

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

We have audited the financial statements of the City of Terrell, Texas (the “City”) as of and for the year ended September 30, 2018, and have issued our report thereon dated June 27, 2019. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated April 5, 2019, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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#### **OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston  
**NEW MEXICO** | Albuquerque

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

As a part of the engagement we assisted in preparing the financial statements, schedule of expenditures of federal awards, and related notes to the financial statements of the City in conformity with U.S. generally accepted accounting principles and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Services*.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements, schedule of expenditures of federal awards, and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements, schedule of expenditures of federal awards, and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to the financial statements. As described in the notes to the financial statements, during the year, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the accumulated depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the estimate for accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible property taxes is based on an historical rate of collection of outstanding property taxes at September 30, 2018. We evaluated the key factors and assumptions used to develop the allowance for uncollectible property taxes in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible trade accounts receivable is based on an historical rate of collection of trade accounts receivable at September 30, 2018. We evaluated the key factors and assumptions used to develop the allowance for uncollectible trade accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible municipal court fines receivable is based on an historical rate of collection of municipal court fines at September 30, 2018. We evaluated the key factors and assumptions used to develop the allowance for uncollectible municipal court fines receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the OPEB and net pension obligations are based on actuarial studies performed by the actuarial firm Cap Risk Consulting Group and the Texas Municipal Retirement System. We evaluated the key factors and assumptions used to develop the estimates of the OPEB and net pension obligations in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the net pension liability. The disclosures in the financial statements are neutral, consistent, and clear.

#### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated June 27, 2019.

## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

## **Significant Forthcoming Accounting Standards**

### *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 83 “*Certain Asset Retirement Obligations*” – This Statement addresses accounting and financial reporting for certain asset retirement obligations, a legally enforceable liability associated with the retirement of a tangible capital asset. Criteria are established for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for these obligations. This Statement will become effective for the City in fiscal year 2019.

Statement No. 84 “*Fiduciary Activities*” – This Statement improves guidance regarding the identification of fiduciary identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus is generally on whether a government is controlling the assets of the fiduciary activity and on the beneficiaries with whom a fiduciary relationship exists. This statement will become effective for the city in fiscal year 2020.

Statement No. 87 “*Leases*” – This Statement is to improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the city in fiscal year 2021.

## **Restrictions on Use**

This report is intended solely for the information and use of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

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

Waco, Texas  
June 27, 2019

# **CITY OF TERRELL, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2018**



# CITY OF TERRELL, TEXAS

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## **INTRODUCTORY SECTION**

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Rick Carmona  
Mayor

Grady Simpson  
Mayor Pro Tem  
District 2

Tim Royse  
Deputy Mayor Pro Tem  
District 5

Mayrani Velazquez  
Council Member  
District 3

Charles Whitaker  
Council Member  
District 4

Mike Sims  
Interim City Manager

June 27, 2019

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

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, 2018.

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

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is organized in a manner designed to fairly present the financial position and results of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

## THE REPORT

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.

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

## **CITY PROFILE**

### **Location**

The City of Terrell, Texas is located on 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 July 1, 2018 U.S. Census Population Estimate of 18,126 which is a 33% 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:

	(in millions)	(in millions)
2008	\$ 1,005,646,462	7,123,040
2009	1,023,058,460	6,528,921
2010	947,284,405	6,744,263
2011	937,009,347	6,867,379
2012	933,111,590	6,841,291
2013	931,725,093	7,826,951
2014	956,578,231	8,131,120
2015	1,006,213,527	8,770,648
2016	1,047,250,846	10,090,742
2017	1,154,529,944	10,901,404

### **Cash Management**

The City awards its depository contract through official bidding procedures for a three-year period, with an option to extend the contract for an additional two years. The current depository contract with American National Bank expires September 30, 2019.

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, 2018, all cash totaling \$23,991,735 was invested in the City's depository or certificates of deposit. The overall portfolio provided \$16,525 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 national 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 year 2018 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 the related Uniform Grant Guidance. 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.

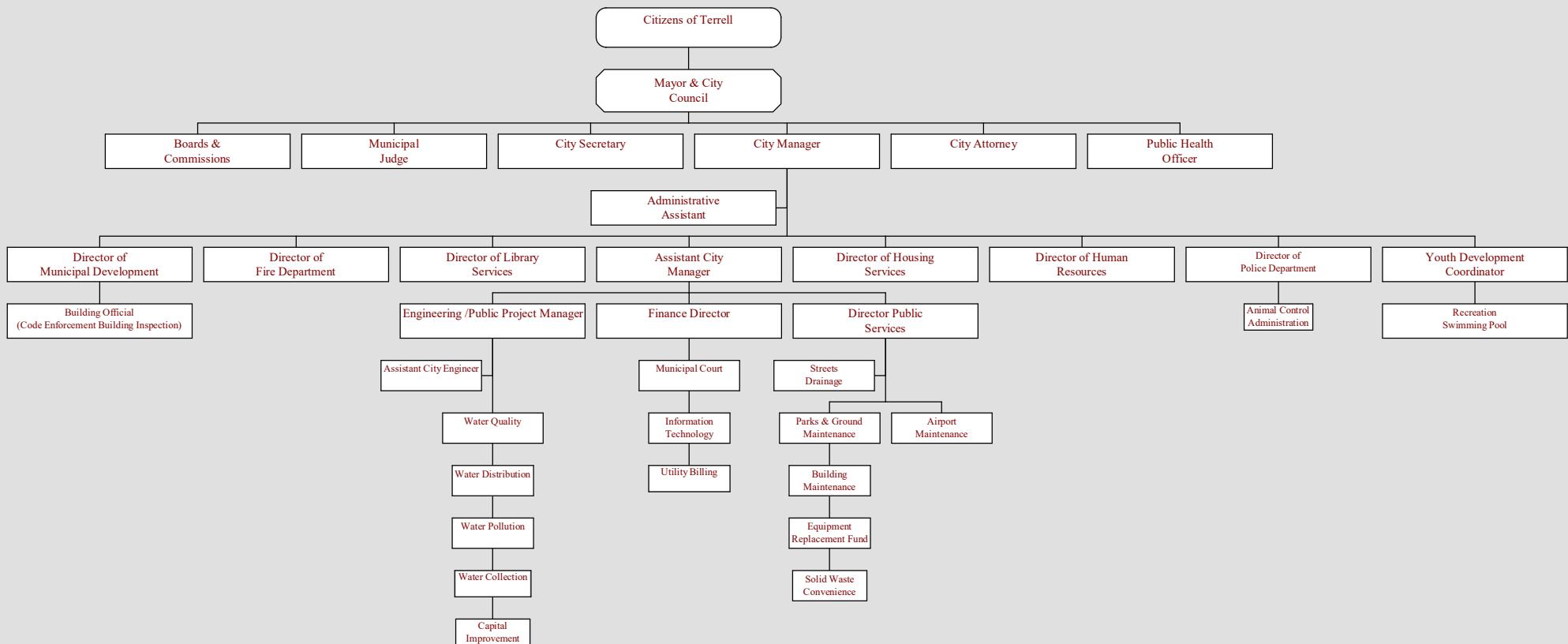
Respectfully submitted,



John Rounsavall  
City Secretary

# Proposed City of Terrell Organizational Chart

## Fiscal Year 2018 - 2019



**CITY OF TERRELL, TEXAS**

**PRINCIPAL OFFICIALS**

**SEPTEMBER 30, 2018**

**CITY OFFICIALS**

Mayor..... Rick Carmona  
Council Members..... Grady Simpson, Mayor Pro-Tem  
..... Tim Royse, Deputy Mayor Pro-Tem  
..... Mayrani Valazquez  
..... Charles Whitaker  
Interim City Manager..... Mike Sims  
City Secretary..... John Rounsvall  
City Attorney ..... Mary Gayle Ramsey

## **FINANCIAL SECTION**

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**INDEPENDENT AUDITORS' REPORT**

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, 2018, and the related notes to the financial statements, which collectively comprise the City of Terrell, Texas' 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.

**OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston  
**NEW MEXICO** | Albuquerque

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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in the notes to the financial statements, in fiscal year 2018 the City of Terrell, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information, and OPEB plans information 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, combining nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, are presented for purposes of additional analysis and are 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 27, 2019, on our consideration of the City of Terrell, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Terrell, Texas' 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 27, 2019

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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, 2018. 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 and deferred outflows of resources of the City of Terrell exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$77,657,070 (net position). Of this amount, (\$2,682,901) (unrestricted net position), if it were positive, 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 \$5,551,807 from operations.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$11,502,950, an increase of \$1,699,189 in comparison with the prior fiscal year. Approximately 37% of this total amount, \$4,268,606, 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 \$3,523,228 or 18% of the total General Fund expenditures.
- The City's total long-term debt decreased by \$5,467,444 during the current fiscal year. The City did not issue any bonds during the year. The main reason for this decrease was due to the reduction of the net pension liability.
- Effective October 1, 2017, the City implemented the provisions of GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions- an amendment of GASB No. 45, which significantly changed the City's accounting for OPEB.

### **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, liabilities, and deferred inflows/outflows of resources with the difference 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 28 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, the Rent Supplement Section 8, Terrell Public Private Partnership Fund (PPPF), and the Terrell Economic Development Corporation each of which are considered to be major funds. Data from the other 24 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 and deferred outflows exceeded liabilities and deferred inflows by \$77,657,070 as of September 30, 2018.

The largest portion of the City's net position, 85% (\$65,750,260), 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 POSITION**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 42,546,728	\$ 31,410,545	\$ 6,275,423	\$ 4,306,162	\$ 48,822,151	\$ 35,716,707
Capital assets	<u>35,836,282</u>	<u>36,392,470</u>	<u>51,263,917</u>	<u>51,356,413</u>	<u>87,100,199</u>	<u>87,748,883</u>
Total assets	<u>78,383,010</u>	<u>67,803,015</u>	<u>57,539,340</u>	<u>55,662,575</u>	<u>135,922,350</u>	<u>123,465,590</u>
Deferred outflows of resources	<u>1,105,246</u>	<u>2,646,299</u>	<u>245,560</u>	<u>556,857</u>	<u>1,350,806</u>	<u>3,203,156</u>
Long-term liabilities	36,451,380	41,593,303	8,822,966	9,148,487	45,274,346	50,741,790
Other liabilities	<u>10,914,905</u>	<u>2,081,002</u>	<u>982,197</u>	<u>947,019</u>	<u>11,897,102</u>	<u>3,028,021</u>
Total liabilities	<u>47,366,285</u>	<u>43,674,305</u>	<u>9,805,163</u>	<u>10,095,506</u>	<u>57,171,448</u>	<u>53,769,811</u>
Deferred inflows of resources	<u>2,011,204</u>	<u>657,081</u>	<u>433,434</u>	<u>136,591</u>	<u>2,444,638</u>	<u>793,672</u>
Net position:						
Net investment in						
capital assets	21,368,843	13,626,940	44,381,417	43,951,413	65,750,260	57,578,353
Restricted	<u>14,339,711</u>	<u>14,467,423</u>	<u>250,000</u>	<u>250,000</u>	<u>14,589,711</u>	<u>14,717,423</u>
Unrestricted	<u>( 5,597,787)</u>	<u>( 1,976,435)</u>	<u>2,914,886</u>	<u>1,785,922</u>	<u>( 2,682,901)</u>	<u>( 190,513)</u>
Total net position	<u>\$ 30,110,767</u>	<u>\$ 26,117,928</u>	<u>\$ 47,546,303</u>	<u>\$ 45,987,335</u>	<u>\$ 77,657,070</u>	<u>\$ 72,105,263</u>

## Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended September 30, 2018 and 2017.

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

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 3,423,722	\$ 2,301,242	\$ 15,514,943	\$ 14,317,351	\$ 18,938,665	\$ 16,618,593
Operating grants and contributions	4,054,798	3,963,153	-	-	4,054,798	3,963,153
Capital grants and contributions	872,617	331,744	1,035,952	-	1,908,569	331,744
General revenues:						
Property taxes	8,230,626	7,466,671	-	-	8,230,626	7,466,671
Franchise taxes	1,462,968	1,438,470	-	-	1,462,968	1,438,470
Sales taxes	11,050,104	9,817,011	-	-	11,050,104	9,817,011
Other taxes	442,790	423,202	-	-	442,790	423,202
Interest	15,638	13,930	887	847	16,525	14,777
Miscellaneous	259,242	374,582	-	36,846	259,242	411,428
Gain on sale of capital assets	30,949	-	-	-	30,949	-
Transfers	<u>1,728,082</u>	<u>1,270,764</u>	<u>( 1,728,082)</u>	<u>( 1,270,764)</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<b><u>31,571,536</u></b>	<b><u>27,400,769</u></b>	<b><u>14,823,700</u></b>	<b><u>13,084,280</u></b>	<b><u>46,395,236</u></b>	<b><u>40,485,049</u></b>
<b>Expenses:</b>						
General government	9,580,277	9,114,784	-	-	9,580,277	9,114,784
Public welfare	3,029,420	3,026,693	-	-	3,029,420	3,026,693
Public safety	8,840,714	9,343,612	-	-	8,840,714	9,343,612
Highways and streets	3,826,489	3,661,963	-	-	3,826,489	3,661,963
Sanitation	618,372	630,474	-	-	618,372	630,474
Culture and recreation	1,010,292	913,867	-	-	1,010,292	913,867
Interest on long-term debt	765,624	789,445	-	-	765,624	789,445
Water and sewer	-	-	11,684,799	11,450,556	11,684,799	11,450,556
Airport	-	-	<u>802,466</u>	<u>733,114</u>	<u>802,466</u>	<u>733,114</u>
<b>Total expenses</b>	<b><u>27,671,188</u></b>	<b><u>27,480,838</u></b>	<b><u>12,487,265</u></b>	<b><u>12,183,670</u></b>	<b><u>40,158,453</u></b>	<b><u>39,664,508</u></b>
Change in net position	3,900,348	( 80,069)	2,336,435	900,610	6,236,783	820,541
Net position, beginning	26,117,928	26,197,997	45,987,335	45,086,725	72,105,263	71,284,722
Change in accounting principle	<u>92,491</u>	<u>-</u>	<u>( 777,467)</u>	<u>-</u>	<u>( 684,976)</u>	<u>-</u>
<b>Net position, ending</b>	<b><u>\$ 30,110,767</u></b>	<b><u>\$ 26,117,928</u></b>	<b><u>\$ 47,546,303</u></b>	<b><u>\$ 45,987,335</u></b>	<b><u>\$ 77,657,070</u></b>	<b><u>\$ 72,105,263</u></b>

**Governmental activities.** Of the City's \$5,551,807 overall increase in net position, governmental activities net position increased by \$3,992,839. This is inclusive of a prior period adjustment of \$92,491 for the implementation of GASB 75. One of the most significant governmental expenses for the City was general government, which incurred expenses of \$9,580,277. These expenses were funded by revenues collected from a variety of sources, with one of the largest being from sales taxes, which are \$11,050,104 for the fiscal year ended September 30, 2018. Other significant governmental expenses for the City include public safety, which incurred \$8,840,714 in expenses.

**Business-type activities.** Business-type activities increased the City's net position by \$1,558,968 . This is inclusive of a prior period adjustment of \$777,467 for the implementation of GASB 75.

## **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 \$11,502,950. Approximately 37% of this total amount (\$4,268,606) 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 (\$1,330,926), (2) pay for debt service (\$1,420,561), (3) pay for tourism/economic development (\$3,520,095), (4) pay for grants (\$767,762), (5) pay for law enforcement (\$37,018), (6) pay for a scholarship (\$5,803), and (7) pay for park development (\$127,005).

In the General Fund, the City budgeted for a decrease in the fund balance of \$851,422. Due to actual expenditures being less than budgeted, the actual fund balance increased for fiscal year 2018 by \$535,616 .

### **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, \$32,639,597; and the Airport Fund, \$14,906,706. The Water and Sewer Fund's net position increased in 2018 by \$833,485 and the Airport's net position increased by \$725,483 . This is inclusive of a prior period adjustment of (\$777,467) for the implementation of GASB 75.

### **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 \$1,161,732.

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 more than the budgeted revenue amount by \$388,607.

## **CAPITAL ASSETS**

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$87,100,199 (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:

- \$484,868 was spent on sidewalk and street improvements.
- \$173,219 was spent on machinery and equipment for the police department and fire station.
- \$94,487 was spent on drainage improvements for Ninth Street.

### **CITY OF TERRELL'S CAPITAL ASSETS AT YEAR-END**

#### **Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,027,903	\$ 1,027,903	\$ 1,077,278	\$ 1,077,278	\$ 2,105,181	\$ 2,105,181
Buildings and improvements	16,775,612	16,860,325	21,291,298	22,796,154	38,066,910	39,656,479
Machinery and equipment	3,340,611	3,644,833	25,756,479	22,911,235	29,097,090	26,556,068
Infrastructure	14,248,431	14,059,531	-	-	14,248,431	14,059,531
Construction in progress	443,725	799,878	3,138,862	4,571,746	3,582,587	5,371,624
Total capital assets	\$ 35,836,282	\$ 36,392,470	\$ 51,263,917	\$ 51,356,413	\$ 87,100,199	\$ 87,748,883

## **DEBT ADMINISTRATION**

At the end of the current fiscal year, the City of Terrell had a total bonded debt of \$26,195,000.

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

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 3,140,000	\$ 3,705,000	\$ -	\$ -	\$ 3,140,000	\$ 3,705,000
Certificates of obligation	16,150,000	16,975,000	6,905,000	7,430,000	23,055,000	24,405,000
	\$ 19,290,000	\$ 20,680,000	\$ 6,905,000	\$ 7,430,000	\$ 26,195,000	\$ 28,110,000

During the current fiscal year, the City's total bonded debt decreased by \$1,915,000 or 7%. This was due to the scheduled bond payments being made.

The City's bond ratings are listed below:

	Moody's Investors Service	Standard & Poor's
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 2018 – 2019 budget, General Fund revenues and transfers in are budgeted to increase by \$2,080,433 from the 2017 – 2018 budget year, with sales taxes making up about 45% of General Fund budgeted revenues and transfers in. Certified assessed valuations increased over the preceding year by 10.24%. The City's budget for all funds increased slightly. The City's 2018 – 2019 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.

The budget for 2018 – 2019 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 Rounsvall at (972) 551-6600 or email [jrounsavall@cityofterrell.org](mailto:jrounsavall@cityofterrell.org).

**BASIC  
FINANCIAL STATEMENTS**

**CITY OF TERRELL, TEXAS**

**STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2018**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 19,013,798	\$ 4,237,173	\$ 23,250,971
Receivables (net, where applicable, of allowances for uncollectibles)	2,349,205	1,912,492	4,261,697
Internal balances	507,516	( 507,516)	-
Due from other governments	11,476,780	66,831	11,543,611
Prepaid expenses	5,928,883	-	5,928,883
Special assessments	1,362,842	-	1,362,842
Investment in land	1,819,578	-	1,819,578
Funds in escrow	62,952	-	62,952
Inventory, at cost	25,174	316,443	341,617
Restricted cash and investments	-	250,000	250,000
Capital assets:			
Land	1,027,903	1,077,278	2,105,181
Buildings and improvements	19,143,467	80,266,060	99,409,527
Improvements other than buildings	2,356,254	-	2,356,254
Machinery and equipment	9,149,772	765,480	9,915,252
Infrastructure	42,580,141	-	42,580,141
Construction in progress	443,725	3,138,862	3,582,587
Less accumulated depreciation	( 38,864,980)	( 33,983,763)	( 72,848,743)
Total capital assets	<u>35,836,282</u>	<u>51,263,917</u>	<u>87,100,199</u>
Total assets	<u>78,383,010</u>	<u>57,539,340</u>	<u>135,922,350</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	70,210	22,500	92,710
Deferred outflows - pensions	1,003,972	216,366	1,220,338
Deferred outflows - TMRS SDBF	<u>31,064</u>	<u>6,694</u>	<u>37,758</u>
Total deferred outflows of resources	<u>1,105,246</u>	<u>245,560</u>	<u>1,350,806</u>
<b>LIABILITIES</b>			
Accounts payable	2,467,969	383,192	2,851,161
Accrued interest payable	122,219	48,656	170,875
Unearned revenue	8,045,347	-	8,045,347
Other accrued liabilities	279,370	60,052	339,422
Customer deposits	-	433,855	433,855
Due to other governments	-	56,442	56,442
Long-term liabilities:			
Due within one year			
Long-term debt	2,165,400	375,571	2,540,971
Total OPEB liability - TMRS SDBF	4,025	867	4,892
Total OPEB liability - retiree health	<u>139,605</u>	<u>29,432</u>	<u>169,037</u>
Due in more than one year			
Long-term debt	25,747,575	6,607,284	32,354,859
Net pension liability	4,745,844	1,022,777	5,768,621
Total OPEB liability - TMRS SDBF	450,330	97,051	547,381
Total OPEB liability - retiree health	<u>3,198,601</u>	<u>689,984</u>	<u>3,888,585</u>
Total liabilities	<u>47,366,285</u>	<u>9,805,163</u>	<u>57,171,448</u>

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

**CITY OF TERRELL, TEXAS**

**STATEMENT OF NET POSITION**  
**(Continued)**  
**SEPTEMBER 30, 2018**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pensions	2,011,204	433,434	2,444,638
Total deferred inflows of resources	<u>2,011,204</u>	<u>433,434</u>	<u>2,444,638</u>
<b>NET POSITION</b>			
Net investment in capital assets	21,368,843	44,381,417	65,750,260
Restricted for:			
Tourism/economic development	3,520,095	-	3,520,095
Grants	767,762	-	767,762
Law enforcement	37,018	-	37,018
Highway projects	5,819,688		5,819,688
Capital projects	2,693,768	-	2,693,768
Park development	127,005	-	127,005
Scholarship	5,803	-	5,803
Debt service	1,368,572	250,000	1,618,572
Unrestricted	<u>(</u> 5,597,787 <u>)</u>	<u>2,914,886</u>	<u>(</u> 2,682,901 <u>)</u>
Total net position	<u>\$ 30,110,767</u>	<u>\$ 47,546,303</u>	<u>\$ 77,657,070</u>

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Expenses	Program Revenue			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 9,580,277	\$ 972,384	\$ 854,502	\$ -	
Public welfare	3,029,420	44,912	3,199,296	-	
Public safety	8,840,714	353,567	1,000	-	
Highways and streets	3,826,489	1,352,087	-	872,617	
Sanitation	618,372	558,554	-	-	
Culture and recreation	1,010,292	142,218	-	-	
Interest on long-term debt	765,624	-	-	-	
Total governmental activities	<u>27,671,188</u>	<u>3,423,722</u>	<u>4,054,798</u>	<u>872,617</u>	
Business-type activities:					
Water and sewer	11,684,799	15,118,947	-	-	
Airport	802,466	395,996	-	1,035,952	
Total business-type activities	<u>12,487,265</u>	<u>15,514,943</u>	<u>-</u>	<u>1,035,952</u>	
Total primary government	<u>\$ 40,158,453</u>	<u>\$ 18,938,665</u>	<u>\$ 4,054,798</u>	<u>\$ 1,908,569</u>	

**General revenues:**

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Unrestricted investment earnings

Miscellaneous

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Prior period adjustment

Net position - ending

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
<u>\$ ( 7,753,391)</u>	<u>\$ -</u>	<u>\$ ( 7,753,391)</u>
214,788	-	214,788
( 8,486,147)	-	( 8,486,147)
( 1,601,785)	-	( 1,601,785)
( 59,818)	-	( 59,818)
( 868,074)	-	( 868,074)
<u>( 765,624)</u>	<u>-</u>	<u>( 765,624)</u>
<u>( 19,320,051)</u>	<u>-</u>	<u>( 19,320,051)</u>
	3,434,148	3,434,148
	<u>629,482</u>	<u>629,482</u>
	<u>4,063,630</u>	<u>4,063,630</u>
<u>( 19,320,051)</u>	<u>4,063,630</u>	<u>( 15,256,421)</u>
6,577,150	-	6,577,150
1,653,476	-	1,653,476
11,050,104	-	11,050,104
1,462,968	-	1,462,968
442,790	-	442,790
15,638	887	16,525
259,242	-	259,242
30,949	-	30,949
<u>1,728,082</u>	<u>( 1,728,082)</u>	<u>-</u>
<u>23,220,399</u>	<u>( 1,727,195)</u>	<u>21,493,204</u>
3,900,348	2,336,435	6,236,783
<u>26,117,928</u>	<u>45,987,335</u>	<u>72,105,263</u>
<u>92,491</u>	<u>( 777,467)</u>	<u>( 684,976)</u>
<u>\$ 30,110,767</u>	<u>\$ 47,546,303</u>	<u>\$ 77,657,070</u>

**CITY OF TERRELL, TEXAS**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2018**

	General	Terrell PPPF
<b>ASSETS</b>		
Cash and investments	\$ 2,438,989	\$ 10,358,663
Taxes receivable, net	2,274,459	-
Due from other funds	1,629,184	128,520
Due from other governments	-	11,476,780
Special assessments	-	-
Investment in land	-	-
Other receivables	41,493	-
Inventories	25,174	-
Total assets	<u>6,409,299</u>	<u>21,963,963</u>
<b>LIABILITIES</b>		
Accounts payable	1,260,004	529,694
Accrued wages payable	273,137	-
Due to other funds	911,984	1,000,000
Unearned revenue	-	8,025,425
Total liabilities	<u>2,445,125</u>	<u>9,555,119</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenues - taxes	372,706	-
Unavailable revenues - grants	-	11,476,780
Unavailable revenues - special assessments	-	-
Unavailable revenues - municipal court	43,066	-
Total deferred inflows of resources	<u>415,772</u>	<u>11,476,780</u>
<b>FUND BALANCES</b>		
Non-spendable	25,174	-
Restricted:		
Tourism/economic development	-	-
Grants	-	-
Law enforcement	-	-
Capital projects	-	-
Park development	-	-
Scholarship	-	-
Debt service	-	-
Unassigned	<u>3,523,228</u>	<u>932,064</u>
Total fund balances	<u>3,548,402</u>	<u>932,064</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,409,299</u>	<u>\$ 21,963,963</u>

Terrell Economic Development Corporation	Rent Supplement Section 8	Other Governmental Funds	Total Governmental Funds
\$ 1,649,252	\$ 386,203	\$ 2,924,074	\$ 17,757,181
-	-	74,746	2,349,205
41,888	-	1,709,825	3,509,417
-	-	-	11,476,780
-	-	1,362,842	1,362,842
1,819,578	-	-	1,819,578
19,922	1,537	-	62,952
-	-	-	25,174
<u>3,530,640</u>	<u>387,740</u>	<u>6,071,487</u>	<u>38,363,129</u>
 -	 -	444,785	2,234,483
 -	 -	-	273,137
54,142	26,156	989,306	2,981,588
19,922	-	-	8,045,347
<u>74,064</u>	<u>26,156</u>	<u>1,434,091</u>	<u>13,534,555</u>
 -	 -	70,230	442,936
 -	 -	-	11,476,780
 -	 -	1,362,842	1,362,842
 -	 -	-	43,066
<u> -</u>	<u> -</u>	<u>1,433,072</u>	<u>13,325,624</u>
 -	 -	-	25,174
 3,456,576	 -	 63,519	 3,520,095
 -	 361,584	 406,178	 767,762
 -	 -	 37,018	 37,018
 -	 -	 1,330,926	 1,330,926
 -	 -	 127,005	 127,005
 -	 -	 5,803	 5,803
 -	 -	 1,420,561	 1,420,561
 -	 -	 ( 186,686)	 4,268,606
<u> 3,456,576</u>	<u> 361,584</u>	<u> 3,204,324</u>	<u> 11,502,950</u>
 \$ 3,530,640	 \$ 387,740	 \$ 6,071,487	 \$ 38,363,129

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**CITY OF TERRELL, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Total fund balance, governmental funds	\$ 11,502,950
--	---------------

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.

40,505,633

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.

13,325,624

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.

1,761,088

Some liabilities, (such as notes payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

( 36,984,528)

Net position of governmental activities in the Statement of Net Position	\$ <u>30,110,767</u>
--	----------------------

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	General	Terrell PPPF
<b>REVENUES</b>		
Taxes and special assessments	\$ 16,229,207	\$ 662,996
Licenses and permits	256,968	-
Hotel/motel occupancy taxes	-	-
Fees and fines	379,567	-
Intergovernmental	447,695	1,707,448
Charges for services	760,224	-
Investment earnings	2,109	5,045
Street assessments	-	-
Miscellaneous	<u>256,368</u>	2
Total revenues	<u>18,332,138</u>	<u>2,375,491</u>
<b>EXPENDITURES</b>		
Current:		
General government	6,181,408	-
Public welfare	-	-
Public safety	8,628,311	-
Highways and streets	2,552,211	1,328,080
Sanitation	612,566	-
Culture and recreation	808,009	-
Principal	365,742	-
Interest and other charges	35,325	-
Capital outlay	<u>144,884</u>	-
Total expenditures	<u>19,328,456</u>	<u>1,328,080</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>		
	<u>( 996,318)</u>	<u>1,047,411</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Gain on sale of capital assets	1,399	-
Transfers in	1,618,290	-
Transfers out	<u>( 87,755)</u>	<u>( 25,300)</u>
Total other financing sources and uses	<u>1,531,934</u>	<u>( 25,300)</u>
<b>NET CHANGE IN FUND BALANCES</b>		
	535,616	1,022,111
<b>FUND BALANCES, BEGINNING</b>		
	3,012,786	<u>( 90,047)</u>
<b>FUND BALANCES, ENDING</b>		
	<u>\$ 3,548,402</u>	<u>\$ 932,064</u>

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

Terrell Economic Development Corporation		Rent Supplement Section 8	Other Governmental Funds	Total Governmental Funds
\$	2,725,351	\$ -	\$ 1,327,734	\$ 20,945,288
	-	-	-	256,968
	-	-	402,208	402,208
	-	-	16,982	396,549
	-	3,165,029	336,747	5,656,919
5,600		-	1,277,733	2,043,557
2,542		972	4,970	15,638
-		-	13,822	13,822
33,781		17,145	5,800	313,096
<u>2,767,274</u>		<u>3,183,146</u>	<u>3,385,996</u>	<u>30,044,045</u>
1,874,549		363,180	590,718	9,009,855
-		2,893,194	-	2,893,194
-		-	-	8,628,311
-		-	-	3,880,291
-		-	-	612,566
-		-	74,216	882,225
256,358		-	1,390,000	2,012,100
1,236		-	737,205	773,766
-		-	1,110,104	1,254,988
<u>2,132,143</u>		<u>3,256,374</u>	<u>3,902,243</u>	<u>29,947,296</u>
635,131	(	73,228)	( 516,247)	96,749
-		-	-	1,399
-		-	1,936,045	3,554,335
-		-	( 1,840,239)	( 1,953,294)
-		-	95,806	1,602,440
635,131	(	73,228)	( 420,441)	1,699,189
<u>2,821,445</u>		<u>434,812</u>	<u>3,624,765</u>	<u>9,803,761</u>
\$	<u>3,456,576</u>	\$ <u>361,584</u>	\$ <u>3,204,324</u>	\$ <u>11,502,950</u>

**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, 2018**

Net change in fund balances - total governmental funds: \$ 1,699,189

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 depreciation exceeded capital outlay in the current period.

( 390,485)

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.

( 155,856)

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 of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

1,946,163

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.

80,973

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.

720,364

Change in net position of governmental activities

\$ 3,900,348

**CITY OF TERRELL, TEXAS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 6,539,273	\$ 6,313,518	\$ 6,400,904	\$ 87,386
Sales and miscellaneous taxes	9,392,537	9,648,353	9,828,303	179,950
Fees and fines	426,000	426,000	379,567	( 46,433)
Licenses and permits	227,175	227,175	256,968	29,793
Intergovernmental	490,058	490,058	447,695	( 42,363)
Charges for services	610,900	610,900	760,224	149,324
Investment earnings	700	700	2,109	1,409
Miscellaneous	97,140	226,827	256,368	29,541
Total revenues	<u>17,783,783</u>	<u>17,943,531</u>	<u>18,332,138</u>	<u>388,607</u>
<b>EXPENDITURES</b>				
Current:				
General government	5,681,605	6,372,832	6,181,408	191,424
Public safety	8,751,699	8,947,260	8,628,311	318,949
Highways and street	2,711,327	2,813,255	2,552,211	261,044
Sanitation	557,619	581,669	612,566	( 30,897)
Culture and recreation	839,595	874,256	808,009	66,247
Debt service:				
Principal	368,491	368,491	365,742	2,749
Interest and other charges	35,689	35,689	35,325	364
Capital outlay	<u>55,000</u>	<u>169,305</u>	<u>144,884</u>	<u>24,421</u>
Total expenditures	<u>19,001,025</u>	<u>20,162,757</u>	<u>19,328,456</u>	<u>834,301</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 1,217,242)</u>	<u>( 2,219,226)</u>	<u>( 996,318)</u>	<u>1,222,908</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Gain on sale of capital assets	5,000	5,000	1,399	( 3,601)
Transfers in	1,253,799	1,603,799	1,618,290	14,491
Transfers out	<u>( 36,000)</u>	<u>( 240,995)</u>	<u>( 87,755)</u>	<u>153,240</u>
Total other financing sources and uses	<u>1,222,799</u>	<u>1,367,804</u>	<u>1,531,934</u>	<u>164,130</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>5,557</u>	<u>( 851,422)</u>	<u>535,616</u>	<u>1,387,038</u>
<b>FUND BALANCES, BEGINNING</b>	<u>3,012,786</u>	<u>3,012,786</u>	<u>3,012,786</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,018,343</u>	<u>\$ 2,161,364</u>	<u>\$ 3,548,402</u>	<u>\$ 1,387,038</u>

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

# CITY OF TERRELL, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

**SEPTEMBER 30, 2018**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 3,589,784	\$ 647,389	\$ 4,237,173	\$ 1,256,617
Cash and investments - restricted	250,000	-	250,000	-
Accounts receivable, net	1,912,492	-	1,912,492	-
Due from other funds	517,223	547,238	1,064,461	-
Due from other governments	-	66,831	66,831	-
Inventories	316,443	-	316,443	-
Total current assets	<u>6,585,942</u>	<u>1,261,458</u>	<u>7,847,400</u>	<u>1,256,617</u>
Non-current assets:				
Capital assets:				
Land	729,530	347,748	1,077,278	-
Buildings and improvements	59,539,432	20,726,628	80,266,060	-
Construction in progress	3,138,862	-	3,138,862	-
Machinery and equipment	-	765,480	765,480	4,994,307
Less accumulated depreciation	( 26,367,124)	( 7,616,639)	( 33,983,763)	( 3,734,775)
Total capital assets	<u>37,040,700</u>	<u>14,223,217</u>	<u>51,263,917</u>	<u>1,259,532</u>
Total non-current assets	<u>37,040,700</u>	<u>14,223,217</u>	<u>51,263,917</u>	<u>1,259,532</u>
Total assets	<u>43,626,642</u>	<u>15,484,675</u>	<u>59,111,317</u>	<u>2,516,149</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	22,500	-	22,500	-
Deferred outflows - pensions	216,366	-	216,366	22,332
Deferred outflows - TMRS SDBF	6,694	-	6,694	691
Total deferred outflows of resources	<u>245,560</u>	<u>-</u>	<u>245,560</u>	<u>23,023</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	333,027	50,165	383,192	233,486
Accrued interest payable	45,852	2,804	48,656	-
Due to other funds	1,571,977	-	1,571,977	20,313
Due to other governments	56,442	-	56,442	-
Other accrued expenses	60,052	-	60,052	6,233
Compensated absences	15,571	-	15,571	11,814
Total OPEB liability - TMRS SDBF	867	-	867	-
Total OPEB liability - retiree health	29,432	-	29,432	-
Bonds, notes and loans payable	265,000	95,000	360,000	133,699
Total current liabilities	<u>2,378,220</u>	<u>147,969</u>	<u>2,526,189</u>	<u>405,545</u>
Non-current liabilities:				
Compensated absences	62,284	-	62,284	-
Customer deposits	433,855	-	433,855	-
Net pension liability	1,022,777	-	1,022,777	105,566
Total OPEB liability - TMRS SDBF	97,051	-	97,051	10,107
Total OPEB liability - retiree health	689,984	-	689,984	74,254
Bonds, notes and loans payable	6,115,000	430,000	6,545,000	137,875
Total non-current liabilities	<u>8,420,951</u>	<u>430,000</u>	<u>8,850,951</u>	<u>327,802</u>
Total liabilities	<u>10,799,171</u>	<u>577,969</u>	<u>11,377,140</u>	<u>733,347</u>

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

**CITY OF TERRELL, TEXAS**

**STATEMENT OF NET POSITION**

**PROPRIETARY FUNDS**  
**(Continued)**  
**SEPTEMBER 30, 2018**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pensions	433,434	-	433,434	44,737
Total deferred inflows of resources	<u>433,434</u>	<u>-</u>	<u>433,434</u>	<u>44,737</u>
<b>NET POSITION</b>				
Net investment in capital assets	30,683,200	13,698,217	44,381,417	1,121,657
Restricted for debt service	250,000	-	250,000	-
Unrestricted	<u>1,706,397</u>	<u>1,208,489</u>	<u>2,914,886</u>	<u>639,431</u>
Total net position	<u><u>\$ 32,639,597</u></u>	<u><u>\$ 14,906,706</u></u>	<u><u>\$ 47,546,303</u></u>	<u><u>\$ 1,761,088</u></u>

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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, 2018**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 15,118,947	\$ -	\$ 15,118,947	\$ -
Rental income	-	395,996	395,996	-
Internal service revenues	-	-	-	4,255,341
Miscellaneous	-	-	-	450,124
Total operating revenues	<u>15,118,947</u>	<u>395,996</u>	<u>15,514,943</u>	<u>4,705,465</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and services	10,171,762	355,320	10,527,082	316,838
Administration	44,307	-	44,307	782,941
Repairs and maintenance	-	-	-	85,604
Other supplies and expenses	-	-	-	625,712
Insurance claims and expenses	-	-	-	2,157,722
Depreciation	<u>1,086,102</u>	<u>421,255</u>	<u>1,507,357</u>	<u>172,875</u>
Total operating expenses	<u>11,302,171</u>	<u>776,575</u>	<u>12,078,746</u>	<u>4,141,692</u>
<b>OPERATING INCOME (LOSS)</b>	<u>3,816,776</u>	<u>( 380,579)</u>	<u>3,436,197</u>	<u>563,773</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenues	613	274	887	-
Capital grants	-	1,035,952	1,035,952	-
Interest and fiscal charges	( 382,628)	( 25,891)	( 408,519)	-
Gain on disposal of assets	-	-	-	29,550
Transfers in	1,257,108	115,965	1,373,073	131,723
Transfers out	( 3,080,917)	( 20,238)	( 3,101,155)	( 4,682)
Total non-operating revenues (expenses)	<u>( 2,205,824)</u>	<u>1,106,062</u>	<u>( 1,099,762)</u>	<u>156,591</u>
<b>CHANGE IN NET POSITION</b>	<u>1,610,952</u>	<u>725,483</u>	<u>2,336,435</u>	<u>720,364</u>
<b>TOTAL NET POSITION, BEGINNING</b>	<u>31,806,112</u>	<u>14,181,223</u>	<u>45,987,335</u>	<u>1,120,970</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>( 777,467)</u>	<u>-</u>	<u>( 777,467)</u>	<u>( 80,246)</u>
<b>TOTAL NET POSITION, ENDING</b>	<u>\$ 32,639,597</u>	<u>\$ 14,906,706</u>	<u>\$ 47,546,303</u>	<u>\$ 1,761,088</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, 2018**

	Business-type Activities			Governmental Activities	
	Water and Sanitary Sewer		Airport	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers and users	\$ 15,179,797	\$ 395,996	\$ 15,575,793	\$ 4,705,465	-
Cash paid for services and insurance claims	-	-	-	( 2,911,086)	-
Cash paid to suppliers for goods and services	( 7,443,751)	( 394,234)	( 7,837,985)	( 701,944)	-
Cash paid to employees for services	( 2,735,185)	-	( 2,735,185)	( 312,010)	-
Net cash provided by operating activities	<u>5,000,861</u>	<u>1,762</u>	<u>5,002,623</u>	<u>780,425</u>	-
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in	1,257,108	115,965	1,373,073	-	-
Transfers out	( 3,080,917)	( 20,238)	( 3,101,155)	127,041	-
Cash received from other funds	-	-	-	( 63,156)	-
Net cash provided (used) for noncapital financing activities	<u>( 1,823,809)</u>	<u>95,727</u>	<u>( 1,728,082)</u>	<u>63,885</u>	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets	( 445,740)	( 969,121)	( 1,414,861)	( 27,381)	-
Proceeds from sale of capital assets	-	-	-	29,550	-
Principal paid on long-term debt	( 435,000)	( 90,000)	( 525,000)	( 129,984)	-
Capital grants	-	1,035,952	1,035,952	-	-
Interest and fiscal charges paid on debt	( 377,352)	( 25,891)	( 403,243)	-	-
Net cash used for capital and related financing activities	<u>( 1,258,092)</u>	<u>( 49,060)</u>	<u>( 1,307,152)</u>	<u>( 127,815)</u>	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment earnings	<u>613</u>	<u>274</u>	<u>887</u>	<u>-</u>	-
Net cash provided by investing activities	<u>613</u>	<u>274</u>	<u>887</u>	<u>-</u>	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
	1,919,573	48,703	1,968,276	716,495	-
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>1,920,211</u>	<u>598,686</u>	<u>2,518,897</u>	<u>540,122</u>	-
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 3,839,784</u>	<u>\$ 647,389</u>	<u>\$ 4,487,173</u>	<u>\$ 1,256,617</u>	-

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

**CITY OF TERRELL, TEXAS**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Business-type			Governmental Activities Internal Service Funds		
	Water and Sanitary Sewer	Airport	Total			
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ 3,816,776	\$( 380,579)	\$ 3,436,197	\$ 563,773		
Adjustments to reconcile operating income (loss)						
to net cash provided by operating activities:						
Depreciation	1,086,102	421,255	1,507,357	172,875		
Changes in assets and liabilities:						
Decrease (increase) in assets:						
Customer receivable	36,973	-	36,973	-		
Other receivable	-	( 66,831)	( 66,831)	-		
Inventories	( 35,315)	-	( 35,315)	-		
Due from other funds	-	( 12,364)	( 12,364)	-		
Deferred outflows - pensions	315,491	-	315,491	31,677		
Deferred outflows - TMRS SDBF	( 6,694)	-	( 6,694)	-		
Increase (decrease) in liabilities:						
Accounts payable	( 58,174)	40,281	( 17,893)	38,949		
Accrued liabilities	6,374	-	6,374	359		
Compensated absences	( 1,502)	-	( 1,502)	1,002		
Due to other funds	76,552	-	76,552	-		
Due to other governments	20,044	-	20,044	-		
Deferred inflows - pensions	296,843	-	296,843	30,689		
Net pension liability	( 616,353)	-	( 616,353)	( 63,014)		
Total OPEB liability - TMRS SDBF	14,091	-	14,091	1,455		
Total OPEB liability - retiree health	25,776	-	25,776	2,660		
Customer deposits	23,877	-	23,877	-		
Net cash provided by operating activities	<u>\$ 5,000,861</u>	<u>\$ 1,762</u>	<u>\$ 5,002,623</u>	<u>\$ 780,425</u>		

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## **CITY OF TERRELL, TEXAS**

### **NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

##### **A. Reporting Entity**

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

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

##### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) 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 Public Private Partnership Fund (PPPF)** is issued to account for the accumulation and expenditures of funds within the Tax Increment Zone.

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 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, Deferred Inflows/Outflows of Resources, Liabilities, and Net Position/Fund Balance**

**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 for the Entity are reported at fair value, except for the position in investment pools, which are reported at net asset value.

**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 collectability of each specific account as determined by experience.

Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. The total assessed value of property was \$1,154,529,944 and the tax rates were \$.6094 per \$100 valuation for maintenance and operations and \$.1148 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 inflows of resources on October 1. The deferred inflows of resources 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 acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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, 2018, 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, 2018, the liability for accrued vacation leave and accrued sick leave is \$1,642,005. The amount applicable to the Enterprise Funds \$77,855 has been recorded in those funds, and the amount applicable to other funds \$1,564,150 has been recorded in the Statement of Net Position 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 position. Bond premiums and discounts 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.

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.

## Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## Other Post-Employment Benefits

***TMRS Supplemental Death Benefits Fund.*** The City participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF), which is an optional single-employer defined benefit life insurance plan that is administered by TMRS. It provides death benefits to active and, if elected, retired employees of participating employers. Contribution rates are determined annually for each participating municipality as a percentage of that City's covered payroll. The death benefit for retirees is considered an other postemployment benefit (OPEB). The OPEB program is an unfunded trust because the SDBF trust covers both actives and retirees and is not segregated. The Total OPEB Liability of the plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the Total OPEB Liability, deferred inflows and outflows of resources, and OPEB expense. Benefit payments are recognized when due and payable in accordance with the benefit terms.

***Retiree Health Plan.*** The City provides post-employment medical care (Medical OPEB) for retired employees through a self-insured PPO plan. The plan provides medical benefits for eligible retirees, their spouses, and their dependent. By providing retirees with access to the City's healthcare plans based on the same rates it charges to active employees, the City is in effect providing a subsidy to retirees. This implied subsidy exists because, on average, retiree healthcare costs are higher than active employee healthcare costs. By the City not contributing anything toward the plan in advance, the City employs a pay-as-you-go method through paying the higher rate for active employees each year. As an irrevocable trust has not been established, the plan is not accounted for as a trust fund. For this purpose, plan contributions are recognized in the period that the direct and indirect subsidies are paid by the City. Total OPEB liability, OPEB-related deferred outflows and inflows of resources, and OPEB expense is based on the actuarial measurement dates.

## Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following types of items that qualify for reporting in this category.

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

## 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 Position**

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net assets investment in capital assets 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 Position 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.

## **Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

## **Fund Balance Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last

## **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 Position

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 \$(36,984,528) difference are as follows:

General obligation bonds	\$( 3,140,000)
Certificates of obligation	( 16,150,000)
Deferred loss on refunding	70,210
Premium on issuance of debt	( 441,574)
Interest payable	( 122,219)
Notes payable	( 597,083)
Intergovernmental payable	( 5,657,092)
Developer agreement payable	( 90,500)
Compensated absences	( 1,553,338)
Deferred outflow related to pensions	981,640
Deferred outflow related to TMRS SDBF	30,373
Deferred inflow related to pensions	( 1,966,467)
TMRS net pension liability	( 4,640,278)
OPEB liability - TMRS SDBF	( 444,248)
OPEB liability - retiree health	<u>( 3,263,952)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$( 36,984,528)</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 \$(390,485) difference are as follows:

Capital outlay	\$ 772,783
Depreciation expense	<u>( 1,163,268)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$( 390,485)</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 inflows of resources in the funds.” The details of this \$(155,856) difference are as follows:

Deferred property tax revenues	\$( 161,008)
Deferred court fines	1,908
Deferred special assessments	87,879
Deferred TxDOT grant revenue	<u>( 84,635)</u>
 Net adjustment to decrease <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	 \$( <u>155,856</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 \$1,946,163 difference are as follows:

Principal repayments	\$ 2,011,801
Deferred charge on refunding	\$( 17,553)
Premiums on long-term debt	\$ 27,599
Intergovernmental payable	<u>( 75,684)</u>
 Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	 \$ <u>1,946,163</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.
7. Expenditures exceeded appropriations in the sanitation department of the general fund by \$30,897. This overage was funded with existing fund balance.

## **B. Deficit Fund Balance/Net Position**

The Certificates of Obligation Tax and Revenue Series 2004 Fund had a deficit equity balance of \$16,400 as of September 30, 2018. The TCDP Grant Fund had a deficit fund balance of \$122,464 as of September 30, 2018. The CO 2013 Bond Fund had a deficit fund balance of \$13,586 as of September 30, 2018. The CO 2018 Bond Fund had a deficit fund balance of \$12,500 as of September 30, 2018. The Permanent Street Improvement Fund had a deficit fund balance of \$21,736 as of September 30, 2018. 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, 2018, 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.

The Entity categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of September 30, 2018, the City held the following fair value measurements:

	<b>Fair Value Measurement Using</b>				Percent of Total Portfolio	Weighted Average Maturity (Days)		
	9/30/2018	(Level 1)	(Level 2)	(Level 3)				
<b><u>Primary government</u></b>								
<b><u>Cash and cash equivalents</u></b>								
Cash deposits - City	\$ 23,060,273	\$ -	\$ -	\$ -				
<b>Total cash and cash equivalent</b>	<b>23,060,273</b>	<b>-</b>	<b>-</b>	<b>-</b>				
<b><u>Total cash and investments</u></b>								
<b>of the reporting entity</b>	<b>\$ 23,060,273</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>				

## 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:

	Rent General	Rent Supplement Section 8	Terrell PPPF	Nonmajor and Other	Water Utilities	Airport	Total
<b>Receivables:</b>							
Taxes	\$ 3,162,728	\$ -	\$ -	\$ 87,937	\$ -	\$ -	\$ 3,250,665
Due from other governments	-	-	11,476,780	-	-	66,831	11,476,780
Special assessment Accounts	-	-	-	1,793,213	-	-	1,793,213
Gross receivables	3,204,221	1,537	11,476,780	1,881,150	2,673,338	66,831	19,237,026
Less: allowance for uncollectibles	( 888,269)	-	-	( 443,562)	( 760,846)	-	( 2,092,677)
Net total receivables	<u>\$ 2,315,952</u>	<u>\$ 1,537</u>	<u>\$ 11,476,780</u>	<u>\$ 1,437,588</u>	<u>\$ 1,912,492</u>	<u>\$ 66,831</u>	<u>\$ 17,144,349</u>

## Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

### **Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,027,903	\$ -	\$ -	\$ 1,027,903
Construction in progress	799,878	484,868	( 841,021)	443,725
Total assets not being depreciated	<u>1,827,781</u>	<u>484,868</u>	<u>( 841,021)</u>	<u>1,471,628</u>
Capital assets, being depreciated:				
Buildings	\$ 19,143,467	-	-	19,143,467
Improvements, other than buildings	1,889,295	466,959	-	2,356,254
Machinery and equipment	8,949,171	200,601	-	9,149,772
Infrastructure	<u>42,111,592</u>	<u>468,549</u>	<u>-</u>	<u>42,580,141</u>
Total capital assets being depreciated	<u>72,093,525</u>	<u>1,136,109</u>	<u>-</u>	<u>73,229,634</u>
Less accumulated depreciation:				
Buildings	2,961,055	478,844	-	3,439,899
Improvements, other than buildings	1,211,382	72,828	-	1,284,210
Machinery and equipment	5,304,338	504,823	-	5,809,161
Infrastructure	<u>28,052,061</u>	<u>279,649</u>	<u>-</u>	<u>28,331,710</u>
Total accumulated depreciation	<u>37,528,836</u>	<u>1,336,144</u>	<u>-</u>	<u>38,864,980</u>
Total capital assets being depreciated, net	<u>34,564,689</u>	<u>( 200,035)</u>	<u>-</u>	<u>34,364,654</u>
Governmental activities capital assets, net	<u>\$ 36,392,470</u>	<u>\$ 284,833</u>	<u>\$ ( 841,021)</u>	<u>\$ 35,836,282</u>

**Business-type Activities**

Capital assets, not being depreciated:

Land	\$ 1,077,278	\$ -	\$ -	\$ 1,077,278
Construction in progress	<u>4,571,746</u>	<u>276,732</u>	<u>( 1,709,616)</u>	<u>3,138,862</u>
Total assets not being depreciated	<u>5,649,024</u>	<u>276,732</u>	<u>( 1,709,616)</u>	<u>4,216,140</u>

Capital assets, being depreciated:

Buildings and improvements	36,049,310	-	-	36,049,310
Machinery and equipment	<u>42,136,985</u>	<u>2,845,245</u>	<u>-</u>	<u>44,982,230</u>
Total capital assets being depreciated	<u>78,186,295</u>	<u>2,845,245</u>	<u>-</u>	<u>81,031,540</u>

Less accumulated depreciation:

Buildings and improvements	13,253,155	1,504,857	-	14,758,012
Machinery and equipment	<u>19,225,751</u>	<u>-</u>	<u>-</u>	<u>19,225,751</u>
Total accumulated depreciation	<u>32,478,906</u>	<u>1,504,857</u>	<u>-</u>	<u>33,983,763</u>

Total capital assets being

depreciated, net

Business-type activities capital assets, net	\$ <u>51,356,413</u>	\$ <u>1,617,120</u>	\$ <u>( 1,709,616)</u>	\$ <u>51,263,917</u>
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Depreciation was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 366,463
Public welfare	197,413
Public safety	459,402
Highways and streets	46,414
Culture and recreation	93,577

Capital assets held by the City's internal service funds are charged to the various functions based on their usage

172,875

Total depreciation expense - governmental activities

1,336,144

Business-type activities:

Water and sanitary sewer	1,083,602
Airport	<u>421,255</u>

Total depreciation expense - business-type activities

\$ 1,504,857

## **Interfund Receivables and Payables and Transfers**

The composition of interfund balances as of September 30, 2018, is as follows:

### **Due to/from other funds:**

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental Water and sanitary sewer Rent supplement Section 8 Insurance	\$ 683,483 899,545 26,156 20,000
Water and sanitary sewer	Nonmajor governmental General fund	107,255 409,968
Airport fund	Water and sanitary sewer General fund Nonmajor governmental	478,683 22,198 46,357
Nonmajor governmental	Water and sanitary sewer Terrell PPPF Insurance Nonmajor governmental Economic development corporation General fund	193,749 1,000,000 313 127,211 54,142 334,410
Terrell PPPF	General fund Nonmajor governmental	103,520 25,000
Economic development corporation	General fund	<u>41,888</u>
		\$ <u>4,573,878</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:

Transfers out	Transfers in	Amount
Nonmajor governmental	General fund Water and sewer fund Nonmajor governmental Airport Equipment replacement	\$ 253,763 1,240,527 100,000 115,965 129,984
Insurance fund	General fund	965
General fund	Nonmajor governmental Water and sewer fund Equipment replacement fund	69,435 16,581 1,739
Equipment replacement fund	General fund	3,717
Terrell PPPF	Nonmajor governmental	25,300
Airport fund	General fund	20,238
Water and sewer fund	General fund Nonmajor governmental	1,339,607 <u>1,741,310</u>
		\$ <u>5,059,131</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, 2018, is comprised of the following individual issues:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
<b>Certificates of Obligation:</b>					
Series 2006	4.00 - 4.375%	08/15/2006	02/15/2026	\$ 1,570,000	\$ 575,000
Series 2007A	4.29%	04/15/2007	02/15/2027	2,030,000	725,000
Series 2009	3.05%	12/17/2009	02/15/2019	3,185,000	360,000
Series 2011B	2-5.125%	02/15/2011	02/15/2041	1,545,000	1,335,000
Series 2013	2.64%	10/17/2013	02/15/2024	1,635,000	1,125,000
Series 2014	2.00-5.00%	04/03/2014	02/15/2032	12,175,000	<u>12,030,000</u>
					<u>16,150,000</u>
<b>General Obligation Bonds:</b>					
Series 2012	1.89%	10/23/2012	02/15/2024	5,880,000	<u>3,140,000</u>
					<u>3,140,000</u>
					<u>\$ 19,290,000</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
2019	\$ 920,000	\$ 733,194	\$ 580,000	\$ 53,865	\$ 360,000	\$ 385,910
2020	705,000	608,715	595,000	42,761	380,000	368,811
2021	740,000	585,774	615,000	31,327	395,000	350,795
2022	780,000	561,557	625,000	19,609	415,000	331,455
2023	835,000	535,626	355,000	10,348	435,000	310,677
2024-2028	4,950,000	2,173,740	370,000	3,497	1,865,000	1,275,903
2029-2033	5,410,000	1,049,065	-	-	870,000	891,559
2034-2038	1,540,000	141,640	-	-	1,225,000	541,856
2039-2043	270,000	21,268	-	-	960,000	99,900
Total	\$ 16,150,000	\$ 6,410,579	\$ 3,140,000	\$ 161,407	\$ 6,905,000	\$ 4,556,866

### **Notes Payable**

As of September 30, 2018, the City's notes payable consisted of the following:

On July 30, 2015 the City entered into a \$950,000 capital lease to purchase two fire trucks. Annual payments began on October 15, 2016 with the last payment due on October 15, 2020. Interest is paid annually at 3.95%. As of September 30, 2018, the balance was \$597,083.

On October 25, 2016 the City entered into a \$401,558 note payable with a local bank for the purchase of a road grader and backhoe. Annual payments of \$142,180 began October 15, 2017 with the last payment due October 15, 2019. Interest is paid annually at 3.08%. As of September 30, 2018 the balance was \$271,574.

Future maturities and amounts paid under the notes after September 30, 2018, are as follows:

Year Ending September 30,	Principal	Interest
2019	324,972	32,393
2020	336,808	20,558
2021	206,877	8,308
Total	\$ 868,657	\$ 61,259

### **Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year
<b>Governmental activities</b>						
Compensated absences	\$ 1,484,146	\$ 847,574	\$ 766,622	\$ -	\$ 1,565,098	\$ 312,830
Notes payable	1,620,442	-	751,731	54	868,657	324,972
Certificates of obligation	16,975,000	-	825,000	-	16,150,000	920,000
Intergovernmental payable	5,581,408	101,296	25,612	-	5,657,092	-
General obligation bonds	3,705,000	-	565,000	-	3,140,000	580,000
Bond issuance premium	469,173	-	27,599	-	441,574	27,598
Developer agreement payable	<u>90,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,500</u>	<u>-</u>
Governmental activities long-term liabilities	<u>29,925,669</u>	<u>948,870</u>	<u>2,961,564</u>	<u>54</u>	<u>27,912,975</u>	<u>2,165,400</u>
<b>Business-type activities</b>						
Compensated absences	79,357	160,375	161,877	-	77,855	15,571
Certificates of obligation	<u>7,430,000</u>	<u>-</u>	<u>525,000</u>	<u>-</u>	<u>6,905,000</u>	<u>360,000</u>
Business-type activities long-term liabilities	<u>\$ 7,509,357</u>	<u>\$ 160,375</u>	<u>\$ 686,877</u>	<u>\$ -</u>	<u>\$ 6,982,855</u>	<u>\$ 375,571</u>

### **Intergovernmental Payable**

The City entered into an agreement to partner with Kaufman County, Texas to perform State highway projects. They are the Spur 557 frontage roads and ramps along with improvements to FM 148 North. The County has agreed to assist with funds from their 2014 bond issuance. The County will advance funds not to exceed \$8.5 million for the aforementioned projects. The City will reimburse these funds with grant money from the Texas Department of Transportation contract that will be available upon conclusion of the two projects. Kaufman County has funded the City \$5,657,092 as of September 30, 2018.

## **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, 2018, 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 \$50,000 per employee and \$1,300,000 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, 2018 and 2017, the estimated value of these liabilities was \$138,987 and \$168,924, respectively.

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

### **Plan Description**

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.org](http://www.tmrs.org).

All eligible employees of the City are required to participate in TMRS.

## Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 2010, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2010, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating
Cost of living adjustments (COLA) for retirees	70% of consumer price index (CPI) repeating

### Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries current receiving benefits	122
Inactive employees entitled to but not yet received benefits	55
Active employees	176
	353

## Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City was 16.34% in calendar years 2017 and 2018. The City's contributions to TMRS for the year ended September 30, 2018, were \$1,599,025, and were equal to the required contributions.

**Net Pension Liability** The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

### Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

### Discount Rate

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

## Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 53,481,116	\$ 43,956,825	\$ 9,524,291
Changes for the year:			
Service cost	1,690,413	-	1,690,413
Interest	3,593,692	-	3,593,692
Difference between expected and actual experience	( 759,364)	-	( 759,364)
Contributions - employer	-	1,554,002	( 1,554,002)
Contributions - employee	-	665,517	( 665,517)
Net investment income	-	6,094,066	( 6,094,066)
Benefits payments, including refunds of employee contributions	( 2,172,881)	( 2,172,881)	-
Administrative expense	-	( 31,574)	31,574
Other change	-	( 1,600)	1,600
Net changes	<u>2,351,860</u>	<u>6,107,530</u>	<u>( 3,755,670)</u>
Balance at 12/31/2017	<u>\$ 55,832,976</u>	<u>\$ 50,064,355</u>	<u>\$ 5,768,621</u>

Sensitivity of the net pension liability to changes in the discount rate:

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

	1% Decrease in in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in in Discount Rate (7.75%)
City's net pension liability	\$ 13,766,682	\$ 5,768,621	\$ ( 792,979)

## Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at [www.tmrs.org](http://www.tmrs.org).

## **Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2018, the City recognized pension expense of \$1,312,221. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,048,384
Changes in actuarial assumptions	-	103,596
Difference between projected and actual investment earnings	-	1,292,658
Contributions subsequent to the measurement date	<u>1,220,338</u>	-
 Totals	 <u>\$ 1,220,338</u>	 <u>\$ 2,444,638</u>

\$1,220,338 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

For the Year Ended September 30,	
2019	\$ ( 372,455)
2020	( 446,051)
2021	( 839,875)
2022	( 775,771)
2023	( 10,486)

## **Defined Other Post-Employment Benefit (OPEB) Plans**

### **TMRS Supplemental Death Benefits Fund**

**Plan Description.** The City voluntarily participates in the Texas Municipal Retirement System Supplemental Death Benefits Fund (TMRS SDBF). The SDBF is a single-employer defined benefit Other Postemployment Benefit (OPEB) plan as defined by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. It is established and administered in accordance with the TMRS Act identically to the City's pension plan.

**Benefits Provided.** The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of \$7,500.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	84
Inactive employees entitled to but not yet receiving benefits	13
Active employees	176
<b>Total</b>	<b>273</b>

**Contributions.** The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.20% for 2018 and 0.19% for 2017, of which 0.05% represented the retiree-only portion for both years, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2018 and 2017 were \$4,892 and \$4,762, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

**Actuarial Assumptions.** The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Measurement year ended December 31,	2017
Inflation rate	2.50% per annum
Discount rate	3.31%
Actuarial cost method	Entry Age Normal Method
Projected salary increases	3.50% to 10.5% including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the following:

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor. Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

Changes in assumptions reflect the annual change in the municipal bond rate. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

**Discount Rate.** The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.31% was used to measure the Total OPEB Liability. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of December 31, 2017.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	\$ 654,802	\$ 552,273	\$ 470,840

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs.** At September 30, 2018, the City reported a liability of \$552,273 for its Total OPEB Liability. The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2017. For the year ended September 30, 2018, the City recognized OPEB expense of \$46,605. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

### ***Changes in the Total OPEB Liability***

	Total OPEB Liability
Balance at 12/31/2016	\$ 476,398
Changes for the year:	
Service cost	21,867
Interest	18,331
Changes of assumptions	40,431
Benefit payments	( 4,754)
Net changes	75,875
Balance at 12/31/2017	\$ 552,273

At September 30, 2018, the City reported deferred outflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 34,024
Contributions subsequent to the measurement date	<u>3,734</u>
<b>Totals</b>	<b>\$ <u>37,758</u></b>

\$3,734 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability for the year ending September 30, 2019. Other amounts of the reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year <u>Ended September 30,</u>	
2019	\$ 6,407
2020	6,407
2021	6,407
2022	6,407
2023	6,407
Thereafter	1,989

## **Other Post-Employment Benefit (OPEB) Plans**

### **Retiree Health Insurance Plan**

**Plan Description.** The City sponsors a Retiree Health Insurance Benefits Plan (the “Plan”). The Plan provides these other post-employment benefits (“OPEB”) for retired employees and their eligible dependents through a self-insured PPO plan. Employees qualifying for retirement from the City may receive City paid health coverage for up to seven years after they have retired or reached age 65, whichever occurs first. Employees become eligible to elect retiree coverage at age 55, with the last 20 years employed by the City, or 20 years total with the last 10 years employed by the City. Additionally, employees must have an accumulated 20 years of TMRS service without regard to age. The City pays the full monthly contribution for individual coverage. The retiree pays the full monthly contribution for any dependent coverage elected. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

The number of employees currently covered by the benefit terms is as follows:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	10
Active Plan Members	<u>168</u>
<b>Total</b>	<b><u>178</u></b>

**Actuarial Methods and Assumptions.** Significant methods and assumptions were as follows:

Actuarial Valuation Date	September 30, 2018
Actuarial Cost Method	Individual Entry Age Normal Cost Method - Level Percentage of Projected Salary.
Discount Rate	4.06%
Inflation Rate	3.00%
Salary Scale	3.50%
Demographic Assumptions	Based on the actuarial assumptions used in the 2017 actuarial report for the Texas Municipal Retirement System ("TMRS").
Mortality	RPH-2014 Total Table with Projection MP-2018
Health care cost trend rates	Level 5.00% for medical.
Participation rates	100% of all retirees who currently have healthcare coverage will continue with the same coverage.
	100% of all actives who currently have healthcare coverage will continue with employee only coverage upon retirement.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

A Single Discount Rate of 4.06% was used to measure the total OPEB liability. This Single Discount Rate was based on the municipal bond rates as of the measurement date. The source of the municipal bond rate was the Bond Buyer GO Bond 20 Index.

**Changes in the Total OPEB Liability.** The County's total OPEB liability of \$4,057,622 was measured as of September 30, 2018 and was determined by an actuarial valuation as of September 30, 2018.

	Total OPEB Liability
Balance at 10/01/2017	\$ 3,912,241
Changes for the year:	
Service cost	149,830
Interest on the total OPEB liability	161,550
Benefit payments	( 165,999)
Net changes	145,381
Balance at 09/30/2018	<u><u>\$ 4,057,622</u></u>

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.06%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (3.06%)	Discount Rate (4.06%)	1% Increase in Discount Rate (5.06%)
City's total OPEB liability	\$ 4,425,705	\$ 4,057,622	\$ 3,721,680

**Healthcare Cost Trend Rate Sensitivity Analysis.** The following schedule shows the impact of the total OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the total OPEB liability.

	1% Decrease	Current Healthcare Cost Cost Trend Rate Assumption	1% Increase
City's total OPEB liability	\$ 3,633,908	\$ 4,057,622	\$ 4,550,529

**OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB.** For the year ended September 30, 2018, the County recognized OPEB expense of \$311,380. At September 30, 2018, the County reported no deferred outflows and inflows of resources related to OPEB.

### **Risk Management**

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

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

### **Commitments**

During the fiscal year ended September 30, 2005, the City entered into an agreement with North Texas Municipal Water District (the "District"). Under the agreement, the District has agreed to acquire property and construct a transmission line in order to sell water to the City. As part of the agreement, the project will be financed by a bond issue in the amount of \$12,470,000 issued in the name of the District. The District is responsible for the cost of the project only to the extent of the bond issue and any additional construction costs are the responsibility of the City. During the construction phase, the City is responsible for the monthly transfer of funds to the District in order to pay the debt service obligation of the bonds and to fund any necessary reserve funds established by the bond ordinance. Upon completion of the project, the rights, title and interest in the project will rest irrevocably with the City. This transaction shall result in the automatic sale and delivery of the project to the City in consideration of the agreement of the City to perform its obligations under the agreement.

## **Prior Period Adjustment – Change in Accounting Principles**

During fiscal year 2018, the City adopted GASB Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*. With GASB 75, the City must assume its Total OPEB Liability in connection with the TMRS SDBF and Retiree Health Plan. Adoption of GASB 75 required a prior period adjustment to report the effect of the standard retroactively. As such, beginning net position was restated by \$92,491 in the governmental activities and \$(777,467) in the business-type activities.

## **Implementation of New Accounting Statements**

The following statements for the GASB are effective for future fiscal years ending as listed below. The City is in the process of reviewing and evaluating these statements and their potential impact on the City's financial statements.

Statement No. 83 "*Certain Asset Retirement Obligations*" - This Statement addresses accounting and financial reporting for certain asset retirement obligations, a legally enforceable liability associated with the retirement of a tangible capital asset. Criteria are established for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for these obligations. This Statement will become effective for the City in fiscal year 2019.

Statement No. 84 "*Fiduciary Activities*" – This Statement improves guidance regarding the identification of fiduciary identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus is generally on whether a government is controlling the assets of the fiduciary activity and on the beneficiaries with whom a fiduciary relationship exists. This statement will become effective for the city in fiscal year 2020.

Statement No. 87 "*Leases*" – This Statement is to improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the city in fiscal year 2021.

## **Subsequent Events**

On October 30, 2018, the City entered into an agreement with the Texas Water Development Board to issue Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certifications of Obligation, Proposed Series 2019A in the amount of \$24,550,000 to finance the acquisition, design, and construction of certain water system improvements. Additionally, on October 30, 2018, the City entered into an agreement with the Texas Water Development Board to issue Combination Tax and Waterworks and Sewer System (Surplus Pledge) Revenue Certifications of Obligation, Proposed Series 2019B in the amount of \$7,385,000 to finance the acquisition, design, and construction of certain water system improvements.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Meaurement Date December 31,	2014	2015	2016	2017
<b>A. Total pension liability</b>				
Service cost	\$ 1,424,738	\$ 1,550,353	\$ 1,678,902	\$ 1,690,413
Interest (on the Total Pension Liability)	3,206,624	3,375,957	3,388,307	3,593,692
Difference between expected and actual experience	( 223,375)	( 848,603)	( 22,007)	( 759,364)
Change of assumptions	-	( 239,310)	-	-
Benefit payments, including refunds of employee contributions	<u>( 2,080,054)</u>	<u>( 2,023,443)</u>	<u>( 1,843,541)</u>	<u>( 2,172,881)</u>
Net change in total pension liability	2,327,933	1,814,954	3,201,661	2,351,860
Total pension liability - beginning	<u>46,136,568</u>	<u>48,464,501</u>	<u>50,279,455</u>	<u>53,481,116</u>
Total pension liability - ending (a)	<u>\$ 48,464,501</u>	<u>\$ 50,279,455</u>	<u>\$ 53,481,116</u>	<u>\$ 55,832,976</u>
<b>B. Plan fiduciary net position</b>				
Contributions - employer	\$ 1,499,857	\$ 1,553,257	\$ 1,630,137	\$ 1,554,002
Contributions - employee	592,009	624,423	665,100	665,517
Net investment income	2,197,994	59,920	2,756,646	6,094,066
Benefit payments, including refunds of employee contributions	( 2,080,054)	( 2,023,443)	( 1,843,541)	( 2,172,881)
Administrative expenses	( 22,947)	( 36,495)	( 31,126)	( 31,574)
Other	<u>( 1,887)</u>	<u>( 1,803)</u>	<u>( 1,677)</u>	<u>( 1,600)</u>
Net change in plan fiduciary net position	2,184,972	175,859	3,175,539	6,107,530
Plan fiduciary net position - beginning	<u>38,420,455</u>	<u>40,605,427</u>	<u>40,781,286</u>	<u>43,956,825</u>
Plan fiduciary net position - ending (b)	<u>\$ 40,605,427</u>	<u>\$ 40,781,286</u>	<u>\$ 43,956,825</u>	<u>\$ 50,064,355</u>
<b>C. Net pension liability - ending (a) - (b)</b>				
	\$ 7,859,074	\$ 9,498,169	\$ 9,524,291	\$ 5,768,621
<b>D. Plan fiduciary net position as a percentage of total pension liability</b>				
	83.78%	81.11%	82.19%	89.67%
<b>E. Covered payroll</b>				
	\$ 8,457,269	\$ 8,920,328	\$ 9,501,425	\$ 9,507,385
<b>F. Net position liability as a percentage of covered payroll</b>				
	92.93%	106.48%	100.24%	60.68%

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF PENSION CONTRIBUTIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<b>Fiscal Year Ended September 30,</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Actuarial determined contribution	\$ 1,477,697	\$ 1,530,795	\$ 1,675,988	\$ 1,628,132	\$ 1,599,025
Contributions in relation to the actuarially determined contribution	<u>( 1,477,697)</u>	<u>( 1,530,795)</u>	<u>( 1,675,988)</u>	<u>( 1,628,132)</u>	<u>( 1,599,025)</u>
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	8,411,237	8,746,456	9,707,751	9,523,303	9,784,285
Contributions as a percentage of covered payroll	17.57%	17.50%	17.26%	17.10%	16.34%

**NOTES TO SCHEUDLE OF CONTRIBUTIONS**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.

**Other Information:** There were no benefit changes during the year.

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY  
AND RELATED RATIOS**

**TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFITS FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Measurement Date December 31,**

**2017**

**A. Total OPEB liability**

Service Cost	\$ 21,867
Interest (on the Total OPEB Liability)	18,331
Changes of assumptions	40,431
Benefit payments, including refunds of employee contributions	<u>( 4,754)</u>
Net change in Total OPEB liability	75,875
Total OPEB liability - beginning	<u>476,398</u>
Total OPEB liability - ending (a)	<u>552,273</u>
<b>B. Covered-employee payroll</b>	\$ 9,507,385
<b>C. Total OPEB liability as a percentage of covered-employee payroll</b>	5.81%

Note: This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY  
AND RELATED RATIOS  
RETIREE HEALTHCARE PLAN**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<b>Measurement Date September 30,</b>	<b><u>2018</u></b>
<b>A. Total OPEB liability</b>	
Service Cost	\$ 149,830
Interest (on the Total OPEB Liability)	161,550
Benefit payments, including refunds of employee contributions	( 165,999)
Net change in Total OPEB liability	145,381
Total OPEB liability - beginning	<u>3,912,241</u>
Total OPEB liability - ending (a)	<u>4,057,622</u>
<b>B. Covered-employee payroll</b>	\$ 9,169,796
<b>C. Total OPEB liability as a percentage of covered-employee payroll</b>	44.25%

Note: This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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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.

**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.

**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.

**TCDP Grant** – to account for programs within the TCDP Grant.

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

**Police Federal Awards** – to account for federal programs involving the Terrell Police Department.

**Edward Byrne Justice Assistance Grant** – to account for funds and expenditures under the Bullet Proof Vest program.

**CO 2013 Bond** – to account for funds received from the issuance of the Certificates of Obligation 2013.

**CO 2014 Bond** – to account for funds received from the issuance of the Certificates of Obligation 2014.

**Fire Grants** – to account for federal programs involving the Terrell Fire Department.

**Texas Capital Grant** – to account for the Texas Capital Grant funded through HUD.

**Public Improvement District** – to account for funds used to pay for detention or retention pond maintenance at Market Center Cross Roads.

**Pedestrian Improvements Grant** – to account for the Pedestrian Improvements Grant through HUD.

**Grant 721440** – to account for the Community Development Block Grant through HUD.

**FEMA** – to account for the FEMA grant through the U.S. Department of Homeland Security.

**Permanent Street Improvement Fund** – to account for funds for various street and sidewalk projects.

**Debt Service** – to account for taxes levied through the I & S rate and the associated expenditures of those funds.

**Harvard Scholarship Fund** – to account for donated funds received for the purpose of funding a City Council Member to attend the Harvard School of Government.

## **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**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2018**

	Tourism	Infrastructure Improvements	Impact Fees	Park Land/Park Dedication Fees
<b>ASSETS</b>				
Cash and cash equivalents	\$ 60,613	\$ 81,131	\$ 279,187	\$ 106,443
Taxes receivable, net	-	-	-	-
Due from other funds	-	193,749	1,136,141	-
Special assessments	-	-	-	-
 Total assets	 60,613	 274,880	 1,415,328	 106,443
<b>LIABILITIES</b>				
Accounts payable	54,333	68,755	32,741	-
Due to other funds	-	11,115	343,493	-
 Total liabilities	 54,333	 79,870	 376,234	 -
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes	-	-	-	-
Special Assessments	-	-	-	-
 Total deferred inflows of resources	 -	 -	 -	 -
<b>FUND BALANCES</b>				
Restricted	6,280	195,010	1,039,094	106,443
Unassigned	-	-	-	-
 Total fund balances	 6,280	 195,010	 1,039,094	 106,443
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 60,613	 \$ 274,880	 \$ 1,415,328	 \$ 106,443

Grant HRA	Courthouse Technology	Courthouse Security	Certificates of Obligation Tax and Revenue Series 2004	TCDP Grant	Pavilion Rentals	Police Federal Awards
\$ 37,106	\$ 17,751	\$ 23,993	\$ -	\$ 46,757	\$ 20,164	\$ 394
-	-	-	-	-	-	-
-	-	-	-	-	398	-
-	-	-	-	-	-	-
<u>37,106</u>	<u>17,751</u>	<u>23,993</u>	<u>-</u>	<u>46,757</u>	<u>20,562</u>	<u>394</u>
 - 226	 - 2,250	 - 2,250	 - 16,400	 - 169,221	 - -	 - -
<u>5,000</u>	<u>2,250</u>	<u>2,250</u>	<u>16,400</u>	<u>169,221</u>	<u>-</u>	<u>-</u>
<u>5,000</u>	<u>2,476</u>	<u>2,250</u>	<u>16,400</u>	<u>169,221</u>	<u>-</u>	<u>-</u>
 - -	 - -	 - -	 - -	 - -	 - -	 - -
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 32,106	 15,275	 21,743	 -	 -	 20,562	 394
<u>32,106</u>	<u>15,275</u>	<u>21,743</u>	<u>( 16,400)</u>	<u>( 122,464)</u>	<u>-</u>	<u>-</u>
<u>32,106</u>	<u>15,275</u>	<u>21,743</u>	<u>( 16,400)</u>	<u>( 122,464)</u>	<u>20,562</u>	<u>394</u>
<u>\$ 37,106</u>	<u>\$ 17,751</u>	<u>\$ 23,993</u>	<u>\$ -</u>	<u>\$ 46,757</u>	<u>\$ 20,562</u>	<u>\$ 394</u>

**CITY OF TERRELL, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**  
**(Continued)**  
**SEPTEMBER 30, 2018**

	Edward Byrne Justice Assistance Grant	CO 2013 Bond	CO 2014 Bond	CO 2018 Bond
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 134,443	\$ 6,822	\$ -
Taxes receivable, net	- -	- -	- -	- -
Due from other funds	200 -	- -	90,000 -	- -
Special assessments	- -	- -	- -	- -
Total assets	<u>200</u>	<u>134,443</u>	<u>96,822</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable	- -	148,029 -	- -	12,500 -
Due to other funds	- -	- -	- -	- -
Total liabilities	<u>- -</u>	<u>148,029</u>	<u>- -</u>	<u>12,500</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes	- -	- -	- -	- -
Special Assessments	- -	- -	- -	- -
Total deferred inflows of resources	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>
<b>FUND BALANCES</b>				
Restricted	200 -	- -	96,822 -	- -
Unassigned	- -	( 13,586) -	- -	( 12,500) -
Total fund balances	<u>200</u>	<u>( 13,586)</u>	<u>96,822</u>	<u>( 12,500)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 200</u>	<u>\$ 134,443</u>	<u>\$ 96,822</u>	<u>\$ -</u>

Fire Grants	Texas Capital	Public Improvement District	Pedestrian Improvements Grant	Grant 721440	FEMA	Permanent Street Improvement
\$ 10,388	\$ -	\$ 88,189	\$ 59	\$ 34	\$ 243,633	\$ 251,689
-	-	-	-	-	-	-
7,847	-	-	119,364	-	-	162,126
-	-	-	-	-	-	1,362,842
<u>18,235</u>	<u>-</u>	<u>88,189</u>	<u>119,423</u>	<u>34</u>	<u>243,633</u>	<u>1,776,657</u>
-	-	2,975	-	-	-	125,226
-	-	27,975	-	-	7,847	310,325
-	-	30,950	-	-	7,847	435,551
-	-	-	-	-	-	-
-	-	-	-	-	-	1,362,842
-	-	-	-	-	-	1,362,842
18,235	-	57,239	119,423	34	235,786	-
-	-	-	-	-	-	( 21,736)
<u>18,235</u>	<u>-</u>	<u>57,239</u>	<u>119,423</u>	<u>34</u>	<u>235,786</u>	<u>( 21,736)</u>
<u>\$ 18,235</u>	<u>\$ -</u>	<u>\$ 88,189</u>	<u>\$ 119,423</u>	<u>\$ 34</u>	<u>\$ 243,633</u>	<u>\$ 1,776,657</u>

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**CITY OF TERRELL, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**  
**(Continued)**  
**SEPTEMBER 30, 2018**

	Debt Service	Harvard Scholarship	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,509,475	\$ 5,803	\$ 2,924,074
Taxes receivable, net	74,746	-	74,746
Due from other funds	-	-	1,709,825
Special assessments	-	-	1,362,842
 Total assets	 1,584,221	 5,803	 6,071,487
<b>LIABILITIES</b>			
Accounts payable	-	-	444,785
Due to other funds	93,430	-	989,306
 Total liabilities	 93,430	 -	 1,434,091
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes	70,230	-	70,230
Special Assessments	-	-	1,362,842
 Total deferred inflows of resources	 70,230	 -	 1,433,072
<b>FUND BALANCES</b>			
Restricted	1,420,561	5,803	3,391,010
Unassigned	-	-	( 186,686)
 Total fund balances	 1,420,561	 5,803	 3,204,324
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 1,584,221	 \$ 5,803	 \$ 6,071,487

**CITY OF TERRELL, TEXAS**

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

**NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Tourism	Infrastructure Improvements	Impact Fees	Park Land/Park Dedication Fees
<b>REVENUES</b>				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	402,208	-	-	-
Fees and fines	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	954,487	309,721	4,500
Interest	5	47	504	-
Street assessments	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>402,213</u>	<u>954,534</u>	<u>310,225</u>	<u>4,500</u>
<b>EXPENDITURES</b>				
Current:				
General government	451,860	125,639	7,511	-
Culture and recreation	-	-	-	-
Capital outlay	-	344,487	71,641	-
Principal	-	-	-	-
Interest and other charges	-	12,196	-	-
Total expenditures	<u>451,860</u>	<u>482,322</u>	<u>79,152</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(49,647)</u>	<u>472,212</u>	<u>231,073</u>	<u>4,500</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	<u>(9,840)</u>	<u>(378,209)</u>	<u>(150,000)</u>	<u>-</u>
Total other financing sources and uses	<u>(9,840)</u>	<u>(378,209)</u>	<u>(150,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	<u>(59,487)</u>	<u>94,003</u>	<u>81,073</u>	<u>4,500</u>
<b>FUND BALANCES, BEGINNING</b>				
	<u>65,767</u>	<u>101,007</u>	<u>958,021</u>	<u>101,943</u>
<b>FUND BALANCES, ENDING</b>				
	<u>\$ 6,280</u>	<u>\$ 195,010</u>	<u>\$ 1,039,094</u>	<u>\$ 106,443</u>

Grant HRA	Courthouse Technology	Courthouse Security	Certificates of Obligation Tax and Revenue Series 2004	TCDP Grant	Pavilion Rentals	Police Federal Awards
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	9,704	7,278	-	-	-	-
-	-	-	-	93,813	-	-
-	-	-	-	-	9,025	-
-	-	-	-	119	36	17
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>9,704</u>	<u>7,278</u>	<u>-</u>	<u>93,932</u>	<u>9,061</u>	<u>17</u>
-	-	1,073	-	-	4,635	-
-	-	-	-	-	-	-
-	9,076	-	-	-	-	24,914
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>9,076</u>	<u>1,073</u>	<u>-</u>	<u>-</u>	<u>4,635</u>	<u>24,914</u>
<u>-</u>	<u>628</u>	<u>6,205</u>	<u>-</u>	<u>93,932</u>	<u>4,426</u>	<u>( 24,897)</u>
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 93,813)</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 93,813)</u>	<u>-</u>	<u>-</u>
-	628	6,205	-	119	4,426	( 24,897)
<u>32,106</u>	<u>14,647</u>	<u>15,538</u>	<u>( 16,400)</u>	<u>( 122,583)</u>	<u>16,136</u>	<u>25,291</u>
<u>\$ 32,106</u>	<u>\$ 15,275</u>	<u>\$ 21,743</u>	<u>\$ ( 16,400)</u>	<u>\$ ( 122,464)</u>	<u>\$ 20,562</u>	<u>\$ 394</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, 2018**

	Edward Byrne Justice Assistance Grant	CO 2013 Bond	CO 2014 Bond	CO 2018 Bond
<b>REVENUES</b>				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	- -	- -	- -	- -
Fees and fines	- -	- -	- -	- -
Intergovernmental	- -	- -	- -	- -
Charges for services	- -	- -	- -	- -
Interest	30	273	- -	- -
Street assessments	- -	- -	- -	- -
Miscellaneous	- -	- -	- -	- -
Total revenues	<u>30</u>	<u>273</u>	<u>- -</u>	<u>- -</u>
<b>EXPENDITURES</b>				
Current:				
General government	- -	- -	- -	- -
Culture and recreation	- -	- -	- -	- -
Capital outlay	- -	156,529	- -	12,500
Principal	- -	- -	- -	- -
Interest and other charges	- -	- -	- -	- -
Total expenditures	<u>- -</u>	<u>156,529</u>	<u>- -</u>	<u>12,500</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>30</u>	<u>( 156,256)</u>	<u>- -</u>	<u>( 12,500)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	- -	- -	- -	- -
Transfers out	( 9)	- -	- -	- -
Total other financing sources and uses	<u>( 9)</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>21</u>	<u>( 156,256)</u>	<u>- -</u>	<u>( 12,500)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>179</u>	<u>142,670</u>	<u>96,822</u>	<u>- -</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 200</u>	<u>\$ ( 13,586)</u>	<u>\$ 96,822</u>	<u>\$ ( 12,500)</u>

Fire Grants	Texas Capital Grant	Public Improvements District	Pedestrian Improvements Grant	Grant 721440	FEMA	Permanent Street Improvement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	198,678	44,256
-	-	-	-	-	-	-
27	-	-	197	-	266	-
-	-	13,822	-	-	-	-
-	-	-	-	-	-	-
<u>27</u>	<u>-</u>	<u>13,822</u>	<u>197</u>	<u>-</u>	<u>198,944</u>	<u>44,256</u>
-	-	-	-	-	-	-
-	-	74,216	-	-	-	-
-	-	-	-	-	-	490,957
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>74,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>490,957</u>
<u>27</u>	<u>-</u>	<u>( 60,394)</u>	<u>197</u>	<u>-</u>	<u>198,944</u>	<u>( 446,701)</u>
-	-	94,735	-	-	-	200,000
<u>-</u>	<u>( 7)</u>	<u>-</u>	<u>( 275,675)</u>	<u>-</u>	<u>( 1,869)</u>	<u>-</u>
<u>-</u>	<u>( 7)</u>	<u>94,735</u>	<u>( 275,675)</u>	<u>-</u>	<u>( 1,869)</u>	<u>200,000</u>
27	( 7)	34,341	( 275,478)	-	197,075	( 246,701)
<u>18,208</u>	<u>7</u>	<u>22,898</u>	<u>394,901</u>	<u>34</u>	<u>38,711</u>	<u>224,965</u>
<u>\$ 18,235</u>	<u>\$ -</u>	<u>\$ 57,239</u>	<u>\$ 119,423</u>	<u>\$ 34</u>	<u>\$ 235,786</u>	<u>\$ ( 21,736)</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, 2018**

	Debt Service	Harvard Scholarship	Total Governmental Funds
<b>REVENUES</b>			
Ad valorem taxes	\$ 1,327,734	\$ -	\$ 1,327,734
Hotel/motel occupancy taxes	- -	- -	402,208
Fees and fines	- -	- -	16,982
Intergovernmental	- -	- -	336,747
Charges for services	- -	- -	1,277,733
Interest	3,446	3	4,970
Street assessments	- -	- -	13,822
Miscellaneous	- -	5,800	5,800
Total revenues	<u>1,331,180</u>	<u>5,803</u>	<u>3,385,996</u>
<b>EXPENDITURES</b>			
Current:			
General government	- -	- -	590,718
Culture and recreation	- -	- -	74,216
Capital outlay	- -	- -	1,110,104
Principal	1,390,000	- -	1,390,000
Interest and other charges	<u>725,009</u>	<u>- -</u>	<u>737,205</u>
Total expenditures	<u>2,115,009</u>	<u>- -</u>	<u>3,902,243</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 783,829)</u>	<u>5,803</u>	<u>( 516,247)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,641,310	- -	1,936,045
Transfers out	<u>( 930,817)</u>	<u>- -</u>	<u>( 1,840,239)</u>
Total other financing sources and uses	<u>710,493</u>	<u>- -</u>	<u>95,806</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 73,336)</u>	<u>5,803</u>	<u>( 420,441)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>1,493,897</u>	<u>- -</u>	<u>3,624,765</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,420,561</u>	<u>\$ 5,803</u>	<u>\$ 3,204,324</u>

**CITY OF TERRELL, TEXAS**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2018**

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,200,446	\$ 56,171	\$ 1,256,617
Total current assets	<u>1,200,446</u>	<u>56,171</u>	<u>1,256,617</u>
Non-current assets:			
Capital assets:			
Vehicles and equipment	-	4,994,307	4,994,307
Accumulated depreciation	<u>-</u>	<u>( 3,734,775)</u>	<u>( 3,734,775)</u>
Total non-current assets	<u>-</u>	<u>1,259,532</u>	<u>1,259,532</u>
Total assets	<u>1,200,446</u>	<u>1,315,703</u>	<u>2,516,149</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pensions	-	22,332	22,332
Deferred outflows - supplemental death benefits	<u>-</u>	<u>691</u>	<u>691</u>
Total deferred outflows of resources	<u>-</u>	<u>23,023</u>	<u>23,023</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	198,501	34,985	233,486
Due to other funds	20,313	-	20,313
Other accrued expenses	-	6,233	6,233
Bonds, notes, leases and loans payable	-	133,699	133,699
Compensated absences	<u>-</u>	<u>11,814</u>	<u>11,814</u>
Total current liabilities	<u>218,814</u>	<u>186,731</u>	<u>405,545</u>
Non-current liabilities:			
Bonds, notes, leases and loans payable	-	137,875	137,875
Net pension liability	-	105,566	105,566
Total OPEB liability - TMRS SDBF	<u>-</u>	<u>10,107</u>	<u>10,107</u>
Total OPEB liability - retiree health	<u>-</u>	<u>74,254</u>	<u>74,254</u>
Total non-current liabilities	<u>-</u>	<u>327,802</u>	<u>327,802</u>
Total liabilities	<u>218,814</u>	<u>514,533</u>	<u>733,347</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pensions	<u>-</u>	<u>44,737</u>	<u>44,737</u>
Total deferred inflows of resources	<u>-</u>	<u>44,737</u>	<u>44,737</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	1,121,657	1,121,657
Unrestricted	<u>981,632</u>	<u>( 342,201)</u>	<u>639,431</u>
Total net position	<u>\$ 981,632</u>	<u>\$ 779,456</u>	<u>\$ 1,761,088</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, 2018**

	Insurance	Equipment Replacement	Total
<b>OPERATING REVENUES</b>			
Maintenance services	\$ -	\$ 1,119,911	\$ 1,119,911
Insurance premiums	3,135,430	-	3,135,430
Miscellaneous	436,945	13,179	450,124
Total operating revenues	<u>3,572,375</u>	<u>1,133,090</u>	<u>4,705,465</u>
<b>OPERATING EXPENSES</b>			
Personnel services	-	316,838	316,838
Miscellaneous services	-	304,875	304,875
Administrative fees	782,941	-	782,941
Repairs and maintenance	-	85,604	85,604
Supplies	-	320,837	320,837
Insurance claims and expenses	2,157,722	-	2,157,722
Depreciation	-	172,875	172,875
Total operating expenses	<u>2,940,663</u>	<u>1,201,029</u>	<u>4,141,692</u>
<b>OPERATING INCOME (LOSS)</b>	<b>631,712</b>	<b>( 67,939)</b>	<b>563,773</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Gain (loss) on disposal of assets	-	29,550	29,550
Transfers in	-	131,723	131,723
Transfers out	<u>( 965)</u>	<u>( 3,717)</u>	<u>( 4,682)</u>
Total non-operating revenue (expenses)	<u>( 965)</u>	<u>157,556</u>	<u>156,591</u>
<b>CHANGE IN NET POSITION</b>	<b>630,747</b>	<b>89,617</b>	<b>720,364</b>
<b>TOTAL NET POSITION, BEGINNING</b>	<b><u>350,885</u></b>	<b><u>770,085</u></b>	<b><u>1,120,970</u></b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b><u>-</u></b>	<b><u>( 80,246)</u></b>	<b><u>( 80,246)</u></b>
<b>TOTAL NET POSITION, ENDING</b>	<b><u>\$ 981,632</u></b>	<b><u>\$ 779,456</u></b>	<b><u>\$ 1,761,088</u></b>

**CITY OF TERRELL, TEXAS**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF CASH FLOWS**

**SEPTEMBER 30, 2018**

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 3,572,375	\$ 1,133,090	\$ 4,705,465
Cash paid for services and insurance claims	( 2,911,086)	- ( 2,911,086)	
Cash paid to suppliers for goods and services	- ( 701,944)	( 701,944)	
Cash paid to employees for services	- ( 312,010)	( 312,010)	
Net cash provided (used) by operating activities	<u>661,289</u>	<u>119,136</u>	<u>780,425</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in (out)	( 965)	128,006	127,041
Cash received from other funds	<u>-</u>	<u>( 63,156)</u>	<u>( 63,156)</u>
Net cash provided (used) for noncapital financing activities	<u>( 965)</u>	<u>64,850</u>	<u>63,885</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	- ( 27,381)	( 27,381)	
Proceeds from sale of capital assets	- 29,550	29,550	
Principal paid on long-term debt	<u>- ( 129,984)</u>	<u>( 129,984)</u>	
Net cash used for capital and related financing activities	<u>- ( 127,815)</u>	<u>( 127,815)</u>	
<b>INCREASE (DECREASE) IN CASH</b>	<b>660,324</b>	<b>56,171</b>	<b>716,495</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b><u>540,122</u></b>	<b><u>-</u></b>	<b><u>540,122</u></b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b><u>1,200,446</u></b>	<b><u>56,171</u></b>	<b><u>1,256,617</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	631,712	( 67,939)	563,773
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	- 172,875	172,875	
Decrease (increase) in deferred outflows of resources	- 31,677	31,677	
Increase (decrease) in accounts payable	29,577	9,372	38,949
Increase (decrease) in deferred inflows of resources	- 30,689	30,689	
Increase (decrease) in net pension obligation	- ( 63,014)	( 63,014)	
Increase (decrease) in total OPEB liability - TMRS SDBF	- 1,455	1,455	
Increase (decrease) in total OPEB liability - retiree health	- 2,660	2,660	
Increase (decrease) in accrued liabilities	- 359	359	
Increase (decrease) in compensated absences	<u>- 1,002</u>	<u>1,002</u>	<u>1,002</u>
Net cash provided (used) by operating activities	<u>\$ 661,289</u>	<u>\$ 119,136</u>	<u>\$ 780,425</u>

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## **SINGLE AUDIT SECTION**

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**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**

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, 2018, 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 27, 2019.

**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.

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**OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston  
**NEW MEXICO** | Albuquerque

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 27, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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 *U.S. Office of Management and Budget (OMB) 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

### **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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas  
June 27, 2019

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Pass-through Expenditures
<b><u>U. S. Department of Housing and Urban Development</u></b>				
Passed through Texas Department of Agriculture:				
Community Development Block Grant	14.218	7218002	\$ 55,000	\$ -
Total Passed through Texas Department of Agriculture			<u>55,000</u>	- -
Direct Program:				
Section 8 Housing Choice Vouchers Program	14.871	B-07-MC-48-0042	2,843,784	- -
Section 8 Housing Choice Vouchers Program	14.871	B-07-MC-48-0042	<u>321,245</u>	- -
Total Direct Program			<u>3,165,029</u>	- -
Total U. S. Department of Housing and Urban Development			<u>3,220,029</u>	- -
<b><u>U. S. Department of Transportation</u></b>				
Passed through Texas Department of Transportation:				
Airport Improvement Program	20.106	1718TEREL	985,952	- -
Highway Planning and Construction	20.205	0918-11-085	44,256	- -
Highway Planning and Construction	20.205	RTR091811103	<u>574,575</u>	- -
Total Passed through Texas Department of Transportation			<u>1,604,783</u>	- -
Total U. S. Department of Transportation			<u>1,604,783</u>	- -
<b><u>U. S. Department of Homeland Security</u></b>				
Passed through Texas Department of Emergency Management:				
Public Assistance Grant DR 4223	97.036	PA-06-TX-4223	<u>198,678</u>	- -
Total Passed through Texas Department of Emergency Management			<u>198,678</u>	- -
Total U. S. Department of Homeland Security			<u>198,678</u>	- -
Total Expenditures of Federal Awards			<u>\$ 5,023,490</u>	\$ - -

## **CITY OF TERRELL, TEXAS**

### **NOTES TO SCHEDULE OF EXPENDITURES FEDERAL AWARDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

#### **BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards programs of the City. The City's reporting entity is defined in Note I of the basic financial statements. Federal awards received directly from federal agencies, as well as awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

#### **INDIRECT COSTS**

The City has elected not to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance.

**CITY OF TERRELL, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Summary of Auditor's Results:**

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None
Significant deficiency(ies) identified?	None reported

Noncompliance material to financial statements noted?

None

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	None
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 2 CFR 200.516(a) of Uniform Guidance?

None

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
#20.106	Airport Improvement Program
#14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs

\$750,000

Auditee qualified as low-risk auditee for federal single audit:

Yes

**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, 2018**

None