

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 17 - LONG-TERM OBLIGATIONS

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City has dedicated 32.99% of the ad valorem taxes received for the year for the payment of principal and interest on general obligation bonds. General obligation bonds at September 30, 2013 are as follows:

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2013</u>
General obligation bonds:			
General Obligation Refunding Bonds, Series 2006 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 1, 2007 through February 1, 2022.	3.85% - 4.00%	3,060,000	2,250,000
General Obligation Refunding Bonds, Series 2012 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 15, 2013 through February 15, 2023.	2.00% - 5.00%	10,730,000	10,450,000
General Obligation Refunding Bonds, Series 2013 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 15, 2014 through February 15, 2027.	2.00% - 5.00%	14,550,000	14,550,000
Total general obligation bonds		<u>\$ 28,340,000</u>	<u>27,250,000</u>

Annual requirements to amortize general obligation bonds outstanding at September 30, 2013 are as follows:

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

<i>Requirements Year Ending</i> <u>September 30</u>	<i>General Obligation Bonds</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 2,020,000	943,597	2,963,597
2015	1,780,000	901,247	2,681,247
2016	2,345,000	849,847	3,194,847
2017	2,250,000	783,747	3,033,747
2018	2,330,000	713,013	3,043,013
2019-2023	11,145,000	2,265,912	13,410,912
2024-2027	5,380,000	350,728	5,730,728
Total	<u>\$ 27,250,000</u>	<u>6,808,091</u>	<u>34,058,091</u>

Certificates of Obligation

The City issues certificates of obligation to fund construction projects and acquire capital assets. Certificates of obligation are direct obligations and pledge the full faith and credit of the City. Certificates of obligation at September 30, 2013 are as follows:

	<u>Rate of interest</u>	<u>Original Issue</u>	<u>Outstanding September 30, 2013</u>
Certificates of obligation:			
Certificates of Obligation, Series 2005 used for street and park improvements, constructing and equipping fire-fighting training facilities, purchase of fire trucks - due serially in varying amounts through August 1, 2027.	3.00% - 5.00%	\$ 17,750,000	1,425,000
Certificates of Obligation, Series 2009 used for acquiring, constructing, improving and equipping various streets, park and recreational facilities, Waterworks and Sewer System, facilities, equipment and vehicles for various City departments, including City hall - due serially in varying amounts through February 1, 2030.	3.00% - 4.50%	17,420,000	15,605,000
Certificates of Obligation, Series 2010 used for constructing, improving and equipping convention center facilities and the acquisition of sites - due serially in varying amounts through February 1, 2030.	1.02% - 5.728%	7,000,000	6,295,000
Combination Tax and Revenue Certificates of Obligation, Series 2012 used for street and drainage improvements, constructing, improving and equipping park and recreational facilities - due serially in varying amounts through February 1, 2035.	0.50% - 3.500%	4,115,000	4,065,000
Total certificates of obligation		<u>\$ 46,285,000</u>	<u>27,390,000</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Annual requirements to amortize certificates of obligations outstanding at September 30, 2013 are as follows:

<i>Requirements Year Ending September 30</i>	<i>Certificates of Obligation</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 1,690,000	44,925	1,734,925
2015	1,815,000	14,700	1,829,700
2016	1,125,000	977,244	2,102,244
2017	1,165,000	933,942	2,098,942
2018	1,215,000	886,181	2,101,181
2019-2023	6,845,000	3,641,791	10,486,791
2024-2028	8,435,000	2,065,399	10,500,399
2029-2033	4,610,000	349,117	4,959,117
2034-2035	490,000	17,325	507,325
Total	<u>\$ 27,390,000</u>	<u>8,930,624</u>	<u>36,320,624</u>

Revenue Bonds

The City issues bonds pledged with income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at September 30, 2013 are as follows:

	<i>Rate of interest</i>	<i>Original Issue</i>	<i>Outstanding September 30, 2013</i>
Revenue bonds:			
Waterworks and Sanitary Sewer System Revenue Bonds Series 2004 net of bond premium of \$7,680 used to finance the costs of making improvements and extensions to the water and sewer system due serially in varying amounts from February 1, 2006 through February 1, 2023.	3.00% - 4.25%	2,500,000	1,587,680
Waterworks and Sanitary Sewer System Revenue Bonds, Series 2005 net of bond discount and premium of \$28,064 used to finance the costs of making improvements and extensions to the water and sewer system. Due serially in varying amounts from February 1, 2007 through February 1, 2017.	3.10% - 4.65%	1,805,000	721,936
Waterworks and Sanitary Sewer System Revenue Bonds, Series 2013 net of bond discount of \$20,425 used to finance the costs of making improvements and extensions to the water and sewer system. Due serially in varying amounts from August 1, 2014 through August 1, 2033	2.00% - 4.875%	2,200,000	2,179,575
Total Texarkana, Texas Water Utilities		<u>\$ 6,505,000</u>	<u>4,489,191</u>

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

Annual requirements to amortize revenue bonds outstanding at September 30, 2013 are as follows:

<i>Requirements</i> <i>Year Ending</i> <i>September 30</i>	<i>Revenue Bonds</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 377,777	174,088	551,865
2015	397,777	159,478	557,255
2016	407,777	145,647	553,424
2017	427,777	131,159	558,936
2018	244,793	115,819	360,612
2019-2023	1,353,417	434,970	1,788,387
2024-2028	569,851	244,534	814,385
2029-2033	710,022	105,486	815,508
Total	<u>\$ 4,489,191</u>	<u>1,511,181</u>	<u>6,000,372</u>

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended September 30, 2013:

	<i>Balance</i> <i>October 1,</i> <i>2012</i>	<i>Additions</i>	<i>Retirements/ Deductions</i>	<i>Balance</i> <i>September 30,</i> <i>2013</i>	<i>Long-term</i> <i>Balance</i>	<i>Due</i> <i>Within</i> <i>One Year</i>
Governmental activities:						
General obligation bonds	\$ 15,306,073	14,568,927	(2,625,000)	27,250,000	25,230,000	2,020,000
Less deferred charges:						
For issuance premiums	1,130,670	1,270,367	(128,705)	2,272,332	2,272,332	
On refunding	(627,929)	(1,519,171)	260,915	(1,886,185)	(1,886,185)	
Total general obligation bonds	<u>15,808,814</u>	<u>14,320,123</u>	<u>(2,492,790)</u>	<u>27,636,147</u>	<u>25,616,147</u>	<u>2,020,000</u>
Certificates of obligation	42,205,000		(14,815,000)	27,390,000	25,700,000	1,690,000
Less deferred charges:						
For issuance premiums	514,158		(230,874)	283,284	283,284	
On refunding	(593,683)		183,493	(410,190)	(410,190)	
Total certificates of obligation	<u>42,125,475</u>	<u>-</u>	<u>(14,862,381)</u>	<u>27,263,094</u>	<u>25,573,094</u>	<u>1,690,000</u>
Tax Notes	860,000		(860,000)	-	-	
Capital leases	86,295	21,512	(60,872)	46,935	21,272	25,663
Net pension and other postemploy- ment obligations	2,523,405	3,118,089	(2,798,079)	2,843,415	2,843,415	
Accrued compensated absences	<u>3,477,800</u>	<u>1,565,998</u>	<u>(1,250,812)</u>	<u>3,792,986</u>	<u>3,566,061</u>	<u>226,925</u>
Governmental activity Long-term liabilities	<u>\$ 64,881,789</u>	<u>19,025,722</u>	<u>(22,324,934)</u>	<u>61,582,577</u>	<u>57,619,989</u>	<u>3,962,588</u>

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Notes to the financial statements continued.

	<i>Balance</i> <i>October 1,</i> <i>2012</i>	<i>Additions</i>	<i>Retirements/ Deductions</i>	<i>Total Balance September 30, 2013</i>	<i>Long-term Balance</i>	<i>Due Within One Year</i>
Business-type activities:						
Revenue bonds	\$ 2,720,000	2,200,000	(390,000)	4,530,000	4,145,000	385,000
Less deferred charges:						
For issuance premiums/discount	8,587	(20,597)	(734)	(12,744)	(12,744)	
On refunding	(39,043)		10,978	(28,065)	(28,065)	
Total revenue bonds	2,689,544	2,179,403	(379,756)	4,489,191	4,104,191	385,000
Capital leases	5,229,476	26,403	(269,884)	4,985,995	4,615,683	370,312
Net pension and other post-employment obligations	797,817	108,977		906,794	906,794	
Accrued compensated absences	407,310	338,240	(355,472)	390,078	348,117	41,961
Business-type activity						
Long-term liabilities	<u>\$ 9,124,147</u>	<u>2,653,023</u>	<u>(1,005,112)</u>	<u>10,772,058</u>	<u>9,974,785</u>	<u>797,273</u>

The addition to the general obligation bond includes \$18,927 of accretion on capital appreciation bonds during the fiscal year ended September 30, 2013.

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end, \$63,322 of internal service funds compensated absences is included in the above amounts.

The General Fund is the governmental fund which primarily is responsible for the accrued compensated absences liability for the governmental activities.

Advance Refunding

The City issued \$14,550,000 in General Obligation Refunding Bonds, Series 2013 with interest rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund \$775,000 of outstanding General Obligation Refunding Bonds, Series 2003, \$13,280,000 of outstanding Combination Tax and Revenue Certificates of Obligation, Series 2005 and \$525,000 of outstanding Tax Notes, Series 2008. These refunded bonds, certificates, and tax notes had interest rates ranging from 2.6% to 5.0%, 3.0% to 5.0% and 3.395%, respectively. The net proceeds of \$15,788,017 (including a \$1,270,367 premium and after payment of \$193,000 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2003 bonds, a portion of the 2005 certificates of obligation and 2008 tax notes are considered defeased and the liability for the refunded obligations has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$84,010. This amount is being netted against the new debt and amortized over the remaining life of the 2008 tax notes. The City advance refunded the 2003, 2005 and 2008 debt to reduce its total debt service payments by \$1,350,690 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$1,262,051. The refunded issues were scheduled to mature in 2016, 2027 and 2015, respectively. The new debt matures in 2027.

CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

NOTE 18 - CONDUIT DEBT

The City issued \$2,430,000 in Combination Tax and Revenue Certificates of Obligation, Series 2008 dated February 1, 2008. The stated maturity date of the debt is February 1, 2023, with an interest rate of 3.660% per annum. The certificates were issued by the City on behalf of the Bi-State Justice Center. The purpose of the debt is to pay contractual obligations for improvements to the Bi-State Criminal Justice Center and professional services rendered in connection therewith. The payments are made by the Bi-State Justice Center directly to the paying agent. The City has no responsibility for the repayment of the debt beyond its participation in the BSJC joint venture. The balance outstanding at September 30, 2013 is \$1,760,000.

NOTE 19 - RISK MANAGEMENT

The City's workers' compensation insurance coverage is obtained through the Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by the various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under a stated amount for workers' compensation that are incurred by TML members are paid with TML Pool funds. Claims in excess of this limit are paid under terms of insurance policies obtained by the TML Pool. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML has established claims reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contributed rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated. For the year ended September 30, 2013, the City contributed \$315,526 for workers' compensation coverage.

Through an amendment, in 1978, of the Texas Unemployment Compensation Act, the City of Texarkana elected the Reimbursing Employer Option for providing unemployment insurance benefits for eligible former City employees.

The City has outside property insurance coverage totaling \$24,661,000 for major structures, primarily those used by the public and those located in a cluster to provide protection from catastrophic losses, as well as \$8,825,900 of contents coverage.

The City maintains liability insurance coverage of \$1,003,851 for all its vehicles and equipment. It has vehicle damage coverage on the most expensive vehicles and equipment including fire engines and large trucks.

The City has established an Employee Benefit Fund (an internal service fund) to account for a self-insured employee health benefit program. The City accounts for this expense on the accrual method in that as cash is transferred to the Employee Benefit Fund, it is expensed on the transferring fund. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Under this program, the City is self-insured up to a maximum of \$100,000 specific deductible per covered person in a calendar year, and a \$75,000 aggregating specific deductible. Costs in excess of this amount, up to \$1,250,000 per claimant as an annual benefit and unlimited