over the remaining life of the original debt issued.

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, 2013, 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, 2013 and 2012, the estimated value of these liabilities was \$165,111 and \$91,926, respectively.

Employee Retirement Systems and Pension Plans

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 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

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

Annual Required Contribution (ARC)	\$ 1,480,767
Interest on Net Pension Obligation	62,408
Adjustment to the ARC	<u>(54,830)</u>
Annual Pension Cost	1,488,345
Contributions Made	<u>(1,429,599)</u>
Increase (Decrease) in Net Pension Obligation	58,746
Net Pension Obligation/(Asset), beginning of year	<u>891,535</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 950,281</u>

Three-Year Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
09/30/11	\$ 1,473,721	\$ 1,223,469	83.02%	\$ 774,092
09/30/12	1,404,546	1,287,103	91.64%	891,535
09/30/13	1,488,345	1,429,599	96.05%	950,281

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
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
GASB 25 equivalent single amortization period	27.3 years - closed	26.3 years - closed	25.3 years - closed
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-yr smoothed market	10-yr smoothed market	10-yr smoothed market
Actuarial Assumptions:			
Investment rate of return	7.0%	7.0%	7.0%
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%

Funded Status and Fund Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial accrued liability (AAL)	\$ 41,283,963
Actuarial value of plan assets	<u>33,307,977</u>
Unfunded (overfunded) actuarial accrued liability (UAAL)	<u>\$ 7,975,986</u>
Funded ratio (actuarial value of plan assets/ALL)	80.68%
Covered payroll (annual payroll of active employees covered by the plan)	<u>\$ 7,866,850</u>
UAAL as a percentage of covered payroll	101.39%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, 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.

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)	\$ 556,363
Interest on Net Pension Obligation	69,973
Adjustment to the ARC	<u>(63,714)</u>
Annual Pension Cost	562,622
Contributions Made	<u>(104,158)</u>
Increase (Decrease) in Net Pension Obligation	458,464
Net Pension Obligation/(Asset), beginning of year	<u>1,749,332</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ 2,207,796</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
09/30/11	\$ 556,471	\$ 119,266	21.4%	\$ 1,316,394
09/30/12	552,703	119,765	21.7%	1,749,332
09/30/13	562,622	104,158	18.5%	2,207,796

Funding Status and Funding Progress

As of September 30, 2013, the actuarial accrued liability for benefits was \$2,207,796, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$7,866,850 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.1%.

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, 2013, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 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, 2013, was 30 years.

Supplemental Death Benefits Fund

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

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

Schedule of Contribution Rates

Accounting Year Ending	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed	Net Pension Obligation
09/30/11	.20%	.20%	100%	\$ -
09/30/12	.16%	.16%	100%	-
09/30/13	.17%	.17%	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.

Subsequent Events

The City issued \$1,635,000 of Waterworks and Sewer System Tax and Revenue Certificates of Obligation, Series 2013. The closing date on the bonds was October 17, 2013. The City also issued \$12,175,000 of Combination Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2014. The bonds had a closing date of April 3, 2014. These bonds will be used for the construction of public works, acquiring, constructing, improving and equipping public safety facilities, including the acquisition of land thereof and the payment of professional services rendered in relation to such projects.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF TERRELL, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/2010	\$ 28,512,948	\$ 37,400,778	76.2%	\$ 8,887,380	\$ 8,266,884	107.5%
12/31/2011	30,688,705	38,967,842	78.8%	8,279,137	7,834,720	105.7%
12/31/2012	33,307,977	41,283,963	80.7%	7,975,986	7,866,850	101.4%

CITY OF TERRELL, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
POST-RETIREMENT HEALTH CARE BENEFIT PLAN**

FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Actuarial Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Liability (AAL) (b)</u>	<u>Funded Ratio (a/b)</u>	<u>AAL (UAAL) (b-a)</u>	<u>Covered Payroll (1) (c)</u>	<u>of Covered Payroll ((b-a)/c)</u>
10/01/10	\$ -	\$ 1,316,394	- %	\$ 1,316,394	\$ 8,266,884	15.92%
10/01/11	-	1,749,332	- %	1,749,332	7,834,720	22.33%
10/01/12	-	2,207,796	- %	2,207,796	7,866,850	28.06%

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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.

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

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.

Pavilion Rentals – to account for fees charged for the use of City pavilions.

2010 Police Grant – to account for police grants with the City.

CO 2011B – to account for funds received from the issuance of the Certificates of Obligation 2011B.

Grant HRA – to account for funds received through the HRA Grant.

Courthouse Technology – to account for fees restricted for courthouse technology expenditures.

Courthouse Security – to account for fees restricted for courthouse security expenditures.

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.

CITY OF TERRELL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Tourism	Red Light Cameras	Infrastructure Improvements
ASSETS			
Cash and cash equivalents	\$ 167,156	\$ 45,068	\$ 192,488
Taxes receivable, net	-	-	-
Due from other funds	-	-	-
Other receivables	-	-	18,344
Receivable from other governments	-	-	-
Total assets	\$ 167,156	\$ 45,068	\$ 210,832
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,578	\$ -	\$ -
Due to other funds	-	-	48,603
Deferred revenue	-	-	-
Total liabilities	5,578	-	48,603
Fund balances:			
Restricted	161,578	45,068	162,229
Unassigned	-	-	-
Total fund balances	161,578	45,068	162,229
Total liabilities and fund balances	\$ 167,156	\$ 45,068	\$ 210,832

Impact Fees	Park Land/Park Dedication Fees	2010 Police Grant	CO 2011B	Grant HRA
\$ 1,358,135	\$ 67,322	\$ 2,435	\$ 636,067	\$ 94,181
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	1,246	-	27,025
<u>\$ 1,358,135</u>	<u>\$ 67,322</u>	<u>\$ 3,681</u>	<u>\$ 636,067</u>	<u>\$ 121,206</u>
\$ 27,575	\$ -	\$ -	\$ -	\$ 2,000
343,493	-	-	-	5,000
-	-	-	-	-
<u>371,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,000</u>
987,067	67,322	3,681	636,067	114,206
-	-	-	-	-
<u>987,067</u>	<u>67,322</u>	<u>3,681</u>	<u>636,067</u>	<u>114,206</u>
<u>\$ 1,358,135</u>	<u>\$ 67,322</u>	<u>\$ 3,681</u>	<u>\$ 636,067</u>	<u>\$ 121,206</u>

CITY OF TERRELL, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2013

	<u>Courthouse Technology</u>	<u>Courthouse Security</u>	<u>Certificates of Obligation Tax and Revenue Series 2004</u>
ASSETS			
Cash and cash equivalents	\$ 6,964	\$ 5,060	\$ -
Taxes receivable, net	-	-	-
Due from other funds	-	-	-
Other receivables	-	-	-
Receivable from other governments	-	-	-
Total assets	<u>\$ 6,964</u>	<u>\$ 5,060</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	2,250	2,250	16,400
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,250</u>	<u>2,250</u>	<u>16,400</u>
Fund balances:			
Restricted	4,714	2,810	-
Unassigned	<u>-</u>	<u>-</u>	<u>(16,400)</u>
Total fund balances	<u>4,714</u>	<u>2,810</u>	<u>(16,400)</u>
Total liabilities and fund balances	<u>\$ 6,964</u>	<u>\$ 5,060</u>	<u>\$ -</u>

<u>2007A Bond</u>	<u>TCDP Grant</u>	<u>Pavillion Rentals</u>	<u>Total Governmental Funds</u>
\$ 23,080	\$ 45	\$ 1,842	\$ 2,599,843
-	-	-	-
-	-	-	-
-	-	-	18,344
-	-	-	28,271
<u>\$ 23,080</u>	<u>\$ 45</u>	<u>\$ 1,842</u>	<u>\$ 2,646,458</u>
\$ -	\$ -	\$ -	\$ 35,153
-	100	-	418,096
-	-	-	-
<u>-</u>	<u>100</u>	<u>-</u>	<u>453,249</u>
23,080	(55)	1,842	2,209,609
-	-	-	(16,400)
<u>23,080</u>	<u>(55)</u>	<u>1,842</u>	<u>2,193,209</u>
<u>\$ 23,080</u>	<u>\$ 45</u>	<u>\$ 1,842</u>	<u>\$ 2,646,458</u>

CITY OF TERRELL, TEXAS

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

**NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Tourism</u>	<u>Red Light Cameras</u>	<u>Infrastructure Improvements</u>
REVENUES			
Hotel/motel occupancy taxes	\$ 278,251	\$ -	\$ -
Fees and fines	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	161,786
Interest	273	90	302
Miscellaneous	<u>19,341</u>	<u>-</u>	<u>289</u>
Total revenues	<u>297,865</u>	<u>90</u>	<u>162,377</u>
EXPENDITURES			
Current:			
General government	258,156	-	33,137
Public welfare	-	-	-
Public safety	-	60	-
Culture and recreation	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>116,744</u>
Total expenditures	<u>258,156</u>	<u>60</u>	<u>149,881</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>39,709</u>	<u>30</u>	<u>12,496</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(17,000)</u>	<u>-</u>	<u>(9,000)</u>
Total other financing sources and uses	<u>(17,000)</u>	<u>-</u>	<u>(9,000)</u>
NET CHANGE IN FUND BALANCES	22,709	30	3,496
FUND BALANCES, BEGINNING	<u>138,869</u>	<u>45,038</u>	<u>158,733</u>
FUND BALANCES, ENDING	<u>\$ 161,578</u>	<u>\$ 45,068</u>	<u>\$ 162,229</u>

<u>Impact Fees</u>	<u>Park Land/Park Dedication Fees</u>	<u>2010 Police Grant</u>	<u>CO 2011B</u>	<u>Grant HRA</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	965	-	359,635
77,653	12,500	-	-	-
2,541	118	1	1,270	7
75	75	-	-	-
<u>80,269</u>	<u>12,693</u>	<u>966</u>	<u>1,270</u>	<u>359,642</u>
32,650	-	-	60	-
-	-	-	-	325,442
-	-	60	-	-
-	75	-	-	-
-	-	-	-	-
<u>32,650</u>	<u>75</u>	<u>60</u>	<u>60</u>	<u>325,442</u>
<u>47,619</u>	<u>12,618</u>	<u>906</u>	<u>1,210</u>	<u>34,200</u>
(4,660)	-	-	-	-
(4,660)	-	-	-	-
42,959	12,618	906	1,210	34,200
<u>944,108</u>	<u>54,704</u>	<u>2,775</u>	<u>634,857</u>	<u>80,006</u>
<u>\$ 987,067</u>	<u>\$ 67,322</u>	<u>\$ 3,681</u>	<u>\$ 636,067</u>	<u>\$ 114,206</u>

CITY OF TERRELL, TEXAS

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

**NONMAJOR GOVERNMENTAL FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Courthouse Technology</u>	<u>Courthouse Security</u>	<u>Certificates of Obligation Tax and Revenue Series 2004</u>
REVENUES			
Hotel/motel occupancy taxes	\$ -	\$ -	\$ -
Fees and fines	5,691	4,115	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>5,691</u>	<u>4,115</u>	<u>-</u>
EXPENDITURES			
Current:			
General government	60	60	-
Public welfare	-	-	-
Public safety	-	-	-
Culture and recreation	-	-	-
Capital outlay	<u>2,250</u>	<u>2,250</u>	<u>-</u>
Total expenditures	<u>2,310</u>	<u>2,310</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,381</u>	<u>1,805</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	3,381	1,805	-
FUND BALANCES, BEGINNING	<u>1,333</u>	<u>1,005</u>	<u>(16,400)</u>
FUND BALANCES, ENDING	<u>\$ 4,714</u>	<u>\$ 2,810</u>	<u>\$(16,400)</u>

<u>2007A Bond</u>	<u>TCDP Grant</u>	<u>Pavillion Rentals</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 278,251
-	-	-	9,806
-	-	-	360,600
-	-	2,192	254,131
46	5	-	4,653
-	-	-	19,780
<u>46</u>	<u>5</u>	<u>2,192</u>	<u>927,221</u>
75	60	350	324,608
-	-	-	325,442
-	-	-	120
-	-	-	75
-	-	-	121,244
<u>75</u>	<u>60</u>	<u>350</u>	<u>771,489</u>
(29)	(55)	1,842	155,732
-	-	-	(30,660)
-	-	-	(30,660)
(29)	(55)	1,842	125,072
<u>23,109</u>	<u>-</u>	<u>-</u>	<u>2,068,137</u>
<u>\$ 23,080</u>	<u>\$(55)</u>	<u>\$ 1,842</u>	<u>\$ 2,193,209</u>

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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 POSITION
SEPTEMBER 30, 2013

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 243,191	\$ 104,428	\$ 347,619
Total current assets	<u>243,191</u>	<u>104,428</u>	<u>347,619</u>
Non-current assets:			
Capital assets:			
Vehicles and equipment	-	3,623,159	3,623,159
Accumulated depreciation	<u>-</u>	<u>(3,016,478)</u>	<u>(3,016,478)</u>
Total non-current assets	<u>-</u>	<u>606,681</u>	<u>606,681</u>
Total assets	<u>243,191</u>	<u>711,109</u>	<u>954,300</u>
LIABILITIES			
Current liabilities:			
Accounts payable	165,111	33,249	198,360
Other accrued expenses	-	10,086	10,086
Compensated absences	<u>-</u>	<u>9,651</u>	<u>9,651</u>
Total current liabilities	<u>165,111</u>	<u>52,986</u>	<u>218,097</u>
Total liabilities	<u>165,111</u>	<u>52,986</u>	<u>218,097</u>
NET POSITION			
Net investment in capital assets	-	606,681	606,681
Unrestricted	<u>78,080</u>	<u>51,442</u>	<u>129,522</u>
Total net position	<u>\$ 78,080</u>	<u>\$ 658,123</u>	<u>\$ 736,203</u>

CITY OF TERRELL, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Insurance	Equipment Replacement	Total
OPERATING REVENUES			
Maintenance services	\$ -	\$ 809,587	\$ 809,587
Insurance premiums	1,644,203	-	1,644,203
Miscellaneous	17,204	16,026	33,230
Total operating revenues	1,661,407	825,613	2,487,020
OPERATING EXPENSES			
Personnel services	-	249,102	249,102
Miscellaneous services	-	138,326	138,326
Administrative fees	465,874	-	465,874
Repairs and maintenance	-	57,899	57,899
Supplies	-	326,185	326,185
Insurance claims and expenses	1,504,677	-	1,504,677
Depreciation	-	169,525	169,525
Total operating expenses	1,970,551	941,037	2,911,588
OPERATING INCOME (LOSS)	(309,144)	(115,424)	(424,568)
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	813	57	870
Gain (loss) on disposal of assets	-	(7,590)	(7,590)
Transfers in	-	1,162	1,162
Total non-operating revenue (expenses)	813	(6,371)	(5,558)
CHANGE IN NET POSITION	(308,331)	(121,795)	(430,126)
TOTAL NET POSITION, BEGINNING	386,411	779,918	1,166,329
TOTAL NET POSITION, ENDING	\$ 78,080	\$ 658,123	\$ 736,203

CITY OF TERRELL, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 1,661,407	\$ 825,613	\$ 2,487,020
Cash paid for services and insurance claims	(1,897,366)	-	(1,897,366)
Cash paid to suppliers for goods and services	-	(523,741)	(523,741)
Cash paid to employees for services	-	(248,176)	(248,176)
Net cash provided (used) by operating activities	<u>(235,959)</u>	<u>53,696</u>	<u>(182,263)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	1,162	1,162
Net cash used for noncapital financing activities	<u>-</u>	<u>1,162</u>	<u>1,162</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	-	37,834	37,834
Proceeds from disposal of capital assets	-	(7,590)	(7,590)
Net cash used for capital and related financing activities	<u>-</u>	<u>30,244</u>	<u>30,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	813	57	870
Net cash provided by investing activities	<u>813</u>	<u>57</u>	<u>870</u>
INCREASE (DECREASE) IN CASH	(235,146)	85,159	(149,987)
CASH AND CASH EQUIVALENTS, BEGINNING	478,337	19,269	497,606
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 243,191</u>	<u>\$ 104,428</u>	<u>\$ 347,619</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$(309,144)	\$(115,424)	\$(424,568)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	-	169,525	169,525
Increase (decrease) in accounts payable	73,185	(1,331)	71,854
Increase (decrease) in accrued liabilities	-	926	926
Net cash provided (used) by operating activities	<u>\$(235,959)</u>	<u>\$ 53,696</u>	<u>\$(182,263)</u>

SINGLE AUDIT SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' 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 Mayor and
Members of City Council
City of Terrell, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Terrell, Texas' basic financial statements, and have issued our report thereon dated June 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Terrell, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Terrell, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Terrell, Texas' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas
June 17, 2014



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133***

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

Report on Compliance for Each Major Federal Program

We have audited the City of Terrell, Texas' compliance with the types of compliance requirements described in the *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the City of Terrell, Texas, complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

Management of the City of Terrell, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Terrell, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 of the City of Terrell, Texas' 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Patillo, Brown & Hill, L.L.P.

Waco, Texas
June 17, 2014

CITY OF TERRELL, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

<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 Agriculture:			
Community Development Block Grant	14.218	712360	\$ <u>246,000</u>
Total Passed through Texas Department of Agriculture			<u>246,000</u>
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871	B-07-MC-48-0042	<u>2,721,296</u>
Total Direct Program			<u>2,721,296</u>
Total U. S. Department of Housing and Urban Development			<u>2,967,296</u>
<u>U. S. Department of Justice</u>			
Direct Program:			
Bulletproof Vest Partnership Program	16.607	442129006	<u>1,869</u>
Total Direct Program			<u>1,869</u>
Total U. S. Department of Justice			<u>1,869</u>
<u>U. S. Department of Transportation</u>			
Passed through Texas Department of Transportation:			
Pass-through Tolls	20.205	2011-005-01	1,934,769
Safe Routes to Schools	20.205	0918-11-075	<u>438,791</u>
Total Passed through Texas Department of Transportation			<u>2,373,560</u>
Total U. S. Department of Transportation			<u>2,373,560</u>
Total Expenditures of Federal Awards			\$ <u><u>5,342,725</u></u>

CITY OF TERRELL, TEXAS

**NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

SEPTEMBER 30, 2013

1. 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, 2013

Summary of Auditor's Results:

Financial Statements:

Type of auditors' report issued	Unmodified
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	Unmodified

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

CFDA Number(s)	Name of Federal Program or Cluster:
#14.871	Section 8 Housing Choice Voucher Program
#20.205	Safe Routes to Schools
#20.205	Pass-through Tolls

Dollar threshold used to distinguish between type A and type B programs	\$300,000
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Auditee qualified as low-risk auditee under Section 510(a) of OMB Circular A-133?	Yes
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Findings Relating to the Financial Statements
Which Are Required to be Reported in Accordance
With 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, 2013

None