

CITY OF TERRELL, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2017

CITY OF TERRELL, TEXAS

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INTRODUCTORY SECTION

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June 28, 2018

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, 2017.

D.J. Ory
Mayor

Sandra Wilson
Mayor Pro Tem
District 3

Charles Whitaker
Deputy Mayor Pro Tem
District 4

Vacant
Council Member
District 2

Tim Royse
Council Member
District 5

Torry L. Edwards
City Manager

Mike Sims
Asst. City Manager

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.

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

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

CITY PROFILE

Location

The City of Terrell, Texas is located on U. S. Highway 80 just north of Interstate 20, and approximately 32 miles east of Dallas, Texas. The City, encompassing approximately 20.04 square miles, had a 2010 census population of 15,816 which is a 16% increase from the 2000 census population of 13,600.

The City operates under the Council-Manager form of government. The City Council is comprised of the Mayor and four Council members, who enact local laws, determine policies and adopt the annual budget. The City Manager is appointed by the City Council and is responsible for the daily management of the City. The basic financial statements of the City include all government activities, organizations and functions for which the City is financially accountable as defined by the GASB. Promotion and development of commercial, industrial, and manufacturing enterprises that create and enhance local job opportunities are provided through a legally separate entity. The Terrell Economic Development Corporation (“TEDC”) which functions, in essence, as a department of the City of Terrell has been included as an integral part of the City of Terrell’s financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements (see Note I.A.).

Services Provided

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

Accounting System and Budgetary Control

The City’s accounting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records of the City’s utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the City’s accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City’s internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City charter provides that the City Council shall adopt the annual budget prepared by City Management. This budget is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the individual fund level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to City departmental and divisional management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures (items over \$5,000 and having a useful life of three or more years) are monitored and controlled item by item. Revenue budgets are reviewed monthly.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

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

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

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

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

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

	ASSESSED PROPERTY VALUATIONS (in millions)	SALES TAX COLLECTIONS (in millions)
2007	\$ 931,051,598	\$ 6,976,566
2008	1,014,913,277	7,123,040
2009	1,005,646,462	6,528,921
2010	1,023,058,460	6,744,263
2011	947,284,405	6,867,379
2012	937,009,347	6,841,251
2013	933,111,590	7,826,951
2014	931,725,093	8,131,120
2015	956,578,231	8,770,648
2016	1,006,213,527	10,090,742

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, 2017, all cash totaling \$19,496,870 was invested in the City's depository or certificates of deposit. The overall portfolio provided \$67,471 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 2017 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

CITY OF TERRELL, TEXAS

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2017

CITY OFFICIALS

Mayor.....D.J. Ory

Council Members.....Charles Whitaker, Mayor Pro-Tem

Tim Royse, Deputy Mayor Pro-Tem

Sandra Wilson

Grady Simpson

City ManagerTorry Edwards

City Secretary.....John Rounsavall

City AttorneyMary Gayle Ramsey

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
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, 2017, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas, as of September 30, 2017, 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Terrell, Texas' basic financial statements. The introductory section, 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 28, 2018, on our consideration of the City of Terrell, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Terrell, Texas' internal control over financial reporting and compliance.

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

Waco, Texas
June 28, 2018

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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, 2017. 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 \$71,917,279 (net position). Of this amount, (\$378,497)(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 \$632,557 from operations.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$9,615,777, a decrease of \$6,425,019 in comparison with the prior fiscal year. Approximately 27% of this total amount, \$2,570,608, 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 \$2,987,622 or 15% of the total General Fund expenditures.
- The City's total long-term debt decreased by \$1,497,632 during the current fiscal year. The City did not issue any bonds during the year. The main reason for this decrease was principal payments on existing debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net 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 25 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 TIRZ #1, the CO 2014 Bond Fund, and the Terrell Economic Development Corporation each of which are considered to be major funds. Data from the other 20 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 \$71,917,279 as of September 30, 2017.

The largest portion of the City's net position, 80% (\$57,578,353), 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 31,222,561	\$ 37,252,284	\$ 4,306,162	\$ 4,697,823	\$ 35,528,723	\$ 41,950,107
Capital assets	<u>36,392,470</u>	<u>31,751,265</u>	<u>51,356,413</u>	<u>50,652,568</u>	<u>87,748,883</u>	<u>82,403,833</u>
Total assets	<u>67,615,031</u>	<u>69,003,549</u>	<u>55,662,575</u>	<u>55,350,391</u>	<u>123,277,606</u>	<u>124,353,940</u>
Deferred outflows of resources	<u>2,646,299</u>	<u>3,183,623</u>	<u>556,857</u>	<u>704,142</u>	<u>3,203,156</u>	<u>3,887,765</u>
Long-term liabilities	41,593,303	42,272,615	9,148,487	9,966,807	50,741,790	52,239,422
Other liabilities	<u>2,081,002</u>	<u>2,877,949</u>	<u>947,019</u>	<u>816,667</u>	<u>3,028,021</u>	<u>3,694,616</u>
Total liabilities	<u>43,674,305</u>	<u>45,150,564</u>	<u>10,095,506</u>	<u>10,783,474</u>	<u>53,769,811</u>	<u>55,934,038</u>
Deferred inflows of resources	<u>657,081</u>	<u>838,611</u>	<u>136,591</u>	<u>184,334</u>	<u>793,672</u>	<u>1,022,945</u>
Net position:						
Net investment in capital assets	13,626,940	7,850,438	43,951,413	42,490,068	57,578,353	50,340,506
Restricted	<u>14,467,423</u>	<u>18,126,009</u>	<u>250,000</u>	<u>472,460</u>	<u>14,717,423</u>	<u>18,598,469</u>
Unrestricted	<u>(2,164,419)</u>	<u>221,550</u>	<u>1,785,922</u>	<u>2,124,197</u>	<u>(378,497)</u>	<u>2,345,747</u>
Total net position	<u>\$ 25,929,944</u>	<u>\$ 26,197,997</u>	<u>\$ 45,987,335</u>	<u>\$ 45,086,725</u>	<u>\$ 71,917,279</u>	<u>\$ 71,284,722</u>

Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended September 30, 2017 and 2016.

CITY OF TERRELL'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 2,301,242	\$ 2,814,153	\$ 14,317,351	\$ 13,603,269	\$ 16,618,593	\$ 16,417,422
Operating grants and contributions	3,963,153	4,678,097	-	-	3,963,153	4,678,097
Capital grants and contributions	331,744	2,495,711	-	114,172	331,744	2,609,883
General revenues:						
Property taxes	7,278,687	6,883,976	-	-	7,278,687	6,883,976
Franchise taxes	1,438,470	1,387,289	-	-	1,438,470	1,387,289
Sales taxes	9,817,011	10,101,007	-	-	9,817,011	10,101,007
Other taxes	423,202	450,956	-	-	423,202	450,956
Interest	13,930	65,717	847	1,760	14,777	67,477
Miscellaneous	374,582	195,217	36,846	-	411,428	195,217
Gain on sale of capital assets	-	20,451	-	-	-	20,451
Transfers	1,270,764	1,867,295	(1,270,764)	(1,867,295)	-	-
Total revenues	27,212,785	30,959,869	13,084,280	11,851,906	40,297,065	42,811,775
Expenses:						
General government	9,114,784	9,474,121	-	-	9,114,784	9,474,121
Public welfare	3,026,693	2,868,191	-	-	3,026,693	2,868,191
Public safety	9,343,612	8,690,303	-	-	9,343,612	8,690,303
Highways and streets	3,661,963	3,484,421	-	-	3,661,963	3,484,421
Sanitation	630,474	583,624	-	-	630,474	583,624
Culture and recreation	913,867	804,467	-	-	913,867	804,467
Interest on long-term debt	789,445	843,642	-	-	789,445	843,642
Water and sewer	-	-	11,450,556	11,459,600	11,450,556	11,459,600
Airport	-	-	733,114	817,317	733,114	817,317
Total expenses	27,480,838	26,748,769	12,183,670	12,276,917	39,664,508	39,025,686
Change in net position	(268,053)	4,211,100	900,610	(425,011)	632,557	3,786,089
Net position, beginning	26,197,997	21,986,897	45,086,725	45,511,736	71,284,722	67,498,633
Change in accounting principle	-	-	-	-	-	-
Net position, ending	\$ 25,929,944	\$ 26,197,997	\$ 45,987,335	\$ 45,086,725	\$ 71,917,279	\$ 71,284,722

Governmental activities. Of the City's \$632,557 overall decrease in net position, governmental activities net position decreased by \$268,053. One of the most significant governmental expenses for the City was general government, which incurred expenses of \$9,114,784. These expenses were funded by revenues collected from a variety of sources, with one of the largest being from sales taxes, which are \$9,817,011 for the fiscal year ended September 30, 2017. Other significant governmental expenses for the City include public safety, which incurred \$9,343,612 in expenses.

Business-type activities. Business-type activities increased the City's net position by \$900,610 .

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 \$9,615,777. Approximately 27% of this total amount (\$2,570,608) 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 (\$1,298,520), (2) pay for debt service (\$1,493,897), (3) pay for tourism/economic development (\$2,910,110), (4) pay for grants (\$944,249), (5) pay for law enforcement (\$30,185), and (6) pay for park development (\$343,044).

In the General Fund, the City budgeted for a decrease in the fund balance of \$1,285,833. Actual revenues being less than budgeted, the actual fund balance decreased for fiscal year 2017 by (\$2,212,098).

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, \$31,806,112; and the Airport Fund, \$14,181,223. The Water and Sewer Fund's net position decreased in 2017 by \$1,181,301 and the Airport's net position decreased by (\$280,691).

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 \$1,029,681.

The City had budgeted for little or no increase in most revenue categories from the prior year collections based on economic conditions. However, actual revenues were less than the budgeted revenue amount by \$617,834.

CAPITAL ASSETS

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$87,748,883 (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:

- \$636,506 was spent on street improvements.
- \$3,631,892 was completed on the new public safety building.
- \$254,468 was spent on street improvements.
- \$749,535 was spent on drainage improvements for airport road.

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

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,027,903	\$ 1,027,903	\$ 1,077,278	\$ 1,077,278	\$ 2,105,181	\$ 2,105,181
Buildings and improvements	16,860,325	4,245,713	22,796,154	24,201,841	39,656,479	28,447,554
Machinery and equipment	3,644,833	3,887,399	22,911,235	21,932,043	26,556,068	25,819,442
Infrastructure	14,059,531	13,165,246	-	-	14,059,531	13,165,246
Construction in progress	799,878	9,425,004	4,571,746	3,441,406	5,371,624	12,866,410
Total capital assets	\$ 36,392,470	\$ 31,751,265	\$ 51,356,413	\$ 50,652,568	\$ 87,748,883	\$ 82,403,833

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Terrell had a total bonded debt of \$28,110,000.

CITY OF TERRELL'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 3,705,000	\$ 4,260,000	\$ -	\$ -	\$ 3,705,000	\$ 4,260,000
Certificates of obligation	16,975,000	17,630,000	7,430,000	8,190,000	24,405,000	25,820,000
	\$ 20,680,000	\$ 21,890,000	\$ 7,430,000	\$ 8,190,000	\$ 28,110,000	\$ 30,080,000

During the current fiscal year, the City's total bonded debt decreased by \$1,970,000 or 7%. This was due to the scheduled bond payments being made.

The City's bond ratings are listed below:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General Obligation Bonds	"A1"	"AA"
Revenue Bonds	"A1"	"AA"

Several of the City's bonds are insured, thus holding a Triple A credit rating from both Moody's and Standard & Poor's. Additional information on the City of Terrell's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the fiscal year 2017 – 2018 budget, General Fund revenues and transfers in are budgeted to increase by \$1,918,444 from the 2016 – 2017 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 9.41%. The city's budget for all funds continues trending upward. The city's 2017-2018 budget reflects a surge in tax valuations that demonstrates a sustained local economy with increased regional commercial construction for retail and commercial center development. The City of Terrell has a long history of being a central distribution point in Kaufman County for business park retention and commerce, which has continued. The Municipal Development Department economic indicators show increases in permits, property tax valuations, residential and remodeling values and reflects high demand for private sector capital investment.

The budget for 2017-2018 reflects the allocation of financial resources to guide the City of Terrell to address demands on city service delivery.

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.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF TERRELL, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 7,861,141	\$ 2,268,897	\$ 10,130,038
Receivables (net, where applicable, of allowances for uncollectibles)	2,361,415	1,949,465	4,310,880
Internal balances	443,328	(443,328)	-
Due from other governments	11,850,957	-	11,850,957
Prepaid expenses	5,908,674	-	5,908,674
Special assessments	1,274,963	-	1,274,963
Investment in land	1,638,899	-	1,638,899
Other receivables	46,004	-	46,004
Inventory, at cost	25,164	281,128	306,292
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	77,420,815	96,564,282
Improvements other than buildings	1,889,295	-	1,889,295
Machinery and equipment	8,949,171	765,480	9,714,651
Infrastructure	42,111,592	-	42,111,592
Construction in progress	799,878	4,571,746	5,371,624
Less accumulated depreciation	(37,528,836)	(32,478,906)	(70,007,742)
Total capital assets	<u>36,392,470</u>	<u>51,356,413</u>	<u>87,748,883</u>
Total assets	<u>67,803,015</u>	<u>55,662,575</u>	<u>123,465,590</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	87,763	25,000	112,763
Deferred outflows - pensions	<u>2,558,536</u>	<u>531,857</u>	<u>3,090,393</u>
Total deferred outflows of resources	<u>2,646,299</u>	<u>556,857</u>	<u>3,203,156</u>
LIABILITIES			
Accounts payable	1,706,098	401,085	2,107,183
Accrued interest payable	120,614	45,880	166,494
Other accrued liabilities	254,290	53,678	307,968
Customer deposits	-	409,978	409,978
Due to other governments	-	36,398	36,398
Long-term liabilities:			
Due within one year	2,468,105	540,871	3,008,976
Due in more than one year	<u>39,125,198</u>	<u>8,607,616</u>	<u>47,732,814</u>
Total liabilities	<u>43,674,305</u>	<u>10,095,506</u>	<u>53,769,811</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pensions	<u>657,081</u>	<u>136,591</u>	<u>793,672</u>
Total deferred inflows of resources	<u>657,081</u>	<u>136,591</u>	<u>793,672</u>
NET POSITION			
Net investment in capital assets	13,626,940	43,951,413	57,578,353
Restricted for:			
Tourism/economic development	3,098,094	-	3,098,094
Grants	944,249	-	944,249
Law enforcement	30,185	-	30,185
Highway projects	5,980,007	-	5,980,007
Capital projects	2,573,483	-	2,573,483
Park development	343,044	-	343,044
Debt service	1,498,361	250,000	1,748,361
Unrestricted	(1,976,435)	1,785,922	(190,513)
Total net position	<u>\$ 26,117,928</u>	<u>\$ 45,987,335</u>	<u>\$ 72,105,263</u>

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

CITY OF TERRELL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 9,114,784	\$ 338,842	\$ 691,745	\$ 289,542
Public welfare	3,026,693	31,100	3,266,992	-
Public safety	9,343,612	336,661	4,416	-
Highways and streets	3,661,963	947,737	-	42,202
Sanitation	630,474	494,145	-	-
Culture and recreation	913,867	152,757	-	-
Interest on long-term debt	789,445	-	-	-
Total governmental activities	<u>27,480,838</u>	<u>2,301,242</u>	<u>3,963,153</u>	<u>331,744</u>
Business-type activities:				
Water and sewer	11,450,556	13,959,721	-	-
Airport	733,114	357,630	-	-
Total business-type activities	<u>12,183,670</u>	<u>14,317,351</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 39,664,508</u>	<u>\$ 16,618,593</u>	<u>\$ 3,963,153</u>	<u>\$ 331,744</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Sales taxes				
Franchise taxes				
Other taxes				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

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

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
<u>\$ (7,794,655)</u>	<u>\$ -</u>	<u>\$ (7,794,655)</u>
<u>271,399</u>	<u>-</u>	<u>271,399</u>
<u>(9,002,535)</u>	<u>-</u>	<u>(9,002,535)</u>
<u>(2,672,024)</u>	<u>-</u>	<u>(2,672,024)</u>
<u>(136,329)</u>	<u>-</u>	<u>(136,329)</u>
<u>(761,110)</u>	<u>-</u>	<u>(761,110)</u>
<u>(789,445)</u>	<u>-</u>	<u>(789,445)</u>
<u>(20,884,699)</u>	<u>-</u>	<u>(20,884,699)</u>
<u>-</u>	<u>2,509,165</u>	<u>2,509,165</u>
<u>-</u>	<u>(375,484)</u>	<u>(375,484)</u>
<u>-</u>	<u>2,133,681</u>	<u>2,133,681</u>
<u>(20,884,699)</u>	<u>2,133,681</u>	<u>(18,751,018)</u>
<u>5,979,516</u>	<u>-</u>	<u>5,979,516</u>
<u>1,487,155</u>	<u>-</u>	<u>1,487,155</u>
<u>9,817,011</u>	<u>-</u>	<u>9,817,011</u>
<u>1,438,470</u>	<u>-</u>	<u>1,438,470</u>
<u>423,202</u>	<u>-</u>	<u>423,202</u>
<u>13,930</u>	<u>847</u>	<u>14,777</u>
<u>374,582</u>	<u>36,846</u>	<u>411,428</u>
<u>1,270,764</u>	<u>(1,270,764)</u>	<u>-</u>
<u>20,804,630</u>	<u>(1,233,071)</u>	<u>19,571,559</u>
<u>(80,069)</u>	<u>900,610</u>	<u>820,541</u>
<u>26,197,997</u>	<u>45,086,725</u>	<u>71,284,722</u>
<u>\$ 26,117,928</u>	<u>\$ 45,987,335</u>	<u>\$ 72,105,263</u>

CITY OF TERRELL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

	<u>General</u>	<u>Terrell TIRZ #1</u>
ASSETS		
Cash and investments	\$ 1,739,885	\$ 1,004,882
Taxes receivable, net	2,042,816	187,985
Due from other funds	1,465,590	102,985
Receivable from other governments	-	11,561,415
Special assessments	-	-
Investment in land	-	-
Other receivables	44,466	-
Inventories	25,164	-
Total assets	5,317,921	12,857,267
LIABILITIES		
Accounts payable	813,430	197,915
Accrued wages payable	248,416	-
Due to other funds	911,249	1,000,000
Total liabilities	1,973,095	1,197,915
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenues - taxes	290,882	187,984
Unavailable revenues - grants	-	11,561,415
Unavailable revenues - special assessments	-	-
Unavailable revenues - municipal court	41,158	-
Total deferred inflows of resources	332,040	11,749,399
FUND BALANCES		
Non-spendable	25,164	-
Restricted:		
Tourism/economic development	-	-
Grants	-	-
Law enforcement	-	-
Capital projects	-	-
Park development	-	-
Debt service	-	-
Unassigned	2,987,622	(90,047)
Total fund balances	3,012,786	(90,047)
Total liabilities, deferred inflows of resources and fund balances	\$ 5,317,921	\$ 12,857,267

CO 2014 Bond	Terrell Economic Development Corporation	Rent Supplement Section 8	Other Governmental Funds	Total Governmental Funds
\$ 6,822	\$ 1,194,800	\$ 467,123	\$ 2,907,507	\$ 7,321,019
-	-	-	130,614	2,361,415
90,000	41,888	-	1,593,626	3,294,089
-	-	-	289,542	11,850,957
-	-	-	1,274,963	1,274,963
-	1,638,899	-	-	1,638,899
-	-	1,538	-	46,004
-	-	-	-	25,164
<u>96,822</u>	<u>2,875,587</u>	<u>468,661</u>	<u>6,196,252</u>	<u>27,812,510</u>
-	-	-	500,216	1,511,561
-	-	-	-	248,416
-	<u>54,142</u>	<u>33,849</u>	<u>768,052</u>	<u>2,767,292</u>
<u>-</u>	<u>54,142</u>	<u>33,849</u>	<u>1,268,268</u>	<u>4,527,269</u>
-	-	-	125,078	603,944
-	-	-	-	11,561,415
-	-	-	1,274,963	1,274,963
-	-	-	-	41,158
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,400,041</u>	<u>13,481,480</u>
-	-	-	-	25,164
-	2,821,445	-	88,665	2,910,110
-	-	434,812	509,437	944,249
-	-	-	30,185	30,185
96,822	-	-	1,201,698	1,298,520
-	-	-	343,044	343,044
-	-	-	1,493,897	1,493,897
-	-	-	(138,983)	2,758,592
<u>96,822</u>	<u>2,821,445</u>	<u>434,812</u>	<u>3,527,943</u>	<u>9,803,761</u>
<u>\$ 96,822</u>	<u>\$ 2,875,587</u>	<u>\$ 468,661</u>	<u>\$ 6,196,252</u>	<u>\$ 27,812,510</u>

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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, 2017

Total fund balance, governmental funds	\$ 9,803,761
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.	40,896,118
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.	13,481,480
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.	1,120,970
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.	<u>(39,184,401)</u>
Net position of governmental activities in the Statement of Net Position	<u>\$ 26,117,928</u>

CITY OF TERRELL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Terrell TIRZ #1
REVENUES		
Taxes and special assessments	\$ 14,609,370	\$ 41,113
Licenses and permits	258,113	-
Hotel/motel occupancy taxes	-	-
Fees and fines	325,689	-
Intergovernmental	385,823	497,267
Charges for services	675,299	-
Investment earnings	1,322	2,837
Miscellaneous	239,771	82,268
Total revenues	<u>16,495,387</u>	<u>623,485</u>
EXPENDITURES		
Current:		
General government	6,037,141	2
Public welfare	-	-
Public safety	8,484,836	-
Highways and streets	2,532,255	1,047,876
Sanitation	636,454	-
Culture and recreation	795,542	-
Principal	347,796	-
Interest and other charges	53,281	-
Capital outlay	463,648	-
Total expenditures	<u>19,350,953</u>	<u>1,047,878</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,855,566)</u>	<u>(424,393)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	1,064,595	-
Transfers out	(421,127)	-
Total other financing sources and uses	<u>643,468</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(2,212,098)</u>	<u>(424,393)</u>
FUND BALANCES, BEGINNING	<u>5,224,884</u>	<u>334,346</u>
FUND BALANCES, ENDING	<u>\$ 3,012,786</u>	<u>\$(90,047)</u>

CO 2014 Bond	Terrell Economic Development Corporation	Rent Supplement Section 8	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,454,254	\$ -	\$ 1,489,937	\$ 18,594,674
-	-	-	-	258,113
-	-	-	370,672	370,672
-	-	-	7,470	333,159
-	-	3,258,407	532,168	4,673,665
-	11,200	-	852,965	1,539,464
2,542	1,717	100	5,412	13,930
107,913	10,412	8,672	56,240	505,276
<u>110,455</u>	<u>2,477,583</u>	<u>3,267,179</u>	<u>3,314,864</u>	<u>26,288,953</u>
 141,138	 1,197,922	 351,964	 884,801	 8,612,968
-	-	2,884,155	-	2,884,155
-	-	-	44,697	8,529,533
-	-	-	-	3,580,131
-	-	-	-	636,454
-	-	-	4,105	799,647
-	358,609	-	1,210,000	1,916,405
-	5,355	-	759,644	818,280
<u>3,524,063</u>	<u>2,000</u>	<u>-</u>	<u>2,032,312</u>	<u>6,022,023</u>
<u>3,665,201</u>	<u>1,563,886</u>	<u>3,236,119</u>	<u>4,935,559</u>	<u>33,799,596</u>
 (3,554,746)	 913,697	 31,060	 (1,620,695)	 (7,510,643)
 145,779	 -	 -	 2,646,738	 3,857,112
<u>(7)</u>	<u>(22,907)</u>	<u>-</u>	<u>(2,139,463)</u>	<u>(2,583,504)</u>
<u>145,772</u>	<u>(22,907)</u>	<u>-</u>	<u>507,275</u>	<u>1,273,608</u>
 (3,408,974)	 890,790	 31,060	 (1,113,420)	 (6,237,035)
<u>3,505,796</u>	<u>1,930,655</u>	<u>403,752</u>	<u>4,641,363</u>	<u>16,040,796</u>
 \$ 96,822	 \$ 2,821,445	 \$ 434,812	 \$ 3,527,943	 \$ 9,803,761

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CITY OF TERRELL, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds: \$(6,237,035)

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

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

4,728,449

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.

193,132

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

1,564,325

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.

(818,980)

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.

490,040

Change in net position of governmental activities

\$(80,069)

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CITY OF TERRELL, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 5,875,209	\$ 6,042,209	\$ 5,755,613	\$(286,596)
Sales and miscellaneous taxes	9,202,351	9,202,351	8,853,757	(348,594)
Fees and fines	426,000	426,000	325,689	(100,311)
Licenses and permits	225,825	225,825	258,113	32,288
Intergovernmental	480,201	480,201	385,823	(94,378)
Charges for services	766,695	658,695	675,299	16,604
Investment earnings	700	700	1,322	622
Miscellaneous	71,740	77,240	239,771	162,531
Total revenues	<u>17,048,721</u>	<u>17,113,221</u>	<u>16,495,387</u>	<u>(617,834)</u>
EXPENDITURES				
Current:				
General government	5,319,424	5,672,892	6,037,141	(364,249)
Public safety	8,376,508	8,480,909	8,484,836	(3,927)
Highways and street	2,491,653	2,840,060	2,532,255	307,805
Sanitation	547,831	574,481	636,454	(61,973)
Culture and recreation	760,900	812,358	795,542	16,816
Debt service:				
Principal	347,796	347,796	347,796	-
Interest and other charges	53,281	53,281	53,281	-
Capital outlay	220,800	366,097	463,648	(97,551)
Total expenditures	<u>18,118,193</u>	<u>19,147,874</u>	<u>19,350,953</u>	<u>(203,079)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,069,472)</u>	<u>(2,034,653)</u>	<u>(2,855,566)</u>	<u>(820,913)</u>
OTHER FINANCING SOURCES (USES)				
Gain on sale of capital assets	5,000	5,000	-	(5,000)
Transfers in	1,295,055	1,198,055	1,064,595	(133,460)
Transfers out	<u>(190,000)</u>	<u>(454,235)</u>	<u>(421,127)</u>	<u>33,108</u>
Total other financing sources and uses	<u>1,110,055</u>	<u>748,820</u>	<u>643,468</u>	<u>(105,352)</u>
NET CHANGE IN FUND BALANCES	<u>40,583</u>	<u>(1,285,833)</u>	<u>(2,212,098)</u>	<u>(926,265)</u>
FUND BALANCES, BEGINNING	<u>5,224,884</u>	<u>5,224,884</u>	<u>5,224,884</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 5,265,467</u>	<u>\$ 3,939,051</u>	<u>\$ 3,012,786</u>	<u>\$(926,265)</u>

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

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CITY OF TERRELL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business-type Activities			Governmental Activities	
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds	
ASSETS					
Current assets:					
Cash and investments	\$ 1,670,211	\$ 598,686	\$ 2,268,897	\$ 540,122	
Cash and investments - restricted	250,000	-	250,000	-	
Accounts receivable, net	1,949,465	-	1,949,465	-	
Due from other funds	517,223	534,874	1,052,097	-	
Inventories	281,128	-	281,128	-	
Total current assets	<u>4,668,027</u>	<u>1,133,560</u>	<u>5,801,587</u>	<u>540,122</u>	
Non-current assets:					
Capital assets:					
Land	729,530	347,748	1,077,278	-	
Buildings and improvements	58,383,736	19,037,079	77,420,815	-	
Construction in progress	3,851,318	720,428	4,571,746	-	
Machinery and equipment	-	765,480	765,480	4,966,925	
Less accumulated depreciation	(25,283,522)	(7,195,384)	(32,478,906)	(3,561,899)	
Total capital assets	<u>37,681,062</u>	<u>13,675,351</u>	<u>51,356,413</u>	<u>1,405,026</u>	
Total non-current assets	<u>37,681,062</u>	<u>13,675,351</u>	<u>51,356,413</u>	<u>1,405,026</u>	
Total assets	<u>42,349,089</u>	<u>14,808,911</u>	<u>57,158,000</u>	<u>1,945,148</u>	
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	25,000	-	25,000	-	
Deferred outflows - pensions	<u>531,857</u>	<u>-</u>	<u>531,857</u>	<u>54,700</u>	
Total deferred outflows of resources	<u>556,857</u>	<u>-</u>	<u>556,857</u>	<u>54,700</u>	
LIABILITIES					
Current liabilities:					
Accounts payable	391,201	9,884	401,085	194,537	
Accrued interest payable	43,076	2,804	45,880	-	
Due to other funds	1,495,425	-	1,495,425	83,469	
Due to other governments	36,398	-	36,398	-	
Other accrued expenses	53,678	-	53,678	5,874	
Compensated absences	15,871	-	15,871	10,812	
Bonds, notes and loans payable	435,000	90,000	525,000	-	
Total current liabilities	<u>2,470,649</u>	<u>102,688</u>	<u>2,573,337</u>	<u>294,692</u>	
Non-current liabilities:					
Compensated absences	63,486	-	63,486	-	
Customer deposits	409,978	-	409,978	-	
Net pension liability	1,639,130	-	1,639,130	168,580	
Bonds, notes and loans payable	6,380,000	525,000	6,905,000	401,558	
Total non-current liabilities	<u>8,492,594</u>	<u>525,000</u>	<u>9,017,594</u>	<u>570,138</u>	
Total liabilities	<u>10,963,243</u>	<u>627,688</u>	<u>11,590,931</u>	<u>864,830</u>	
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pensions	136,591	-	136,591	14,048	
Total deferred inflows of resources	<u>136,591</u>	<u>-</u>	<u>136,591</u>	<u>14,048</u>	
NET POSITION					
Net investment in capital assets	30,891,062	13,060,351	43,951,413	1,003,468	
Restricted for debt service	250,000	-	250,000	-	
Unrestricted	665,050	1,120,872	1,785,922	117,502	
Total net position	<u>\$ 31,806,112</u>	<u>\$ 14,181,223</u>	<u>\$ 45,987,335</u>	<u>\$ 1,120,970</u>	

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

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CITY OF TERRELL, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 13,959,721	\$ -	\$ 13,959,721	\$ -
Rental income	-	357,630	357,630	-
Internal service revenues	-	-	-	3,821,288
Miscellaneous	36,846	-	36,846	351,000
Total operating revenues	13,996,567	357,630	14,354,197	4,172,288
OPERATING EXPENSES				
Cost of sales and services	9,911,570	280,924	10,192,494	279,401
Administration	66,608	-	66,608	201,563
Utilities	-	-	-	785,761
Repairs and maintenance	-	-	-	71,403
Other supplies and expenses	-	-	-	288,100
Insurance claims and expenses	-	-	-	1,868,316
Depreciation	1,074,768	423,424	1,498,192	184,860
Total operating expenses	11,052,946	704,348	11,757,294	3,679,404
OPERATING INCOME (LOSS)	2,943,621	(346,718)	2,596,903	492,884
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenues	522	325	847	-
Interest and fiscal charges	(397,610)	(28,766)	(426,376)	-
Transfers in	1,364,781	114,706	1,479,487	-
Transfers out	(2,730,013)	(20,238)	(2,750,251)	(2,844)
Total non-operating revenues (expenses)	(1,762,320)	66,027	(1,696,293)	(2,844)
CHANGE IN NET POSITION	1,181,301	(280,691)	900,610	490,040
TOTAL NET POSITION, BEGINNING	30,624,811	14,461,914	45,086,725	630,930
TOTAL NET POSITION, ENDING	\$ 31,806,112	\$ 14,181,223	\$ 45,987,335	\$ 1,120,970

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, 2017

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and users	\$ 13,923,794	\$ 357,630	\$ 14,281,424	\$ 4,172,288
Cash paid for services and insurance claims	(-)	(-)	(-)	(2,651,243)
Cash paid to suppliers for goods and services	(9,728,793)	(313,046)	(10,041,839)	(852,151)
Cash paid to employees for services	<u>43,550</u>	<u>-</u>	<u>43,550</u>	<u>(276,924)</u>
Net cash provided by operating activities	<u>4,238,551</u>	<u>44,584</u>	<u>4,283,135</u>	<u>391,970</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	1,364,781	114,706	1,479,487	-
Transfers out	(2,730,013)	(20,238)	(2,750,251)	(2,844)
Cash received from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>(192,917)</u>
Net cash provided (used) for noncapital financing activities	<u>(1,365,232)</u>	<u>94,468</u>	<u>(1,270,764)</u>	<u>(195,761)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(1,585,509)	(616,528)	(2,202,037)	(231,856)
Principal paid on long-term debt	(675,000)	(85,000)	(760,000)	-
Proceeds from debt issuance	-	-	-	401,558
Interest and fiscal charges paid on debt	(404,890)	(29,706)	(434,596)	-
Net cash used for capital and related financing activities	<u>(2,665,399)</u>	<u>(731,234)</u>	<u>(3,396,633)</u>	<u>169,702</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings	<u>522</u>	<u>325</u>	<u>847</u>	<u>-</u>
Net cash provided by investing activities	<u>522</u>	<u>325</u>	<u>847</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	208,442	(591,857)	(383,415)	365,911
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,711,769</u>	<u>1,190,543</u>	<u>2,902,312</u>	<u>174,211</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,920,211</u>	<u>\$ 598,686</u>	<u>\$ 2,518,897</u>	<u>\$ 540,122</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, 2017

	Business-type			Governmental Activities Internal Service Funds
	Water and Sanitary Sewer	Airport	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 2,943,621	\$(346,718)	\$ 2,596,903	\$ 492,884
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities:				
Depreciation	1,074,768	423,424	1,498,192	184,860
Changes in assets and liabilities:				
Decrease (increase) in assets:				
Customer receivable	(95,779)	-	(95,779)	-
Other receivable	-	-	-	-
Inventories	(28,943)	-	(28,943)	-
Due from other funds	(96,216)	(16,830)	(113,046)	-
Deferred outflows - pensions	144,785	-	144,785	15,142
Increase (decrease) in liabilities:				
Accounts payable	102,860	(15,292)	87,568	(288,251)
Accrued liabilities	4,828	-	4,828	998
Compensated absences	14,120	-	14,120	(598)
Due to other funds	246,014	-	246,014	-
Due to other governments	25,670	-	25,670	-
Deferred inflows - pensions	(47,743)	-	(47,743)	(4,979)
Net pension liability	(72,440)	-	(72,440)	(8,086)
Customer deposits	23,006	-	23,006	-
Net cash provided by operating activities	<u>\$ 4,238,551</u>	<u>\$ 44,584</u>	<u>\$ 4,283,135</u>	<u>\$ 391,970</u>

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CITY OF TERRELL, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The **CO 2014 Bond Fund** is issued to account for projects being completed in compliance with the 2014 certificate of obligation issuance.

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

The 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 self-funded insurance programs.

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

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

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

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

D. Assets, Liabilities, and Net Position or Equity

Equity in Pooled Cash and Investments

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

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

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

Investments for the Entity are reported at fair value, except for the position in investment pools.

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 \$1,047,250,846 and the tax rates were \$.5835 per \$100 valuation for maintenance and operations and \$.1407 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, 2017, 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, 2017, the liability for accrued vacation leave and accrued sick leave is \$1,573,315. The amount applicable to the Enterprise Funds \$79,357 has been recorded in those funds, and the amount applicable to other funds \$1,493,958 has been recorded in the Statement of Net Assets for governmental activities.

Long-term Obligations

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

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

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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 is reporting balances for deferred losses on bond refundings in both the government-wide Statement of Net Position and the Statement of Net Position – Proprietary Funds. A deferred loss on a bond refunding results when the reacquisition price of the refunded debt exceeds the carrying value. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position 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 government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance

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

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

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

Net Assets

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

Estimates

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net 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 \$(39,184,401) difference are as follows:

General obligation bonds	\$(3,705,000)
Certificates of obligation	(16,975,000)
Deferred loss on refunding	87,763
Premium on issuance of debt	(469,173)
Interest payable	(120,614)
Notes payable	(1,218,884)
Intergovernmental payable	(5,581,408)
Developer agreement payable	(90,500)
Compensated absences	(1,484,146)
Deferred outflow related to pensions	2,503,836
Deferred inflow related to pensions	(643,033)
TMRS net pension liability	(7,716,581)
OPEB liability	<u>(3,771,661)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$(39,184,401)</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 \$4,728,449 difference are as follows:

Capital outlay	\$ 5,920,241
Depreciation expense	<u>(1,191,792)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 4,728,449</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 \$193,132 difference are as follows:

Deferred property tax revenues	\$ 180,008
Deferred court fines	11,302
Deferred special assessments	104,807
Deferred TxDOT grant revenue	(102,985)
 Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 \$ <u>193,132</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 \$1,564,325 difference are as follows:

Principal repayments	\$ 1,916,405
Intergovernmental payable	(352,080)
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 \$ <u>1,564,325</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

4. A formal budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.
5. Several budget amendments were made during the year.
6. Appropriations lapse at year-end.

B. Excess of Appropriations Over Appropriations

The City exceeded appropriations by \$364,249, \$3,927, \$61,973 and \$97,551 in the general government, public safety, sanitation functions, and capital outlay, respectively. The City was also in excess of appropriations in the General Fund by \$203,079.

C. Deficit Fund Balance/Net Position

The Terrell TIRZ #1 fund had a deficit equity balance of \$90,047. The Certificates of Obligation Tax and Revenue Series 2004 Fund had a deficit equity balance of \$16,400 as of September 30, 2017. The TCDP Grant Fund had a deficit fund balance of \$122,583 as of September 30, 2017. 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, 2017, 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.

In fiscal year 2017, the Entity adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

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, 2017, the District held the following fair value measurements:

	Fair Value Measurement Using			Percent of Total Portfolio	Weighted Average Maturity (Days)		
	9/30/2017	(Level 1)	(Level 2)				
<u>Primary government</u>							
Cash and cash equivalents							
Cash deposits - City	\$ 10,124,866	\$ -	\$ -	\$ -			
Total cash and cash equivalents	10,124,866	-	-	-			
Total cash and investments of the reporting entity							
	\$ 10,124,866	\$ -	\$ -	\$ -			

Receivables

Receivables as of year-end for the City's individual major funds and nonmajor and Internal Service Funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Rent Supplement Section 8	Terrell TIRZ #1	Nonmajor and Other	Water Utilities	Total
Receivables:						
Taxes	\$ 2,098,199	\$ -	\$ 187,985	\$ 156,753	\$ -	\$ 2,442,937
Due from other governments	-	-	11,561,415	289,542	-	11,850,957
Special assessment	-	1,538	-	1,677,582	-	1,679,120
Accounts	826,475	-	-	-	2,667,757	3,494,232
Gross receivables	2,924,674	1,538	11,749,400	2,123,877	2,667,757	19,467,246
Less: allowance for uncollectibles	(837,392)	-	-	(428,758)	(718,292)	(1,984,442)
Net total receivables	\$ 2,087,282	\$ 1,538	\$ 11,749,400	\$ 1,695,119	\$ 1,949,465	\$ 17,482,804

Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

Primary Government	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,027,903	\$ -	\$ -	\$ 1,027,903
Construction in progress	<u>9,425,004</u>	<u>5,204,339</u>	<u>(13,829,465)</u>	<u>799,878</u>
Total assets not being depreciated	<u>10,452,907</u>	<u>5,204,339</u>	<u>(13,829,465)</u>	<u>1,827,781</u>
Capital assets, being depreciated:				
Buildings	6,196,371	12,947,096	-	19,143,467
Improvements, other than buildings	1,823,085	66,210	-	1,889,295
Machinery and equipment	8,674,722	274,449	-	8,949,171
Infrastructure	<u>40,756,364</u>	<u>1,355,228</u>	<u>-</u>	<u>42,111,592</u>
Total capital assets being depreciated	<u>57,450,542</u>	<u>14,642,983</u>	<u>-</u>	<u>72,093,525</u>
Less accumulated depreciation:				
Buildings	2,620,903	340,152	-	2,961,055
Improvements, other than buildings	1,152,840	58,542	-	1,211,382
Machinery and equipment	4,787,323	517,015	-	5,304,338
Infrastructure	<u>27,591,118</u>	<u>460,943</u>	<u>-</u>	<u>28,052,061</u>
Total accumulated depreciation	<u>36,152,184</u>	<u>1,376,652</u>	<u>-</u>	<u>37,528,836</u>
Total capital assets being depreciated, net	<u>21,298,358</u>	<u>13,266,331</u>	<u>-</u>	<u>34,564,689</u>
Governmental activities capital assets, net	<u>\$ 31,751,265</u>	<u>\$ 18,470,670</u>	<u>\$ (13,829,465)</u>	<u>\$ 36,392,470</u>

Business-type Activities

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,077,278	\$ -	\$ -	\$ 1,077,278
Construction in progress	3,441,406	1,900,669	(770,329)	4,571,746
Total assets not being depreciated	<u>4,518,684</u>	<u>1,900,669</u>	<u>(770,329)</u>	<u>5,649,024</u>
Capital assets, being depreciated:				
Buildings and improvements	36,049,310	-	-	36,049,310
Machinery and equipment	41,067,788	1,069,197	-	42,136,985
Total capital assets being depreciated	<u>77,117,098</u>	<u>1,069,197</u>	<u>-</u>	<u>78,186,295</u>
Less accumulated depreciation:				
Buildings and improvements	11,847,469	1,405,686	-	13,253,155
Machinery and equipment	19,135,745	90,006	-	19,225,751
Total accumulated depreciation	<u>30,983,214</u>	<u>1,495,692</u>	<u>-</u>	<u>32,478,906</u>
Total capital assets being depreciated, net	<u>46,133,884</u>	<u>(426,495)</u>	<u>-</u>	<u>45,707,389</u>
Business-type activities capital assets, net	\$ <u>50,652,568</u>	\$ <u>1,474,174</u>	\$ <u>(770,329)</u>	\$ <u>51,356,413</u>

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

Governmental activities:		
General government		\$ 394,986
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		<u>184,860</u>
Total depreciation expense - governmental activities		<u>1,376,652</u>
Business-type activities:		
Water and sanitary sewer		1,072,268
Airport		<u>423,424</u>
Total depreciation expense - business-type activities		\$ <u>1,495,692</u>

Construction Commitments

The City has active construction projects as of September 30, 2017. The projects include street construction and expansion. At year-end, the City's commitments with contractors are as follows:

Project	Contract Amounts	Spent to Date	Estimated Remaining Commitment
FM 148 12 inch system improvements	\$ 200,000	\$ 12,200	\$ 187,800

Interfund Receivables and Payables and Transfers

The composition of interfund balances as of September 30, 2017, 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 Self insurance Equipment replacement	\$ 487,229 861,356 33,849 20,000 63,156
Water and sanitary sewer	Nonmajor governmental General fund	107,255 409,968
Airport fund	General fund Water and sanitary sewer Nonmajor governmental	22,198 466,319 46,357
Terrell TIRZ #1	General fund	102,985
Nonmajor governmental	Terrell TIRZ #1 Water and sanitary sewer Nonmajor governmental Economic development corporation Self insurance General fund	1,000,000 167,750 127,211 54,142 313 244,210
CO 2014	General fund	90,000
Economic development corporation	General fund	41,888
		\$ 4,346,186

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	Water and sanitary sewer Airport fund Nonmajor governmental General fund	\$ 1,364,781 114,706 524,295 135,681
TEDC	CO 2014	22,907
General fund	Nonmajor governmental CO 2014	298,255 122,872
CO 2014	General fund	7
Equipment replacement	General fund	2,844
Airport fund	General fund	20,238
Water and sanitary sewer	Nonmajor governmental General fund	1,824,188 905,825
		<u>\$ 5,336,599</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, 2017, is comprised of the following individual issues:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Certificates of Obligation:					
Series 2006	4.00 - 4.375%	08/15/2006	02/15/2026	\$ 1,570,000	\$ 635,000
Series 2007A	4.29%	04/15/2007	02/15/2027	2,030,000	790,000
Series 2009	3.05%	12/17/2009	02/15/2019	3,185,000	710,000
Series 2011B	2-5.125%	02/15/2011	02/15/2041	1,545,000	1,365,000
Series 2013	2.64%	10/17/2013	02/15/2024	1,635,000	1,300,000
Series 2014	2.00-5.00%	04/03/2014	02/15/2032	12,175,000	<u>12,175,000</u>
					<u>16,975,000</u>
General Obligation Bonds:					
Series 2012	1.89%	10/23/2012	02/15/2024	5,880,000	<u>3,705,000</u>
					<u>3,705,000</u>
					<u>\$ 20,680,000</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		
2018	\$ 825,000	\$ 658,876	\$ 565,000	\$ 64,685	\$ 525,000	\$ 405,817		
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		
2023-2027	4,845,000	2,353,953	725,000	13,845	1,890,000	1,370,453		
2028-2032	5,160,000	1,301,015	-	-	1,080,000	953,448		
2033-2037	2,650,000	229,215	-	-	1,145,000	621,844		
2038-2042	350,000	37,156	-	-	1,240,000	174,150		
Total	\$ 16,975,000	\$ 7,069,455	\$ 3,705,000	\$ 226,092	\$ 7,430,000	\$ 4,962,683		

Notes Payable

As of September 30, 2017, the City's notes payable consisted of the following:

The Terrell Economic Development Corporation (TEDC) entered into a note payable agreement with a local bank on September 18, 2005. As of September 30, 2017, the balance was \$256,358. The loan is secured by sales tax revenues of the Corporation and will service monthly over a 15-year period at 4.49% interest.

On September 3, 2014, the City entered into a note payable agreement with a local bank. As of September 30, 2017, the balance was \$65,731. The note has a maturity date of October 15, 2017, and is due in equal annual installments of \$66,976.

On July 30, 2015 the City entered into a \$950,000 capital lease to purchase two fire trucks. Annual payments of \$215,186 will begin on October 15, 2016 with the last payment due on October 15, 2020. Interest is paid annually at 3.95%. As of September 30, 2016, the balance was \$780,991.

On January 22, 2016, the City entered into a \$230,195 note payable with a local bank for the purchase of land from Union Pacific Railroad. Annual payments of \$118,916 will begin October 15, 2016 with the last payment due October 15, 2017. Interest is paid annually at 2.65%. As of September 30, 2017, the balance was 115,804.

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 will begin October 15, 2017 with the last payment due October 15, 2019. Interest is paid annually at 3.08%. As of September 30, 2017 the balance was \$401,558.

Future maturities and amounts paid under the notes after September 30, 2017, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 751,731	\$ 45,691
2019	324,972	32,393
2020	336,808	20,558
2021	<u>206,931</u>	<u>8,308</u>
Total	<u>\$ 1,620,442</u>	<u>\$ 106,950</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 1,450,873	\$ 334,260	\$ 290,175	\$ 1,494,958	\$ 298,776
Notes payable	1,925,289	401,558	706,405	1,620,442	751,731
Certificates of obligation	17,630,000	-	655,000	16,975,000	825,000
Intergovernmental payable	5,229,328	352,080	-	5,581,408	-
General obligation bonds	4,260,000	-	555,000	3,705,000	565,000
Bond issuance premium	496,771	-	27,598	469,173	27,598
Developer agreement payable	90,500	-	-	90,500	-
OPEB obligation	3,403,255	493,160	124,754	3,771,661	-
Net pension liability	<u>7,786,599</u>	<u>1,456,421</u>	<u>1,357,859</u>	<u>7,885,161</u>	<u>-</u>
Governmental activities long-term liabilities	<u>42,272,615</u>	<u>3,037,479</u>	<u>3,716,791</u>	<u>41,593,303</u>	<u>2,468,105</u>
Business-type activities					
Compensated absences	65,237	27,527	13,407	79,357	15,871
Certificates of obligation	8,190,000	-	760,000	7,430,000	525,000
Net pension liability	<u>1,711,570</u>	<u>209,825</u>	<u>282,265</u>	<u>1,639,130</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 9,966,807</u>	<u>\$ 237,352</u>	<u>\$ 1,055,672</u>	<u>\$ 9,148,487</u>	<u>\$ 540,871</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 \$5,581,408 as of September 30, 2017.

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, 2017, 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, 2017 and 2016, the estimated value of these liabilities was \$168,924 and \$166,090, respectively.

Employee Retirement Systems and Pension Plans

Plan Description

The City participates as one of 872 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.

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	25 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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries current receiving benefits	117
Inactive employees entitled to but not yet received benefits	51
Active employees	177
	345

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 rates for the City were 17.15% and 16.35% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$1,628,132, and were equal to the required contributions.

Net Pension Liability The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 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.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and then dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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 expenses 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 arithmetic real rates of return for each major assets class in fiscal year 2017 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%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
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 period 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 12/31/2015	\$ 50,279,455	\$ 40,781,286	\$ 9,498,169
Changes for the year:			
Service cost	1,678,902	-	1,678,902
Interest	3,388,307	-	3,388,307
Difference between expected and actual experience	(22,007)	-	(22,007)
Changes of assumptions	-	-	-
Contributions - employer	-	1,630,137	(1,630,137)
Contributions - employee	-	665,100	(665,100)
Net investment income	-	2,756,646	(2,756,646)
Benefits payments, including refunds of employee contributions	(1,843,541)	(1,843,541)	-
Administrative expense	-	(31,126)	31,126
Other change	-	(1,677)	1,677
Net changes	<u>3,201,661</u>	<u>3,175,539</u>	<u>26,122</u>
Balance at 12/31/2016	<u>\$ 53,481,116</u>	<u>\$ 43,956,825</u>	<u>\$ 9,524,291</u>

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	\$ 17,228,548	\$ 9,524,291	\$ 3,205,520

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.

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

For the year ended September 30, 2017, the City recognized pension expense of \$2,084,893. At September 30, 2017, 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	\$ -	\$ 644,838
Changes in actuarial assumptions	-	148,834
Difference between projected and actual investment earnings	1,862,924	-
Contributions subsequent to the measurement date	<u>1,227,469</u>	<u>-</u>
 Totals	 <u>\$ 3,090,393</u>	 <u>\$ 793,672</u>

\$1,227,469 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

For the Year <u>Ended September 30,</u>	
2017	\$ 402,717
2018	402,717
2019	329,121
2020	(64,703)
2021	(600)

Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 479,164
Interest on Net Pension Obligation	136,130
Adjustment to the ARC	<u>(122,134)</u>
Annual Pension Cost	493,160
Contributions Made	<u>(124,754)</u>
Increase (Decrease) in Net Pension Obligation	368,406
Net Pension Obligation/(Asset), beginning of year	<u>3,403,255</u>
 Net Pension Obligation/(Asset), ending of year	 <u>\$ 3,771,661</u>

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
09/30/15	\$ 472,708	\$ 126,912	26.8%	\$ 3,042,562
09/30/16	481,162	120,469	25.0%	3,403,255
09/30/17	493,160	124,754	25.3%	3,771,661

Funding Status and Funding Progress

As of September 30, 2017, the actuarial accrued liability for benefits was \$3,771,661, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$9,523,303 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.6%.

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

Actuarial Methods and Assumptions

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

In the September 30, 2017, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return and an annual payroll increase of 3.5%. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2017, was 30 years.

Supplemental Death Benefits Fund

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

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

Schedule of Contribution Rates

Accounting Year Ending	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed	Net Pension Obligation
09/30/15	.18%	.18%	100%	\$ -
09/30/16	.20%	.20%	100%	-
09/30/17	.19%	.19%	100%	-

Risk Management

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

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

Commitments

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

Tax Abatements

At times when alternate incentives may be preferable to a tax abatement, the City Council has the authority under Chapter 380 of the Texas Local Government Code to create a custom incentive in order to accomplish specific economic development goals. These incentives are considered on a case-by-case basis and may be considered based on: a certain number of net new jobs, relocation of a company promoting growth of targeted industries, incentives for businesses causing infill redevelopment of other desirable development objectives, and/or any other activity which the City Council determines meets a specific public purpose for economic development.

During the fiscal year ending September 30, 2017, the City rebated \$463,020 in sales taxes.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF TERRELL, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

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 CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Fiscal Year	2014	2015	2016	2017
Actuarial determined contribution	\$ 1,477,697	\$ 1,530,795	\$ 1,675,988	\$ 1,628,132
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>
Contribution deficiency (excess)	-	-	-	-
Covered employee payroll	8,411,237	8,746,456	9,707,751	9,523,303
Contributions as a percentage of covered employee payroll	17.57%	17.50%	17.26%	17.10%

NOTES TO SCHEDULE 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	25 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

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE EMPLOYEES OF CITY OF TERRELL, TEXAS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2011	\$ -	\$ 4,910,981	\$ 4,910,981	0.0%	\$ 7,813,856	62.85%
10/1/2014	-	4,591,272	4,591,272	0.0%	8,781,599	52.28%
10/1/2016	-	4,769,574	4,769,574	0.0%	9,523,303	50.08%

COMBINING STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

The ***C.O. Tax and Revenue Series 2004 Fund*** is a Capital Projects Fund used to account for construction projects funded by the Series 2004 Bond issuance.

The ***2007A Bond Fund*** is a Capital Projects Fund used to account for construction projects funded by the Series 2007 Bond issuance.

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.

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.

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 – to account for street improvement projects with grant funds.

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

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, 2017

	Tourism	Red Light Cameras	Infrastructure Improvements	Impact Fees	Park Land/Park Dedication Fees
ASSETS					
Cash and cash equivalents	\$ 76,214	\$ -	\$ -	\$ 170,218	\$ 101,943
Taxes receivable, net	-	-	-	-	-
Due from other funds	-	-	167,750	1,136,141	-
Receivable from other governments	-	-	-	-	-
Special assessments	-	-	-	-	-
 Total assets	 76,214	 -	 167,750	 1,306,359	 101,943
LIABILITIES					
Accounts payable	10,447	-	2,935	4,845	-
Due to other funds	-	-	63,808	343,493	-
 Total liabilities	 10,447	 -	 66,743	 348,338	 -
DEFERRED INFLOWS OF RESOURCES					
Taxes	-	-	-	-	-
Special Assessments	-	-	-	-	-
 Total deferred inflows of resources	 -	 -	 -	 -	 -
FUND BALANCES					
Restricted	65,767	-	101,007	958,021	101,943
Unassigned	-	-	-	-	-
 Total fund balances	 65,767	 -	 101,007	 958,021	 101,943
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 76,214	 \$ -	 \$ 167,750	 \$ 1,306,359	 \$ 101,943

CO 2011B	Grant	Courthouse	Courthouse	Certificates of Obligation Tax and Revenue Series 2004	2007A	TCDP	Pavilion
	HRA	Technology	Security		Bond	Grant	Rentals
\$ -	\$ 37,106	\$ 16,897	\$ 17,788	\$ -	\$ -	\$ 78,252	\$ 15,913
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	398
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	<u>37,106</u>	<u>16,897</u>	<u>17,788</u>	<u>-</u>	<u>-</u>	<u>78,252</u>	<u>16,311</u>
-	-	-	-	-	-	31,614	175
-	<u>5,000</u>	<u>2,250</u>	<u>2,250</u>	<u>16,400</u>	<u>-</u>	<u>169,221</u>	<u>-</u>
-	<u>5,000</u>	<u>2,250</u>	<u>2,250</u>	<u>16,400</u>	<u>-</u>	<u>200,835</u>	<u>175</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	<u>32,106</u>	<u>14,647</u>	<u>15,538</u>	<u>(16,400)</u>	<u>-</u>	<u>(122,583)</u>	<u>-</u>
-	<u>32,106</u>	<u>14,647</u>	<u>15,538</u>	<u>(16,400)</u>	<u>-</u>	<u>(122,583)</u>	<u>16,136</u>
\$ -	\$ <u>37,106</u>	\$ <u>16,897</u>	\$ <u>17,788</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>78,252</u>	\$ <u>16,311</u>

CITY OF TERRELL, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2017

	Police Federal Awards	Edward Byrne Justice Assistance Grant	CO 2013 Bond	Fire Grants	Texas Capital Grant
ASSETS					
Cash and cash equivalents	\$ 25,291	\$ 43,179	\$ 142,670	\$ 18,414	\$ 7
Taxes receivable, net	-	-	-	-	-
Due from other funds	-	-	-	7,847	-
Receivable from other governments	-	-	-	-	-
Special assessments	-	-	-	-	-
 Total assets	 25,291	 43,179	 142,670	 26,261	 7
LIABILITIES					
Accounts payable	-	-	-	-	-
Due to other funds	-	43,000	-	8,053	-
 Total liabilities	 -	 43,000	 -	 8,053	 -
DEFERRED INFLOWS OF RESOURCES					
Taxes	-	-	-	-	-
Special Assessments	-	-	-	-	-
 Total deferred inflows of resources	 -	 -	 -	 -	 -
FUND BALANCES					
Restricted	25,291	179	142,670	18,208	7
Unassigned	-	-	-	-	-
 Total fund balances	 25,291	 179	 142,670	 18,208	 7
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 25,291	 \$ 43,179	 \$ 142,670	 \$ 26,261	 \$ 7

Public Improvement District	Pedestrian Improvements Grant	Grant 721440	FEMA	Permanent Street Improvement	Debt Service	Total Governmental Funds
\$ 25,873	\$ 275,537	\$ 34	\$ 46,558	\$ 233,422	\$ 1,582,191	\$ 2,907,507
-	-	-	-	-	130,614	130,614
-	119,364	-	-	162,126	-	1,593,626
-	-	-	-	289,542	-	289,542
-	-	-	-	1,274,963	-	1,274,963
<u>25,873</u>	<u>394,901</u>	<u>34</u>	<u>46,558</u>	<u>1,960,053</u>	<u>1,712,805</u>	<u>6,196,252</u>
 - 2,975 2,975	 - - -	 - - -	 - 7,847 7,847	 449,800 10,325 460,125	 400 93,430 93,830	 500,216 768,052 1,268,268
 - - -	 - - -	 - - -	 - 1,274,963 1,274,963	 - 125,078 125,078	 - 125,078 1,400,041	 125,078 1,274,963 1,400,041
22,898 - 22,898	394,901 - 394,901	34 - 34	38,711 - 38,711	224,965 - 224,965	1,493,897 - 1,493,897	3,666,926 (138,983) 3,527,943
<u>\$ 25,873</u>	<u>\$ 394,901</u>	<u>\$ 34</u>	<u>\$ 46,558</u>	<u>\$ 1,960,053</u>	<u>\$ 1,712,805</u>	<u>\$ 6,196,252</u>

CITY OF TERRELL, TEXAS

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

**NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Tourism	Red Light Cameras	Infrastructure Improvements	Impact Fees	Park Land/Park Dedication Fees
REVENUES					
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	370,672	-	-	-	-
Fees and fines	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	626,772	216,068	500
Interest	24	-	133	271	-
Miscellaneous	-	-	-	-	-
Total revenues	370,696	-	626,905	216,339	500
EXPENDITURES					
Current:					
General government	336,877	-	223,306	55,100	-
Public welfare	-	-	-	-	-
Public safety	-	-	-	-	-
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Public works	-	-	-	-	-
Capital outlay	-	-	937,435	65,000	-
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	336,877	-	1,160,741	120,100	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	33,819	-	(533,836)	96,239	500
OTHER FINANCING SOURCES (USES)					
Transfers in					-
Transfers out	(18,200)	(45,272)	(228,378)	(86,730)	-
Total other financing sources and uses	(18,200)	(45,272)	(228,378)	(86,730)	-
NET CHANGE IN FUND BALANCES					
FUND BALANCES, BEGINNING	50,148	45,272	863,221	948,512	101,443
FUND BALANCES, ENDING	\$ 65,767	\$ -	\$ 101,007	\$ 958,021	\$ 101,943

CO 2011B	Grant HRA	Courthouse Technology	Courthouse Security	Certificates of Obligation Tax and Revenue Series 2004	2007A Bond	TCDP Grant	Pavilion Rentals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	4,269	3,201	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	9,625
514	-	-	-	-	51	141	29
-	-	-	-	-	-	-	50
<u>514</u>	<u>-</u>	<u>4,269</u>	<u>3,201</u>	<u>-</u>	<u>51</u>	<u>141</u>	<u>9,704</u>
-	-	-	-	-	-	-	6,450
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,450</u>
<u>514</u>	<u>-</u>	<u>4,269</u>	<u>3,201</u>	<u>-</u>	<u>51</u>	<u>141</u>	<u>3,254</u>
(282,391)	(80,000)	-	-	-	(23,270)	(119,364)	-
<u>(282,391)</u>	<u>(80,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,270)</u>	<u>(119,364)</u>	<u>-</u>
(281,877)	(80,000)	4,269	3,201	-	(23,219)	(119,223)	3,254
<u>281,877</u>	<u>112,106</u>	<u>10,378</u>	<u>12,337</u>	<u>(16,400)</u>	<u>23,219</u>	<u>(3,360)</u>	<u>12,882</u>
\$ <u>-</u>	\$ <u>32,106</u>	\$ <u>14,647</u>	\$ <u>15,538</u>	\$ <u>(16,400)</u>	\$ <u>-</u>	\$ <u>(122,583)</u>	\$ <u>16,136</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, 2017

	Police Federal Awards	Edward Byrne Justice Assistance Grant	CO 2013 Bond	Fire Grants	Texas Capital Grant
REVENUES					
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	-	-	-	-	-
Fees and fines	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest	18	86	353	34	-
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>18</u>	<u>86</u>	<u>353</u>	<u>34</u>	<u>-</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public welfare	-	-	-	-	-
Public safety	11,852	-	-	32,845	-
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Public works	-	-	-	-	-
Capital outlay	8,135	-	163,600	-	-
Principal	-	-	-	-	-
Interest and other charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>19,987</u>	<u>-</u>	<u>163,600</u>	<u>32,845</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(19,969)</u>	<u>86</u>	<u>(163,247)</u>	<u>(32,811)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	58,762	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,762</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(19,969)</u>	<u>86</u>	<u>(163,247)</u>	<u>25,951</u>	<u>-</u>
FUND BALANCES, BEGINNING	<u>45,260</u>	<u>93</u>	<u>305,917</u>	<u>(7,743)</u>	<u>7</u>
FUND BALANCES, ENDING	<u>\$ 25,291</u>	<u>\$ 179</u>	<u>\$ 142,670</u>	<u>\$ 18,208</u>	<u>\$ 7</u>

Public Improvement District	Pedestrian Improvements Grant	Grant 721440	FEMA	Permanent Street Improvement	Debt Service	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,489,937	\$ 1,489,937
						370,672
						7,470
	3,600	-	98,811	429,757	-	532,168
	-	-	-	-	-	852,965
3	481	-	80	-	3,194	5,412
	-	-	-	55,791	399	56,240
3	4,081	-	98,891	485,548	1,493,530	3,314,864
			256,831	6,237	-	884,801
			-	-	-	-
			-	-	-	44,697
			-	-	-	-
4,105	-	-	-	-	-	4,105
			-	-	-	-
			-	858,142	-	2,032,312
			-	-	1,210,000	1,210,000
			-	-	759,644	759,644
4,105	-	-	256,831	864,379	1,969,644	4,935,559
(4,102)	4,081	-	(157,940)	(378,831)	(476,114)	(1,620,695)
27,000	119,364	-	190,000	427,467	1,824,145	2,646,738
	-	-	(58,762)	-	(1,197,096)	(2,139,463)
27,000	119,364	-	131,238	427,467	627,049	507,275
22,898	123,445	-	(26,702)	48,636	150,935	(1,113,420)
	271,456	34	65,413	176,329	1,342,962	4,641,363
\$ 22,898	\$ 394,901	\$ 34	\$ 38,711	\$ 224,965	\$ 1,493,897	\$ 3,527,943

CITY OF TERRELL, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 540,122	\$ -	\$ 540,122
Total current assets	<u>540,122</u>	<u>-</u>	<u>540,122</u>
Non-current assets:			
Capital assets:			
Vehicles and equipment	-	4,966,925	4,966,925
Accumulated depreciation	<u>-</u>	<u>(3,561,899)</u>	<u>(3,561,899)</u>
Total non-current assets	<u>-</u>	<u>1,405,026</u>	<u>1,405,026</u>
Total assets	<u>540,122</u>	<u>1,405,026</u>	<u>1,945,148</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pensions	-	54,700	54,700
Total deferred outflows of resources	<u>-</u>	<u>54,700</u>	<u>54,700</u>
LIABILITIES			
Current liabilities:			
Accounts payable	168,924	25,613	194,537
Due to other funds	20,313	63,156	83,469
Other accrued expenses	<u>-</u>	<u>5,874</u>	<u>5,874</u>
Compensated absences	<u>-</u>	<u>10,812</u>	<u>10,812</u>
Total current liabilities	<u>189,237</u>	<u>105,455</u>	<u>294,692</u>
Non-current liabilities:			
Bonds, notes, leases and loans payable	-	401,558	401,558
Net pension liability	<u>-</u>	<u>168,580</u>	<u>168,580</u>
Total non-current liabilities	<u>-</u>	<u>570,138</u>	<u>570,138</u>
Total liabilities	<u>189,237</u>	<u>675,593</u>	<u>864,830</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pensions	-	14,048	14,048
Total deferred inflows of resources	<u>-</u>	<u>14,048</u>	<u>14,048</u>
NET POSITION			
Net investment in capital assets	<u>-</u>	<u>1,003,468</u>	<u>1,003,468</u>
Unrestricted	<u>350,885</u>	<u>(233,383)</u>	<u>117,502</u>
Total net position	<u>\$ 350,885</u>	<u>\$ 770,085</u>	<u>\$ 1,120,970</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, 2017

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
OPERATING REVENUES			
Maintenance services	\$ -	\$ 1,119,911	\$ 1,119,911
Insurance premiums	2,701,377	-	2,701,377
Miscellaneous	<u>315,777</u>	<u>35,223</u>	<u>351,000</u>
Total operating revenues	<u>3,017,154</u>	<u>1,155,134</u>	<u>4,172,288</u>
OPERATING EXPENSES			
Personnel services	-	279,401	279,401
Miscellaneous services	-	201,563	201,563
Administrative fees	785,761	-	785,761
Repairs and maintenance	-	71,403	71,403
Supplies	-	288,100	288,100
Insurance claims and expenses	1,868,316	-	1,868,316
Depreciation	<u>-</u>	<u>184,860</u>	<u>184,860</u>
Total operating expenses	<u>2,654,077</u>	<u>1,025,327</u>	<u>3,679,404</u>
OPERATING INCOME (LOSS)	363,077	129,807	492,884
NON-OPERATING REVENUES (EXPENSES)			
Transfers out	-	(2,844)	(2,844)
Total non-operating revenue (expenses)	<u>-</u>	<u>(2,844)</u>	<u>(2,844)</u>
CHANGE IN NET POSITION	363,077	126,963	490,040
TOTAL NET POSITION, BEGINNING	(12,192)	643,122	630,930
TOTAL NET POSITION, ENDING	\$ 350,885	\$ 770,085	\$ 1,120,970

CITY OF TERRELL, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and users	\$ 3,017,154	\$ 1,155,134	\$ 4,172,288
Cash paid for services and insurance claims	(2,651,243)	- (2,651,243)	(2,651,243)
Cash paid to suppliers for goods and services	- (852,151)	(852,151)	(852,151)
Cash paid to employees for services	- (276,924)	(276,924)	(276,924)
Net cash provided (used) by operating activities	<u>365,911</u>	<u>26,059</u>	<u>391,970</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	- (192,917)	(192,917)	(192,917)
Net cash used for noncapital financing activities	- (195,761)	(195,761)	(195,761)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	- (231,856)	(231,856)	(231,856)
Proceeds from capital lease	- 401,558	401,558	401,558
Net cash used for capital and related financing activities	<u>- 169,702</u>	<u>169,702</u>	<u>169,702</u>
INCREASE (DECREASE) IN CASH	365,911	-	365,911
CASH AND CASH EQUIVALENTS, BEGINNING	<u>174,211</u>	<u>-</u>	<u>174,211</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>540,122</u>	<u>-</u>	<u>540,122</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	363,077	129,807	492,884
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	- 184,860	184,860	184,860
Decrease (increase) in deferred outflows of resources	- 15,142	15,142	15,142
Increase (decrease) in accounts payable	2,834 (291,085)	(288,251)	(288,251)
Increase (decrease) in deferred inflows of resources	- (4,979)	(4,979)	(4,979)
Increase (decrease) in net pension obligation	- (8,086)	(8,086)	(8,086)
Increase (decrease) in accrued liabilities	- 998	998	998
Increase (decrease) in compensated absences	<u>- (598)</u>	<u>(598)</u>	<u>(598)</u>
Net cash provided (used) by operating activities	<u>\$ 365,911</u>	<u>\$ 26,059</u>	<u>\$ 391,970</u>

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***

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

We have audited, 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, 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, 2017, 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 28, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 28, 2018

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

To the Honorable Mayor and
Members of City Council
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, 2017. 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, 2017.

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 28, 2018

CITY OF TERRELL, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Pass-through Expenditures
<u>U. S. Department of Housing and Urban Development</u>				
Passed through Texas Department of Agriculture:				
Community Development Block Grant	14.218	7214440	\$ 3,600	\$ -
Total Passed through Texas Department of Agriculture			<u>3,600</u>	<u>-</u>
Direct Program:				
Section 8 Housing Choice Vouchers	14.871	B-07-MC-48-0042	3,258,407	- <u>3,258,407</u>
Total Direct Program				
Total U. S. Department of Housing and Urban Development			<u>3,262,007</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through Texas Department of Transportation:				
Highway Planning and Construction	20.205	0918-11-085	289,542	- <u>4,075</u>
Highway Planning and Construction	20.205	0173-10-001		
Total Passed through Texas Department of Transportation			<u>293,617</u>	<u>-</u>
Total U. S. Department of Transportation			<u>293,617</u>	<u>-</u>
<u>U. S. Department of Homeland Security</u>				
Passed through Texas Department of Emergency Management:				
Public Assistance Grant DR 4223	97.036	PA-06-TX-4223	98,811	- <u>98,811</u>
Total Passed through Texas Department of Emergency Management				
Total U. S. Department of Homeland Security			<u>98,811</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,654,435</u>	<u>\$ -</u>

CITY OF TERRELL, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES FEDERAL AWARDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

None