

# **CITY OF TERRELL, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2016**

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# **CITY OF TERRELL, TEXAS**

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## **INTRODUCTORY SECTION**

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June 27, 2017

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, 2016.

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, 2016, 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 2016 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**

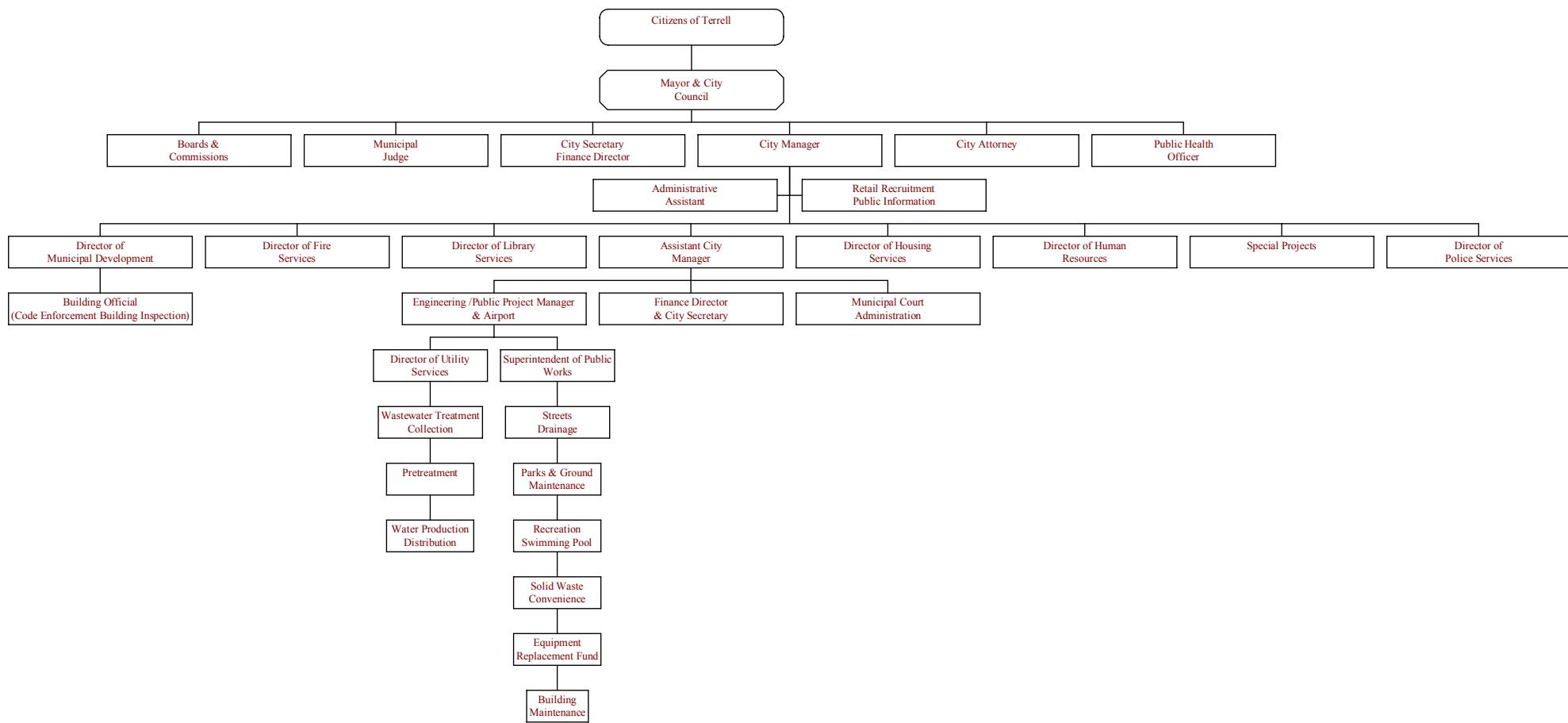
The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of all City departments. We would like to express our appreciation to all members of the City's staff who assisted and contributed to its preparation. We would also like to thank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

# City of Terrell Organizational Chart



**CITY OF TERRELL, TEXAS**

**PRINCIPAL OFFICIALS**

**SEPTEMBER 30, 2016**

**CITY OFFICIALS**

Mayor.....D.J. Ory  
Council Members.....Sandra Wilson, Mayor Pro-Tem  
Charles Whitaker, Deputy Mayor Pro-Tem  
Tommy Spencer  
Tim Royse  
City Manager .....Torry Edwards  
City Secretary.....John Rounsvall  
City Attorney .....Mary Gayle Ramsey

## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Terrell, Texas' basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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, 2016, 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 27, 2017, 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 27, 2017

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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, 2016. 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 \$71,284,722 (net position). Of this amount, \$2,345,747 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by \$3,786,089 from operations.
- As of the close of the current fiscal year, the City of Terrell's governmental funds reported combined ending fund balances of \$16,040,796, a decrease of \$5,521,136 in comparison with the prior fiscal year. Approximately 32% of this total amount, \$5,175,577, 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 \$5,199,720 or 29% of the total General Fund expenditures.
- The City's total long-term debt increased by \$1,424,063 during the current fiscal year. The City did not issue any bonds during the year. The main reason for this increase was the TMRS pension liability and the intergovernmental payable associated with various City road projects.

### **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 29 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 Permanent Street Improvement Fund, 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 24 funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary funds** – The City maintains two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water and sewer utility and airport services. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its Internal Service Funds to account for its fleet services and self-funded health insurance plan. Because these services predominantly benefit governmental rather than business-type functions, it is included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Utility, and Airport Funds since they are considered to be major funds of the City. All Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the Internal Service Funds is provided in the form of combining statements elsewhere in this report.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds and Internal Service Funds are presented following the notes to the financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of Terrell, assets and deferred outflows exceeded liabilities and deferred inflows by \$71,284,722 as of September 30, 2016.

The largest portion of the City's net position, 71% (\$50,340,506), 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 37,252,284	\$ 40,102,498	\$ 4,697,823	\$ 6,683,239	\$ 41,950,107	\$ 46,785,737
Capital assets	31,751,265	24,956,959	50,652,568	50,630,962	82,403,833	75,587,921
Total assets	<u>69,003,549</u>	<u>65,059,457</u>	<u>55,350,391</u>	<u>57,314,201</u>	<u>124,353,940</u>	<u>122,373,658</u>
Deferred outflows of resources	3,183,623	1,344,109	704,142	313,121	3,887,765	1,657,230
Long-term liabilities	42,272,615	40,343,752	9,966,807	10,471,607	52,239,422	50,815,359
Other liabilities	2,877,949	3,925,144	816,667	1,609,721	3,694,616	5,534,865
Total liabilities	<u>45,150,564</u>	<u>44,268,896</u>	<u>10,783,474</u>	<u>12,081,328</u>	<u>55,934,038</u>	<u>56,350,224</u>
Deferred inflows of resources	838,611	147,773	184,334	34,258	1,022,945	182,031
Net position:						
Net investment in capital assets	7,850,438	10,096,398	42,490,068	41,735,962	50,340,506	51,832,360
Restricted	18,126,009	16,368,672	472,460	622,041	18,598,469	16,990,713
Unrestricted	<u>221,550</u>	<u>( 4,478,173)</u>	<u>2,124,197</u>	<u>3,153,733</u>	<u>2,345,747</u>	<u>( 1,324,440)</u>
Total net position	<u>\$ 26,197,997</u>	<u>\$ 21,986,897</u>	<u>\$ 45,086,725</u>	<u>\$ 45,511,736</u>	<u>\$ 71,284,722</u>	<u>\$ 67,498,633</u>

## Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended September 30, 2016 and 2015.

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

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,814,153	\$ 2,385,028	\$ 13,603,269	\$ 12,334,212	\$ 16,417,422	\$ 14,719,240
Operating grants and contributions	4,678,097	3,542,691	-	-	4,678,097	3,542,691
Capital grants and contributions	2,495,711	6,481,283	114,172	970,703	2,609,883	7,451,986
General revenues:						
Property taxes	6,883,976	6,529,795	-	-	6,883,976	6,529,795
Franchise taxes	1,387,289	1,389,066	-	-	1,387,289	1,389,066
Sales taxes	10,101,007	8,800,173	-	-	10,101,007	8,800,173
Other taxes	450,956	395,454	-	-	450,956	395,454
Interest	65,717	22,580	1,760	9,477	67,477	32,057
Miscellaneous	195,217	245,966	-	31,165	195,217	277,131
Gain on sale of capital assets	20,451	-	-	-	20,451	-
Contributed Capital	-	-	-	-	-	-
Transfers	<u>1,867,295</u>	<u>1,113,858</u>	<u>( 1,867,295)</u>	<u>( 1,113,858)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>30,959,869</u>	<u>30,905,894</u>	<u>11,851,906</u>	<u>12,231,699</u>	<u>42,811,775</u>	<u>43,137,593</u>
<b>Expenses:</b>						
General government	9,474,121	8,687,722	-	-	9,474,121	8,687,722
Public welfare	2,868,191	2,798,996	-	-	2,868,191	2,798,996
Public safety	8,690,303	7,813,478	-	-	8,690,303	7,813,478
Highways and streets	3,484,421	8,080,099	-	-	3,484,421	8,080,099
Sanitation	583,624	548,554	-	-	583,624	548,554
Culture and recreation	804,467	671,726	-	-	804,467	671,726
Interest on long-term debt	843,642	1,034,662	-	-	843,642	1,034,662
Water and sewer	-	-	11,459,600	11,182,119	11,459,600	11,182,119
Airport	-	-	817,317	944,776	817,317	944,776
Total expenses	<u>26,748,769</u>	<u>29,635,237</u>	<u>12,276,917</u>	<u>12,126,895</u>	<u>39,025,686</u>	<u>41,762,132</u>
Change in net position	4,211,100	1,270,657	( 425,011)	104,804	3,786,089	1,375,461
Net position, beginning	21,986,897	25,109,640	45,511,736	46,655,550	67,498,633	71,765,190
Change in accounting principle	<u>-</u>	<u>( 4,393,400)</u>	<u>-</u>	<u>( 1,248,618)</u>	<u>-</u>	<u>( 5,642,018)</u>
Net position, ending	<u>\$ 26,197,997</u>	<u>\$ 21,986,897</u>	<u>\$ 45,086,725</u>	<u>\$ 45,511,736</u>	<u>\$ 71,284,722</u>	<u>\$ 67,498,633</u>

**Governmental activities.** Of the City's \$3,786,089 overall increase in net position, governmental activities net position increased by \$4,211,100. The most significant governmental expense for the City was general government, which incurred expenses of \$9,474,121. These expenses were funded by revenues collected from a variety of sources, with one of the largest being from sales taxes, which are \$10,101,007 for the fiscal year ended September 30, 2016. Other significant governmental expenses for the City include public safety, which incurred \$8,690,303 in expenses.

**Business-type activities.** Business-type activities decreased the City's net position by (\$425,011).

## **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 \$16,040,796. Approximately 32% of this total amount (\$5,175,577) 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 (\$6,439,217), (2) pay for debt service (\$1,342,962), (3) pay for tourism/economic development (\$1,980,803), (4) pay for grants (\$894,761), (5) pay for law enforcement (\$67,987), and (6) pay for park development (\$114,325).

In the General Fund, the City budgeted for a decrease in the fund balance of \$482,888. Actual revenues being less than budgeted, the actual fund balance decreased for fiscal year 2016 by (\$781,289).

### **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, \$30,624,811; and the Airport Fund, \$14,461,914. The Water and Sewer Fund's net position decreased in 2016 by (\$292,528) and the Airport's net position decreased by (\$132,483).

### **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 \$1,670,114.

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 \$909,419.

## CAPITAL ASSETS

The City of Terrell's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$82,403,833 (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:

- \$108,241 was spent to replace the roof on the Carnegie building.
- \$7,534,114 was completed on the new public safety building.
- \$727,057 was spent on street lighting improvements.
- \$1,045,577 on the Kings Creek WWTP and the Bachelor Creek Trunk line projects.

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

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,027,903	\$ 718,000	\$ 1,077,278	\$ 1,077,278	\$ 2,105,181	\$ 1,795,278
Buildings and improvements	4,245,713	4,348,484	24,201,841	24,663,369	28,447,554	29,011,853
Machinery and equipment	3,887,399	3,626,151	21,932,043	22,011,664	25,819,442	25,637,815
Infrastructure	13,165,246	13,433,334	-	-	13,165,246	13,433,334
Construction in progress	9,425,004	2,830,990	3,441,406	2,878,651	12,866,410	5,709,641
Total capital assets	\$ 31,751,265	\$ 24,956,959	\$ 50,652,568	\$ 50,630,962	\$ 82,403,833	\$ 75,587,921

## DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Terrell had a total bonded debt of \$30,080,000.

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

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 4,260,000	\$ 4,805,000	\$ -	\$ -	\$ 4,260,000	\$ 4,805,000
Certificates of obligation	17,630,000	18,270,000	8,190,000	8,925,000	25,820,000	27,195,000
	\$ 21,890,000	\$ 23,075,000	\$ 8,190,000	\$ 8,925,000	\$ 30,080,000	\$ 32,000,000

During the current fiscal year, the City's total bonded debt decreased by \$1,920,000 or 6%. This was due to the scheduled bond payments being made.

The City's bond ratings are listed below:

	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	"A1"	"AA"
Revenue Bonds	"A1"	"AA"

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

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

In the fiscal year 2016 – 2017 budget, General Fund revenues and transfers in are budgeted to increase by \$2,157,329 from the 2015 – 2016 budget year, with sales taxes making up about 47% of General Fund budgeted revenues and transfers in. Certified assessed valuations increased over the preceding year by 2.79%. The City's budget for all funds increased slightly. The City's 2016 – 2017 budget reflects the stabilization in tax valuations, a slow but sustained economic recovery with increasing commercial construction and business park development activity. The City of Terrell's favorable location continues to attract distribution firms and residential development. The Municipal Development Department indicators show an increase in building activity including renovations and remodeling, as well as new business and commercial development.

The budget for 2016 – 2017 reflects the allocations of resources necessary to continue projects and Operations at approximately the same level as last year.

### **REQUESTS FOR INFORMATION**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Office of the City Secretary/Finance Director John Rounsvall at (972) 551-6600 or email [jrounsavall@cityofterrell.org](mailto:jrounsavall@cityofterrell.org).

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF TERRELL, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 14,314,681	\$ 2,429,852	\$ 16,744,533
Receivables (net, where applicable, of allowances for uncollectibles)	2,192,738	1,853,686	4,046,424
Internal balances	310,360	( 310,360)	-
Due from other governments	11,791,394	-	11,791,394
Prepaid expenses	5,774,434	-	5,774,434
Special assessments	1,170,155	-	1,170,155
Investment in land	1,638,899	-	1,638,899
Funds in escrow	34,459	-	34,459
Inventory, at cost	25,164	252,185	277,349
Restricted cash and investments	-	472,460	472,460
Capital assets:			
Land	1,027,903	1,077,278	2,105,181
Buildings and improvements	6,196,371	76,351,618	82,547,989
Improvements other than buildings	1,823,085	-	1,823,085
Machinery and equipment	8,674,722	765,480	9,440,202
Infrastructure	40,756,364	-	40,756,364
Construction in progress	9,425,004	3,441,406	12,866,410
Less accumulated depreciation	( 36,152,184)	( 30,983,214)	( 67,135,398)
Total capital assets	<u>31,751,265</u>	<u>50,652,568</u>	<u>82,403,833</u>
Total assets	<u>69,003,549</u>	<u>55,350,391</u>	<u>124,353,940</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	105,316	27,500	132,816
Deferred outflows - pensions	<u>3,078,307</u>	<u>676,642</u>	<u>3,754,949</u>
Total deferred outflows of resources	<u>3,183,623</u>	<u>704,142</u>	<u>3,887,765</u>
<b>LIABILITIES</b>			
Accounts payable	2,508,603	313,517	2,822,120
Accrued interest payable	139,404	56,600	196,004
Other accrued liabilities	229,942	48,850	278,792
Customer deposits	-	386,972	386,972
Due to other governments	-	10,728	10,728
Long-term liabilities:			
Due within one year	2,234,168	773,047	3,007,215
Due in more than one year	<u>40,038,447</u>	<u>9,193,760</u>	<u>49,232,207</u>
Total liabilities	<u>45,150,564</u>	<u>10,783,474</u>	<u>55,934,038</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pensions	<u>838,611</u>	<u>184,334</u>	<u>1,022,945</u>
Total deferred inflows of resources	<u>838,611</u>	<u>184,334</u>	<u>1,022,945</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,850,438	42,490,068	50,340,506
Restricted for:			
Tourism/economic development	1,980,803	-	1,980,803
Grants	894,761	-	894,761
Law enforcement	67,987	-	67,987
Highway projects	6,435,072	-	6,435,072
Capital projects	7,303,456	-	7,303,456
Park development	114,325	-	114,325
Debt service	1,329,605	472,460	1,802,065
Unrestricted	<u>221,550</u>	<u>2,124,197</u>	<u>2,345,747</u>
Total net position	<u>\$ 26,197,997</u>	<u>\$ 45,086,725</u>	<u>\$ 71,284,722</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, 2016**

Functions/Programs	Expenses	Program Revenue			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 9,474,121	\$ 980,059	\$ 1,318,889	\$ -	
Public welfare	2,868,191	15,215	3,135,862	-	
Public safety	8,690,303	321,031	223,346	-	
Highways and streets	3,484,421	847,840	-	2,495,711	
Sanitation	583,624	512,268	-	-	
Culture and recreation	804,467	137,740	-	-	
Interest on long-term debt	843,642	-	-	-	
Total governmental activities	<u>26,748,769</u>	<u>2,814,153</u>	<u>4,678,097</u>	<u>2,495,711</u>	
Business-type activities:					
Water and sewer	11,459,600	13,302,703	-	-	
Airport	817,317	300,566	-	114,172	
Total business-type activities	<u>12,276,917</u>	<u>13,603,269</u>	<u>-</u>	<u>114,172</u>	
Total primary government	<u>\$ 39,025,686</u>	<u>\$ 16,417,422</u>	<u>\$ 4,678,097</u>	<u>\$ 2,609,883</u>	
<b>General revenues:</b>					
Taxes:					
Property taxes, levied for general purposes					
Property taxes, levied for debt service					
Sales taxes					
Franchise taxes					
Other taxes					
Unrestricted investment earnings					
Miscellaneous					
Gain on sale of capital assets					
Transfers					
Total general revenues and transfers					
Change in net position					
Net position - beginning					
Net position - ending					

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$(- 7,175,173)	\$ -	\$(- 7,175,173)
282,886	-	282,886
( 8,145,926)	-	( 8,145,926)
( 140,870)	-	( 140,870)
( 71,356)	-	( 71,356)
( 666,727)	-	( 666,727)
( 843,642)	-	( 843,642)
<u>( 16,760,808)</u>	<u>-</u>	<u>( 16,760,808)</u>
-	1,843,103	1,843,103
<u>-</u>	<u>( 402,579)</u>	<u>( 402,579)</u>
<u>-</u>	<u>1,440,524</u>	<u>1,440,524</u>
<u>( 16,760,808)</u>	<u>1,440,524</u>	<u>( 15,320,284)</u>
5,390,012	-	5,390,012
1,493,964	-	1,493,964
10,101,007	-	10,101,007
1,387,289	-	1,387,289
450,956	-	450,956
65,717	1,760	67,477
195,217	-	195,217
20,451	-	20,451
1,867,295	( 1,867,295)	-
<u>20,971,908</u>	<u>( 1,865,535)</u>	<u>19,106,373</u>
4,211,100	( 425,011)	3,786,089
<u>21,986,897</u>	<u>45,511,736</u>	<u>67,498,633</u>
<u>\$ 26,197,997</u>	<u>\$ 45,086,725</u>	<u>\$ 71,284,722</u>

**CITY OF TERRELL, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2016**

	<u>General</u>	<u>Permanent Street Improvement</u>
<b>ASSETS</b>		
Cash and investments	\$ 3,014,725	\$ 24,529
Taxes receivable, net	2,058,373	-
Due from other funds	1,779,496	162,126
Receivable from other governments	-	-
Special assessments	-	1,170,155
Investment in land	-	-
Other receivables	32,922	-
Inventories	<u>25,164</u>	-
Total assets	<u>6,910,680</u>	<u>1,356,810</u>
<b>LIABILITIES</b>		
Accounts payable	420,937	-
Accrued wages payable	225,066	-
Due to other funds	712,048	10,325
Deferred revenue	<u>-</u>	<u>1,170,156</u>
Total liabilities	<u>1,358,051</u>	<u>1,180,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenues - taxes	297,889	-
Unavailable revenues - grants	<u>-</u>	-
Unavailable revenues - municipal court	<u>29,856</u>	-
Total deferred inflows of resources	<u>327,745</u>	-
<b>FUND BALANCES</b>		
Non-spendable	25,164	-
Restricted:		
Tourism/economic development	-	-
Grants	-	-
Law enforcement	-	-
Capital projects	-	176,329
Park development	-	-
Debt service	-	-
Unassigned	<u>5,199,720</u>	-
Total fund balances	<u>5,224,884</u>	<u>176,329</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,910,680</u>	<u>\$ 1,356,810</u>

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

Terrell TIRZ #1	CO 2014 Bond	Terrell Economic Development Corporation	Other Governmental Funds	Total Governmental Funds
\$ 1,863,353	\$ 4,756,514	\$ 304,010	\$ 4,177,339	\$ 14,140,470
-	-	-	134,365	2,192,738
-	90,000	41,888	1,365,591	3,439,101
11,664,400	-	-	126,994	11,791,394
-	-	-	-	1,170,155
-	-	1,638,899	-	1,638,899
-	-	-	1,537	34,459
-	-	-	-	25,164
<u>13,527,753</u>	<u>4,846,514</u>	<u>1,984,797</u>	<u>5,805,826</u>	<u>34,432,380</u>
179,007	1,340,718	-	85,153	2,025,815
-	-	-	-	225,066
1,350,000	-	54,142	725,840	2,852,355
-	-	-	-	1,170,156
<u>1,529,007</u>	<u>1,340,718</u>	<u>54,142</u>	<u>810,993</u>	<u>6,273,392</u>
-	-	-	126,047	423,936
11,664,400	-	-	-	11,664,400
-	-	-	-	29,856
<u>11,664,400</u>	<u>-</u>	<u>-</u>	<u>126,047</u>	<u>12,118,192</u>
-	-	-	-	25,164
-	-	1,930,655	50,148	1,980,803
-	-	-	894,761	894,761
-	-	-	67,987	67,987
334,346	3,505,796	-	2,422,746	6,439,217
-	-	-	114,325	114,325
-	-	-	1,342,962	1,342,962
-	-	-	( 24,143)	5,175,577
<u>334,346</u>	<u>3,505,796</u>	<u>1,930,655</u>	<u>4,868,786</u>	<u>16,040,796</u>
<u>\$ 13,527,753</u>	<u>\$ 4,846,514</u>	<u>\$ 1,984,797</u>	<u>\$ 5,805,826</u>	<u>\$ 34,432,380</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, 2016**

Total fund balance, governmental funds	\$ 16,040,796
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.	36,167,669
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.	13,288,348
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.	630,930
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.	( 39,929,746)
Net position of governmental activities in the Statement of Net Position	<u>\$ 26,197,997</u>

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	General	Permanent Street Improvement
<b>REVENUES</b>		
Taxes and special assessments	\$ 14,323,748	\$ -
Licenses and permits	281,206	-
Hotel/motel occupancy taxes	-	-
Fees and fines	322,185	-
Intergovernmental	369,930	-
Charges for services	631,645	-
Investment earnings	1,493	27
Miscellaneous	229,802	-
Total revenues	<u>16,160,009</u>	<u>27</u>
<b>EXPENDITURES</b>		
Current:		
General government	6,075,072	25,680
Public welfare	-	-
Public safety	7,795,241	-
Highways and streets	2,532,427	-
Sanitation	573,181	-
Culture and recreation	698,718	-
Principal	63,100	-
Interest and other charges	7,225	-
Capital outlay	376,763	-
Total expenditures	<u>18,121,727</u>	<u>25,680</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,961,718)</u>	<u>(25,653)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from capital lease	230,195	-
Transfers in	1,290,145	-
Transfers out	<u>(339,911)</u>	<u>-</u>
Total other financing sources and uses	<u>1,180,429</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(781,289)</u>	<u>(25,653)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>6,006,173</u>	<u>201,982</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 5,224,884</u>	<u>\$ 176,329</u>

Terrell TIRZ #1	CO 2014 Bond	Terrell Economic Development Corporation	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,478,485	\$ 1,439,658	\$ 18,241,891
-	-	-	-	281,206
-	-	-	398,689	398,689
-	-	-	6,883	329,068
5,734,674	-	-	4,340,133	10,444,737
-	-	331,300	799,633	1,762,578
1,912	54,130	2,004	6,021	65,587
-	-	-	328,879	558,681
<b>5,736,586</b>	<b>54,130</b>	<b>2,811,789</b>	<b>7,319,896</b>	<b>32,082,437</b>
-	362,513	1,416,546	1,457,896	9,337,707
-	-	-	2,837,306	2,837,306
-	-	-	139,443	7,934,684
4,680,546	-	-	75,021	7,287,994
-	-	-	-	573,181
-	-	-	1,750	700,468
-	-	354,778	1,185,000	1,602,878
-	-	28,823	790,073	826,121
-	7,171,602	-	1,052,699	8,601,064
<b>4,680,546</b>	<b>7,534,115</b>	<b>1,800,147</b>	<b>7,539,188</b>	<b>39,701,403</b>
1,056,040	( 7,479,985)	1,011,642	( 219,292)	( 7,618,966)
-	-	-	-	230,195
174,867	134,000	-	2,614,498	4,213,510
-	-	( 244,179)	( 1,761,785)	( 2,345,875)
<b>174,867</b>	<b>134,000</b>	<b>( 244,179)</b>	<b>852,713</b>	<b>2,097,830</b>
1,230,907	( 7,345,985)	767,463	633,421	( 5,521,136)
<b>( 896,561)</b>	<b>10,851,781</b>	<b>1,163,192</b>	<b>4,235,365</b>	<b>21,561,932</b>
\$ 334,346	\$ 3,505,796	\$ 1,930,655	\$ 4,868,786	\$ 16,040,796

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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, 2016**

Net change in fund balances - total governmental funds:	\$( 5,521,136)
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.	12,177,566
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	( 1,477,514)
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.	( 160,247)
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.	( 521,534)
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment maintenance and self-insurance, to individual funds. The net revenue (expense) of certain Internal Service Funds is reported with governmental activities.	<u>( 286,035)</u>
Change in net position of governmental activities	<u>\$ 4,211,100</u>

**CITY OF TERRELL, TEXAS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 5,709,345	\$ 5,872,326	\$ 5,261,670	\$( 610,656)
Sales and miscellaneous taxes	8,119,954	9,227,454	9,062,078	( 165,376)
Fees and fines	386,000	386,000	322,185	( 63,815)
Licenses and permits	216,300	302,300	281,206	( 21,094)
Intergovernmental	416,203	416,203	369,930	( 46,273)
Charges for services	626,950	671,950	631,645	( 40,305)
Investment earnings	6,500	6,500	1,493	( 5,007)
Miscellaneous	<u>182,130</u>	<u>186,695</u>	<u>229,802</u>	<u>43,107</u>
Total revenues	<u>15,663,382</u>	<u>17,069,428</u>	<u>16,160,009</u>	<u>( 909,419)</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,998,355	5,736,980	6,075,072	( 338,092)
Public safety	7,942,316	8,165,556	7,795,241	370,315
Highways and street	2,230,505	2,535,381	2,532,427	2,954
Sanitation	555,369	573,894	573,181	713
Culture and recreation	699,825	760,620	698,718	61,902
Debt service:				
Principal	230,938	230,938	63,100	167,838
Interest and other charges	51,347	51,347	7,225	44,122
Capital outlay	<u>52,919</u>	<u>376,972</u>	<u>376,763</u>	<u>209</u>
Total expenditures	<u>16,761,574</u>	<u>18,431,688</u>	<u>18,121,727</u>	<u>309,961</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 1,098,192)</u>	<u>( 1,362,260)</u>	<u>( 1,961,718)</u>	<u>( 599,458)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital lease	-	-	230,195	230,195
Transfers in	1,203,264	1,396,610	1,290,145	( 106,465)
Transfers out	-	<u>( 517,238)</u>	<u>( 339,911)</u>	<u>177,327</u>
Total other financing sources and uses	<u>1,203,264</u>	<u>879,372</u>	<u>1,180,429</u>	<u>301,057</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>105,072</b>	<b>( 482,888)</b>	<b>( 781,289)</b>	<b>( 298,401)</b>
<b>FUND BALANCES, BEGINNING</b>	<b><u>6,006,173</u></b>	<b><u>6,006,173</u></b>	<b><u>6,006,173</u></b>	<b><u>-</u></b>
<b>FUND BALANCES, ENDING</b>	<b><u>\$ 6,111,245</u></b>	<b><u>\$ 5,523,285</u></b>	<b><u>\$ 5,224,884</u></b>	<b><u><u>\$ ( 298,401)</u></u></b>

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

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF NET POSITION**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2016**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 1,239,309	\$ 1,190,543	\$ 2,429,852	\$ 174,211
Cash and investments - restricted	472,460	-	472,460	-
Accounts receivable, net	1,853,686	-	1,853,686	-
Due from other funds	421,007	518,044	939,051	-
Inventories	252,185	-	252,185	-
Total current assets	<u>4,238,647</u>	<u>1,708,587</u>	<u>5,947,234</u>	<u>174,211</u>
Non-current assets:				
Capital assets:				
Land	729,530	347,748	1,077,278	-
Buildings and improvements	57,314,539	19,037,079	76,351,618	-
Construction in progress	3,337,506	103,900	3,441,406	-
Machinery and equipment	-	765,480	765,480	4,735,069
Less accumulated depreciation	( 24,211,254)	( 6,771,960)	( 30,983,214)	( 3,377,039)
Total capital assets	<u>37,170,321</u>	<u>13,482,247</u>	<u>50,652,568</u>	<u>1,358,030</u>
Total non-current assets	<u>37,170,321</u>	<u>13,482,247</u>	<u>50,652,568</u>	<u>1,358,030</u>
Total assets	<u>41,408,968</u>	<u>15,190,834</u>	<u>56,599,802</u>	<u>1,532,241</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	27,500	-	27,500	-
Deferred outflows - pensions	676,642	-	676,642	69,842
Total deferred outflows of resources	<u>704,142</u>	<u>-</u>	<u>704,142</u>	<u>69,842</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	288,341	25,176	313,517	482,788
Accrued interest payable	52,856	3,744	56,600	-
Due to other funds	1,249,411	-	1,249,411	276,386
Due to other governments	10,728	-	10,728	-
Other accrued expenses	48,850	-	48,850	4,876
Compensated absences	13,047	-	13,047	11,410
Bonds, notes and loans payable	610,000	150,000	760,000	-
Total current liabilities	<u>2,273,233</u>	<u>178,920</u>	<u>2,452,153</u>	<u>775,460</u>
Non-current liabilities:				
Compensated absences	52,190	-	52,190	-
Customer deposits	386,972	-	386,972	-
Net pension liability	1,711,570	-	1,711,570	176,666
Bonds, notes and loans payable	6,880,000	550,000	7,430,000	-
Total non-current liabilities	<u>9,030,732</u>	<u>550,000</u>	<u>9,580,732</u>	<u>176,666</u>
Total liabilities	<u>11,303,965</u>	<u>728,920</u>	<u>12,032,885</u>	<u>952,126</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pensions	184,334	-	184,334	19,027
Total deferred inflows of resources	<u>184,334</u>	<u>-</u>	<u>184,334</u>	<u>19,027</u>
<b>NET POSITION</b>				
Net investment in capital assets	29,707,821	12,782,247	42,490,068	1,358,030
Restricted for debt service	472,460	-	472,460	-
Unrestricted	444,530	1,679,667	2,124,197	( 727,100)
Total net position	<u>\$ 30,624,811</u>	<u>\$ 14,461,914</u>	<u>\$ 45,086,725</u>	<u>\$ 630,930</u>

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

**CITY OF TERRELL, TEXAS**

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

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 13,302,703	\$ -	\$ 13,302,703	\$ -
Rental income	-	300,566	300,566	-
Internal service revenues	-	-	-	2,985,049
Miscellaneous	-	-	-	401,086
Total operating revenues	<u>13,302,703</u>	<u>300,566</u>	<u>13,603,269</u>	<u>3,386,135</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and services	9,883,512	358,796	10,242,308	379,281
Administration	58,955	-	58,955	247,463
Utilities	-	-	-	807,030
Repairs and maintenance	-	-	-	127,709
Other supplies and expenses	-	-	-	255,361
Insurance claims and expenses	-	-	-	1,713,203
Depreciation	<u>1,081,338</u>	<u>425,245</u>	<u>1,506,583</u>	<u>162,364</u>
Total operating expenses	<u>11,023,805</u>	<u>784,041</u>	<u>11,807,846</u>	<u>3,692,411</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,278,898</u>	<u>( 483,475)</u>	<u>1,795,423</u>	<u>( 306,276)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenues	1,407	353	1,760	130
Capital grants	-	114,172	114,172	-
Interest and fiscal charges	( 435,795)	( 33,276)	( 469,071)	-
Gain on disposal of assets	-	-	-	20,451
Transfers in	1,099,203	289,981	1,389,184	29,986
Transfers out	( 3,236,241)	( 20,238)	( 3,256,479)	( 30,326)
Total non-operating revenues (expenses)	<u>( 2,571,426)</u>	<u>350,992</u>	<u>( 2,220,434)</u>	<u>20,241</u>
<b>CHANGE IN NET POSITION</b>	<u>( 292,528)</u>	<u>( 132,483)</u>	<u>( 425,011)</u>	<u>( 286,035)</u>
<b>TOTAL NET POSITION, BEGINNING</b>	<u>30,917,339</u>	<u>14,594,397</u>	<u>45,511,736</u>	<u>916,965</u>
<b>TOTAL NET POSITION, ENDING</b>	<u>\$ 30,624,811</u>	<u>\$ 14,461,914</u>	<u>\$ 45,086,725</u>	<u>\$ 630,930</u>

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

**CITY OF TERRELL, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Business-type Activities			Governmental Activities
	Water and Sanitary Sewer	Airport	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers and users	\$ 13,366,553	\$ 300,566	\$ 13,667,119	\$ 3,386,135
Cash paid for services and insurance claims	-	-	-	( 2,466,108)
Cash paid to suppliers for goods and services	( 10,878,248)	( 583,455)	( 11,461,703)	( 342,346)
Cash paid to employees for services	( 91,251)	-	( 91,251)	( 261,126)
Net cash provided by operating activities	<u>2,397,054</u>	<u>( 282,889)</u>	<u>2,114,165</u>	<u>316,555</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	1,099,203	289,981	1,389,184	-
Transfers out	( 3,236,241)	( 20,238)	( 3,256,479)	( 340)
Cash received from other funds	-	-	-	116,441
Net cash provided (used) for noncapital financing activities	<u>( 2,137,038)</u>	<u>269,743</u>	<u>( 1,867,295)</u>	<u>116,101</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	( 1,425,214)	( 102,975)	( 1,528,189)	( 553,538)
Principal paid on long-term debt	( 650,000)	( 85,000)	( 735,000)	-
Capital contributions	-	114,172	114,172	-
Interest and fiscal charges paid on debt	( 437,535)	( 33,276)	( 470,811)	20,451
Net cash used for capital and related financing activities	<u>( 2,512,749)</u>	<u>( 107,079)</u>	<u>( 2,619,828)</u>	<u>( 533,087)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment earnings	<u>1,407</u>	<u>353</u>	<u>1,760</u>	<u>130</u>
Net cash provided by investing activities	<u>1,407</u>	<u>353</u>	<u>1,760</u>	<u>130</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
	( 2,251,326)	( 119,872)	( 2,371,198)	( 100,301)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>3,963,095</u>	<u>1,310,415</u>	<u>5,273,510</u>	<u>274,512</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 1,711,769</u>	<u>\$ 1,190,543</u>	<u>\$ 2,902,312</u>	<u>\$ 174,211</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, 2016**

	Business-type			Governmental	
	Water and Sanitary Sewer	Airport	Total	Activities	Internal Service Funds
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 2,278,898	\$( 483,475)	\$ 1,795,423	\$( 306,276)	
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,081,338	425,245	1,506,583		162,364
Changes in assets and liabilities:					
Decrease (increase) in assets:					
Customer receivable	39,062	-	39,062		-
Other receivable	-	46,357	46,357		-
Inventories	( 33,647)	-	( 33,647)		-
Due from other funds	( 297,412)	( 256,643)	( 554,055)		-
Deferred outflows - pensions	( 393,521)	-	( 393,521)		( 69,842)
Increase (decrease) in liabilities:					
Accounts payable	( 731,951)	( 14,373)	( 746,324)		321,999
Accrued liabilities	( 78,006)	-	( 78,006)		( 7,818)
Compensated absences	( 2,292)	-	( 2,292)		122
Due to other funds	116,501	-	116,501		20,313
Due to other governments	10,728	-	10,728		-
Deferred inflows - pensions	150,076	-	150,076		19,027
Net pension liability	232,492	-	232,492		176,666
Customer deposits	24,788	-	24,788		-
Net cash provided by operating activities	<u>\$ 2,397,054</u>	<u>\$( 282,889)</u>	<u>\$ 2,114,165</u>	<u>\$ 316,555</u>	

## **CITY OF TERRELL, TEXAS**

### **NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

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

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

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

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

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

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

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

The government-wide financial statements (i.e., the statement of net 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 **Permanent Street Improvement Fund** is a Capital Projects Fund used to account for various street improvements.

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

The **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 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. The Entity's investment in pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

##### **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 \$1,286,863,728 and the tax rates were \$.5492 per \$100 valuation for maintenance and operations and \$.1450 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, 2016, 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, 2016, the liability for accrued vacation leave and accrued sick leave is \$1,516,110. The amount applicable to the Enterprise Funds \$65,237 has been recorded in those funds, and the amount applicable to other funds \$1,450,873 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 \$(39,929,746) difference are as follows:

General obligation bonds	\$ ( 4,260,000)
Certificates of obligation	( 17,630,000)
Deferred loss on refunding	35,474
Premium on issuance of debt	( 496,771)
Interest payable	( 139,404)
Notes payable	( 1,925,289)
Intergovernmental payable	( 5,229,328)
Developer agreement payable	( 90,500)
Compensated absences	( 1,439,463)
Deferred outflow related to pensions	3,078,307
Deferred inflow related to pensions	( 819,584)
TMRS net pension liability	( 7,609,933)
OPEB liability	( 3,403,255)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ ( 39,929,746)

### 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 \$12,177,566 difference are as follows:

Capital outlay	\$ 13,712,563
Depreciation expense	( 1,534,997)
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>	\$ 12,177,566

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 \$(1,477,514) difference are as follows:

Deferred property tax revenues	\$ 182,648
Deferred court fines	( 3,981)
Deferred special assessments	53,257
Deferred revenue - Intergovernmental	( 2,364,983)
Deferred TxDOT grant revenue	<u>655,545</u>
 Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$( 1,477,514)</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 \$(160,247) difference are as follows:

Principal repayments	\$ 1,602,878
Notes payable issued	( 230,195)
Intergovernmental payable	<u>( 1,532,930)</u>
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$( 160,247)</u>

### **3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **A. Budgetary Information**

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

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

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

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

The Insurance fund had a deficit equity balance of \$11,566 as of September 30, 2016. The Certificates of Obligation Tax and Revenue Series 2004 Fund had a deficit equity balance of \$16,400 as of September 30, 2016. The TCDP Grant Fund had a deficit fund balance of \$3,360 as of September 30, 2016. The Fire Grants Fund had a deficit fund balance of \$7,743 as of September 30, 2016. 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, 2016, 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 2016, 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 August 31, 2016, the District held the following fair value measurements:

	<b>Fair Value Measurement Using</b>			Percent of Total Portfolio	Weighted Average Maturity (Days)		
	9/30/2016	(Level 1)	(Level 2)				
<b>Primary government</b>							
<b>Cash and cash equivalents</b>							
Cash deposits - City	\$ 16,744,533	\$ -	\$ -	\$ -			
<b>Total cash and cash equivalents</b>	<b>16,744,533</b>	<b>-</b>	<b>-</b>	<b>-</b>			
<b>Total cash and investments of the reporting entity</b>							
	\$ 16,744,533	\$ -	\$ -	\$ -			

## **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:

	Permanent					Total
	General	Street Improvement	Terrell TIRZ #1	Nonmajor and Other	Water Utilities	
<b>Receivables:</b>						
Taxes	\$ 2,116,502	\$ -	\$ -	\$ 158,076	\$ -	\$ 2,274,578
Due from other governments	-	-	11,664,400	126,994	-	11,791,394
Special assessment	-	1,569,513	-	-	-	1,569,513
Accounts	600,191	-	-	1,537	2,517,168	3,118,896
Gross receivables	2,716,693	1,569,513	11,664,400	286,607	2,517,168	18,754,381
Less: allowance for uncollectibles	( 625,398)	( 399,358)	-	( 23,711)	( 663,482)	( 1,711,949)
Net total receivables	<u>\$ 2,091,295</u>	<u>\$ 1,170,155</u>	<u>\$ 11,664,400</u>	<u>\$ 262,896</u>	<u>\$ 1,853,686</u>	<u>\$ 17,042,432</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Street improvement assessments \$ 1,170,155

Total \$ 1,170,155

## Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

### **Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 718,000	\$ 309,903	\$ -	\$ 1,027,903
Construction in progress	2,830,990	6,640,916	( 46,902)	9,425,004
Total assets not being depreciated	<u>3,548,990</u>	<u>6,950,819</u>	<u>( 46,902)</u>	<u>10,452,907</u>
Capital assets, being depreciated:				
Buildings	6,088,130	108,241	-	6,196,371
Improvements, other than building	1,823,085	-	-	1,823,085
Machinery and equipment	8,087,095	764,461	( 176,834)	8,674,722
Infrastructure	40,019,680	736,684	-	40,756,364
Total capital assets being depreciate	<u>56,017,990</u>	<u>1,609,386</u>	<u>( 176,834)</u>	<u>57,450,542</u>
Less accumulated depreciation:				
Buildings	2,468,442	152,461	-	2,620,903
Improvements, other than building	1,094,289	58,551	-	1,152,840
Machinery and equipment	4,460,944	481,577	( 155,198)	4,787,323
Infrastructure	26,586,346	1,004,772	-	27,591,118
Total accumulated depreciation	<u>34,610,021</u>	<u>1,697,361</u>	<u>( 155,198)</u>	<u>36,152,184</u>
Total capital assets being depreciated, net	<u>21,407,969</u>	<u>( 87,975)</u>	<u>( 21,636)</u>	<u>21,298,358</u>
Governmental activities capital assets, net	<u>\$ 24,956,959</u>	<u>\$ 6,862,844</u>	<u>\$ ( 68,538)</u>	<u>\$ 31,751,265</u>

### Business-type Activities

Capital assets, not being depreciated:				
Land	\$ 1,077,278	\$ -	\$ -	\$ 1,077,278
Construction in progress	<u>2,878,651</u>	<u>1,737,958</u>	<u>( 1,175,203)</u>	<u>3,441,406</u>
Total assets not being depreciated	<u>3,955,929</u>	<u>1,737,958</u>	<u>( 1,175,203)</u>	<u>4,518,684</u>
Capital assets, being depreciated:				
Buildings and improvements	35,096,762	952,548	-	36,049,310
Machinery and equipment	<u>41,057,402</u>	<u>10,386</u>	<u>-</u>	<u>41,067,788</u>
Total capital assets being depreciate	<u>76,154,164</u>	<u>962,934</u>	<u>-</u>	<u>77,117,098</u>
Less accumulated depreciation:				
Buildings and improvements	10,433,392	1,414,077	-	11,847,469
Machinery and equipment	<u>19,045,739</u>	<u>90,006</u>	<u>-</u>	<u>19,135,745</u>
Total accumulated depreciation	<u>29,479,131</u>	<u>1,504,083</u>	<u>-</u>	<u>30,983,214</u>
Total capital assets being depreciated, net	<u>46,675,033</u>	<u>( 541,149)</u>	<u>-</u>	<u>46,133,884</u>
Business-type activities capital assets, net	\$ <u>50,630,962</u>	\$ <u>1,196,809</u>	\$ <u>( 1,175,203)</u>	\$ <u>50,652,568</u>

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

Governmental activities:		
General government		\$ 314,832
Public safety		342,529
Highways and streets		797,104
Culture and recreation		80,532
Capital assets held by the City's internal service funds are charged to the various functions based on their usage		<u>162,364</u>
Total depreciation expense - governmental activities		<u>1,697,361</u>
Business-type activities:		
Water and sanitary sewer		1,078,838
Airport		<u>425,245</u>
Total depreciation expense - business-type activities		\$ <u>1,504,083</u>

### Construction Commitments

The City has active construction projects as of September 30, 2016. 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
Spur 557 and ramps	\$ 12,856,947	\$ 12,850,552	\$ 6,395
Police facility	12,852,460	9,225,576	3,626,884

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

The composition of interfund balances as of September 30, 2016, is as follows:

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

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental	\$ 463,189
	Water and sanitary sewer	690,234
	Insurance	20,000
	Terrell TIRZ #1	350,000
	Equipment replacement	256,073
Water and sanitary sewer	Nonmajor governmental	96,930
	Permanent street improvement	10,325
	General fund	313,752
Airport fund	Water and sanitary sewer	449,489
	General fund	22,198
	Nonmajor governmental	46,357
Permanent street improvement	General fund	107,984
	Economic development corporation	54,142
Nonmajor governmental	Water and sanitary sewer	109,688
	Terrell TIRZ #1	1,000,000
	Nonmajor governmental	119,364
	Insurance	313
	General fund	136,226
CO 2014	General fund	90,000
Economic development corporation	General fund	<u>41,888</u>
		\$ <u>4,378,152</u>

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

## Interfund transfers:

Transfers out	Transfers in	Amount
Nonmajor governmental	General fund Water and sewer fund CO 2014 Nonmajor governmental Airport	\$ 224,174 1,090,035 134,000 195,300 118,276
General fund	Nonmajor governmental Terrell TIRZ #1 Airport Water and sewer fund Equipment replacement fund	129,052 171,705 9,168 29,986
Economic development corporation	Nonmajor governmental Terrell TIRZ #1	198,364 45,815
Equipment replacement fund	General fund	30,326
Airport fund	General fund	20,238
Water and sewer fund	General fund Nonmajor governmental	1,015,407 2,220,834
		\$ <u>5,632,680</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, 2016, is comprised of the following individual issues:

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
<b>Certificates of Obligation:</b>					
Series 2006	4.00 - 4.375%	08/15/2006	02/15/2026	\$ 1,570,000	\$ 690,000
Series 2007A	4.29%	04/15/2007	02/15/2027	2,030,000	850,000
Series 2009	3.05%	12/17/2009	02/15/2019	3,185,000	1,050,000
Series 2011B	2-5.125%	02/15/2011	02/15/2041	1,545,000	1,395,000
Series 2013	2.64%	10/17/2013	02/15/2024	1,635,000	1,470,000
Series 2014	2.00-5.00%	04/03/2014	02/15/2032	12,175,000	<u>12,175,000</u> <u>17,630,000</u>
<b>General Obligation Bonds:</b>					
Series 2012	1.89%	10/23/2012	02/15/2024	5,880,000	<u>4,260,000</u> <u>4,260,000</u> <u>\$ 21,890,000</u>

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

Year Ending September 30,	Certificates of Obligation Tax Supported				Certificates of Obligation Revenue Supported			
	General Obligation Bonds		General Obligation Bonds		Revenue Supported		Revenue Supported	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 655,000	\$ 681,326	\$ 555,000	\$ 75,269	\$ 760,000	436,296		
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		
2022-2026	4,635,000	2,518,859	1,350,000	33,454	1,910,000	1,464,884		
2027-2031	5,015,000	1,541,703	-	-	1,290,000	1,023,241		
2032-2036	3,705,000	365,190	-	-	1,070,000	696,600		
2037-2041	430,000	57,144	-	-	1,500,000	266,625		
Total	\$ 17,630,000	\$ 7,750,781	\$ 4,260,000	\$ 301,361	\$ 8,190,000	\$ 5,398,979		

## Notes Payable

As of September 30, 2016, 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, 2016, the balance was \$614,967. 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, 2016, the balance was \$130,127. 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 \$950,000

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, 2016, the balance was \$230,195.

Future maturities and amounts paid under the notes after September 30, 2016, are as follows:

Year Ending September 30,	Principal	Interest
2017	\$ 706,395	\$ 57,560
2018	621,811	36,606
2019	191,273	23,912
2020	198,933	16,252
2021	206,877	8,308
Total	\$ 1,925,289	\$ 142,638

## Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Compensated absences	\$ 1,421,953	\$ 313,311	\$ 284,391	\$ 1,450,873	\$ 290,175
Notes payable	2,112,972	230,195	417,878	1,925,289	706,395
Certificates of obligation	18,270,000	-	640,000	17,630,000	655,000
Intergovernmental payable	3,696,398	1,532,930	-	5,229,328	-
General obligation bonds	4,805,000	-	545,000	4,260,000	555,000
Bond issuance premium	524,370	-	27,599	496,771	27,598
Developer agreement payable	90,500	-	-	90,500	-
OPEB obligation	3,042,562	481,162	120,469	3,403,255	-
Net pension liability	<u>6,379,997</u>	<u>2,679,820</u>	<u>1,273,218</u>	<u>7,786,599</u>	<u>-</u>
Governmental activities long-term liabilities	<u>40,343,752</u>	<u>5,237,418</u>	<u>3,308,555</u>	<u>42,272,615</u>	<u>2,234,168</u>
<b>Business-type activities</b>					
Compensated absences	67,529	11,214	13,506	65,237	13,047
Certificates of obligation	8,925,000	-	735,000	8,190,000	760,000
Net pension liability	<u>1,479,098</u>	<u>512,357</u>	<u>279,885</u>	<u>1,711,570</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 10,471,627</u>	<u>\$ 523,571</u>	<u>\$ 1,028,391</u>	<u>\$ 9,966,807</u>	<u>\$ 773,047</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 \$5,229,328 as of September 30, 2016.

## 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, 2016, 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, 2016 and 2015, the estimated value of these liabilities was \$166,090 and \$132,278, respectively.

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

#### **Plan Description**

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.org](http://www.tmrs.org).

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

#### **Benefits Provided**

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

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

The City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which 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, the City provides 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	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating

#### Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries current receiving benefits	113
Inactive employees entitled to but not yet received benefits	47
Active employees	168
	<hr/>
	328

#### **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 17.59% and 17.35% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$1,675,988, and were equal to the required contributions.

**Net Pension Liability** The City's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 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, 2015 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. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate on pension plan investments from 7% to 6.75%. 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 is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 target allocation and best estimates of arithmetic real rates return for each major assets class 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%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
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 12/31/2014	\$ 48,464,501	\$ 40,605,427	\$ 7,859,074
Changes for the year:			
Service cost	1,550,353	-	1,550,353
Interest	3,375,957	-	3,375,957
Difference between expected and actual experience	( 848,603)	-	( 848,603)
Changes of assumptions	( 239,310)	-	( 239,310)
Contributions - employer	-	1,553,257	( 1,553,257)
Contributions - employee	-	624,423	( 624,423)
Net investment income	-	59,920	( 59,920)
Benefits payments, including refunds of employee contributions	( 2,023,443)	( 2,023,443)	-
Administrative expense	-	( 36,495)	36,495
Other change	-	( 1,803)	1,803
Net changes	<u>1,814,954</u>	<u>175,859</u>	<u>1,639,095</u>
Balance at 12/31/2015	\$ <u>50,279,455</u>	\$ <u>40,781,286</u>	\$ <u>9,498,169</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 (6.0%)	Discount Rate (7.0%)	1% Increase in in Discount Rate (8.0%)
City's net pension liability	\$ 16,837,294	\$ 9,498,169	\$ 3,487,760

## Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$1,905,587. At September 30, 2016, 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	\$ -	\$ 828,873
Changes in actuarial assumptions	- -	194,072
Difference between projected and actual investment earnings	2,520,831	-
Contributions subsequent to the measurement date	<u>1,234,118</u>	-
 Totals	 <u>\$ 3,754,949</u>	 <u>\$ 1,022,945</u>

\$1,234,118 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  
Ended September 30,

2017	\$ 407,781
2018	407,781
2019	407,781
2020	334,183
2021	( 59,640)

## 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)	\$ 468,650
Interest on Net Pension Obligation	121,702
Adjustment to the ARC	<u>( 109,190)</u>
Annual Pension Cost	481,162
Contributions Made	<u>( 120,469)</u>
Increase (Decrease) in Net Pension Obligation	360,693
Net Pension Obligation/(Asset), beginning of year	<u>3,042,562</u>
 Net Pension Obligation/(Asset), ending of year	 <u>\$ 3,403,255</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
09/30/14	\$ 569,587	\$ 80,617	14.2%	\$ 2,696,766
09/30/15	472,708	126,912	26.8%	3,042,562
09/30/16	472,708	120,469	25.5%	3,403,255

## **Funding Status and Funding Progress**

As of September 30, 2016, the actuarial accrued liability for benefits was \$3,403,255, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$9,707,751 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 35.1%.

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

## **Actuarial Methods and Assumptions**

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

In the September 30, 2016, 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, 2016, 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
09/30/14	.18%	.18%	100%	\$ -
09/30/15	.18%	.18%	100%	-
09/30/16	.20%	.20%	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.

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**CITY OF TERRELL, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Plan Year	<u>2014</u>	<u>2015</u>
<b>A. Total pension liability</b>		
Service cost	\$ 1,424,738	\$ 1,550,353
Interest (on the Total Pension Liability)	3,206,624	3,375,957
Difference between expected and actual experience	( 223,375)	( 848,603)
Change of assumptions	- -	( 239,310)
Benefit payments, including refunds of employee contributions	<u>( 2,080,054)</u>	<u>( 2,023,443)</u>
Net change in total pension liability	2,327,933	1,814,954
Total pension liability - beginning	<u>46,136,568</u>	<u>48,464,501</u>
Total pension liability - ending (a)	<u>\$ 48,464,501</u>	<u>\$ 50,279,455</u>
<b>B. Plan fiduciary net position</b>		
Contributions - employer	\$ 1,499,857	\$ 1,553,257
Contributions - employee	592,009	624,423
Net investment income	2,197,994	59,920
Benefit payments, including refunds of employee contributions	( 2,080,054)	( 2,023,443)
Administrative expenses	( 22,947)	( 36,495)
Other	<u>( 1,887)</u>	<u>( 1,803)</u>
Net change in plan fiduciary net position	2,184,972	175,859
Plan fiduciary net position - beginning	<u>38,420,455</u>	<u>40,605,427</u>
Plan fiduciary net position - ending (b)	<u>\$ 40,605,427</u>	<u>\$ 40,781,286</u>
<b>C. Net pension liability - ending (a) - (b)</b>	<b>\$ 7,859,074</b>	<b>\$ 9,498,169</b>
<b>D. Plan fiduciary net position as a percentage of total pension liability</b>	<b>83.78%</b>	<b>81.11%</b>
<b>E. Covered employee payroll</b>	<b>\$ 8,457,269</b>	<b>\$ 8,920,328</b>
<b>F. Net position liability as a percentage of covered employee payroll</b>	<b>92.93%</b>	<b>106.48%</b>

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, 2016**

<b>Fiscal Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Actuarial determined contribution	\$ 1,477,697	\$ 1,530,795	\$ 1,675,988
Contributions in relation to the actuarially determined contribution	<u>( 1,477,697)</u>	<u>( 1,530,795)</u>	<u>( 1,675,988)</u>
Contribution deficiency (excess)	-	-	-
Covered employee payroll	8,411,237	8,746,456	9,707,751
Contributions as a percentage of covered employee payroll	17.57%	17.50%	17.26%

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

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

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

**CITY OF TERRELL, TEXAS**

**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, 2016**

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%

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## **COMBINING STATEMENTS**

## **NONMAJOR GOVERNMENTAL FUNDS**

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

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

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

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

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

**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.

**Rent Supplement Section 8** – to account for the Section 8 Housing Choice Vouchers grant through HUD.

**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, 2016**

	Red Tourism	Light Cameras	Infrastructure Improvements	Impact Fees
<b>ASSETS</b>				
Cash and cash equivalents	\$ 98,777	\$ 45,272	\$ 791,614	\$ 69,134
Taxes receivable, net	-	-	-	-
Due from other funds	-	-	109,688	1,136,141
Other receivables	-	-	-	-
Receivable from other governments	-	-	-	86,730
 Total assets	 98,777	 45,272	 901,302	 1,292,005
<b>LIABILITIES</b>				
Accounts payable	48,629	-	26,966	-
Due to other funds	-	-	11,115	343,493
 Total liabilities	 48,629	 -	 38,081	 343,493
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes	-	-	-	-
 Total deferred inflows of resources	 -	 -	 -	 -
<b>FUND BALANCES</b>				
Restricted	50,148	45,272	863,221	948,512
Unassigned	-	-	-	-
 Total fund balances	 50,148	 45,272	 863,221	 948,512
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 98,777	 \$ 45,272	 \$ 901,302	 \$ 1,292,005

Park Land/Park Dedication	2010 Police Fees	2010 Police Grant	CO 2011B	Grant HRA	Courthouse Technology	Courthouse Security	Certificates of Obligation Tax and Revenue Series 2004	2007A Bond
\$ 101,443	\$ -	\$ 281,877	\$ 117,106	\$ 12,628	\$ 14,587	\$ -	\$ 23,219	
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>101,443</u>	<u>-</u>	<u>281,877</u>	<u>117,106</u>	<u>12,628</u>	<u>14,587</u>	<u>-</u>	<u>23,219</u>	
-	-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>2,250</u>	<u>2,250</u>	<u>16,400</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>2,250</u>	<u>2,250</u>	<u>16,400</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
101,443	-	281,877	112,106	10,378	12,337	-	23,219	
<u>101,443</u>	<u>-</u>	<u>281,877</u>	<u>112,106</u>	<u>10,378</u>	<u>12,337</u>	<u>( 16,400)</u>	<u>-</u>	
<u>101,443</u>	<u>-</u>	<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>101,443</u>	\$ <u>-</u>	\$ <u>281,877</u>	\$ <u>117,106</u>	\$ <u>12,628</u>	\$ <u>14,587</u>	\$ <u>-</u>	\$ <u>23,219</u>	

**CITY OF TERRELL, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**  
**(Continued)**  
**SEPTEMBER 30, 2016**

	TCDP Grant	Pavilion Rentals	Police Federal Awards	Edward Byrne Justice Assistance Grant
<b>ASSETS</b>				
Cash and cash equivalents	\$ 165,861	\$ 12,484	\$ 45,260	\$ 43,093
Taxes receivable, net	-	-	-	-
Due from other funds	-	398	-	-
Other receivables	-	-	-	-
Receivable from other governments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
 Total assets	 <u>165,861</u>	 <u>12,882</u>	 <u>45,260</u>	 <u>43,093</u>
<b>LIABILITIES</b>				
Accounts payable	-	-	-	-
Due to other funds	<u>169,221</u>	<u>—</u>	<u>—</u>	<u>43,000</u>
Total liabilities	<u>169,221</u>	<u>—</u>	<u>—</u>	<u>43,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total deferred inflows of resources	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>FUND BALANCES</b>				
Restricted	( 3,360)	12,882	45,260	93
Unassigned	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total fund balances	<u>( 3,360)</u>	<u>12,882</u>	<u>45,260</u>	<u>93</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 165,861</u>	 <u>\$ 12,882</u>	 <u>\$ 45,260</u>	 <u>\$ 43,093</u>

CO 2013 Bond	Fire Grants	Texas Capital Grant	Pedestrian Improvements Grant	Grant 721440	FEMA	Rent Supplement Section 8	Debt Service	Total Governmental Funds
\$ 305,917	\$ 310	\$ 7	\$ 111,828	\$ 34	\$ 65,413	\$ 443,401	\$ 1,428,074	\$ 4,177,339
-	-	-	-	-	-	-	134,365	134,365
-	-	-	119,364	-	-	-	-	1,365,591
-	-	-	-	-	-	1,537	-	1,537
-	-	-	40,264	-	-	-	-	126,994
<u>305,917</u>	<u>310</u>	<u>7</u>	<u>271,456</u>	<u>34</u>	<u>65,413</u>	<u>444,938</u>	<u>1,562,439</u>	<u>5,805,826</u>
-	-	-	-	-	-	9,558	-	85,153
<u>-</u>	<u>8,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,628</u>	<u>93,430</u>	<u>725,840</u>
<u>-</u>	<u>8,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,186</u>	<u>93,430</u>	<u>810,993</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,047</u>	<u>126,047</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,047</u>	<u>126,047</u>
305,917	-	7	271,456	34	65,413	403,752	1,342,962	4,892,929
<u>-</u>	<u>( 7,743)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 24,143)</u>
<u>305,917</u>	<u>( 7,743)</u>	<u>7</u>	<u>271,456</u>	<u>34</u>	<u>65,413</u>	<u>403,752</u>	<u>1,342,962</u>	<u>4,868,786</u>
<u>\$ 305,917</u>	<u>\$ 310</u>	<u>\$ 7</u>	<u>\$ 271,456</u>	<u>\$ 34</u>	<u>\$ 65,413</u>	<u>\$ 444,938</u>	<u>\$ 1,562,439</u>	<u>\$ 5,805,826</u>

**CITY OF TERRELL, TEXAS**

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

**NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Tourism	Red Light Cameras	Infrastructure Improvements	Impact Fees
<b>REVENUES</b>				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	398,689	-	-	-
Fees and fines	-	-	-	-
Intergovernmental	-	-	-	222,871
Charges for services	-	-	659,873	134,710
Interest	61	23	50	829
Miscellaneous	-	-	317,856	-
Total revenues	<u>398,750</u>	<u>23</u>	<u>977,779</u>	<u>358,410</u>
<b>EXPENDITURES</b>				
Current:				
General government	404,919	-	88,556	143,369
Public welfare	-	-	-	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	108,241	-	200,690	727,059
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>513,160</u>	<u>-</u>	<u>289,246</u>	<u>870,428</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(114,410)</u>	<u>23</u>	<u>688,533</u>	<u>(512,018)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	198,364	-
Transfers out	<u>(18,200)</u>	<u>-</u>	<u>(270,225)</u>	<u>-</u>
Total other financing sources and uses	<u>(18,200)</u>	<u>-</u>	<u>(71,861)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(132,610)</u>	<u>23</u>	<u>616,672</u>	<u>(512,018)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>182,758</u>	<u>45,249</u>	<u>246,549</u>	<u>1,460,530</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 50,148</u>	<u>\$ 45,272</u>	<u>\$ 863,221</u>	<u>\$ 948,512</u>

Park Land/Park Dedication Fees	2010 Police Grant	CO 2011B	Grant HRA	Courthouse Technology	Courthouse Security	Certificates of Obligation Tax and Revenue Series 2004	2007A Bond
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	3,933	2,950	-	-
-	-	-	-	-	-	-	-
500	-	-	-	-	-	-	-
52	2	566	59	5	6	-	46
-	-	-	-	-	-	-	-
<u>552</u>	<u>2</u>	<u>566</u>	<u>59</u>	<u>3,938</u>	<u>2,956</u>	<u>-</u>	<u>46</u>
 - - - - - 1,750 - - - - <u>1,750</u>	 - - - - - - - - - <u>-</u>	 - - - - - - - - <u>-</u>	 - - - - - - - - <u>-</u>	 - - - - - - - - <u>-</u>	 - - - - - - - - <u>-</u>	 - - - - - - - - <u>-</u>	 - - - - - - - - <u>-</u>
 ( <u>1,198</u> )	 <u>2</u>	 <u>566</u>	 <u>59</u>	 <u>3,938</u>	 <u>2,956</u>	 <u>-</u>	 <u>46</u>
 - - - <u>( 6,047)</u> <u>( 6,047)</u>	 - - - <u>( 6,047)</u> <u>( 6,047)</u>	 - - - <u>-</u> <u>-</u>	 - - - <u>-</u> <u>-</u>	 - - - <u>-</u> <u>-</u>	 - - - <u>-</u> <u>-</u>	 - - - <u>-</u> <u>-</u>	 - - - <u>-</u> <u>-</u>
 ( <u>1,198</u> )	 ( <u>6,045</u> )	 <u>566</u>	 <u>59</u>	 <u>3,938</u>	 <u>2,956</u>	 <u>-</u>	 <u>46</u>
 <u>102,641</u>	 <u>6,045</u>	 <u>281,311</u>	 <u>112,047</u>	 <u>6,440</u>	 <u>9,381</u>	 <u>( 16,400)</u>	 <u>23,173</u>
 <u>\$ 101,443</u>	 <u>\$ -</u>	 <u>\$ 281,877</u>	 <u>\$ 112,106</u>	 <u>\$ 10,378</u>	 <u>\$ 12,337</u>	 <u>\$ ( 16,400)</u>	 <u>\$ 23,219</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, 2016**

	TCDP Grant	Pavilion Rentals	Police Federal Awards	Edward Byrne Justice Assistance Grant
<b>REVENUES</b>				
Ad valorem taxes	\$ -	\$ -	\$ -	\$ -
Hotel/motel occupancy taxes	-	-	-	-
Fees and fines	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	4,550	-	-
Interest	95	22	28	87
Miscellaneous	-	-	-	-
Total revenues	95	4,572	28	87
<b>EXPENDITURES</b>				
Current:				
General government	-	150	-	-
Public welfare	-	-	-	-
Public safety	-	-	6,145	-
Highways and streets	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	8,953	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	-	150	15,098	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	95	4,422	( 15,070)	87
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>				
	95	4,422	( 15,070)	87
<b>FUND BALANCES, BEGINNING</b>				
	( 3,455)	8,460	60,330	6
<b>FUND BALANCES, ENDING</b>				
	\$ ( 3,360)	\$ 12,882	\$ 45,260	\$ 93

CO 2013 Bond	Fire Grants	Texas Capital Grant	Pedestrian Improvements Grant	Grant 721440	FEMA	Rent Supplement Section 8	Debt Service	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,439,658	\$ 1,439,658
-	-	-	-	-	-	-	-	398,689
-	-	-	-	-	-	-	-	6,883
-	-	5,000	260,150	-	724,140	3,127,972	-	4,340,133
-	-	-	-	-	-	-	-	799,633
615	23	18	56	34	52	932	2,360	6,021
-	-	-	-	-	-	11,023	-	328,879
<u>615</u>	<u>23</u>	<u>5,018</u>	<u>260,206</u>	<u>34</u>	<u>724,192</u>	<u>3,139,927</u>	<u>1,442,018</u>	<u>7,319,896</u>
-	-	-	-	-	463,479	357,423	-	1,457,896
-	-	-	-	-	-	2,837,306	-	2,837,306
-	133,298	-	-	-	-	-	-	139,443
-	-	75,021	-	-	-	-	-	75,021
-	-	-	-	-	-	-	-	1,750
-	7,756	-	-	-	-	-	-	1,052,699
-	-	-	-	-	-	-	1,185,000	1,185,000
-	-	-	-	-	-	-	790,073	790,073
<u>-</u>	<u>141,054</u>	<u>75,021</u>	<u>-</u>	<u>-</u>	<u>463,479</u>	<u>3,194,729</u>	<u>1,975,073</u>	<u>7,539,188</u>
<u>615</u>	<u>( 141,031)</u>	<u>( 70,003)</u>	<u>260,206</u>	<u>34</u>	<u>260,713</u>	<u>( 54,802)</u>	<u>( 533,055)</u>	<u>( 219,292)</u>
-	195,300	-	-	-	-	-	2,220,834	2,614,498
<u>-</u>	<u>( 63,702)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 195,300)</u>	<u>-</u>	<u>( 1,208,311)</u>	<u>( 1,761,785)</u>
<u>-</u>	<u>131,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 195,300)</u>	<u>-</u>	<u>1,012,523</u>	<u>852,713</u>
615	( 9,433)	( 70,003)	260,206	34	65,413	( 54,802)	479,468	633,421
<u>305,302</u>	<u>1,690</u>	<u>70,010</u>	<u>11,250</u>	<u>-</u>	<u>-</u>	<u>458,554</u>	<u>863,494</u>	<u>4,235,365</u>
<u>\$ 305,917</u>	<u>\$ ( 7,743)</u>	<u>\$ 7</u>	<u>\$ 271,456</u>	<u>\$ 34</u>	<u>\$ 65,413</u>	<u>\$ 403,752</u>	<u>\$ 1,342,962</u>	<u>\$ 4,868,786</u>

**CITY OF TERRELL, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 174,211	\$ -	\$ 174,211
Total current assets	<u>174,211</u>	<u>-</u>	<u>174,211</u>
Non-current assets:			
Capital assets:			
Vehicles and equipment	-	4,735,069	4,735,069
Accumulated depreciation	<u>-</u>	<u>( 3,377,039)</u>	<u>( 3,377,039)</u>
Total non-current assets	<u>-</u>	<u>1,358,030</u>	<u>1,358,030</u>
Total assets	<u>174,211</u>	<u>1,358,030</u>	<u>1,532,241</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pensions	<u>-</u>	<u>69,842</u>	<u>69,842</u>
Total deferred outflows of resources	<u>-</u>	<u>69,842</u>	<u>69,842</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	166,090	316,698	482,788
Due to other funds	20,313	256,073	276,386
Other accrued expenses	-	4,876	4,876
Compensated absences	-	11,410	11,410
Total current liabilities	<u>186,403</u>	<u>589,057</u>	<u>775,460</u>
Non-current liabilities:			
Net pension liability	<u>-</u>	<u>176,666</u>	<u>176,666</u>
Total non-current liabilities	<u>-</u>	<u>176,666</u>	<u>176,666</u>
Total liabilities	<u>186,403</u>	<u>765,723</u>	<u>952,126</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pensions	<u>-</u>	<u>19,027</u>	<u>19,027</u>
Total deferred inflows of resources	<u>-</u>	<u>19,027</u>	<u>19,027</u>
<b>NET POSITION</b>			
Net investment in capital assets	-	1,358,030	1,358,030
Unrestricted	<u>( 12,192)</u>	<u>( 714,908)</u>	<u>( 727,100)</u>
Total net position	<u>\$ ( 12,192)</u>	<u>\$ 643,122</u>	<u>\$ 630,930</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, 2016**

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Maintenance services	\$ -	\$ 1,000,395	\$ 1,000,395
Insurance premiums	1,984,654	-	1,984,654
Miscellaneous	381,023	20,063	401,086
Total operating revenues	<u>2,365,677</u>	<u>1,020,458</u>	<u>3,386,135</u>
<b>OPERATING EXPENSES</b>			
Personnel services	-	379,281	379,281
Miscellaneous services	-	247,463	247,463
Administrative fees	807,030	-	807,030
Repairs and maintenance	-	127,709	127,709
Supplies	-	255,361	255,361
Insurance claims and expenses	1,713,203	-	1,713,203
Depreciation	-	162,364	162,364
Total operating expenses	<u>2,520,233</u>	<u>1,172,178</u>	<u>3,692,411</u>
<b>OPERATING INCOME (LOSS)</b>	( 154,556)	( 151,720)	( 306,276)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	130	-	130
Gain (loss) on disposal of assets	-	20,451	20,451
Transfers in	-	29,986	29,986
Transfers out	-	( 30,326)	( 30,326)
Total non-operating revenue (expenses)	<u>130</u>	<u>20,111</u>	<u>20,241</u>
<b>CHANGE IN NET POSITION</b>	( 154,426)	( 131,609)	( 286,035)
<b>TOTAL NET POSITION, BEGINNING</b>	<u>142,234</u>	<u>774,731</u>	<u>916,965</u>
<b>TOTAL NET POSITION, ENDING</b>	<u>\$ ( 12,192)</u>	<u>\$ 643,122</u>	<u>\$ 630,930</u>

**CITY OF TERRELL, TEXAS**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF CASH FLOWS**

**SEPTEMBER 30, 2016**

	<u>Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and users	\$ 2,365,677	\$ 1,020,458	\$ 3,386,135
Cash paid for services and insurance claims	( 2,466,108)	- ( 2,466,108)	( 2,466,108)
Cash paid to suppliers for goods and services	- ( 342,346)	( 342,346)	( 342,346)
Cash paid to employees for services	- ( 261,126)	( 261,126)	( 261,126)
Net cash provided (used) by operating activities	<u>( 100,431)</u>	<u>416,986</u>	<u>316,555</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers out	- ( 340)	( 340)	( 340)
Cash received from other funds	<u>- 116,441</u>	<u>116,441</u>	<u>116,441</u>
Net cash used for noncapital financing activities	<u>- 116,101</u>	<u>116,101</u>	<u>116,101</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	<u>- ( 553,538)</u>	<u>( 553,538)</u>	<u>( 553,538)</u>
Net cash used for capital and related financing activities	<u>- ( 533,087)</u>	<u>( 533,087)</u>	<u>( 533,087)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	130 -	- 130	130
Net cash provided by investing activities	<u>130 -</u>	<u>- 130</u>	<u>130</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>( 100,301)</b>	<b>-</b>	<b>( 100,301)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>274,512</b>	<b>-</b>	<b>274,512</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>174,211</b>	<b>-</b>	<b>174,211</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	( 154,556)	( 151,720)	( 306,276)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	- 162,364	162,364	162,364
Decrease (increase) in deferred outflows of resources	- ( 69,842)	( 69,842)	( 69,842)
Increase (decrease) in accounts payable	33,812 288,187	288,187	321,999
Increase (decrease) in deferred inflows of resources	- 19,027	19,027	19,027
Increase (decrease) in net pension obligation	- 176,666	176,666	176,666
Increase (decrease) in accrued liabilities	- ( 7,818)	( 7,818)	( 7,818)
Increase (decrease) in due to other funds	20,313 -	-	20,313
Increase (decrease) in compensated absences	- 122	122	122
Net cash provided (used) by operating activities	<u>\$ ( 100,431)</u>	<u>\$ 416,986</u>	<u>\$ 316,555</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  
City of Terrell, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Terrell, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Terrell, Texas' basic financial statements, and have issued our report thereon dated June 27, 2017.

**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 27, 2017

**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  
City of Terrell, Texas

**Report on Compliance for Each Major Federal Program**

We have audited the City of Terrell, Texas' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City of Terrell, Texas' major federal programs for the year ended September 30, 2016. The City of Terrell, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Terrell, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, 2016.

### **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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Terrell, Texas' internal control over compliance.

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

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

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

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

Waco, Texas  
June 27, 2017

**CITY OF TERRELL, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Pass-through Expenditures
<b><u>U. S. Department of Housing and Urban Development</u></b>				
Passed through Texas Department of Agriculture:				
Community Development Block Grant	14.218	7214440	\$ 260,150	\$ -
Community Development Block Grant	14.218	713222	<u>5,000</u>	<u>-</u>
Total Passed through Texas Department of Agriculture			<u>265,150</u>	<u>-</u>
Direct Program:				
Section 8 Housing Choice Vouchers Program	14.871	B-07-MC-48-0042	<u>3,127,972</u>	<u>-</u>
Total Direct Program			<u>3,127,972</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>3,393,122</u>	<u>-</u>
<b><u>U. S. Department of Transportation</u></b>				
Passed through Texas Department of Transportation:				
Airport Improvement Program	20.106	14HGTEREL	13,394	-
Airport Improvement Program	20.106	1418TEREL	2,560	-
Airport Improvement Program	20.106	1518TEREL	101,600	-
Highway Planning and Construction	20.205	2011-005-01	655,545	-
Highway Planning and Construction	20.205	0173-10-001	<u>222,871</u>	<u>-</u>
Total Passed through Texas Department of Transportation			<u>995,970</u>	<u>-</u>
Total U. S. Department of Transportation			<u>995,970</u>	<u>-</u>
<b><u>U. S. Department of Homeland Security</u></b>				
Passed through Texas Department of Emergency Management:				
Public Assistance Grant DR 4223	97.036	PA-06-TX-4223	528,840	-
Assistance to Firefighters	97.044	EMW-2014-FO-00770	<u>195,300</u>	<u>-</u>
Total Passed through Texas Department of Emergency Management			<u>724,140</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>724,140</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 5,113,232</u>	<u>\$ -</u>

## **CITY OF TERRELL, TEXAS**

### **NOTES TO SCHEDULE OF EXPENDITURES FEDERAL AWARDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

#### **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, 2016**

None