

**CITY OF MARSHALL, TEXAS**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED**

**DECEMBER 31, 2011**

# CITY OF MARSHALL, TEXAS

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## **FINANCIAL SECTION**

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**INDEPENDENT AUDITORS' REPORT**

The Honorable City Commission  
City of Marshall, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Marshall, Texas. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of December 31, 2011, 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 conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marshall, Texas' financial statements as a whole. The combining and individual nonmajor fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

**KNUCKOLS, DUVALL, HALLUM & CO.**

  
Certified Public Accountants

July 6, 2012

204 S. WELLINGTON STREET  
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**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**

The Honorable City Commission  
Marshall, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of and for the year ended December 31, 2011, which collectively comprise the City of Marshall, Texas' basic financial statements and have issued our report thereon dated July 6, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Marshall, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Marshall, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marshall, Texas' internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Marshall, Texas' financial statements are free of 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*.

However, we noted certain matters that we reported to management of City of Marshall, Texas, in a separate letter dated July 6, 2012.

This report is intended solely for the information of management, City Commissioners, and appropriate federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

**KNUCKOLS, DUVALL, HALLUM & CO.**

*Knuckols, Duvall, Hallum & Co.*  
Certified Public Accountants

July 6, 2012

## **Management's Discussion and Analysis**

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

As management of the City of Marshall, we offer readers of the City of Marshall's financial statements this narrative overview and analysis of the financial activities of the City of Marshall for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the Independent Auditors' Report on page 1 and the City's Basic Financial Statements, which begin on page 13.

### Financial Highlights

- The assets of the City of Marshall exceeded its liabilities at the close of the most recent fiscal year by \$77,995,899 (net assets). Of this amount, \$13,546,063 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$9,298,490. Approximately 66% of this total amount 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 \$6,140,364 or 33% of total General Fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marshall's basic financial statements. The City of Marshall's basic financial statements comprise 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 of Marshall's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Marshall's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Marshall is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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 future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of Marshall that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Marshall include general government, public safety, public works, purchasing, finance, parks and recreation, planning, library, non-departmental, tax collection, code enforcement, and tourist and convention. The business-type activities of the City of Marshall include a Water and Sewer Fund, and a Business Development Center Fund.

The government-wide financial statements include not only the City of Marshall itself (known as the *primary government*), but also a legally separate Marshall Economic Development Corporation, Marshall Downtown Development Corporation and Marshall Convention and Visitors Bureau for which the City is financially accountable. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

**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. The City of Marshall, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Marshall can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**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 *near-term inflows and outflows of spendable resources* as well as on *balance 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 fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Marshall maintains 27 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other 26 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

**Proprietary funds.** The City of Marshall 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 of Marshall uses enterprise funds to account for its Water and Sewer Fund and Business Development Center Fund. 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 stores inventory.

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 Fund, which is considered to be a major fund of the City of Marshall. Also, since the Business Development Center Fund is the only non-major enterprise fund, it is presented separately. 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.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Marshall's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**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.

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Marshall, assets exceeded liabilities by \$77,995,899 at the close of the most recent fiscal year.

By far the largest portion of the City of Marshall's net assets, reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and water and wastewater system), less any related debt used to acquire those assets that is still outstanding. The City of Marshall uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Marshall'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 Marshall's Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	15,054,041	15,922,189	7,537,960	7,293,380	22,592,001	23,215,569
Capital assets	<u>43,648,015</u>	<u>43,665,572</u>	<u>46,794,899</u>	<u>47,296,850</u>	<u>90,442,914</u>	<u>90,962,422</u>
Total assets	<u>58,702,056</u>	<u>59,587,761</u>	<u>54,332,859</u>	<u>54,590,230</u>	<u>113,034,915</u>	<u>114,177,991</u>
Long-term liabilities						
Outstanding	12,799,765	13,162,809	18,052,513	19,878,012	30,852,278	33,040,821
Other liabilities	<u>1,459,425</u>	<u>1,489,058</u>	<u>2,727,313</u>	<u>2,728,226</u>	<u>4,186,738</u>	<u>4,217,284</u>
Total liabilities	<u>14,259,190</u>	<u>14,651,867</u>	<u>20,779,826</u>	<u>22,606,238</u>	<u>35,039,016</u>	<u>37,258,105</u>
Net assets:						
Invested in capital assets,						
Net of related debt	34,070,428	33,634,708	27,462,453	26,180,063	61,532,881	59,814,771
Restricted	2,304,593	2,844,600	612,362	649,611	2,916,955	3,494,211
Unrestricted	<u>8,067,845</u>	<u>8,456,586</u>	<u>5,478,218</u>	<u>5,154,318</u>	<u>13,546,063</u>	<u>13,610,904</u>
Total net assets	<u>44,442,866</u>	<u>44,935,894</u>	<u>33,553,033</u>	<u>31,983,992</u>	<u>77,995,899</u>	<u>76,919,886</u>

An additional portion of the City of Marshall's net assets (3.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$13,546,063) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Marshall is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

### **Governmental Activities**

The City's general revenues decreased when compared to the prior year by .27% or \$34,666. The City recognized slight increases in property tax revenue over the prior year. The City also recognized decreased sales tax revenue from the prior year.

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

Governmental activities decreased the City of Marshall's net assets by \$493,028 and are outlined as follows:

### City of Marshall's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue:						
Program Revenue:						
Charges for Services	5,132,938	4,870,433	10,600,288	9,892,097	15,733,226	14,762,530
Operating Grants and Contr.	591,789	787,167	-	-	591,789	787,167
Capital Grants and Contr.	390,108	616,652	313,925	-	704,033	616,652
General Revenue:						
Property taxes	4,927,433	4,837,206	-	-	4,927,433	4,837,206
Other taxes	7,779,599	7,899,999	-	-	7,779,599	7,899,999
Other	40,145	44,638	11,972	53,817	52,117	98,455
Total Revenue	<u>18,862,012</u>	<u>19,056,095</u>	<u>10,926,185</u>	<u>9,945,914</u>	<u>29,788,197</u>	<u>29,002,009</u>
Expenses:						
General Government	2,632,944	2,623,391	-	-	2,632,944	2,623,391
Event Facilities	-	780,239	-	-	-	780,239
Facilities Maintenance	-	968,172	-	-	-	968,172
Parks and Recreation	976,368	-	-	-	976,368	-
Finance	200,972	234,025	-	-	200,972	234,025
Public Safety	8,378,335	8,347,208	-	-	8,378,335	8,347,208
Public Works	4,407,776	4,123,156	-	-	4,407,776	4,123,156
Planning	353,476	561,297	-	-	353,476	561,297
Purchasing	3,677	3,229	-	-	3,677	3,229
Library	513,196	509,226	-	-	513,196	509,226
Non-Departmental	1,992,817	1,920,037	-	-	1,992,817	1,920,037
Tax Collection	60,816	68,144	-	-	60,816	68,144
Housing	-	45,893	-	-	-	45,893
Tourist and Convention	1,027,905	662,868	-	-	1,027,905	662,868
Code Enforcement	65,697	64,800	-	-	65,697	64,800
Interest on Long-Term Debt	349,238	337,888	828,610	884,498	1,177,848	1,222,386
Water and Sewer	-	-	6,876,520	6,474,667	6,876,520	6,474,667
Business Development Center	-	-	43,837	66,150	43,837	66,150
Total Expenses	<u>20,963,217</u>	<u>21,249,573</u>	<u>7,748,967</u>	<u>7,425,315</u>	<u>28,712,184</u>	<u>28,674,888</u>
Increase (Decrease) in Net Assets						
Before Transfers	(2,101,205)	(2,193,478)	3,177,218	2,520,599	1,076,013	327,121
Transfers	<u>1,608,177</u>	<u>1,219,000</u>	<u>(1,608,177)</u>	<u>(1,219,000)</u>	-	-
Increase (Decrease) in Net Assets	<u>(493,028)</u>	<u>(974,478)</u>	<u>1,569,041</u>	<u>1,301,599</u>	<u>1,076,013</u>	<u>327,121</u>
Net Assets – January 1	<u>44,935,894</u>	<u>45,910,372</u>	<u>31,983,992</u>	<u>30,682,393</u>	<u>76,919,886</u>	<u>76,592,765</u>
Net Assets – December 31	<u>44,442,866</u>	<u>44,935,894</u>	<u>33,553,033</u>	<u>31,983,992</u>	<u>77,995,899</u>	<u>76,919,886</u>

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

### **Business - Type Activities**

Revenues of the City's business-type activities were \$10,926,185 for the year ending December 31, 2011. Expenses for the City's business-type activities were \$9,357,144 for the year, resulting in net income of \$1,569,041.

### **Financial Analysis of the Government's Funds**

As noted earlier, the City of Marshall uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Marshall'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 of Marshall'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.

As of the end of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$9,298,490. Approximately 66.04% of this total amount (\$6,140,364) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *restricted or nonspendable* to indicate that it is not available for new spending because it has already been committed. The portion of fund balance classified as nonspendable totals \$112,167. Restricted fund balance consists of the following: 1) promotion and tourism \$136,350, 2) law enforcement \$193,584, 3) purpose of grantors and donors \$21,387, 4) debt service \$513,438, 5) library \$317,730, 6) capital projects \$1,791,155, and 7) other post-employment benefits \$72,315.

The General Fund is the chief operating fund of the City of Marshall. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,140,364, with 97% of the total fund balance (\$6,324,846) being unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32.8% of total General Fund expenditures. Total fund balance represents 33.7% of total General Fund expenditures. The total fund balance of the City of Marshall's General Fund decreased by \$325,863 during the current fiscal year.

**Proprietary funds.** The City of Marshall's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$5,478,218. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Marshall's business-type activities.

### **General Fund Budgetary Highlights**

During the year, revenues exceeded budgetary estimates by \$461,874 and expenditures were under amended budget estimates by \$85,464.

### **Capital Asset and Debt Administration**

**Capital Assets.** The City of Marshall's investment in capital assets for its governmental and business type activities as of December 31, 2011, is \$90,442,914 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure, and water and wastewater systems. Street improvements are a primary focus of the Public Works Department.

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

The priority functions of our Water & Wastewater Utility Department and operations are to provide an adequate supply of safe drinking water within our system. We utilize the latest in technology and treatment processes to maximize our water supplies while also providing a safe and reliable delivery of drinking water at adequate pressures throughout the water distribution system and provide effective distribution flow within our wastewater system with a minimum amount of inflow and infiltration into the distribution system.

In 2011, we continued our annual infrastructure improvements which included major line extensions in both the water and wastewater systems, as well as completing replacement of one of the two trickling filters at the wastewater treatment plant which insures sufficient treatment capacity for the community. We also continued the final stages of the 2009 Sanitary Sewer and Rehabilitation program which was initiated to maximize our collection system, increase capacity, and reduce infiltration and inflow within the distribution system, which should be completed in late 2012. This rehab program has greatly improved our entire wastewater collection system and extends the useful life of existing piping systems. This rehab program amounts to a \$1.4 million dollar investment in our wastewater distribution system and represents our commitment of continued improvements and maintenance.

We installed two major emergency generators through a federal grant, one at our raw water intake location on Big Cypress Creek near Caddo Lake, and one at our largest sewer lift station on the east side of Marshall, near Highway 59 South. Both locations are critical to our water and wastewater systems and the addition of the generators will play a major role if we experience periods of extended power loss.

In calendar year 2011, we treated and distributed 2.0 billion gallons of water to our residential and commercial customers in compliance with guidelines of the EPA and TCEQ federal and state agencies. Our divisions installed 1,275 feet of new water lines, 517 feet of new wastewater mains, 261,826 feet of preventative maintenance to our sanitary sewer mains, rehabilitated 43 manhole repairs, and replaced 177 water meters as part of our annual program to extend water related utility services to under and un-served portions of the community and maintain our distribution system maintenance program at an extremely high level. Beginning in 2012, we will begin performing a new smoke testing program of our collection system to location sources of ground water infiltration that need to be repaired because the infiltration can overload the City's collection and treatment systems.

### City of Marshall's Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	1,155,374	1,101,036	310,612	310,612	1,465,986	1,411,648
Buildings	19,939,988	19,506,939	2,967,181	2,967,181	22,907,169	22,474,120
Improvements Other than Bldgs.	3,562,143	3,245,948	-	-	3,562,143	3,245,948
Machinery and Equipment	12,486,181	12,015,639	3,076,601	2,658,369	15,562,782	14,674,008
Infrastructure	54,019,171	53,172,680	-	-	54,019,171	53,172,680
Water and Wastewater System	-	-	68,373,513	50,424,458	68,373,513	50,424,458
Construction in Progress	548,904	290,460	1,317,519	18,959,889	1,866,423	19,250,349
Less Accumulated Depreciation	<u>(48,063,746)</u>	<u>(45,667,130)</u>	<u>(29,250,527)</u>	<u>(28,023,659)</u>	<u>(77,314,273)</u>	<u>(73,690,789)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>43,648,015</u>	<u>43,665,572</u>	<u>46,794,899</u>	<u>47,296,850</u>	<u>90,442,914</u>	<u>90,962,422</u>

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

**Long-term debt.** At the end of the current fiscal year, the City of Marshall had total bonded debt outstanding of \$27,975,000. Of this amount, \$5,495,000 comprises debt backed by the full faith and credit of the government and \$3,725,000 is backed by the levy and collection of ad valorem taxes in the City as provided by law, and from surplus revenues in the City's Hotel Occupancy Tax Fund. The remainder of the City of Marshall's debt, \$18,755,000, represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

### City of Marshall's Outstanding Debt General Obligation and Revenue Bonds

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General Obligation Bonds						
Series 2007	5,495,000	5,720,000	-	-	5,495,000	5,720,000
General Obligation Bonds						
Certificates of Obligation	3,065,000	3,355,000	-	-	3,065,000	3,355,000
Revenue Bonds	660,000	660,000	18,755,000	20,435,000	19,415,000	21,095,000
Total	<u>9,220,000</u>	<u>9,735,000</u>	<u>18,755,000</u>	<u>20,435,000</u>	<u>27,975,000</u>	<u>30,170,000</u>

The City of Marshall, Texas maintains the following bond ratings:

Company	Insured Ratings	<u>Underlying Ratings</u>	
		GO Bonds	Revenue Bonds
Moody's	"Aaa"	"A3"	"A3"
Standard & Poors	"AA-"	-	-

The City Charter of the City of Marshall, Texas, and the statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. The City operates under a Home Rule Charter, which also imposes a limit of \$1.35. The budgeted property tax rate was \$.47604 per \$100 valuation with a tax margin of \$.87396 per \$100 valuation based upon the maximum ad valorem tax rate noted above. Additional revenues up to \$9,160,900, per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$1,048,205,882.

# **CITY OF MARSHALL, TEXAS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011**

### **Economic Factors and Next Year's Budgets and Rates**

#### **Economic Factors**

- New residential construction in 2011 was 18 single family units.
- The average price of a single family unit was \$221,706.
- The City's annual growth in valuation has increased 4.5%.
- The tax rate is expected to remain at \$0.47604/\$100 valuation.
- Commercial construction started during 2011 was Cajun Tex, 104 West Grand Shopping Plaza, Marshall Lube and Auto, Sleep Inn & Suites, Midcon Shop Facility, Boyd Veterinary Clinic, Peoples Funeral Home, Taco Bell, CenterPoint Energy, and C & J Energy Service.
- The City benefits from its strategic location, which is approximately 23 miles from Longview and 36 miles from Shreveport at the intersection of U.S. Hwy. 59 and I-20.
- Annual unemployed for Harrison County is 7.92% for 2011.
- Median household income is estimated at \$44,900.

#### **Next Year's Budgets and Rates**

The 2012 City of Marshall Annual Budget reflected an approximate 1% increase (\$292,000) over the 2011 budget. We will closely monitor economic indicators, revenues and expenditures in 2012 to assure that the City of Marshall maintains a balanced budget.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City of Marshall's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Marshall, 401 S. Alamo Marshall, Texas, 75670.

## **Basic Financial Statements**

# CITY OF MARSHALL, TEXAS

## GOVERNMENT-WIDE STATEMENT OF NET ASSETS DECEMBER 31, 2011

	<i>Primary Government</i>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and Temporary Investments	2,893,193	2,351,840	5,245,033
Certificates of Deposit	4,783,889	-	4,783,889
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	5,421,408	1,053,736	6,475,144
Due From Other Governments	1,812,473	64,427	1,876,900
Prepaid Expenses	27,767	175	27,942
Inventory	16,489	18,095	34,584
Restricted Assets:			
Cash and Temporary Investments	-	2,725,416	2,725,416
Certificates of Deposit	-	951,518	951,518
Accrued Interest Receivable	-	1,864	1,864
Unamortized Bond Issue Costs	98,822	370,889	469,711
Capital Assets:			
Land	1,155,374	310,612	1,465,986
Construction in Progress	548,904	1,317,519	1,866,423
Buildings	19,939,988	2,967,181	22,907,169
Machinery and Equipment	12,486,181	3,076,601	15,562,782
Improvements	3,562,143	-	3,562,143
Infrastructure	54,019,171	-	54,019,171
Water and Wastewater System	-	68,373,513	68,373,513
Accumulated Depreciation	(48,063,746)	(29,250,527)	(77,314,273)
<b>Total Assets</b>	<u>58,702,056</u>	<u>54,332,859</u>	<u>113,034,915</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	1,101,212	118,494	1,219,706
Accrued Interest Payable	22,824	5,082	27,906
Accrued Liabilities	188,368	51,611	239,979
Current Portion of Accrued Leases Payable	147,021	53,939	200,960
Payable From Restricted Assets:			
Current Portion of Bonds Payable	-	1,745,000	1,745,000
Customer Deposits	-	675,251	675,251
Accounts Payable	-	32,701	32,701
Accrued Liabilities	-	45,235	45,235
Security Deposits	-	-	-
Noncurrent Liabilities:			
Due Within One Year	540,000	-	540,000
Due In More Than One Year	12,259,765	18,052,513	30,312,278
<b>Total Liabilities</b>	<u>14,259,190</u>	<u>20,779,826</u>	<u>35,039,016</u>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	34,070,428	27,462,453	61,532,881
Restricted for:			
Debt Service	513,438	612,362	1,125,800
Capital Projects	1,791,155	-	1,791,155
Unrestricted (Deficit)	8,067,845	5,478,218	13,546,063
<b>Total Net Assets</b>	<u>44,442,866</u>	<u>33,553,033</u>	<u>77,995,899</u>

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

<i>Discretely Presented Component Units</i>		
<i>Marshall Economic Dev. Corp.</i>	<i>Marshall Downtown Dev. Corp.</i>	<i>Marshall Conv. &amp; Vis. Bureau</i>
2,402,362	17,560	14,163
-	-	-
23,127	-	-
369,718	-	63,222
-	-	-
-	-	-
-	-	-
-	-	-
4,172,407	-	-
2,400,045	-	-
949,629	50,217	-
135,574	-	-
246,204	-	-
-	-	-
-	-	-
(339,231)	(1,004)	-
<u>10,359,835</u>	<u>66,773</u>	<u>77,385</u>
80,707	20,000	108,927
-	-	-
11,216	-	-
-	-	-
-	-	-
-	-	-
-	-	-
20,539	-	-
63,447	-	-
757,527	-	-
<u>933,436</u>	<u>20,000</u>	<u>108,927</u>
6,743,654	49,213	-
-	-	-
-	-	-
2,682,745	(2,440)	(31,542)
<u>9,426,399</u>	<u>46,773</u>	<u>(31,542)</u>

# CITY OF MARSHALL, TEXAS

## GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	2,632,944	387,453	227,253	-
Finance	200,972	-	-	-
Public Safety	8,378,335	2,068,201	215,288	42,301
Public Works	4,407,776	2,342,611	7,909	-
Planning	353,476	-	-	-
Purchasing	3,677	-	-	-
Library	513,196	31,194	52,225	-
Non-Departmental	1,992,817	-	-	-
Tax Collection	60,816	-	-	-
Parks and Recreation	976,368	96,564	-	-
Tourist and Convention	1,027,905	206,915	23,417	347,807
Code Enforcement	65,697	-	65,697	-
Interest on Long-Term Debt	349,238	-	-	-
Total Governmental Activities	<u>20,963,217</u>	<u>5,132,938</u>	<u>591,789</u>	<u>390,108</u>
Business-Type Activities:				
Water and Sewer	7,705,130	10,600,288	-	313,925
Business Development Center	43,837	-	-	-
Total Business-Type Activities	<u>7,748,967</u>	<u>10,600,288</u>	<u>-</u>	<u>313,925</u>
Total Primary Government	<u><u>28,712,184</u></u>	<u><u>15,733,226</u></u>	<u><u>591,789</u></u>	<u><u>704,033</u></u>
<b>Component Units:</b>				
Marshall Economic Develop. Corp.	1,215,890	309,024	-	-
Marshall Downtown Develop. Corp.	223,014	-	242,507	-
Marshall Conv. & Vis. Bureau	915,010	492,432	103,095	-
Total Component Units	<u>2,353,914</u>	<u>801,456</u>	<u>345,602</u>	<u>-</u>

**General Revenues:**

Taxes:

    Property

    Sales

    Franchise

Investment Earnings

Net Transfer of Title of Hotel Marshall Property

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets (Deficit) Beginning of Year

**Net Assets (Deficit) End of Year**

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

Exhibit B-1

<i>Net (Expenses) Revenue and Changes in Net Assets</i>					
<i>Primary Government</i>			<i>Discretely Presented Component Units</i>		
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Marshall Economic Dev. Corp.</i>	<i>Marshall Downtown Dev. Corp.</i>	<i>Marshall Conv. &amp; Vis. Bureau</i>
(2,018,238)	-	(2,018,238)	-	-	-
(200,972)	-	(200,972)	-	-	-
(6,052,545)	-	(6,052,545)	-	-	-
(2,057,256)	-	(2,057,256)	-	-	-
(353,476)	-	(353,476)	-	-	-
(3,677)	-	(3,677)	-	-	-
(429,777)	-	(429,777)	-	-	-
(1,992,817)	-	(1,992,817)	-	-	-
(60,816)	-	(60,816)	-	-	-
(879,804)	-	(879,804)	-	-	-
(449,766)	-	(449,766)	-	-	-
-	-	-	-	-	-
(349,238)	-	(349,238)	-	-	-
<u>(14,848,382)</u>	<u>-</u>	<u>(14,848,382)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	3,209,083	3,209,083	-	-	-
-	(43,837)	(43,837)	-	-	-
-	<u>3,165,246</u>	<u>3,165,246</u>	-	-	-
<u>(14,848,382)</u>	<u>3,165,246</u>	<u>(11,683,136)</u>	-	-	-
			(906,866)	-	-
			-	19,493	-
			-	-	(319,483)
			<u>(906,866)</u>	<u>19,493</u>	<u>(319,483)</u>
4,927,433	-	4,927,433	-	-	-
6,660,121	-	6,660,121	1,967,605	-	-
1,119,478	-	1,119,478	-	-	-
40,145	11,972	52,117	3,245	-	235
-	-	-	-	(1,283,378)	-
1,608,177	(1,608,177)	-	-	-	-
<u>14,355,354</u>	<u>(1,596,205)</u>	<u>12,759,149</u>	<u>1,970,850</u>	<u>(1,283,378)</u>	<u>235</u>
(493,028)	1,569,041	1,076,013	1,063,984	(1,263,885)	(319,248)
44,935,894	31,983,992	76,919,886	8,362,415	1,310,658	287,706
<u>44,442,866</u>	<u>33,553,033</u>	<u>77,995,899</u>	<u>9,426,399</u>	<u>46,773</u>	<u>(31,542)</u>

# CITY OF MARSHALL, TEXAS

Exhibit C-1

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and Temporary Investments	1,522,884	1,401,877	2,924,761
Certificates of Deposit	3,268,730	1,515,159	4,783,889
Receivables (Net of Allowance for Uncollectible)			
Current Taxes	2,555,861	339,058	2,894,919
Delinquent Taxes	609,074	65,794	674,868
Customer	1,290,090	-	1,290,090
Franchise Taxes	248,435	-	248,435
Other	183,636	1,636	185,272
Accrued Interest	5,353	1,625	6,978
Note Receivable	84,400	-	84,400
Prepaid Expenditures	27,767	-	27,767
Due from Other Governments	1,652,489	159,984	1,812,473
<b>TOTAL ASSETS</b>	<b><u>11,448,719</u></b>	<b><u>3,485,133</u></b>	<b><u>14,933,852</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts Payable	894,841	177,155	1,071,996
Accrued Liabilities	188,368	-	188,368
Deferred Revenue	4,040,664	334,334	4,374,998
<b>Total Liabilities</b>	<b><u>5,123,873</u></b>	<b><u>511,489</u></b>	<b><u>5,635,362</u></b>
<b>Fund Balances</b>			
<b>Nonspendable:</b>			
Prepaid Expenditures	27,767	-	27,767
Note Receivable	84,400	-	84,400
<b>Restricted:</b>			
Promotion and Tourism	-	136,350	136,350
Law Enforcement	-	193,584	193,584
Purpose of Grantors and Donors	-	21,387	21,387
Debt Service	-	513,438	513,438
Library	-	317,730	317,730
Capital Projects	-	1,791,155	1,791,155
Other Post-Employment Benefits	72,315	-	72,315
<b>Unassigned:</b>			
Reported in General Fund	6,140,364	-	6,140,364
<b>Total Fund Balances</b>	<b><u>6,324,846</u></b>	<b><u>2,973,644</u></b>	<b><u>9,298,490</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>11,448,719</u></b>	<b><u>3,485,133</u></b>	<b><u>14,933,852</u></b>

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

# CITY OF MARSHALL, TEXAS

Exhibit C-2

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS DECEMBER 31, 2011

Total Fund Balances - Total Governmental Funds	9,298,490
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (Includes capital assets of Internal Service Funds.)	43,648,015
Bond issuance costs are not current financial resources and therefore are not reported in governmental funds balance sheet.	98,822
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(22,824)
Internal service funds are used by management to charge the cost of certain activities, such as equipment replacement and stores inventory to individual funds. The assets and liabilities of the Internal Service Funds are net of amount allocated to business-type activities, capital assets and long-term liabilities. The net effect of this consolidation is to increase (decrease) net assets.	(7,849)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	
Due Within One Year	(687,021)
Due in More Than One Year	(12,259,765)
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>4,374,998</u>
Net Assets of Governmental Activities	<u><u>44,442,866</u></u>

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

# CITY OF MARSHALL, TEXAS

Exhibit C-3

Page 1 of 2

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2011

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b><u>REVENUE:</u></b>			
Ad Valorem Taxes	4,386,197	600,597	4,986,794
Sales Taxes	5,932,914	-	5,932,914
Franchise Tax	1,119,478	-	1,119,478
Motel Occupancy Tax	-	727,207	727,207
Permits and Fees	4,262,849	-	4,262,849
Municipal Court Fines	423,896	12,470	436,366
Interest	26,766	13,379	40,145
Intergovernmental	452,989	128,378	581,367
Donations	-	400,531	400,531
Miscellaneous	158,940	93,430	252,370
<b>Total Revenue</b>	<b>16,764,029</b>	<b>1,975,992</b>	<b>18,740,021</b>
<b><u>EXPENDITURES:</u></b>			
Current:			
General Government	1,996,558	68,244	2,064,802
Tourism and Convention Center	302,341	532,403	834,744
Code Enforcement	-	65,697	65,697
Finance	200,972	-	200,972
Public Safety	7,848,059	23,436	7,871,495
Public Works	2,804,904	72,938	2,877,842
Planning	351,833	-	351,833
Purchasing	3,347	-	3,347
Library	468,449	28,011	496,460
Non-Departmental	1,980,107	-	1,980,107
Tax Collection	60,816	-	60,816
Parks and Recreation	976,368	-	976,368
Debt Service:			
Principal Retirement	152,889	515,000	667,889
Interest and Fees	9,399	338,981	348,380
Capital Outlay	1,584,664	1,034,300	2,618,964
<b>Total Expenditures</b>	<b>18,740,706</b>	<b>2,679,010</b>	<b>21,419,716</b>

# CITY OF MARSHALL, TEXAS

Exhibit C-3  
Page 2 of 2

## GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2011

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<i><b>CONTINUED:</b></i>			
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<u>(1,976,677)</u>	<u>(703,018)</u>	<u>(2,679,695)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	1,567,781	860,996	2,428,777
Transfers Out	(131,579)	(730,821)	(862,400)
Capital Lease Proceeds	<u>214,612</u>	<u>-</u>	<u>214,612</u>
<b>Total Other Financing Sources (Uses)</b>	<u>1,650,814</u>	<u>130,175</u>	<u>1,780,989</u>
Net Change in Fund Balances	(325,863)	(572,843)	(898,706)
Fund Balances at Beginning of Year	<u>6,650,709</u>	<u>3,546,487</u>	<u>10,197,196</u>
<b>Fund Balances at End of Year</b>	<u><u>6,324,846</u></u>	<u><u>2,973,644</u></u>	<u><u>9,298,490</u></u>

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

# CITY OF MARSHALL, TEXAS

Exhibit C-4

## RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds (898,706)

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

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. This is the net amount of capital assets recorded in the current period. 2,565,749

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (Includes Internal Service Funds' depreciation expense of \$336,645.) (2,583,306)

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (7,400)

The issuance of long-term debt 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. 216,023

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. (858)

Internal service funds are used by management to charge the cost of certain activities, such as equipment replacement and stores inventory to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of amount allocated to business-type activities and depreciation expense. The net effect of this consolidation is to increase (decrease) net assets. 40,265

Some property tax and intergovernmental revenues will not be collected for several months after the City's fiscal year-end. These are not considered available revenues in the governmental funds unless they are received within 60 days of the City's year-end. These are the changes in amounts deferred in the governmental funds. 175,205

Changes in Net Assets of Governmental Activities (493,028)

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

# CITY OF MARSHALL, TEXAS

Exhibit C-5

**GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUE:</b>				
Ad Valorem Taxes	4,277,625	4,277,625	4,386,197	108,572
Sales Taxes	5,781,000	5,781,000	5,932,914	151,914
Franchise Tax	1,095,000	1,095,000	1,119,478	24,478
Permits and Fees	4,071,880	4,071,880	4,262,849	190,969
Municipal Court Fines	576,000	576,000	423,896	(152,104)
Interest	25,000	25,000	26,766	1,766
Intergovernmental	448,650	448,650	452,989	4,339
Miscellaneous	27,000	27,000	158,940	131,940
<b>Total Revenue</b>	<b>16,302,155</b>	<b>16,302,155</b>	<b>16,764,029</b>	<b>461,874</b>
<b>EXPENDITURES:</b>				
General Government	1,874,651	2,018,406	1,996,558	21,848
Tourism and Convention Center	356,346	356,346	302,341	54,005
Finance	213,161	213,161	200,972	12,189
Public Safety	8,021,045	8,021,045	7,848,059	172,986
Public Works	2,779,291	2,782,741	2,804,904	(22,163)
Planning	352,886	352,886	351,833	1,053
Purchasing	4,300	4,300	3,347	953
Library	495,651	495,651	468,449	27,202
Non-Departmental	1,629,735	1,961,058	1,980,107	(19,049)
Tax Collection	65,000	65,000	60,816	4,184
Parks and Recreation	1,019,360	1,019,360	976,368	42,992
Debt Service	161,745	161,745	162,288	(543)
Capital Outlay	678,600	1,374,471	1,584,664	(210,193)
<b>Total Expenditures</b>	<b>17,651,771</b>	<b>18,826,170</b>	<b>18,740,706</b>	<b>85,464</b>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<b>(1,349,616)</b>	<b>(2,524,015)</b>	<b>(1,976,677)</b>	<b>547,338</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	1,350,000	1,350,000	1,567,781	217,781
Transfers Out	-	(131,579)	(131,579)	-
Capital Lease Proceeds	-	-	214,612	214,612
<b>Total Other Financing Sources (Uses)</b>	<b>1,350,000</b>	<b>1,218,421</b>	<b>1,650,814</b>	<b>432,393</b>
Net Change in Fund Balance	384	(1,305,594)	(325,863)	979,731
<b>Fund Balance at Beginning of Year</b>	<b>6,650,709</b>	<b>6,650,709</b>	<b>6,650,709</b>	<b>-</b>
<b>Fund Balance at End of Year</b>	<b>6,651,093</b>	<b>5,345,115</b>	<b>6,324,846</b>	<b>979,731</b>

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

# CITY OF MARSHALL, TEXAS

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Business-Type Activities - Enterprise Funds</b>			<i>Governmental Internal Service Funds</i>
	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	
<b><u>ASSETS</u></b>				
<b><i>Current Assets:</i></b>				
Cash and Temporary Investments	2,402,386	(50,546)	2,351,840	(31,568)
Customer Receivables (Net of Allowance for Uncollectibles)	1,003,190	50,546	1,053,736	36,446
Prepaid Expenditures	175	-	175	-
Due From Other Governments	64,427	-	64,427	-
Inventory	18,095	-	18,095	16,489
Total Current Assets	3,488,273	-	3,488,273	21,367
<b><i>Noncurrent Assets:</i></b>				
Restricted Assets:				
Cash and Temporary Investments	2,725,416	-	2,725,416	-
Certificates of Deposit	951,518	-	951,518	-
Accrued Interest Receivable	1,864	-	1,864	-
Total Restricted Assets	3,678,798	-	3,678,798	-
Other Assets:				
Unamortized Bond Issuance Costs	370,889	-	370,889	-
Total Other Assets	370,889	-	370,889	-
Capital Assets:				
Land	230,281	80,331	310,612	-
Construction in Progress	1,317,519	-	1,317,519	-
Buildings	778,361	2,188,820	2,967,181	122,596
Machinery and Equipment	2,756,288	320,313	3,076,601	20,660
Water and Wastewater System	68,373,513	-	68,373,513	-
Less: Accumulated Depreciation	(28,180,201)	(1,070,326)	(29,250,527)	(143,256)
Total Capital Assets (Net of Accumulated Depreciation)	45,275,761	1,519,138	46,794,899	-
Total Noncurrent Assets	49,325,448	1,519,138	50,844,586	-
<b>TOTAL ASSETS</b>	<b>52,813,721</b>	<b>1,519,138</b>	<b>54,332,859</b>	<b>21,367</b>
Reconciliation to Government-Wide Statement of Net Assets:				
Adjustment to Reflect the Consolidation of Internal Service Funds Activities Related to Enterprise Funds			-	
Assets of Business-Type Activities			54,332,859	

# CITY OF MARSHALL, TEXAS

Exhibit D-1  
Page 2 of 2

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

<u>CONTINUED:</u>	<b>Business-Type Activities - Enterprise Funds</b>			
<u>LIABILITIES</u>	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
<i><b>Current Liabilities:</b></i>				
Accounts Payable	118,494	-	118,494	29,216
Unearned Revenue	5,082	-	5,082	-
Accrued Salaries and Wages	51,611	-	51,611	-
Current Portion of Lease Payable	53,939	-	53,939	-
Total Current Liabilities	229,126	-	229,126	29,216
<i><b>Current Liabilities Payable from Restricted Assets:</b></i>				
Current Portion of Bonds Payable	1,745,000	-	1,745,000	-
Customer Deposits	675,251	-	675,251	-
Accounts Payable	32,701	-	32,701	-
Unearned Revenue	10,000	-	10,000	-
Accrued Liabilities	35,235	-	35,235	-
Total Current Liabilities Payable from Restricted Assets	2,498,187	-	2,498,187	-
<i><b>Other Liabilities:</b></i>				
Bonds Payable (Net of Current Portion)	17,533,507	-	17,533,507	-
Accrued Post Retirement Health Care and TMRS	231,148	-	231,148	-
Compensated Absences	287,858	-	287,858	-
Total Other Liabilities	18,052,513	-	18,052,513	-
<b>TOTAL LIABILITIES</b>	<b>20,779,826</b>	<b>-</b>	<b>20,779,826</b>	<b>29,216</b>
<i><b>NET ASSETS (DEFICIT)</b></i>				
Invested in Capital Assets, Net of Related Debt	25,943,315	1,519,138	27,462,453	-
Restricted for Retirement of Bonds	612,362	-	612,362	-
Unrestricted (Deficit)	5,478,218	-	5,478,218	(7,849)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>32,033,895</b>	<b>1,519,138</b>	<b>33,553,033</b>	<b>(7,849)</b>
Reconciliation to Government-Wide Statement of Net Assets:				
Adjustment to Reflect the Consolidation of Internal Service Funds Activities			-	
Related to Enterprise Funds			-	
Assets of Business-Type Activities			33,553,033	

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

# CITY OF MARSHALL, TEXAS

Exhibit D-2

## PROPRIETARY FUNDS STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds			Governmental Internal Service Funds
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	
<b><u>OPERATING REVENUE:</u></b>				
Charges for Services	10,600,288	-	10,600,288	499,174
<b>Total Operating Revenue</b>	<b>10,600,288</b>	<b>-</b>	<b>10,600,288</b>	<b>499,174</b>
<b><u>OPERATING EXPENSES:</u></b>				
Administrative	292,284	-	292,284	-
Water Production	1,251,767	-	1,251,767	-
Water Distribution/ Collection	1,319,054	-	1,319,054	-
Sewage Treatment	1,208,200	-	1,208,200	-
Water Billing	450,589	-	450,589	-
Engineering	168,078	-	168,078	-
Non-Departmental	921,532	-	921,532	-
Materials and Supplies	-	-	-	500,708
Depreciation	1,183,031	43,837	1,226,868	-
Amortization	56,221	-	56,221	-
Bad Debt Expense	25,764	-	25,764	-
<b>Total Operating Expenses</b>	<b>6,876,520</b>	<b>43,837</b>	<b>6,920,357</b>	<b>500,708</b>
<b>Operating Income (Loss)</b>	<b>3,723,768</b>	<b>(43,837)</b>	<b>3,679,931</b>	<b>(1,534)</b>
<b><u>NONOPERATING REVENUE (EXPENSES):</u></b>				
Interest Income	11,972	-	11,972	-
Interest Expense and Fees	(828,610)	-	(828,610)	-
Other Nonoperating Expense	-	-	-	(2,890,385)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(816,638)</b>	<b>-</b>	<b>(816,638)</b>	<b>(2,890,385)</b>
<b><u>CAPITAL CONTRIBUTIONS</u></b>	<b>458,069</b>	<b>-</b>	<b>458,069</b>	<b>-</b>
<b>Income (Loss) Before Transfers</b>	<b>3,365,199</b>	<b>(43,837)</b>	<b>3,321,362</b>	<b>(2,891,919)</b>
Transfers In	88,293	-	88,293	-
Transfers (Out)	(1,350,000)	-	(1,350,000)	(304,670)
<b>Total Transfers In (Out)</b>	<b>(1,261,707)</b>	<b>-</b>	<b>(1,261,707)</b>	<b>(304,670)</b>
<b>Change in Net Assets</b>	<b>2,103,492</b>	<b>(43,837)</b>	<b>2,059,655</b>	<b>(3,196,589)</b>
Total Net Assets, Beginning of Year	29,930,403	1,562,975		3,188,740
<b>Total Net Assets ( Deficit), End of Year</b>	<b>32,033,895</b>	<b>1,519,138</b>		<b>(7,849)</b>
Reconciliation to Government-Wide Statement of Net Assets:				
Adjustment to Reflect the Consolidation of Internal Service Funds Activities Related to Enterprise Funds			(490,614)	
Assets of Business-Type Activities			1,569,041	

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

# CITY OF MARSHALL, TEXAS

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Internal Service Funds</b>
	<b>Water and Sewer Fund</b>	<b>Nonmajor Enterprise Fund</b>	<b>Total</b>	
<b><u>Cash Flows from Operating Activities:</u></b>				
Cash Received from Customers	10,509,621	-	10,509,621	496,346
Cash Payments to Suppliers for Goods and Services	(3,646,439)	-	(3,646,439)	(501,465)
Cash Payments to Employees for Services	(2,021,276)	-	(2,021,276)	-
Net Cash Provided (Used) by Operating Activities	<u>4,841,906</u>	<u>-</u>	<u>4,841,906</u>	<u>(5,119)</u>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>				
Transfers In	88,293	-	88,293	-
Transfers (Out)	(1,350,000)	-	(1,350,000)	(304,670)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,261,707)</u>	<u>-</u>	<u>(1,261,707)</u>	<u>(304,670)</u>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>				
Acquisition and Construction of Capital Assets	(724,917)	-	(724,917)	-
Principal Paid on Bonds and Leases	(1,732,437)	-	(1,732,437)	-
Payment of Interest on Bonds and Other Debt	(831,189)	-	(831,189)	-
Contributed Capital - Grant Proceeds	313,925	-	313,925	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,974,618)</u>	<u>-</u>	<u>(2,974,618)</u>	<u>-</u>
<b><u>Cash Flows from Investing Activities:</u></b>				
Purchase of Investments	(2,225,092)	-	(2,225,092)	-
Proceeds from Sale and Maturities of Investments	2,214,927	-	2,214,927	-
Interest on Investments	13,911	-	13,911	-
Net Cash Provided by Investing Activities	<u>3,746</u>	<u>-</u>	<u>3,746</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	609,327	-	609,327	(309,789)
Cash and Cash Equivalents (Deficit), Beginning of Year	<u>4,518,475</u>	<u>(50,546)</u>	<u>4,467,929</u>	<u>278,221</u>
<b>Cash and Cash Equivalents (Deficit), End of Year</b>	<u><u>5,127,802</u></u>	<u><u>(50,546)</u></u>	<u><u>5,077,256</u></u>	<u><u>(31,568)</u></u>

# CITY OF MARSHALL, TEXAS

Exhibit D-3

Page 2 of 2

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Continued</u>	<u>Business-Type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Water and Sewer Fund</u>	<u>Nonmajor Enterprise Fund</u>	<u>Total</u>	
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>				
Operating Income (Loss)	3,723,768	(43,837)	3,679,931	(1,534)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation	1,183,031	43,837	1,226,868	-
Amortization	56,221	-	56,221	-
Other Post Employment Benefits	(19,790)	-	(19,790)	-
(Increase) Decrease in Assets:				
Accounts Receivable	(107,834)	-	(107,834)	(2,828)
Prepaid Expenses	(175)	-	(175)	-
Inventory	26,386	-	26,386	(2,510)
Increase (Decrease) in Liabilities:				
Accounts Payable	(85,146)	-	(85,146)	1,753
Unearned Revenue	(3,315)	-	(3,315)	-
Accrued Liabilities	50,734	-	50,734	-
Customer Deposits	20,482	-	20,482	-
Compensated Absences	(2,456)	-	(2,456)	-
Total Adjustments	1,118,138	43,837	1,161,975	(3,585)
Net Cash Provided (Used) By Operating Activities	4,841,906	-	4,841,906	(5,119)

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

# CITY OF MARSHALL, TEXAS

Exhibit E-1

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<i>Agency Funds</i>
<b><u>ASSETS</u></b>	
Cash and Temporary Investments	115,050
<b>TOTAL ASSETS</b>	<u>115,050</u>
<b><u>LIABILITIES</u></b>	
Accounts Payable	1,481
Due to Employees	113,569
<b>TOTAL LIABILITIES</b>	<u>115,050</u>

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

## **Notes to Financial Statements**

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Marshall, Texas ("City") was chartered pursuant to an election in 1909 (as amended). The City operates under a commission form of government and provides the following services as authorized by its charter, public safety (police and fire), highway and streets, water and sewer, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting and reporting policies and practices used by the City are described below.

#### **Scope of Reporting Entity:**

As required by generally accepted accounting principles (GAAP), these financial statements present the City (the Primary Government) and its discretely presented component units, Marshall Economic Development Corporation, Marshall Higher Education Financing Corporation, Marshall Downtown Development Corporation, and Marshall Convention and Visitors Bureau in the financial statements.

Marshall Economic Development Corporation (MEDCO) was incorporated under the Development Corporation Act of 1979, as amended, Article 5190.6, Tex. Rev. Civ. Stat. Ann., as amended as a non-profit industrial development corporation. The purpose of the corporation is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City. The City appoints its five (5) member board of directors and all its policies for program administration must be submitted to the City for approval. Marshall Economic Development Corporation is subject to audit by the City or its representatives, and may not issue any debt without City approval. Its revenue is derived from a \$.005 City sales tax. A separate audit for the year ended December 31, 2011, was performed and may be obtained by contacting MEDCO.

Marshall Higher Education Financing Corporation (HEFCO) was incorporated as a non-profit organization to provide an instrumentality to exercise the powers granted to a higher education authority under Section 53.33 of the Texas Education Code, as authorized by Section 53.35(b) of the Texas Education Code. The Board of Directors are appointed by and subject to removal by the governing body of the City of Marshall and consists of seven (7) persons. HEFCO is authorized by the City of Marshall to carry on functions of a higher education authority for the purpose of financing educational institutions in Harrison County. HEFCO had no assets at year-end and no activity for the year. Since HEFCO had no assets or activity for 2011, it was not included in the financial statements.

The Marshall Downtown Development Corporation (MDDC) was established by resolution of the City Commission of Marshall, Texas, on March 13, 2003, to act as a non-profit corporation for the benefit of the City of Marshall, Texas, specifically to promote and assist in the development, growth, and economic well being of the downtown area. On June 3, 2004, MDDC filed amendments to Articles of Incorporation with the Secretary of State changing the status of the Corporation to a Local Government Corporation under applicable provisions of the Texas Transportation Code. The Board of Directors are appointed by and subject to removal by the governing body of the City of Marshall and consists of not more than seven (7) persons. A separate audit for the year ended December 31, 2011, was performed and may be obtained by contacting MDDC.

Marshall Convention and Visitors Bureau (MCVB) was incorporated under the Texas Business Organizations Code, Chapter 22 on October 12, 2007. MCVB also complies with Chapter 351 of the Texas Tax Code with regard to any funds granted to MCVB by the City of Marshall. The purposes of the Corporation are to promote the City of Marshall related to tourism, visitors and economic growth; solicit groups for conventions expositions and other events to increase the hotel activity; and branding and product development. MCVB has a Board of Directors comprised of seven (7) members who are all

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

appointed by the City. A separate audit for the year ended December 31, 2011, was performed and may be obtained by contacting MCVB.

#### Basis of Presentation:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

#### Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

#### Governmental Funds:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City has presented the following major governmental fund:

**General Fund:** The General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Additionally, the City reports the following governmental fund types:

**Special Revenue Funds:** Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are restricted to expenditures for specified purposes.

**Debt Service Funds:** The Debt Service Funds are used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest, and related costs. The fund balances of the debt service funds are reserved to signify the amounts that are restricted exclusively for debt service.

**Capital Projects Funds:** Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital assets (other than those financed by proprietary funds).

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

**Permanent Fund:** The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The Permanent Fund of the City is the Library Fund.

#### **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 and Business Development Center. 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 stores inventory, and equipment replacement programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements, except for the Equipment Replacement Fund. The Equipment Replacement Fund was split between governmental and business-type activities. At the beginning of this year, the City elected to dissolve the Equipment Replacement Fund and transferred all assets to their respective funds. The City has presented the following major enterprise fund:

**Water and Sewer Fund:** Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Additionally, the City reports the Business Development Center as a nonmajor enterprise fund type. 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.

#### **Fiduciary Funds (Not Included in Government-Wide Statements):**

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for organizations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's Agency Funds are the Police Local Relief Fund and the Firemen's Emergency Relief Fund.

#### **Measurement Focus/Basis of Accounting:**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers delinquent property taxes as available if they are collected within 60 days after year-end. The current year property tax levy is reported as deferred revenue because the levy is to be used to fund 2011 expenditures. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

#### Budget and Budgetary Accounting:

Prior to the end of August, the City Commission, City Manager, and department heads meet in publicly held budget workshops and prepare a tentative budget for the following year. Duly advertised public hearings are held to obtain taxpayer comment. Prior to October 1, the budget is legally enacted. The General Fund, 1995 and 2007 General Obligation Debt Service Fund, Motel Occupancy Tax Fund, Litter Control Fund, D.A.R.E. Donations Fund, and the Water and Sewer Enterprise Fund are budgeted. The City budgets by departmental category. Formal budget integration into the accounting system is employed as a management control device. Encumbrance accounting is not employed.

The Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. There were several significant amendments in the General Fund. General Government expenditures were increased by \$143,755; Non-Departmental expenditures were increased by \$331,323; and Capital Outlay expenditures were increased by \$695,871.

As noted in Exhibit C-5, Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, Public Works expenditures exceeded the budget by \$22,163; Non-Departmental expenditures exceeded the budget by \$19,049; and Capital Outlay expenditures exceeded the budget by \$210,193. In the future, the City will strive to amend the budget throughout the year to adhere to the budget is legally adopted.

The 1995 and 2007 General Obligation Debt Service Fund, Motel Occupancy Tax Fund, Litter Control Fund, and D.A.R.E. Donations Fund - Statements of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual, and the Water and Sewer Enterprise Fund - Statement of Revenue, Expenses, and Changes in Fund Net Assets are presented in the combining and individual fund financial statements section. Various amendments were made in the Water and Sewer Enterprise Fund during the year.

#### Cash and Investments - Statement of Cash Flows:

Cash of all funds, including restricted cash, but excluding the Payroll and for the Disaster Relief cash accounts, are pooled into one common pooled account in order to maximize investment opportunities. The City pools temporary investments into pooled accounts in a public funds investment pool with TexPool. Also, the City pools investments into other authorized investments. Each fund whose monies are deposited in the pooled cash and investment account has an equity therein, and interest has an equity therein, and interest earned on the investment of these monies is allocated based on relative equity at month end. The pooled cash and temporary investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities that are owned by a specific fund and that are purchased with a maturity of ninety days or less, are also considered to be "cash equivalents".

The carrying amounts of investments (which are fair value) are based on quoted market values at December 31, 2011. The market values of temporary investments are based on values provided by TexPool at December 31, 2011.

#### Inventories:

The inventories of the Proprietary Fund consist of supplies and are valued at cost.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

#### Restricted Assets:

These assets consist of cash and investments restricted for water and sewer revenue bond debt service, customer meter deposits, and water and sewer capital projects.

#### Interfund Receivables and Payables - Transactions Between Funds:

Short-term amounts owed between funds are classified as "Due To/From Other Funds".

Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

#### Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Ad Valorem Tax:

Taxes are levied on October 1 and are due on January 1. All unpaid taxes levied on October 1 become delinquent July 1 of the following year. Property taxes are recorded when levied as Taxes Receivable in the General Fund with an offset to Deferred Revenue. Revenue is recognized as taxes are collected, except that delinquent tax collections for the first sixty days of the subsequent year are considered susceptible to accrual and recognized in the current year. Taxes levied on October 1 which are collected between October 1 and December 31 are recognized as revenue. Debt Service requirements are satisfied by allocating tax receipts between the General Fund and the Debt Service Fund.

#### Capital Assets:

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Water and Sewer System	25-50 Years
Infrastructure	20-40 Years
Machinery and Equipment	5-12 Years
Improvements	20-25 Years

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

#### **Compensated Absences:**

A total of 10 to 15 days vacation and 15 days sick leave per year may be accumulated by each employee. A maximum of 2 years vacation and 90 days sick leave may be accumulated. (Civil Service employees may accumulate an unlimited amount of sick leave.) The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria the City has accrued a liability for paid absences, which have been earned but not taken by City employees. The City budgets an amount estimated to be paid to terminated employees each year. As a result, none of the liability is anticipated to be liquidated with expendable available financial resources. However, accrued compensated absences are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements, and in the enterprise activities of the fund financial statements.

#### **Net Assets:**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

#### **Governmental Fund Balances:**

In the governmental funds financial statements, fund balances are classified as follows:

Nonspendable fund balance - amounts that are not in a spendable form or are required to be maintained intact;

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

### **NOTE 2: DEPOSITS AND INVESTMENTS:**

#### **Legal and Contractual Provisions Governing Deposits and Investments:**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt and implement an investment policy. That policy must address the following areas: 1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 2: DEPOSITS AND INVESTMENTS: (Continued)

stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

### Policies Governing Deposits and Investments:

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. Custodial Credit Risks For Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is:

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City is exposed to custodial credit risk for its deposits as follows:

The City's deposits were fully insured or collateralized as required by the state statutes at December 31, 2011. The City utilizes a sweep account for its consolidated cash bank account. This provides the City an opportunity to invest this account balance at all times. At year-end, the carrying amount of the City's deposits (including \$5,349 petty cash and \$5,735,407 certificates of deposit) was \$6,951,509 and the respective bank balances totaled \$6,742,808. For GASB 40, purposes, certificates of deposit are included under deposits. All of the certificates of deposit have maturity dates of one year, or less.

Of the total bank balances, \$300,000 was covered by Federal Depository Insurance for interest bearing accounts and non-interest bearing has unlimited insurance coverage. The remainder of the interest bearing accounts were covered by collateral with a value of \$5,767,823. The collateral is held by Texas Independent Bank of Dallas in the City's name under a joint safekeeping agreement with Texas Bank and Trust.

2. Custodial Credit Risk For Investments - This is the risk that, in the event of the failure of the counter party, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City's investment policy for custodial credit risk is:

The laws of the State and prudent treasury management require that all purchased securities be held in safekeeping by either the City, a third party financial institution, in an insured account with a designated broker/dealer, or the City's designated depository. All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 2: DEPOSITS AND INVESTMENTS: (Continued)

All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third party bank domiciled in Texas. The safekeeping bank may be within the same holding company as the bank from which the securities are pledged.

#### Collateralization

Collateralization shall be required on two types of investments:

- (a) certificates of deposit over the FDIC insurance coverage of \$250,000 and
- (b) repurchase agreements.

At December 31, 2011, all of the securities are in the City's name and held by the City or its agent.

- 3. Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. According to the City's policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of the City and conforming to all applicable state and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity.
- 4. Credit Risk and Concentration Risk - The City's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. The City's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

<u>Investment Types</u>	<u>Maximum Portfolio Concentration</u>
(1) Obligations of the United States or its agencies and instrumentalities	100%
(2) Direct obligations of this state or its agencies and instrumentalities	50%
(3) Fully insured or collateralized certificates of deposit	100%
(4) Fully collateralized repurchase agreements	100%
(5) Money market funds	50%
(6) Public funds investment pools	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 25% of the portfolio for a period greater than one (1) year. The Investment Officer may not invest any portion for a period greater than three (3) years.

- 5. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end and during the year, the City was not exposed to foreign currency risk.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 2: DEPOSITS AND INVESTMENTS: (Continued)

The City's investments as of December 31, 2011 are:

<u>Investment Type</u>	<u>Rating</u>	<u>Concentration of Credit Risk</u>	<u>Market Value</u>	<u>Investment Maturities (Callable In Years)</u>	
				<u>Less Than 1</u>	<u>1-5</u>
<i>Public Funds Investment Pool:</i>					
TexPool (2a7- Like Pool)	AAA-m (S&P)	100%	6,869,397	6,869,397	-
<b>Total</b>		<u>100%</u>	<u>6,869,397</u>	<u>6,869,397</u>	<u>-</u>

At December 31, 2011, the public funds investment pool consisted of investments in TexPool. TexPool is duly chartered and administered by the Texas Comptroller's Office and the portfolio normally consists of U.S. T-Bills, T-Notes, collateralized certificates of deposit, and repurchase agreements. Oversight by the Texas Comptroller's Office over TexPool includes the ability to significantly influence operations, designations of management, and accountability for fiscal matters. These investments are classified as temporary investments in the City's financial statements because these investments are not subject to any restrictions for withdrawal purposes.

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

### NOTE 3: RECEIVABLES:

Receivables as of year-end for the government's individual major funds, nonmajor funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
Receivables:						
Interest	5,353	1,864	1,625	-	-	8,842
Taxes	3,579,073	-	422,752	-	-	4,001,825
Accounts	1,298,552	1,043,363	-	50,546	36,446	2,428,907
Other	183,636	-	1,636	-	-	185,272
Note Receivable	84,400	-	-	-	-	84,400
Gross	<u>5,151,014</u>	<u>1,045,227</u>	<u>426,013</u>	<u>50,546</u>	<u>36,446</u>	<u>6,709,246</u>
Receivables Less:						
Allowance for Uncollectibles	(174,165)	(40,173)	(17,900)	-	-	(232,238)
Net Total Receivables	<u>4,976,849</u>	<u>1,005,054</u>	<u>408,113</u>	<u>50,546</u>	<u>36,446</u>	<u>6,477,008</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 4: CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2011, was as follows:

	<u>December 31,</u> <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2011</u>
<b><u>Governmental Activities:</u></b>				
Capital Assets Not Being Depreciated:				
Land	1,101,036	54,338	-	1,155,374
Construction in Progress	290,460	381,776	(123,332)	548,904
Total Capital Assets Not Being Depreciated	1,391,496	436,114	(123,332)	1,704,278
Capital Assets Being Depreciated:				
Buildings	19,506,939	433,049	-	19,939,988
Machinery and Equipment	12,015,639	710,447	(239,905)	12,486,181
Improvements	3,245,948	316,195	-	3,562,143
Infrastructure	53,172,680	846,491	-	54,019,171
Total Capital Assets, Being Depreciated	87,941,206	2,306,182	(239,905)	90,007,483
Less: Accumulated Depreciation For:				
Buildings	6,590,977	367,715	-	6,958,692
Equipment	6,985,797	867,089	(186,690)	7,666,196
Improvements	820,952	121,407	-	942,359
Infrastructure	31,269,404	1,227,095	-	32,496,499
Total Accumulated Depreciation	45,667,130	2,583,306	(186,690)	48,063,746
Total Capital Assets, Being Depreciated, Net	42,274,076	(277,124)	(53,215)	41,943,737
Governmental Activities Capital Assets, Net	43,665,572	158,990	(176,547)	43,648,015
<b><u>Business-Type Activities:</u></b>				
Capital Assets Not Being Depreciated:				
Land	310,612	-	-	310,612
Construction in Progress	18,959,889	265,420	(17,907,790)	1,317,519
Total Capital Assets Not Being Depreciated	19,270,501	265,420	(17,907,790)	1,628,131
Capital Assets Being Depreciated:				
Buildings	2,967,181	-	-	2,967,181
Machinery and Equipment	2,658,369	418,232	-	3,076,601
Water and Wastewater System	50,424,458	17,949,055	-	68,373,513
Total Capital Assets, Being Depreciated	56,050,008	18,367,287	-	74,417,295
Less: Accumulated Depreciation For:				
Buildings and Improvements	1,130,686	40,228	-	1,170,914
Machinery and Equipment	1,736,953	163,039	-	1,899,992
Water and Wastewater System	25,156,020	1,023,601	-	26,179,621
Total Accumulated Depreciation	28,023,659	1,226,868	-	29,250,527
Total Capital Assets, Being Depreciated, Net	28,026,349	17,140,419	-	45,166,768
Business-Type Activities Capital Assets, Net	47,296,850	17,405,839	(17,907,790)	46,794,899

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 4: CAPITAL ASSETS: (Continued)

Depreciation expense was charged as direct expense to programs of the primary government as follows:

#### Governmental Activities:

General Government	140,021
Event Facilities	193,161
Facilities Maintenance	181,931
Public Safety	506,840
Public Works	1,529,934
Planning	1,643
Purchasing	330
Library	16,736
Non-Departmental	12,710
Total Depreciation Expense - Governmental Activities	<u>2,583,306</u>

#### Business-Type Activities:

Water and Sewer	1,183,031
Business Development Center	43,837
Total Depreciation Expense - Business-Type Activities	<u>1,226,868</u>

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE:

#### Prior Year Loan Defeased-Governmental Activities:

On May 17, 2005, the City defeased a Section 108 Loan in the amount of \$380,000, by placing the proceeds of the loan in an irrevocable trust to provide for all future debt service payments of the loan. Accordingly, the trust account assets and liabilities for the defeased loan are not included in the City's financial statements. On December 31, 2011, \$247,000 of the loan considered defeased is still outstanding.

#### Notes Payable-Governmental Activities:

On March 24, 2008, the City executed a note with Texas Bank and Trust in the amount of \$223,036 to purchase police cars. Payments are due annually at \$79,656 (includes principal and interest) for the next three years at a fixed interest rate of 3.50%. This note was paid off this year.

This note is reflected in the Statement of Net Assets in governmental activities and current requirements for principal and interest expenditures are accounted for in the General Fund.

#### General Obligation Debt:

Bonded indebtedness of the City is accounted for in the Statement of Net Assets in governmental activities. Payments on the bonds are made by the Debt Service Fund.

On September 20, 2001, the City passed an ordinance authorizing the issuance of \$1,540,000 Combination Tax and Revenue Certificate of Obligation Bonds, Series 2001. The proceeds of the issuance are to be used for the purpose of improving the Civic Center, and for paying legal, fiscal and engineering fees in connection with these projects. The bonds were issued on October 30, 2001, with interest payable June 15 and December 15 of each year, commencing June 15, 2002. The City reserves the right, at its option, to redeem Certificates maturing June 15, 2012 through June 15, 2016, both inclusive, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof on June 15, 2011 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

On November 7, 2006, City voters authorized the issuance of \$6,230,000 General Obligation Bonds, Series 2007. The proceeds of the issuance are to be used for improvements to public safety facilities, improvements to various parks within the City, and to pay issuance costs related to the bonds. The bonds were issued on March 28, 2007, with interest payable June 15, and December 15 of each year commencing June 15, 2007. The City reserves the right, at its option, to redeem bonds maturing on or after June 15, 2018, whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and if within a maturity by lot) on June 15, 2017 or any date thereafter, at a par value thereof plus accrued interest to the date fixed for redemption.

On January 28, 2010, the City passed an ordinance authorizing the issuance of \$1,140,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010. The proceeds of issuance are to be used for the purpose of improvements to municipal buildings (energy efficiency improvements). The bonds were issued on March 4, 2010, with interest payable June 15 and December 15 of each year, commencing June 15, 2010. The City reserves the right, at its option, to redeem bonds maturing June 15, 2019, and thereafter, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and within a maturity by lot) on June 15, 2018 or any date thereafter, plus accrued interest to the date fixed for redemption. The City also entered into an energy services contract with the Schneider Electric Buildings Americas, Inc., which guarantees energy savings over 15 years. The City plans to repay the certificates of obligation with the energy savings.

On May 13, 2010, the City passed an ordinance authorizing the issuance of \$2,100,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010A. The proceeds of issuance are to be used for the purpose of improvements to an existing municipal building (Memorial City Hall). The bonds were issued on June 16, 2010, with interest payable June 15 and December 15 of each year, commencing December 15, 2010. The City reserves the right, at its option, to redeem bonds maturing June 15, 2019, and thereafter, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and within a maturity by lot) on June 15, 2018, or any date thereafter, plus accrued interest to the date fixed for redemption.

On July 8, 2010, the City passed an ordinance authorizing the issuance of \$4,150,000 Tax and Surplus Revenue Refunding Bonds, Series 2010 (the Refunding Bonds). \$660,000 of the proceeds of issuance are to be used for the purpose of refunding the 2012 through 2016 maturities of the City's currently outstanding Combination Tax and Revenue Certificates of Obligation, Series 2001, in the amount of \$670,000. The remaining \$3,490,000 of the Refunding Bonds is being used to refund Waterworks and Sewer System debt, as explained earlier under the Enterprise Funds Debt section. The City is refunding the Refunded Obligations in order to realize interest cost savings. The bonds were issued on August 9, 2010, with interest payable June 15 and December 15 of each year, commencing December 15, 2010. The City reserves the right, at its option, to redeem bonds maturing June 15, 2014, and thereafter, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and within a maturity by lot) on June 15, 2013, or any date thereafter, plus accrued interest to the date fixed for redemption.

The proceeds from the refunded existing bond maturities and interest thereon were placed with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the Refunding Bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest on the Refunding Bonds. Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the General Obligation Debt Service or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2011, \$670,000 of the bonds considered defeased are still outstanding.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

A summary of refunded bond maturities provided by the Tax and Surplus Revenue Refunding Bonds, Series 2010, is as follows:

#### Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Combination Tax and Revenue Certificates of Obligation, Series 2001	June 15, 2012-2016	4.375%- 4.625%	<u>670,000</u>

#### Enterprise Funds Debt:

On May 29, 1998, the City passed an ordinance authorizing the issuance of \$8,455,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 1998, with interest from 6.5% to 4.5%, for the purpose of providing money for improvements and extensions to the sewer system; water supply and treatment facilities. The initial bond was issued, sold and delivered as a single fully registered bond, without interest coupons, dated June 15, 1998, in the denomination and aggregate principal amount of \$8,455,000, payable in annual installments of principal and interest to the initial registered owner, Dean Witter Reynolds, or to the registered assignee or assignees of said bond.

On November 13, 2000, the City passed an ordinance authorizing the issuance of \$4,580,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 2000, with interest from 7.125% to 5.125% for the purpose of providing money for improvement and extensions to the sewer system; water supply and treatment facilities. The initial bond was issued, sold and delivered as a single fully registered bond, without interest coupons, dated November 15, 2000, in the denomination and aggregate principal amount of \$4,580,000, payable in annual installments of principal and interest to the initial registered owner, Stephens, Inc., or to the registered assignee or assignees of said bond.

On December 13, 2001, the City passed an ordinance authorizing the issuance of \$2,500,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 2001, with interest from 6.00% to 5.00% for the purpose of providing money for improvements to the City's Wastewater Collection System; to purchase equipment for the in-house wastewater inflow and infiltration remediation team; and to fund a comprehensive engineering study to determine the extent of needed inflow and infiltration remediation. The initial bond was issued as a single fully registered bond, without interest coupons, dated December 15, 2001, in the denomination and aggregate principal amount of \$2,500,000. The bonds were sold and delivered January 22, 2002, and are payable in annual installments of principal and interest to the initial registered owner, First Union Securities, or to the registered assignee or assignors of said bond.

On November 13, 2003, the City passed an ordinance authorizing the issuance of \$7,000,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 2003, with interest from 3.50% to 4.50% for the purpose of providing money to remediate the wastewater collection system inflow and infiltration; to fund engineering studies, to purchase equipment and pay the costs related to the issuance of the Bonds. The Bonds were issued in denominations of \$5,000 or integral multiples thereof. Interest on the Bonds accrued from November 15, 2003, and is payable June 15 and December 15 of each year, commencing June 15, 2004, to the registered owner appearing on the registration records of JPMorgan Chase Bank, Dallas, Texas.

On December 6, 2006, the City passed on ordinance authorizing the issuance of \$9,235,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Refunding Bonds, Series 2006, with interest from 4.00% to 5.50%, to provide funds sufficient to refund selected existing bond maturities (as shown below), and to pay costs of issuance relating to the bonds. The 2006 Revenue Refunding Bonds were issued in denominations of \$5,000 or integral multiple thereof. Interest on the bonds accrued from December 1, 2006 and is payable June 15 and December 15 of each year commencing June 15, 2007, to the registered owner appearing on the registration record of the Bank of New York Trust Company, N.A. Dallas, Texas.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

The City advance refunded selected existing bond maturities and interest due thereon, by placing proceeds of the 2006 Revenue Refunding Bonds with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the refunding bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest on the refunded bonds. Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the Waterworks and Sewer System or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2011, \$9,350,000 of the bonds considered defeased are still outstanding.

A summary of refunded bond maturities provided by the Waterworks and Sewer System Revenue Refunding Bonds, Series 2006, is as follows:

#### Schedule of Refunded Bonds

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 1998	June 15, 2013-2019	4.500%	4,325,000
Waterworks and Sewer System Revenue Bonds, Series 1999	June 15, 2011-2019	4.750% - 6.350%	2,000,000
Waterworks and Sewer System Revenue Bonds, Series 2000	June 15, 2014-2019	5.125%	1,995,000
Waterworks and Sewer System Revenue Bonds, Series 2001	June 15, 2017-2022	4.750% - 5.000%	<u>1,030,000</u>
			<u>9,350,000</u>

On July 8, 2010, the City passed an ordinance authorizing the issuance of \$4,150,000 Tax and Surplus Revenue Refunding Bonds, Series 2010 (the Refunding Bonds). \$3,490,000 of the proceeds of issuance are to be used for the purpose of refunding the 2011 through 2017 maturities of the City's currently outstanding Waterworks and Sewer System Revenue Bonds, Series 1997, in the amount of \$3,425,000. The remaining \$660,000 of the Refunding Bonds is being used to refund General Obligation debt, as explained later under the General Obligation Debt section. The City is refunding the Refunded Obligations in order to realize interest cost savings. The bonds were issued on August 9, 2010, with interest payable June 15 and December 15 of each year, commencing December 15, 2010. The City reserves the right, at its option, to redeem bonds maturing June 15, 2014, and thereafter, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof (and within a maturity by lot) on June 15, 2013 or any date thereafter, plus accrued interest to the date fixed for redemption.

The proceeds from the refunded existing bond maturities and interest thereon were placed with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the Refunding Bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest on the Refunding Bonds.

Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the Water and Sewer System or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2011, \$3,000,000 of the bonds considered defeased are still outstanding.

A summary of refunded bond maturities provided by the Tax and Surplus Revenue Refunding Bonds, Series 2010, is as follows:

#### Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 1997	June 15, 2011-2017	4.000%- 4.250%	<u>3,000,000</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

A summary of changes in long-term debt for the year ended December 31, 2011 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issued</u>	<u>Amounts Outstanding 1/1/2011</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amounts Outstanding 12/31/2011</u>	<u>Interest Current Year</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>								
<u>Bonded Indebtedness</u>								
Certificate of Obligations, Series 2001	4.75%	1,540,000	115,000	-	(115,000)	-	2,444	-
General Obligation Bonds, Series 2007	3.85-5.00%	6,230,000	5,720,000	-	(225,000)	5,495,000	227,192	235,000
Certificate of Obligation, Series 2010A	2.00-4.00%	2,100,000	2,100,000	-	(105,000)	1,995,000	66,088	110,000
Certificate of Obligation, Series 2010	2.75-4.50%	1,140,000	1,140,000	-	(70,000)	1,070,000	36,587	70,000
Tax and Surplus Revenue Refunding Bonds Series 2010	2.00-3.00%	660,000	660,000	-	-	660,000	4,803	125,000
<b>Total Governmental Activities Bonded Indebtedness</b>		<b>11,670,000</b>	<b>9,735,000</b>	<b>-</b>	<b>(515,000)</b>	<b>9,220,000</b>	<b>337,114</b>	<b>540,000</b>
<u>Business-Type Activities:</u>								
<u>Bonded Indebtedness</u>								
Water and Sewer Revenue Bonds, Series 1998	4.50-6.50%	8,455,000	790,000	-	(385,000)	405,000	27,485	405,000
Water and Sewer Revenue Bonds, Series 2000	5.125-7.13%	4,580,000	780,000	-	(245,000)	535,000	33,697	260,000
Water and Sewer Revenue Bonds, Series 2001	4.60-6.00%	2,500,000	760,000	-	(110,000)	650,000	33,205	115,000
Water and Sewer Revenue Bonds, Series 2003	3.50-4.50%	7,000,000	5,380,000	-	(315,000)	5,065,000	211,420	330,000
Water and Sewer Revenue Refunding Bonds, 2006	4.00-5.50%	9,235,000	9,235,000	-	(160,000)	9,075,000	433,512	160,000
Tax and Surplus Revenue Refunding Bonds Series 2010	2.00-3.00%	3,490,000	3,490,000	-	(465,000)	3,025,000	88,822	475,000
Premium (Refunding Bonds, Series 1997)	N/A	31,250	29,017	-	(2,232)	26,785	-	-
Premium (Refunding Bonds, Series 2006)	N/A	745,082	546,394	-	(49,672)	496,722	-	-
<b>Total Business-Type Bonded Indebtedness</b>		<b>36,036,332</b>	<b>21,010,411</b>	<b>-</b>	<b>(1,731,904)</b>	<b>19,278,507</b>	<b>828,141</b>	<b>1,745,000</b>
<b>Total Bonded Indebtedness</b>		<b>47,706,332</b>	<b>30,745,411</b>	<b>-</b>	<b>(2,246,904)</b>	<b>28,498,507</b>	<b>1,165,255</b>	<b>2,285,000</b>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

Debt service requirements are as follows:

#### General Obligation Bonds:

Year Ended	Governmental Activities		
	Principal	Interest	Total Requirements
<u>December 31,</u>			
2012	235,000	215,693	450,693
2013	250,000	204,505	454,505
2014	260,000	193,993	453,993
2015	270,000	183,393	453,393
2016	285,000	172,291	457,291
2017-2021	1,650,000	677,551	2,327,551
2022-2026	2,070,000	312,011	2,382,011
2027	475,000	9,619	484,619
<b>Total</b>	<u>5,495,000</u>	<u>1,969,056</u>	<u>7,464,056</u>

#### Certificates of Obligation and Revenue Bonds:

Year Ended	Governmental Activities		
	Principal	Interest	Total Requirements
<u>December 31,</u>			
2012	305,000	114,650	419,650
2013	315,000	106,883	421,883
2014	330,000	99,339	429,339
2015	335,000	90,656	425,656
2016	350,000	81,205	431,205
2017-2021	1,190,000	272,338	1,462,338
2022-2025	900,000	62,309	962,309
<b>Total</b>	<u>3,725,000</u>	<u>827,380</u>	<u>4,552,380</u>

#### Water and Sewer Revenue Bonds:

Year Ended	Business-Type Activities		
	Principal	Interest	Total Requirements
<u>December 31,</u>			
2012	1,745,000	749,088	2,494,088
2013	1,820,000	682,421	2,502,421
2014	1,885,000	614,677	2,499,677
2015	1,960,000	544,676	2,504,676
2016	2,050,000	462,250	2,512,250
2017-2021	8,090,000	945,903	9,035,903
2022-2023	1,205,000	50,295	1,255,295
<b>Total</b>	<u>18,755,000</u>	<u>4,049,310</u>	<u>22,804,310</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLES, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

#### Capital Leases Payable - Governmental Activities:

On February 8, 2010, the City entered into a lease agreement with De Lage Landen Public Finance, LLC (Lessor). The agreement was to assist the City in financing the acquisition of thirteen golf carts. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreement totals \$45,334 and requires three annual payments of \$15,111.

On May 28, 2010, the City entered into a lease agreement with Capital One, National Association (Lessor). The agreement was to assist the City in financing the acquisition of nine vehicles for the police department. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreements totals \$203,052 and requires three annual payments of \$67,684.

On April 19, 2011, the City entered into a lease agreement with Capital One, National Association (Lessor). The agreement was to assist the City in financing the acquisition of seven vehicles for the police department. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreements totals \$205,025 and requires three annual payments of \$68,342.

On May 1, 2011, the City entered into a lease agreement with Capital One, National Association (Lessor). The agreement was to assist the City in financing the acquisition of one vehicle for the police department. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreement totals \$22,438 and requires three annual payments of \$7,479.

The assets acquired through the capital leases are as follows:

<u>Assets:</u>	<u>Amount</u>
13 golf carts	42,541
2010 Dodge Charger	18,407
2010 Ford F150	21,573
2010 Ford Expedition	22,221
2010 Dodge Police Cars (6)	129,162
2011 Dodge Police Cars (8)	<u>214,522</u>
Total	448,426
Less: Accumulated Depreciation	<u>(62,109)</u>
<b>Total</b>	<b><u>386,317</u></b>

The future minimum lease payments under the capital leases and the present value of the net minimum lease payments at December 31, 2011, were as follows:

<u>Year Ended December 31,</u>	<u>Various Autos and Golf Carts</u>
2012	158,616
2013	143,505
2014	<u>75,821</u>
Total Minimum Lease Payments	377,942
Less: Amount Representing Interest Costs	<u>(20,355)</u>
Present Value of Minimum Lease Payments	<u>357,587</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

#### Capital Leases Payable - Business-Type Activities:

In March 2008, the City entered into a lease agreement with Chase Equipment Finance, Inc. The agreement was to assist the City in financing the acquisition of various equipment. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreement totaled \$300,000 and requires four annual payments of \$55,485.

The assets acquired through the capital lease are as follows:

<u>Assets:</u>	<u>Amount</u>
Case Dozer	77,917
Case Excavator	106,382
Flatbed Trailer	14,832
Ford F-250	20,755
Ford F-250	20,755
Freightliner Dump Truck	<u>28,500</u>
Total	269,141
Less: Accumulated Depreciation	<u>(109,122)</u>
<b>Total</b>	<u><b>160,019</b></u>

The future minimum lease payments under the capital lease and the present value of the net minimum lease payments at December 31, 2011, were as follows:

<u>Year Ended December 31,</u>	<u>Various Equipment</u>
2012	<u>55,485</u>
Total Minimum Lease Payments	55,485
Less: Amount Representing Interest Costs	<u>(1,546)</u>
Present Value of Minimum Lease Payments	<u><u>53,939</u></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 5: NOTES PAYABLE, LONG-TERM DEBT, AND CAPITAL LEASES PAYABLE: (Continued)

#### Changes In Long-Term Liabilities:

Long-term debt activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Bonds Payable:					
General Obligation Bonds	5,720,000	-	(225,000)	5,495,000	235,000
Certificate of Obligations and Revenue Bonds	4,015,000	-	(290,000)	3,725,000	305,000
Total Bonds Payable	<u>9,735,000</u>	<u>-</u>	<u>(515,000)</u>	<u>9,220,000</u>	<u>540,000</u>
Other Liabilities:					
Notes Payable	76,870	-	(76,870)	-	-
Capital Leases Payable	218,994	214,612	(76,019)	357,587	147,021
Accrued Post Retirement Health Care and TMRS	799,522	145,205	-	944,727	-
Compensated Absences	2,332,423	92,049	-	2,424,472	-
Total Other Liabilities	<u>3,427,809</u>	<u>451,866</u>	<u>(152,889)</u>	<u>3,726,786</u>	<u>147,021</u>
Total Governmental Activities	<u>13,162,809</u>	<u>451,866</u>	<u>(667,889)</u>	<u>12,946,786</u>	<u>687,021</u>
<b><u>Business-Type Activities:</u></b>					
Revenue Bonds Payable	21,010,411	-	(1,731,904)	19,278,507	1,745,000
Total Bonds Payable	<u>21,010,411</u>	<u>-</u>	<u>(1,731,904)</u>	<u>19,278,507</u>	<u>1,745,000</u>
Other Liabilities:					
Capital Lease Payable	106,376	-	(52,437)	53,939	53,939
Accrued Post Retirement Health Care and TMRS	203,348	27,800	-	231,148	-
Compensated Absences	290,314	-	(2,456)	287,858	-
Total Other Liabilities	<u>600,038</u>	<u>27,800</u>	<u>(54,893)</u>	<u>572,945</u>	<u>53,939</u>
Total Business-Type Activities	<u>21,610,449</u>	<u>27,800</u>	<u>(1,786,797)</u>	<u>19,851,452</u>	<u>1,798,939</u>
Total Government	<u>34,773,258</u>	<u>479,666</u>	<u>(2,454,686)</u>	<u>32,798,238</u>	<u>2,485,960</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 6: INTERFUND BALANCES, NET ASSETS (DEFICIT), AND TRANSFERS:

**Interfund transfers for the year ended December 31, 2011, consisted of the following individual amounts:**

Transfers to General Fund From (Major Governmental Fund):	
Equipment Replacement Fund (Internal Service Fund)	216,377
Main Street Fund (Nonmajor Governmental Fund)	1,404
Water and Sewer Fund (Major Enterprise Fund)	1,350,000
<b>Total Transfers to General Fund (Major Governmental Fund)</b>	<u><u>1,567,781</u></u>
Transfers to 2001 Combination Tax and Revenue Debt Service Fund (Nonmajor Governmental Fund):	
Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	122,247
<b>Total Transfers to 2001 Combination Tax and Revenue Debt Service Fund (Nonmajor Gov. Fund)</b>	<u><u>122,247</u></u>
Transfers to Motel Occupancy Tax Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	85,000
<b>Total Transfers to Motel Occupancy Tax Fund (Nonmajor Governmental Fund)</b>	<u><u>85,000</u></u>
Transfers to 2007 General Obligation Fund Debt Service Fund (Nonmajor Gov. Fund):	
1995 General Obligation Fund (Nonmajor Governmental Fund)	430,880
2010 C/O - Utility Conserv. Proj. Debt Service Fund (Nonmajor Gov. Fund)	5,203
<b>Total Transfers to 2007 General Obligation Fund (Nonmajor Gov. Fund)</b>	<u><u>436,083</u></u>
Transfers to 2010 Cert. of Oblig. Mem. City Hall Debt Service Fund (Nonmajor Gov. Fund):	
Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	171,088
<b>Total Transfers to 2010 Cert. of Oblig. Mem. City Hall Debt Service Fund (Nonmajor Gov. Fund)</b>	<u><u>171,088</u></u>
Transfers to Water and Sewer Fund (Major Enterprise Fund):	
Equipment Replacement Fund (Internal Service Fund)	88,293
<b>Total Transfers to Water and Sewer Fund (Major Enterprise Fund)</b>	<u><u>88,293</u></u>
Transfers to Telegraph Park Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	8,514
<b>Total Transfers to Telegraph Park Fund (Nonmajor Governmental Fund)</b>	<u><u>8,514</u></u>
Transfers to Downtown Restrooms Project Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	38,064
<b>Total Transfers to Downtown Restrooms Project Fund (Nonmajor Governmental Fund)</b>	<u><u>38,064</u></u>

#### Net Assets (Deficit):

In the current year, the following individual fund has a deficit as indicated:

#### Internal Service Fund:

Stores Inventory Fund	<u>(7,849)</u>
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The deficit in the Stores Inventory Fund was due to expenses exceeding operating revenue for the current and/or prior years. Management will strive to generate more charges for services than operating expenses for this fund in the future.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 7: BUDGET RECONCILIATION OF FUND BALANCES:

The City does not legally adopt a budget for all special revenue and debt service funds. In the Combining Budgetary Comparison Schedules for Budgeted Special Revenue Funds and Budgeted Debt Service Fund, only the budgeted special revenue and debt service funds are presented.

A reconciliation of fund balances for both budgeted and non-budgeted special revenue funds is as follows:

<u>Fund Balance</u>	<u>December 31, 2011</u>
<b><u>Budgeted Special Revenue Funds:</u></b>	
Motel Occupancy Tax Fund	132,050
Litter Control Fund	-
D.A.R.E. Donations Fund	36,301
<b>Total</b>	<u>168,351</u>
<b><u>Non-budgeted Special Revenue Funds:</u></b>	
Controlled Substance Fund	106,011
Art Center Projects Fund	13,281
Muni Court Tech Fund	10,640
Arena Maintenance Fund	584
Library Grants Fund	3
Park Trails Fund	4,733
Disaster Relief Fund	2,644
Police Special Projects Fund	40,632
State Grant Fund	145
Main Street Fund	4,300
<b>Total</b>	<u>182,973</u>
<b>All Special Revenue Funds</b>	<u><u>351,324</u></u>

A reconciliation of fund balances for both budgeted and non-budgeted debt service funds is as follows:

<u>Fund Balance</u>	<u>December 31, 2011</u>
<b><u>Budgeted Debt Service Fund:</u></b>	
1995 and 2007 General Obligation Debt Service Fund	<u>498,880</u>
<b><u>Non-budgeted Debt Service Funds:</u></b>	
2001 Combination Tax and Revenue Debt Service Fund	8,725
2010 C/O-Utility Conserv. Proj. Debt Service Fund	-
2010 Cert. of Oblig. Mem. City Hall Debt Service Fund	5,833
<b>Total</b>	<u>14,558</u>
<b>All Debt Service Funds</b>	<u><u>513,438</u></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 8: PENSION PLANS:

#### Texas Municipal Retirement System –

##### Plan Description:

The City provides pension benefits for all of its full-time employees, other than the City's firefighters, through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The City's firefighters are covered by a separate pension plan (see below); therefore, they are not included in the TMRS plan. The plan provisions that have been adopted by the City are within the options available in the governing State statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

##### Benefits:

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2011 Plan Year</u>
Employee Deposit Rate	7%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI Repeating

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 8: PENSION PLANS: (Continued)

#### Funding Policy:

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

The City contributes to the TMRS Plan at an actuarially determined rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2011 valuation is effective for rates beginning January 2013.) The annual pension cost and net pension obligation as of December 2011 are as follows:

	<u>12/31/11</u>
Annual Required Contribution (ARC)	1,884,575
Interest on Net Pension Obligation	24,671
Adjustment to the ARC	<u>(41,631)</u>
Annual Pension Cost (APC)	1,867,615
Contributions Made	<u>(1,628,645)</u>
Increase (Decrease) in Net Pension Obligation	238,970
Net Pension Obligation/(Asset), Beginning of Year	<u>696,521</u>
<b>Net Pension Obligation/(Asset), End of Year</b>	<b><u>935,491</u></b>

The City's contributions were based on an annual covered payroll of \$8,022,881. There were no related-party transactions.

#### Trend Information for Annual Pension Cost:

Information for the last three years is as follows:

<u>Year Ended</u> <u>Dec. 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Annual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	1,751,998	1,402,742	80%	349,256
2010	1,852,497	1,505,232	81%	696,521
2011	1,867,615	1,628,645	87%	935,491

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 8: PENSION PLANS: (Continued)

#### Actuarial Method and Assumptions:

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

<u>Valuation Date</u>	<u>12/31/09</u>	<u>12/31/10 Prior to Restructuring</u>	<u>12/31/10 Restructured</u>
Actuarial Cost Method	Projected Unit of Credit	Projected Unit of Credit	Projected Unit of Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 Years; Closed Period	27.1 Years; Closed Period	27.2 Years; Closed Period
Amortization Period for New Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return #	7.50%	7.50%	7.00%
Projected Salary Increases #	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
# Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustment	2.1%	2.1%	2.1%

#### Funded Status and Funding Progress:

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 8: PENSION PLANS:** (Continued)

**Funding Status and Progress:**

Information for the last nine years is as follows:

<b>Report Year Ended Dec. 31</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Percentage Funded</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Annual Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</b>
2002	13,541,764	19,186,456	71%	5,644,692	6,115,763	92%
2003	13,285,181	19,799,616	67%	6,514,435	6,173,058	106%
2004	14,074,145	21,077,619	67%	7,003,474	6,356,102	110%
2005	14,610,502	22,003,644	66%	7,393,142	6,339,397	117%
2006	15,254,379	23,203,409	66%	7,949,030	6,835,077	116%
2007	15,327,307	28,142,023	55%	12,814,716	7,270,965	176%
2008	15,936,612	29,084,256	55%	13,147,644	7,580,382	173%
2009	17,671,205	32,095,373	55%	14,424,168	8,160,194	177%
*2010	18,232,142	32,685,711	55%	14,453,569	8,171,768	177%
**2010	34,421,949	46,038,172	75%	11,616,223	8,171,768	142%

\* Actuarial valuation performed under the original fund structure.

\*\* Actuarial valuation performed under the new fund structure.

**Changes in Actuarial Method and Assumptions:**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding status and progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City has opted to participate in the phase-in period in order to gradually increase contributions to the full rate. Based on the phase-in period calculations, the City's contribution rate beginning for calendar year 2011 was 20.30% versus the actuarially determined rate of 23.49%.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 8: PENSION PLANS: (Continued)

#### Supplemental Death Benefits Plan –

##### Plan Description:

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.

##### Funding Policy:

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet death benefit payments for the upcoming year; the intent is not to pre-fund retiree term insurance during the employees’ entire careers.

#### Schedule of Contribution Rates:

(RETIREE – Only Portion of the Rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actuarial Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2009	0.09%	0.09%	100%
2010	0.07%	0.07%	100%
2011	0.07%	0.07%	100%

#### Firemen’s Relief and Retirement Fund –

##### Plan Description:

The City contributes to the Firemen’s Relief and Retirement Fund (“Fund”) a single employer public employee retirement system (PERS). The City’s payroll for employees covered by the Fund for the year ended December 31, 2011, was \$2,440,619. All active City Firefighters are eligible to participate in the Fund. Benefits vest after 10 years of service and the attainment of age 50. Retirement benefits are based upon years of service and salary. The Fund also provides death and disability benefits. Benefit provisions and all other requirements are established by State statute, City ordinance and the Marshall Firemen’s Relief and Retirement Fund Board of Trustees.

Firefighters contribute 14.00% of their annual salary to the Fund. The City contributes a matching 20.30% of annual covered payroll to the Fund.

##### Funding Status and Contributions:

The latest actuarial study of the Fund was made as of December 31, 2010. The actuarial cost method used in the valuation was a variation of the Aggregate Entry Age Normal Actuarial Cost Method. Significant actuarial assumptions used included a rate of return on investments of 8.00% per year, and projected salary increases of 4.25% per year. The market value of the Firemen’s Relief and Retirement Fund at December 31, 2011 was \$6,542,469, 102% of the book value as of December 31, 2011.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 8: PENSION PLANS: (Continued)

At December 31, 2010, the unfunded actuarial accrued liability was \$7,518,284, computed as follows:

#### Actuarial Present Value of Accumulated Benefits:

Inactive participants	9,067,627
Active participants	5,104,269
Total Actuarial Liability	14,171,896
Actuarial Value of Assets	6,653,612
<b>Unfunded Actuarial Accrued Liability</b>	<b>7,518,284</b>

Contribution rates are not actuarially determined, but established by state statute. At December 31, 2010, normal cost of present benefits for each participant was 13.70% of covered payroll. The unfunded actuarial accrued liability would be amortized using the level method of payroll over 23.5 years, based on a combined City and firefighter's annual contribution of 32.69% of covered payroll.

Contributions for 2011 totaling \$823,631 were made in accordance with the contribution requirements established by State statute.

### NOTE 9: HEALTH INSURANCE COVERAGE:

The City provides health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. Currently, the City pays 100% of the health insurance premiums for retirees retiring prior to October 30, 2007. Employees who retire after October 30, 2007 and wish to continue on the City's health plan must pay the difference between the retiree blended rate of \$599 and \$430, which is the amount the City currently pays for active employee coverage. Currently, the City contributes \$430 per employee/\$495 per retirees per month, and the employee/retiree, at their option, may authorize payroll withholdings to pay dependent premiums if applicable.

### NOTE 10: POST-RETIREMENT HEALTH BENEFITS:

#### Plan Description and Funding Policy:

City Policy allows the City to provide health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. Currently, the City pays 100% of the health insurance premiums for retirees retiring prior to October 30, 2007. The current rate for active employees is \$430 per month. The current rate for retirees is \$495 per month. Employees who retire after October 30, 2007, and who have completed 20 years of service and have reached age 60 and wish to continue on the City's health plan must pay the difference between the retiree blended rate and the amount the City currently pays for active employee coverage. The current rate for these retirees is \$599 per month, which is intended to be the blended rate that does not create an implicit subsidy. The City's contribution toward this retiree premium is the same as the amount contributed for active employees (\$495 per month). Retiree medical and dental coverage ends at age 65. Retirees pay for any dependent coverage and for dental coverage. Employees hired after August 1, 2005 will not be eligible to remain on the health plan upon retirement.

#### Annual OPEB Cost and Net OPEB Obligation:

The City's annual other post employment benefit cost is calculated based on an actuarial valuation. The actuarial method utilized was the projected unit credit method. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 10: POST-RETIREMENT HEALTH BENEFITS: (Continued)

Actuarial calculations reflect a long-term perspective and 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. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The last valuation performed was at December 31, 2010. The City has elected to have one performed every two years. The allocation of the total liability was based upon straight years of service ratio and was amortized over a 28 year period, using a 4% discount rate. Medical inflation was taken at 10% for pre-Medicare grading down to 5% in the ultimate. Post Medicare benefits were not considered since the plan provides for no post-Medicare coverage or subsidy. The Unfunded Actuarial Liability and the Annual Cost at December 31, 2010 was as follows:

Category	Liability (Actuarial Present Value)			Annual Cost			12/31/2011 Funding %
	Past Service	Future	Total	Past Service	(Normal Cost) Future	Total	
Active	268,041	250,978	519,019	15,467	17,358	32,825	
Retirees	2,208,667	-	2,208,667	127,451	-	127,451	
<b>Total</b>	<b>2,476,708</b>	<b>250,978</b>	<b>2,727,686</b>	<b>142,918</b>	<b>17,358</b>	<b>160,276</b>	<b>0%</b>

(1) Normal Cost for 2011	17,358
(2) Accrued Actuarial Liability	2,476,708
(3) Beginning Assets	-
(4) Unfunded Accrued Liability (UAL)	2,476,708
(5) Net OPEB Obligation as of 1/1/11	306,349
(6) Amortization Period	28
(7) Amortization of UAL	142,918
(8) Annual Required Contribution (ARC) (1 + 7)	160,276
(9) Interest on Prior Year OPEB Obligation	15,054
(10) Amortization of Prior Year OPEB Obligation	(21,717)
(11) Annual OPEB Cost (8 + 9 - 10)	<u>153,613</u>
(12) Employer Pay-As-You-Go Cost	219,578
(13) Employer Contributions to Trust (Prefunding)	-
(14) Total Employer Contributions (12 + 13)	<u>219,578</u>
(15) Change in Net OPEB Obligation/(Asset) During Year (11 - 14)	<u>(65,965)</u>
<b>(16) Net OPEB Obligation (Asset) as of 12/31/11 (5 + 15)</b>	<b><u>240,384</u></b>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 10: POST-RETIREMENT HEALTH BENEFITS: (Continued)

#### Trend Information for Annual OPEB Cost:

<u>Year Ended Dec. 31</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligations</u>
2009	188,176	-	376,352
2010	160,276	-	306,349
2011	160,276	-	240,384

#### Schedule of Funding Progress:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2008	-	3,331,546	3,331,546	0%	8,160,194	40.82%
2010	-	2,727,686	2,727,686	0%	8,171,728	33.38%

### NOTE 11: RISK MANAGEMENT:

The City places all of its property, liability and workers' compensation coverage with Texas Municipal League, a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to Texas Municipal League for its general insurance coverage. The risk pool is self-sustaining through member premiums and reinsures through commercial companies. The limits of liability and deductibles are:

	<u>Limit</u>	<u>Deductible</u>
General Liability	1,000,000 Each Occurrence	10,000
	2,000,000 Annual Aggregate	
Auto Liability	1,000,000 Each Occurrence	25,000
Law Enforcement Liability	1,000,000 Each Occurrence	5,000
	2,000,000 Annual Aggregate	
Errors and Omissions Liability	1,000,000 Each Wrongful Act	5,000
	2,000,000 Annual Aggregate	
Real & Personal Property	78,559,769	1,000
Mobile Equipment	1,997,055	1,000
Boiler & Machinery	5,531,392	1,000

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **NOTE 12: SOLID WASTE COLLECTION CONTRACT:**

On October 1, 1984, the City contracted for solid waste collection with a third party. The contract was initially for a three year period and is automatically extended for successive additional three year terms unless either party notifies the other party within sixty days of the expiration of any three year period of its intention to terminate the contract. Under the terms of the agreement the City bills customers and collects payments and retains 10% of the charges.

### **NOTE 13: NORTHEAST TEXAS MUNICIPAL WATER DISTRICT RAW WATER PURCHASE CONTRACT:**

The City entered into an agreement with Northeast Texas Municipal Water District on February 1, 2006. The District shall sell and deliver water from Lake of The Pines in amounts up to and including 9,000 acre-feet per annum to the City. Payments made to the District are based on schedules, quantities, and rates detailed in the contract. The term of the agreement is for fifty years. At the expiration of the agreement, it may be renewed and extended up to an additional period of fifty years. In accordance with the termination event provisions of the agreement, the parties may terminate it within three months after acquiring knowledge of such events with written notice specifying the date on which supplying raw water under the agreement is to terminate, which shall be at least six months from the date of the written notice.

### **NOTE 14: LITIGATION:**

As of December 31, 2011, there are no claims or lawsuits pending against the City.

### **NOTE 15: CONTINGENT LIABILITIES:**

The City participates in State and Federally assisted grant programs. These programs are subject to audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although such amounts, if any, are expected to be immaterial.

### **NOTE 16: COMMITMENTS:**

The City has entered into various contracts for improvements and extensions to the sewer system, water supply and treatment facilities. Funds for these contracts will be provided by various bond issues.

### **NOTE 17: SUBSEQUENT EVENTS:**

On April 1, 2012, the City issued \$5,065,000 City of Marshall, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2012. Proceeds from the sale of the bonds will be used to refund a portion of the City's outstanding Waterworks and Sewer System Revenue Bonds, Series 2001 and a portion of the City's outstanding Waterworks and Sewer System Revenue Bonds, Series 2003 and to achieve debt service savings and to pay the costs related to the issuance of the bonds. The bonds are secured by and payable from a first lien and pledge of the net revenues derived from the City's combined waterworks and sewer system during the entire period the bonds remain outstanding. Interest on the bonds will accrue from April 1, 2012, and will be payable June 15 and December 15 of each year, commencing June 15, 2012, until maturity, or prior redemption. Principal payments will be payable June 15, and will be payable each year commencing on June 15, 2012, until maturity, or prior redemption.

On May 12, 2012, a special election for Proposition No. 3 was held and the citizens of Marshall, Texas voted to authorize a one-eighth (1/8) of one percent sales and use tax for street maintenance and the reduction of the rate of sales and use tax dedicated for the benefit of the Economic Development Corporation from one half (1/2) of one percent to three-eighths (3/8) of one percent.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 18: COMPONENT UNIT DISCLOSURES – MARSHALL ECONOMIC DEVELOPMENT CORPORATION:

#### Deposits And Investments:

##### Legal and Contractual Provisions Governing Deposits and Investments:

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires MEDCO to adopt and implement an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize MEDCO to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires MEDCO to have independent auditors perform test procedures related to investment practices as provided by the Act. MEDCO is in substantial compliance with the requirements of the Act and with local policies.

##### Policies Governing Deposits and Investments:

In compliance with the Public Funds Investment Act, MEDCO has adopted a deposit and investment policy. That policy does address the following risks:

1. Custodial Credit Risks For Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. MEDCO's policy regarding types of deposits allowed and collateral requirements is:

The funds of MEDCO must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with MEDCO's agent bank in an amount sufficient to protect MEDCO funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

MEDCO is exposed to custodial credit risk for its deposits as follows:

At December 31, 2011, the carrying amount of MEDCO's deposits (including \$400 petty cash) was \$181,678, and the respective bank balance was \$240,533. MEDCO's cash deposits at December 31, 2011, were entirely covered by FDIC insurance.

2. Custodial Credit Risk For Investments - This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At December 31, 2011, MEDCO was not exposed to custodial credit risk. MEDCO only had investments in TexPool, a state investment pool, which is not subject to custodial credit risk.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 18: COMPONENT UNIT DISCLOSURES – MARSHALL ECONOMIC DEVELOPMENT CORPORATION: (Continued)

3. Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. According to MEDCO's policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of MEDCO and conforming to all applicable state and MEDCO statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. MEDCO had investments in TexPool, which is classified as a 2a-7 like pool and is not subject to reporting interest rate risk.
4. Credit Risk and Concentration Risk - MEDCO's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. MEDCO's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

<u>Investment Types</u>	<u>Maximum Portfolio Concentration</u>
(1) Obligations of the United States or its agencies and instrumentalities	100%
(2) Direct obligations of this state or its agencies and instrumentalities	50%
(3) Fully insured or collateralized certificates of deposit	100%
(4) Fully collateralized repurchase agreements	100%
(5) Money market funds	50%
(6) Public funds investment pools	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 25% of the portfolio for a period greater than one (1) year. The Investment Officer may not invest any portion for a period greater than three (3) years.

The only investments of MEDCO are in TexPool, a local government investment pool, which is excluded from disclosing concentration risk under GASB 40.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 18: COMPONENT UNIT DISCLOSURES – MARSHALL ECONOMIC DEVELOPMENT CORPORATION: (Continued)

MEDCO's investments as of December 31, 2011 are:

	<u>Rating</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Public Funds Investment Pools (TexPool)	AAA-m (S&P)	<u>2,220,684</u>	<u>2,220,684</u>

At December 31, 2011, the public funds investment pools consisted of investments in TexPool. TexPool is duly chartered and administered by the Texas Comptroller's Office and the portfolio normally consists of U.S. T-Bills, T-Notes, collateralized certificates of deposit, and repurchase agreements. Oversight by the Texas Comptroller's Office over TexPool includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. These investments are classified as temporary investments in MEDCO's financial statements because these investments are not subject to any restrictions for withdrawal purposes.

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

#### Receivables:

Receivables as of year-end for MEDCO's individual major enterprise funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Business Development Center</u>	<u>Center For Applied Technology</u>	<u>Total</u>
Receivables:			
Accounts	<u>18,865</u>	<u>15,943</u>	<u>34,808</u>
Gross	<u>18,865</u>	<u>15,943</u>	<u>34,808</u>
Receivables Less:			
Allowance for Uncollectibles	<u>(6,248)</u>	<u>(5,433)</u>	<u>(11,681)</u>
Net Total Receivables	<u>12,617</u>	<u>10,510</u>	<u>23,127</u>

#### Due From Other Governments:

The City is required to contribute to MEDCO, \$.005 of the \$.0825 sales tax levied on taxable sales. Monthly, the City receives sales tax remittances from the State of Texas for taxes collected by the State on behalf of the City. Because of the time allowed by the State for merchants to file Sales Tax Returns, a lag exists between when the tax is earned by the City and when it is received. At December 31, 2011, the amount due to MEDCO from the City for its portion of sales tax revenue less payroll was \$369,718, including \$5,339 due from the City from previous years.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 18: COMPONENT UNIT DISCLOSURES – MARSHALL ECONOMIC DEVELOPMENT CORPORATION: (Continued)

#### Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Machinery and Equipment	5-10 Years
Improvements	10-20 Years

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2011</u>
Capital Assets Not Being Depreciated:				
Land	2,646,925	1,812,482	(287,000)	4,172,407
Construction In Progress	<u>1,829,306</u>	<u>570,739</u>	<u>-</u>	<u>2,400,045</u>
Total Capital Assets Not Being Depreciated	<u>4,476,231</u>	<u>2,383,221</u>	<u>(287,000)</u>	<u>6,572,452</u>
Capital Assets Being Depreciated:				
Buildings	850,174	99,455	-	949,629
Improvements	229,699	16,505	-	246,204
Machinery, Tools, and Equipment	<u>133,151</u>	<u>2,423</u>	<u>-</u>	<u>135,574</u>
Total Capital Assets Being Depreciated	<u>1,213,024</u>	<u>118,383</u>	<u>-</u>	<u>1,331,407</u>
Less Accumulated Depreciation For:				
Buildings	62,921	22,816	-	85,737
Improvements	154,575	10,079	(44,350)	120,304
Machinery, Tools, and Equipment	<u>128,728</u>	<u>4,462</u>	<u>-</u>	<u>133,190</u>
Total Accumulated Depreciation	<u>346,224</u>	<u>37,357</u>	<u>(44,350)</u>	<u>339,231</u>
Total Capital Assets, Being Depreciated, Net	<u>866,800</u>	<u>81,026</u>	<u>(44,350)</u>	<u>992,176</u>
Component Unit Activities Capital Assets, Net	<u><u>5,343,031</u></u>	<u><u>2,464,247</u></u>	<u><u>242,650</u></u>	<u><u>7,564,628</u></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 18: COMPONENT UNIT DISCLOSURES – MARSHALL ECONOMIC DEVELOPMENT CORPORATION: (Continued)

#### Notes Payable:

On October 8, 2009, MEDCO executed a note with Texas Bank and Trust in the amount of \$1,000,000 to purchase land, building, and improvements. Payments are due quarterly at \$33,173 (includes principal and interest) for the next nine years at a fixed interest rate of 5.83%. Interest paid on the note for 2011 was \$50,572 and principal paid totaled \$81,940 to leave the balance owed of \$820,974 at December 31, 2011. Current requirements for principal and interest expenditures are accounted for in the General Fund.

Debt service requirements are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2012	63,447	36,072	99,519
2013	90,486	42,206	132,692
2014	95,877	36,815	132,692
2015	101,590	31,102	132,692
2016	107,571	25,121	132,692
2017-2019	362,003	35,123	397,126
<b>Total</b>	<u>820,974</u>	<u>206,439</u>	<u>1,027,413</u>

Long-term activity for the year ended December 31, 2011, was as follows:

<u>Component Unit Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Other Liabilities:					
Notes Payable	902,914	-	(81,940)	820,974	63,447
Total Other Liabilities	<u>902,914</u>	<u>-</u>	<u>(81,940)</u>	<u>820,974</u>	<u>63,447</u>
Total Governmental Activities					
Long-Term Liabilities	<u>902,914</u>	<u>-</u>	<u>(81,940)</u>	<u>820,974</u>	<u>63,447</u>

#### Pension Plan:

##### Texas Municipal Retirement System:

The employees of MEDCO are covered by the City of Marshall's pension plan, which is with the Texas Municipal Retirement System. Under mutual agreements by both entities, all salaries and related benefits are reimbursed by MEDCO to the City. The contribution rate for the employees is 7%, and the City and/or MEDCO's matching percent is currently 200%, as adopted by the governing body of the City.

##### Subsequent Events:

On May 12, 2012, a special election for Proposition No. 3 was held and the citizens of Marshall, Texas voted to authorize a one-eighth (1/8) of one percent sales and use tax for street maintenance and the reduction of the rate of sales and use tax dedicated for the benefit of the Economic Development Corporation from one half (1/2) of one percent to three-eighths (3/8) of one percent.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 19: COMPONENT UNIT DISCLOSURES – MARSHALL DOWNTOWN DEVELOPMENT CORPORATION:

#### Deposits And Investments:

##### Legal and Contractual Provisions Governing Deposits and Investments:

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires MDDC to adopt and implement an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize MDDC to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires MDDC to have independent auditors perform test procedures related to investment practices as provided by the Act. MDDC is in substantial compliance with the requirements of the Act and with local policies.

##### Policies Governing Deposits and Investments:

In compliance with the Public Funds Investment Act, MDDC has adopted a deposit and investment policy. That policy does address the following risk:

Custodial Credit Risks For Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. MDDC's policy regarding types of deposits allowed and collateral requirements is:

The funds of MDDC must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with MDDC's agent bank in an amount sufficient to protect MDDC funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

MDDC is exposed to custodial credit risk for its deposits as follows:

At December 31, 2011, the carrying amount of MDDC's deposits was \$17,560 and the respective bank balances were \$17,560. MDDC's cash consists of demand deposits. For GASB 40 purposes, all of MDDC's deposits and investments are covered under deposits. All of MDDC's cash deposits at December 31, 2011, were entirely covered by FDIC insurance.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 19: COMPONENT UNIT DISCLOSURES – MARSHALL DOWNTOWN DEVELOPMENT CORPORATION: (Continued)

#### Capital Assets:

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2011</u>
Capital Assets Being Depreciated:				
Building Improvements	2,421,363	-	(2,421,363)	-
Building	50,217	-	-	50,217
Total Capital Assets Being Depreciated	<u>2,471,580</u>	<u>-</u>	<u>(2,421,363)</u>	<u>50,217</u>
Less Accumulated Depreciation For:				
Building Improvements	208,381	1,004	(208,381)	1,004
Total Accumulated Depreciation	<u>208,381</u>	<u>1,004</u>	<u>(208,381)</u>	<u>1,004</u>
Total Capital Assets Being Depreciated, Net	<u>2,263,199</u>	<u>1,004</u>	<u>(2,212,982)</u>	<u>49,213</u>
Component Unit Activities Capital Assets, Net	<u>2,263,199</u>	<u>1,004</u>	<u>(2,212,982)</u>	<u>49,213</u>

On February 18, 2011, MDDC transferred the title of the Hotel Marshall property to Cargill Anderson Properties, pursuant to the Chapter 380 Development Agreement. All obligations have been met by the parties listed in the Chapter 380 Agreement.

#### Note Payable:

Marshall Plan Project, L.L.C. (MPP) loaned to MDDC for the purchase of property and other related purposes for the renovation of Hotel Marshall the sum of \$505,000 at the end of December 31, 2005. The Chapter 380 Agreement between MPP, MDDC, and the City of Marshall was modified by resolution of the Board of Directors on September 13, 2005, as follows:

MDDC will, at the request of Marshall Plan Project, L.L.C. (“MPP”), convey title to one-half of the second floor, the entire eighth floor, and any other floors which may have been made the subject of an agreement between MPP and any third party prior to the completion of Phase I as identified in the Chapter 380 Agreement between the City of Marshall, MPP, and MDDC. Following the completion of Phase I, the balance of the floors, save and except the basement, lobby, and mezzanine, the title to which shall remain with MDDC, will be conveyed to MPP in exchange for the cancellation of the \$505,000 promissory note executed by MDDC in favor of MPP.

As of the year ended December 31, 2008, MDDC and MPP entered into additional note agreements totaling \$424,604 for hotel renovation. These agreements are also subject to the Chapter 380 Agreement between the City of Marshall, MPP, and MDDC as discussed above. As such, upon completion of Phase I, this note will be cancelled and title to the balance of the floors, excluding the basement, lobby, and mezzanine areas, will transfer to MPP.

As stated above, on February 18, 2011, MDDC satisfied all obligations of the Chapter 380 Agreement and the note was cancelled.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

### NOTE 19: COMPONENT UNIT DISCLOSURES – MARSHALL DOWNTOWN DEVELOPMENT CORPORATION: (Continued)

The following is a summary of MDDC note transactions for the year ended December 31, 2011:

	<u>2010</u>
Balance - Beginning of Year	929,604
Current Year Transactions	<u>(929,604)</u>
<b>Balance At End of Year</b>	<u><u>-</u></u>

### Changes In Long-Term Liabilities:

Long-term activity for the year ended December 31, 2011, was as follows:

<u>Component Unit Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note Payable	<u>929,604</u>	<u>-</u>	<u>(929,604)</u>	<u>-</u>	<u>-</u>
Total Component Unit Activities Long-Term Liabilities	<u><u>929,604</u></u>	<u><u>-</u></u>	<u><u>(929,604)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

### NOTE 20: COMPONENT UNIT DISCLOSURES – MARSHALL CONVENTION AND VISITORS BUREAU (MCVB):

#### Deposits and Investments:

At December 31, 2011, the carrying amount of MCVB's deposits was \$14,163 and the respective bank balances were \$34,112. MCVB's cash consists of demand deposits. For GASB 40 purposes, all of MCVB's deposits and investments are covered under deposits. All of MCVB's cash deposits at December 31, 2011, were covered by FDIC insurance.

#### Pension Plan:

##### Texas Municipal Retirement System:

Two of the employees of MCVB are covered by the City of Marshall's pension plan, which is the Texas Municipal Retirement System. Under mutual agreements by both entities, all salaries and related benefits for these employees are reimbursed by MCVB to the City. The contribution rate for the employees is 7%, and the City and/or MCVB's matching percent is currently 200% as adopted by the governing body of the City.

##### Due From Other Governments:

MCVB has a contract with the City of Marshall to receive a portion of the Hotel/Motel Occupancy Tax collected. At December 31, 2011, the balance owed for Hotel/Motel Occupancy Tax collections to MCVB was \$63,222.

**Combining and Individual Fund Financial Statements**

# CITY OF MARSHALL, TEXAS

Exhibit F-1

**GENERAL FUND  
BALANCE SHEET  
DECEMBER 31, 2011**

		<i><u>General Fund</u></i>
<b><u>ASSETS</u></b>		
Cash and Temporary Investments		1,522,884
Certificates of Deposit		3,268,730
Receivables (Net of Allowance for Uncollectible)		
Current Taxes	2,555,861	
Delinquent Taxes	609,074	
Customer:		
Sanitation	227,974	
Ambulance	<u>1,062,116</u>	1,290,090
Franchise Taxes		248,435
Other		183,636
Accrued Interest		5,353
Note Receivable		<u>84,400</u>
Total Receivables		4,976,849
Prepaid Expenditures		27,767
Due from Other Governments		<u>1,652,489</u>
<b>TOTAL ASSETS</b>		<u><u>11,448,719</u></u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>		
<b>Liabilities</b>		
Accounts Payable		894,841
Accrued Liabilities		188,368
Deferred Revenue		<u>4,040,664</u>
<b>Total Liabilities</b>		<u><u>5,123,873</u></u>
 <b>Fund Balances:</b>		
<b>    Nonspendable:</b>		
Prepaid Expenditures		27,767
Note Receivable		84,400
<b>    Restricted:</b>		
Other Post-Employment Benefits		72,315
<b>    Unassigned</b>		
		<u>6,140,364</u>
<b>Total Fund Balance</b>		<u><u>6,324,846</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>		<u><u>11,448,719</u></u>

# CITY OF MARSHALL, TEXAS

Exhibit F-2

Page 1 of 2

**GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

		<u>General Fund</u>
<b><u>REVENUE:</u></b>		
Ad Valorem Taxes		4,386,197
Sales Taxes		5,932,914
Franchise Tax		1,119,478
Permits and Fees:		
Refuse Collections	2,278,737	
Ambulance Fees	1,223,095	
Other Fees and Permits	761,017	
Total Permits and Fees		4,262,849
Municipal Court Fines		423,896
Interest		26,766
Intergovernmental		452,989
Miscellaneous		158,940
		<hr/>
<b>Total Revenue</b>		<b>16,764,029</b>
<b><u>EXPENDITURES:</u></b>		
Current:		
General Government:		
Legislative	55,341	
Municipal Court	234,028	
Legal	65,254	
Administrative	196,550	
Information Technology	269,050	
City Secretary	94,042	
Buildings and Risk Management	701,667	
Human Resources	87,484	
Code Enforcement	39,916	
Main Street and Visual Arts Center	253,226	
Total General Government		1,996,558
Tourism and Convention Center		302,341
Finance		200,972
Public Safety:		
Emergency Management	6,520	
Police Department	4,253,425	
Fire Department	3,588,114	
Total Public Safety		7,848,059
Public Works		2,804,904
Planning		351,833
Purchasing		3,347
Library		468,449
Non-Departmental		1,980,107
Tax Collection		60,816
Parks and Recreation		976,368
Debt Service		162,288
Capital Outlay		1,584,664
		<hr/>
<b>Total Expenditures</b>		<b>18,740,706</b>

# CITY OF MARSHALL, TEXAS

Exhibit F-2

Page 2 of 2

## GENERAL FUND

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>
<b><u>CONTINUED:</u></b>	
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<u>(1,976,677)</u>
<b>Other Financing Sources (Uses)</b>	
Transfers In	1,567,781
Transfers Out	(131,579)
Capital Lease Proceeds	214,612
<b>Total Other Financing Sources (Uses)</b>	<u>1,650,814</u>
Net Change in Fund Balance	(325,863)
Fund Balance at Beginning of Year	<u>6,650,709</u>
<b>Fund Balance at End of Year</b>	<u><u>6,324,846</u></u>

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET DECEMBER 31, 2011

	<i>Special Revenue</i>													
	<i>Motel Occupancy Tax Fund</i>	<i>Community Development Fund</i>	<i>Municipal Court Tech Fund</i>	<i>Arena Maintenance Fund</i>	<i>Library Grants Fund</i>	<i>Litter Control Fund</i>	<i>D.A.R.E. Donations Fund</i>	<i>Controlled Substance Fund</i>	<i>Art Center Projects Fund</i>	<i>Park Trails Fund</i>	<i>Police Special Projects Fund</i>	<i>Disaster Relief Fund</i>	<i>Main Street Fund</i>	<i>State Grant Fund</i>
<b>ASSETS</b>														
Cash and Temporary Investments	139,685	(115,278)	10,790	584	3	4,900	36,301	103,893	13,281	4,733	40,632	2,644	4,300	145
Certificates of Deposit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Current Taxes	64,757	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Delinquent Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued Interest	-	118,161	-	-	-	-	-	6,823	-	-	-	-	-	-
Due from Other Governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>204,442</u>	<u>2,883</u>	<u>10,790</u>	<u>584</u>	<u>3</u>	<u>4,900</u>	<u>36,301</u>	<u>110,716</u>	<u>13,281</u>	<u>4,733</u>	<u>40,632</u>	<u>2,644</u>	<u>4,300</u>	<u>145</u>
<b>LIABILITIES AND FUND BALANCES</b>														
<b>Liabilities</b>														
Accounts Payable	72,319	2,883	150	-	-	4,900	-	4,705	-	-	-	-	-	-
Deferred Revenue	73	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<u>72,392</u>	<u>2,883</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>4,900</u>	<u>-</u>	<u>4,705</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>														
<b>Restricted:</b>														
Promotion and Tourism	132,050	-	-	-	-	-	-	-	-	-	-	-	4,300	-
Law Enforcement	-	-	10,640	-	-	-	36,301	106,011	-	-	40,632	-	-	-
Purpose of Grantors and Donors	-	-	-	584	-	-	-	-	13,281	4,733	-	2,644	-	145
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	3	-	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Fund Balances</b>	<u>132,050</u>	<u>-</u>	<u>10,640</u>	<u>584</u>	<u>3</u>	<u>-</u>	<u>36,301</u>	<u>106,011</u>	<u>13,281</u>	<u>4,733</u>	<u>40,632</u>	<u>2,644</u>	<u>4,300</u>	<u>145</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>204,442</u>	<u>2,883</u>	<u>10,790</u>	<u>584</u>	<u>3</u>	<u>4,900</u>	<u>36,301</u>	<u>110,716</u>	<u>13,281</u>	<u>4,733</u>	<u>40,632</u>	<u>2,644</u>	<u>4,300</u>	<u>145</u>

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET DECEMBER 31, 2011

	Debt Service				Capital Projects						Permanent		
	1995 General Obligation Debt Service	2001 Combination Tax & Revenue Debt Service	2007 General Obligation Debt Service	2010 C/O - Utility Conserv. Proj. Debt Service	2010 Cert. of Oblig. Mem. City Hall Debt Service	1995 Capital Imp. Fund	2007 Capital Imp. Fund	2010 Utility Conserv. Fund	2010 Memorial City Hall Fund	Downtown Restrooms Project Fund	Telegraph Park Fund	Library Fund	Total Nonmajor Governmental Funds
<b>CONTINUED:</b>													
<b>ASSETS</b>													
Cash and Temporary Investments	-	8,725	493,046	-	5,833	13,957	255,939	24,548	72,125	(35,000)	-	316,091	1,401,877
Certificates of Deposit	-	-	-	-	-	-	-	-	1,515,159	-	-	-	1,515,159
Receivable- Current Taxes	-	-	274,301	-	-	-	-	-	-	-	-	-	339,058
Receivable- Delinquent Taxes	-	-	65,794	-	-	-	-	-	-	-	-	-	65,794
Other Receivables	-	-	-	-	-	-	-	-	-	-	-	1,636	1,636
Accrued Interest	-	-	-	-	-	-	-	-	1,625	-	-	-	1,625
Due from Other Governments	-	-	-	-	-	-	-	-	-	35,000	-	-	159,984
<b>TOTAL ASSETS</b>	-	8,725	833,141	-	5,833	13,957	255,939	24,548	1,588,909	-	-	317,727	3,485,133
<b>LIABILITIES AND FUND BALANCES</b>													
<b>Liabilities</b>													
Accounts Payable	-	-	-	-	-	-	91,217	-	981	-	-	-	177,155
Deferred Revenue	-	-	334,261	-	-	-	-	-	-	-	-	-	334,334
<b>Total Liabilities</b>	-	-	334,261	-	-	-	91,217	-	981	-	-	-	511,489
<b>Fund Balances</b>													
<b>Restricted:</b>													
Promotion and Tourism	-	-	-	-	-	-	-	-	-	-	-	-	136,350
Law Enforcement	-	-	-	-	-	-	-	-	-	-	-	-	193,584
Purpose of Grantors and Donors	-	-	-	-	-	-	-	-	-	-	-	-	21,387
Debt Service	-	8,725	498,880	-	5,833	-	-	-	-	-	-	-	513,438
Library	-	-	-	-	-	-	-	-	-	-	-	317,727	317,730
Capital Projects	-	-	-	-	-	13,957	164,722	24,548	1,587,928	-	-	-	1,791,155
<b>Total Fund Balances</b>	-	8,725	498,880	-	5,833	13,957	164,722	24,548	1,587,928	-	-	317,727	2,973,644
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	-	8,725	833,141	-	5,833	13,957	255,939	24,548	1,588,909	-	-	317,727	3,485,133

**CITY OF MARSHALL, TEXAS**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Special Revenue													
	Motel Occupancy Tax Fund	Community Development Fund	Municipal Court Tech Fund	Arena Maintenance Fund	Library Grants Fund	Litter Control Fund	D.A.R.E. Donations Fund	Controlled Substance Fund	Art Center Projects Fund	Park Trails Fund	Police Special Projects Fund	Disaster Relief Fund	Main Street Fund	State Grant Fund
<b>REVENUE:</b>														
Ad Valorem Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	103,764	-	-	2,966	-	-	14,724	6,924	-	-	-	-	-
Motel Occupancy Tax	727,207	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Court Fines	-	-	12,470	-	-	-	-	-	-	-	-	-	-	-
Interest	9	-	-	-	-	-	30	117	-	-	-	-	-	-
Donations	-	-	-	-	-	7,909	12,120	2,504	1,515	3,485	-	19,932	-	-
Miscellaneous	3,360	-	-	-	-	63,874	-	8,824	-	680	-	-	-	-
<b>Total Revenue</b>	<b>730,576</b>	<b>103,764</b>	<b>12,470</b>	<b>-</b>	<b>2,966</b>	<b>71,783</b>	<b>12,150</b>	<b>26,169</b>	<b>8,439</b>	<b>4,165</b>	<b>-</b>	<b>-</b>	<b>19,932</b>	<b>-</b>
<b>EXPENDITURES:</b>														
Current:														
General Government	-	38,067	15,169	-	-	-	-	-	11,052	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	13,780	-	-	2,540	-	-	-
Public Works	-	-	-	-	-	71,783	-	-	-	-	-	-	-	-
Tourist and Convention	514,915	-	-	1,367	-	-	-	-	-	1,634	-	14,228	-	-
Code Enforcement	-	65,697	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	2,966	-	-	-	-	-	-	-	-	-
Debt Service- Principal Retirement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service- Interest and Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	21,672	30,657	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>514,915</b>	<b>103,764</b>	<b>15,169</b>	<b>1,367</b>	<b>2,966</b>	<b>71,783</b>	<b>28,788</b>	<b>44,437</b>	<b>11,052</b>	<b>1,634</b>	<b>2,540</b>	<b>-</b>	<b>14,228</b>	<b>-</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>215,661</b>	<b>-</b>	<b>(2,699)</b>	<b>(1,367)</b>	<b>-</b>	<b>-</b>	<b>(16,638)</b>	<b>(18,268)</b>	<b>(2,613)</b>	<b>2,531</b>	<b>(2,540)</b>	<b>-</b>	<b>5,704</b>	<b>-</b>
<b>Before Other Financing Sources (Uses)</b>														
<b>Other Financing Sources (Uses)</b>														
Transfers In	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	(293,334)	-	-	-	-	-	-	-	-	-	-	(1,404)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(208,334)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,404)</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	7,327	-	(2,699)	(1,367)	-	-	(16,638)	(18,268)	(2,613)	2,531	(2,540)	-	4,300	-
Fund Balances at Beginning of Year	124,723	-	13,339	1,951	3	-	52,939	124,279	15,894	2,202	43,172	-	-	145
<b>Fund Balances at End of Year</b>	<b>132,050</b>	<b>-</b>	<b>10,640</b>	<b>584</b>	<b>3</b>	<b>-</b>	<b>36,301</b>	<b>106,011</b>	<b>13,281</b>	<b>4,733</b>	<b>40,632</b>	<b>-</b>	<b>4,300</b>	<b>145</b>

**CITY OF MARSHALL, TEXAS**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Debt Service				Capital Projects				Permanent				
	1995 General Obligation Debt Service	2001 Combination Tax & Revenue Debt Service	2007 General Obligation Debt Service	2010 C/O - Utility Conserv. Proj. Debt Service	2010 Cert. of Oblig. Mem. City Hall Debt Service	1995 Capital Imp. Fund	2007 Capital Imp. Fund	2010 Utility Conserv. Fund	2010 Memorial City Hall Fund	Downtown Restrooms Project Fund	Telegraph Park Fund	Library Fund	Total Nonmajor Governmental Funds
<b>REVENUE:</b>													
Ad Valorem Taxes	-	-	600,597	-	-	-	-	-	-	-	-	-	600,597
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	128,378
Motel Occupancy Tax	-	-	-	-	-	-	-	-	-	-	-	-	727,207
Municipal Court Fines	-	-	-	-	-	-	-	-	-	-	-	-	12,470
Interest	-	36	474	-	45	-	375	-	12,068	-	225	-	13,379
Donations	-	-	-	-	-	-	-	-	-	105,300	5,259	-	400,531
Miscellaneous	-	-	-	-	-	-	-	-	-	-	16,692	-	93,430
<b>Total Revenue</b>	-	36	601,071	-	45	-	375	-	12,068	105,300	242,507	22,176	1,975,992
<b>EXPENDITURES:</b>													
Current:													
General Government	-	-	-	-	-	-	2,901	-	1,055	-	-	-	68,244
Public Safety	-	-	-	-	-	-	-	-	-	-	-	-	23,436
Public Works	-	-	-	-	-	-	-	1,155	-	-	-	-	72,938
Tourist and Convention	-	-	-	-	-	-	-	-	-	259	-	-	532,403
Code Enforcement	-	-	-	-	-	-	-	-	-	-	-	-	65,697
Library	-	-	-	-	-	-	-	-	-	-	25,045	-	28,011
Debt Service- Principal Retirement	-	115,000	295,000	-	105,000	-	-	-	-	-	-	-	515,000
Debt Service- Interest and Fees	-	8,813	264,080	-	66,088	-	-	-	-	-	-	-	338,981
Capital Outlay	-	-	-	-	-	-	251,214	-	336,631	143,364	250,762	-	1,034,300
<b>Total Expenditures</b>	-	123,813	559,080	-	171,088	-	254,115	1,155	337,686	143,364	251,021	25,045	2,679,010
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	-	(123,777)	41,991	-	(171,043)	-	(253,740)	(1,155)	(325,618)	(38,064)	(8,514)	(2,869)	(703,018)
<b>Other Financing Sources (Uses)</b>													
Transfers In	-	122,247	436,083	-	171,088	-	-	-	-	38,064	8,514	-	860,996
Transfers Out	(430,880)	-	-	(5,203)	-	-	-	-	-	-	-	-	(730,821)
<b>Total Other Financing Sources (Uses)</b>	(430,880)	122,247	436,083	(5,203)	171,088	-	-	-	-	38,064	8,514	-	130,175
<b>Net Change in Fund Balances</b>	(430,880)	(1,530)	478,074	(5,203)	45	-	(253,740)	(1,155)	(325,618)	-	-	(2,869)	(572,843)
<b>Fund Balances at Beginning of Year</b>	430,880	10,255	20,806	5,203	5,788	13,957	418,462	25,703	1,913,546	-	-	320,596	3,546,487
<b>Fund Balances at End of Year</b>	-	8,725	498,880	-	5,833	13,957	164,722	24,548	1,587,928	-	-	317,727	2,973,644

# CITY OF MARSHALL, TEXAS

**BUDGETED SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<i>Motel Occupancy Tax Fund</i>				<i>Litter Control Fund</i>			
	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>			<i>Original</i>	<i>Final</i>		
<b>REVENUE:</b>								
Motel Occupancy Tax	750,000	750,000	727,207	(22,793)	-	-	-	-
Interest	50	50	9	(41)	-	-	-	-
Donations	-	-	-	-	9,500	9,500	7,909	(1,591)
Miscellaneous	-	-	3,360	3,360	63,900	63,900	63,874	(26)
<b>Total Revenue</b>	<b>750,050</b>	<b>750,050</b>	<b>730,576</b>	<b>(19,474)</b>	<b>73,400</b>	<b>73,400</b>	<b>71,783</b>	<b>(1,617)</b>
<b>EXPENDITURES:</b>								
Current:								
Public Safety	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	73,400	73,400	71,783	1,617
Tourist and Convention	456,700	456,700	514,915	(58,215)	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>456,700</b>	<b>456,700</b>	<b>514,915</b>	<b>(58,215)</b>	<b>73,400</b>	<b>73,400</b>	<b>71,783</b>	<b>1,617</b>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<b>293,350</b>	<b>293,350</b>	<b>215,661</b>	<b>(77,689)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Financing Sources (Uses)</b>								
Transfers In	-	-	85,000	85,000	-	-	-	-
Transfers Out	(293,335)	(293,335)	(293,334)	1	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(293,335)</b>	<b>(293,335)</b>	<b>(208,334)</b>	<b>85,001</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	15	15	7,327	7,312	-	-	-	-
Fund Balances, Beginning of Year	124,723	124,723	124,723	-	-	-	-	-
<b>Fund Balances, End of Year</b>	<b>124,738</b>	<b>124,738</b>	<b>132,050</b>	<b>7,312</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<i>D.A.R.E. Donations Fund</i>				<i>Total</i>			
<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
<i>Original</i>	<i>Final</i>			<i>Original</i>	<i>Final</i>		
-	-	-	-	750,000	750,000	727,207	(22,793)
-	-	30	30	50	50	39	(11)
12,500	12,500	12,120	(380)	22,000	22,000	20,029	(1,971)
-	-	-	-	63,900	63,900	67,234	3,334
12,500	12,500	12,150	(350)	835,950	835,950	814,509	(21,441)
12,500	12,500	7,116	5,384	12,500	12,500	7,116	5,384
-	-	-	-	73,400	73,400	71,783	1,617
-	-	-	-	456,700	456,700	514,915	(58,215)
	22,000	21,672	328	-	22,000	21,672	328
12,500	34,500	28,788	5,712	542,600	564,600	615,486	(50,886)
-	(22,000)	(16,638)	5,362	293,350	271,350	199,023	(72,327)
-	-	-	-	-	-	85,000	85,000
-	-	-	-	(293,335)	(293,335)	(293,334)	1
-	-	-	-	(293,335)	(293,335)	(208,334)	85,001
-	(22,000)	(16,638)	5,362	15	(21,985)	(9,311)	12,674
52,939	52,939	52,939	-	177,662	177,662	177,662	-
52,939	30,939	36,301	5,362	177,677	155,677	168,351	12,674

# CITY OF MARSHALL, TEXAS

Exhibit F-6

**1995 GENERAL OBLIGATION DEBT SERVICE FUND AND  
2007 GENERAL OBLIGATION DEBT SERVICE FUND  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b><u>REVENUE:</u></b>				
Ad Valorem Taxes	458,832	458,832	600,597	141,765
Interest	2,000	2,000	474	(1,526)
<b>Total Revenue</b>	<b>460,832</b>	<b>460,832</b>	<b>601,071</b>	<b>140,239</b>
<b><u>EXPENDITURES:</u></b>				
Principal Retirement	295,000	295,000	295,000	-
Interest and Fees	263,781	263,781	264,080	(299)
<b>Total Expenditures</b>	<b>558,781</b>	<b>558,781</b>	<b>559,080</b>	<b>(299)</b>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<b>(97,949)</b>	<b>(97,949)</b>	<b>41,991</b>	<b>139,940</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	436,083	436,083
Transfers Out	-	-	(430,880)	(430,880)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>5,203</b>	<b>5,203</b>
<b>Net Change in Fund Balance</b>	<b>(97,949)</b>	<b>(97,949)</b>	<b>47,194</b>	<b>145,143</b>
Fund Balance, Beginning of Year	451,686	451,686	451,686	-
<b>Fund Balance, End of Year</b>	<b>353,737</b>	<b>353,737</b>	<b>498,880</b>	<b>145,143</b>

# CITY OF MARSHALL, TEXAS

Exhibit G-1

**WATER AND SEWER ENTERPRISE FUND  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND  
NET ASSETS - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b><u>OPERATING REVENUE:</u></b>				
Charges for Services	9,403,050	9,403,050	10,600,288	1,197,238
<b>Total Operating Revenue</b>	<b>9,403,050</b>	<b>9,403,050</b>	<b>10,600,288</b>	<b>1,197,238</b>
<b><u>OPERATING EXPENSES:</u></b>				
Administrative	287,519	291,819	292,284	(465)
Water Production	1,301,569	1,301,569	1,251,767	49,802
Water Distribution/ Collection	1,125,639	1,205,639	1,319,054	(113,415)
Sewage Treatment	1,166,923	1,235,776	1,208,200	27,576
Water Billing	442,347	442,347	450,589	(8,242)
Engineering	191,256	191,256	168,078	23,178
Non-Departmental	883,441	883,441	921,532	(38,091)
Depreciation	-	-	1,226,868	(1,226,868)
Amortization	-	-	56,221	(56,221)
Bad Debt Expense	-	-	25,764	(25,764)
<b>Total Operating Expenses</b>	<b>5,398,694</b>	<b>5,551,847</b>	<b>6,920,357</b>	<b>(1,368,510)</b>
<b>Operating Income (Loss)</b>	<b>4,004,356</b>	<b>3,851,203</b>	<b>3,679,931</b>	<b>(171,272)</b>
<b><u>NONOPERATING REVENUE (EXPENSES):</u></b>				
Interest Income	5,000	5,000	11,972	6,972
Interest Expense and Fees	(831,705)	(831,705)	(828,610)	3,095
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(826,705)</b>	<b>(826,705)</b>	<b>(816,638)</b>	<b>10,067</b>
<b><u>CAPITAL CONTRIBUTIONS:</u></b>				
	-	-	458,069	458,069
<b>Income (Loss) Before Transfers</b>	<b>3,177,651</b>	<b>3,024,498</b>	<b>3,321,362</b>	<b>296,864</b>
Transfers In	-	-	88,293	88,293
Transfers (Out)	(1,350,000)	(1,350,000)	(1,350,000)	-
<b>Total Transfers In (Out)</b>	<b>(1,350,000)</b>	<b>(1,350,000)</b>	<b>(1,261,707)</b>	<b>88,293</b>
<b>Change in Net Assets</b>	<b>1,827,651</b>	<b>1,674,498</b>	<b>2,059,655</b>	<b>385,157</b>
<b><u>ADDITIONAL BUDGETED AMOUNTS:</u></b>				
Capital Outlay	95,050	440,411	724,917	(284,506)
Principal Retirement	1,732,437	1,732,437	1,732,437	-
	<b>1,827,487</b>	<b>2,172,848</b>	<b>2,457,354</b>	<b>(284,506)</b>

**NOTE:** This schedule does not include revenue, operating expenses, nonoperating revenue or expenses, capital contributions, contributions, transfers in or out, or additional budgeted amounts from the Water Revenue or Sewer Revenue Bond Funds.

# CITY OF MARSHALL, TEXAS

Exhibit H-1

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<i>Equipment Replacement Fund</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>ASSETS</u></b>			
<i>Current Assets:</i>			
Cash and Temporary Investments	-	(31,568)	(31,568)
Accounts Receivable	-	36,446	36,446
Inventory	-	16,489	16,489
Total Current Assets	<u>-</u>	<u>21,367</u>	<u>21,367</u>
<i>Noncurrent Assets:</i>			
Capital Assets:			
Buildings	-	122,596	122,596
Machinery and Equipment	-	20,660	20,660
Less: Accumulated Depreciation	-	(143,256)	(143,256)
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>-</u>	<u>-</u>
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>-</u>	<u>21,367</u>	<u>21,367</u>
 <b><u>LIABILITIES</u></b>			
<i>Current Liabilities:</i>			
Accounts Payable	-	29,216	29,216
<b>TOTAL CURRENT LIABILITIES</b>	<u>-</u>	<u>29,216</u>	<u>29,216</u>
 <b><u>NET ASSETS (DEFICIT)</u></b>			
Unrestricted (Deficit)	-	(7,849)	(7,849)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>-</u>	<u>(7,849)</u>	<u>(7,849)</u>

# CITY OF MARSHALL, TEXAS

Exhibit H-2

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND  
NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<i>Equipment Replacement Fund</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>OPERATING REVENUE:</u></b>			
Charges for Services	-	499,174	499,174
<b>Total Operating Revenue</b>	<u>-</u>	<u>499,174</u>	<u>499,174</u>
<b><u>OPERATING EXPENSES:</u></b>			
Materials and Supplies	-	500,708	500,708
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>-</u>	<u>500,708</u>	<u>500,708</u>
<b>Operating (Loss)</b>	<u>-</u>	<u>(1,534)</u>	<u>(1,534)</u>
<b><u>NONOPERATING REVENUE (EXPENSES):</u></b>			
Other Nonoperating Expenses	(2,890,385)	-	(2,890,385)
<b>Total Nonoperating Revenue (Expenses)</b>	<u>(2,890,385)</u>	<u>-</u>	<u>(2,890,385)</u>
<b>Income (Loss) Before Transfers</b>	(2,890,385)	(1,534)	(2,891,919)
Transfers Out	(304,670)	-	(304,670)
<b>Change in Net Assets</b>	(3,195,055)	(1,534)	(3,196,589)
Total Net Assets (Deficit), Beginning of Year	<u>3,195,055</u>	<u>(6,315)</u>	<u>3,188,740</u>
<b>Total Net Assets (Deficit), End of Year</b>	<u>-</u>	<u>(7,849)</u>	<u>(7,849)</u>

# CITY OF MARSHALL, TEXAS

Exhibit H-3

**INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<i>Equipment Replacement Fund</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>Cash Flows from Operating Activities:</u></b>			
Cash Received from Customers	-	496,346	496,346
Cash Payments to Suppliers for Goods and Services	<u>          </u>	<u>(501,465)</u>	<u>(501,465)</u>
Net Cash (Used) by Operating Activities	<u>          </u>	<u>(5,119)</u>	<u>(5,119)</u>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>			
Transfers In (Out)	<u>(304,670)</u>	<u>-</u>	<u>(304,670)</u>
Net Cash (Used) by Noncapital Financing Activities	<u>(304,670)</u>	<u>-</u>	<u>(304,670)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(304,670)	(5,119)	(309,789)
Cash and Cash Equivalents (Deficit), Beginning of Year	<u>304,670</u>	<u>(26,449)</u>	<u>278,221</u>
<b>Cash and Cash Equivalents (Deficit), End of Year</b>	<u>          </u>	<u>(31,568)</u>	<u>(31,568)</u>
 <b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>			
Operating (Loss)	-	(1,534)	(1,534)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>			
(Increase) Decrease in Assets:			
Accounts Receivable	-	(2,828)	(2,828)
Inventory	-	(2,510)	(2,510)
Increase (Decrease) in Liabilities:			
Accounts Payable	<u>          </u>	<u>1,753</u>	<u>1,753</u>
Total Adjustments	<u>          </u>	<u>(3,585)</u>	<u>(3,585)</u>
Net Cash (Used) by Operating Activities	<u>          </u>	<u>(5,119)</u>	<u>(5,119)</u>

# CITY OF MARSHALL, TEXAS

Exhibit I-1

**AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
DECEMBER 31, 2011**

	<i>Balance December 31, 2010</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance December 31, 2011</i>
<b><u>POLICE LOCAL RELIEF FUND:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	68,575	2,791	3,243	68,123
<b>TOTAL ASSETS</b>	<u>68,575</u>	<u>2,791</u>	<u>3,243</u>	<u>68,123</u>
<b><u>LIABILITIES</u></b>				
Due to Employees	68,575	2,791	3,243	68,123
<b>TOTAL LIABILITIES</b>	<u>68,575</u>	<u>2,791</u>	<u>3,243</u>	<u>68,123</u>
 <b><u>FIREMEN'S EMERGENCY RELIEF FUND:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	44,720	10,956	8,749	46,927
<b>TOTAL ASSETS</b>	<u>44,720</u>	<u>10,956</u>	<u>8,749</u>	<u>46,927</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	1,961	-	480	1,481
Due to Employees	42,759	10,956	8,269	45,446
<b>TOTAL LIABILITIES</b>	<u>44,720</u>	<u>10,956</u>	<u>8,749</u>	<u>46,927</u>
 <b><u>TOTAL AGENCY FUNDS:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	113,295	13,747	11,992	115,050
<b>TOTAL ASSETS</b>	<u>113,295</u>	<u>13,747</u>	<u>11,992</u>	<u>115,050</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	1,961	-	480	1,481
Due to Employees	111,334	13,747	11,512	113,569
<b>TOTAL LIABILITIES</b>	<u>113,295</u>	<u>13,747</u>	<u>11,992</u>	<u>115,050</u>

## **Supplemental Schedules**

# CITY OF MARSHALL, TEXAS

Exhibit SS-1

## SCHEDULE OF GENERAL OBLIGATION DEBT DECEMBER 31, 2011

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2011</u>	<u>Issued 2011</u>	<u>Retired 2011</u>	<u>December 31, 2011</u>	<u>Requirements Calendar Year 2012</u>	
							<u>Interest</u>	<u>Principal</u>
Combination Tax and Revenue Certificates Of Obligation Series October 30, 2001 Rate 4.75%, 4.25%, 4.375%, 4.50%, 4.625%	2001	1,540,000	115,000	-	(115,000)	-	-	-
General Obligation Bonds March 28, 2007 Rate 3.85% - 5.00%	2007	6,230,000	5,720,000	-	(225,000)	5,495,000	215,693	235,000
Tax and Surplus Revenue Refunding Bonds, Series 2010 July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	660,000	660,000	-	-	660,000	17,275	125,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010 January 28, 2010 Rate 2.75% - 4.5%	2010	1,140,000	1,140,000	-	(70,000)	1,070,000	33,438	70,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010A May 13, 2010 Rate 2.0% - 4.0%	2010	2,100,000	2,100,000	-	(105,000)	1,995,000	63,938	110,000
<b>TOTAL GENERAL OBLIGATION DEBT</b>		<b>11,670,000</b>	<b>9,735,000</b>	<b>-</b>	<b>(515,000)</b>	<b>9,220,000</b>	<b>330,344</b>	<b>540,000</b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-2

## SCHEDULE OF WATER AND SEWER REVENUE BONDS DECEMBER 31, 2011

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2011</u>	<u>Issued 2011</u>	<u>Retired 2011</u>	<u>Dec. 31, 2011</u>	<u>Requirements</u>	
							<u>Calendar Year 2012</u>	<u>Interest</u>
Waterworks and Sewer System Revenue Bonds June 15, 1998 Rate 6.5%, 4.5%, 4.6%, 4.5%	1998	8,455,000	790,000	-	(385,000)	405,000	9,315	405,000
Waterworks and Sewer System Revenue Bonds November 15, 2000 Rate 7.125%, 5.30%, 5.25%, 5.2%, 5.125%	2000	4,580,000	780,000	-	(245,000)	535,000	20,756	260,000
Waterworks and Sewer System Revenue Bonds January 22, 2002 Rate 6.0%, 5.25%, 4.6%, 4.65%, 4.7%, 4.75%, 4.8%, 4.85%, 5.0%	2001	2,500,000	760,000	-	(110,000)	650,000	27,673	115,000
Water and Sewer Revenue Bonds November 15, 2003 Rate 3.5%, 4.0%, 3.75%, 3.6%, 3.7%, 3.8%, 4.0%, 4.1%, 4.2%, 4.3%, 4.4%, 4.5%	2003	7,000,000	5,380,000	-	(315,000)	5,065,000	198,933	330,000
Water and Sewer Revenue Refunding Bonds December 1, 2006 Rate 4.25%, 5.50%, 4.00%	2006	9,235,000	9,235,000	-	(160,000)	9,075,000	426,713	160,000
Tax and Surplus Revenue Refunding Bonds July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	3,490,000	3,490,000	-	(465,000)	3,025,000	65,700	475,000
<b>TOTAL WATER AND SEWER REVENUE BONDS</b>		<b>35,260,000</b>	<b>20,435,000</b>	<b>-</b>	<b>(1,680,000)</b>	<b>18,755,000</b>	<b>749,090</b>	<b>1,745,000</b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-3

## SCHEDULE OF DELINQUENT TAXES RECEIVABLE DECEMBER 31, 2011

<u>Year</u>	<u>Amount</u>
1992	6,780
1993	7,402
1994	8,114
1995	8,794
1996	10,473
1997	10,752
1998	11,830
1999	13,046
2000	14,471
2001	18,105
2002	21,631
2003	24,928
2004	33,440
2005	39,071
2006	49,733
2007	59,620
2008	82,955
2009	115,945
2010	<u>173,298</u>
Total Delinquent Taxes Receivable	710,388
Less: Allowance for Uncollectibles	<u>(35,520)</u>
<b>NET DELINQUENT TAXES RECEIVABLE</b>	<b><u>674,868</u></b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-4

## COMPARISON OF ASSESSED VALUATIONS FROM 1982 THROUGH 2011

<u>Tax Levy Year</u>	<u>Tax Rate</u>	<u>Assessed Value</u>
1982	1.1900	160,677,475
1983	.6900	360,114,269
1984	.7150	361,211,581
1985	.7025	374,867,393
1986	.7025	383,088,128
1987	.7025	397,763,392
1988	.7025	404,037,616
1989	.7025	402,380,021
1990	.7025	395,425,308
1991	.7025	404,487,140
1992	.5100	391,811,409
1993	.5100	390,340,453
1994	.5100	394,297,185
1995	.50766	412,191,439
1996	.50604	451,539,855
1997	.50256	463,076,601
1998	.49955	487,240,124
1999	.49455	521,508,117
2000	.49455	523,921,037
2001	.49455	533,820,564
2002	.49455	573,043,522
2003	.49455	594,090,057
2004	.49455	598,079,884
2005	.49455	653,807,222
2006	.49455	715,900,782
2007	.49455	772,503,458
2008	.47604	901,805,181
2009	.47604	941,928,201
2010	.47604	1,003,101,961
2011	.47604	1,009,699,851

**FEDERAL AWARDS SECTION**

204 S. WELLINGTON STREET  
POST OFFICE BOX 1315  
MARSHALL, TEXAS 75670  
(903) 938-0331 • FAX (903) 938-0334

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable City Commission  
Marshall, Texas

**Compliance**

We have audited the compliance of City of Marshall, Texas, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. City of Marshall, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Marshall, Texas' management. Our responsibility is to express an opinion on City of Marshall, Texas' compliance based on our audit.

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

In our opinion, City of Marshall, Texas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

The management of City of Marshall, Texas, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Marshall, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Marshall, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Respectfully submitted,

**KNUCKOLS, DUVALL, HALLUM & CO.**

*Knuckols, Duvall, Hallum & Co.*  
Certified Public Accountants

July 6, 2012

# CITY OF MARSHALL, TEXAS

Exhibit FA-1

Page 1 of 2

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Assistance to Firefighters Grant/ Staffing for Adequate Fire and Emergency Response-ARRA Passed Through Texas Division of Emergency Management:	97.115	EMW-2007-FF-00365	83,276
Homeland Security Grant Program	97.073	2009-SS-T9-0064	42,302
Total U.S. Department of Homeland Security			<u>125,578</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Community Development Block Grant-Entitlement (Note B) Passed Through Texas Department of Rural Affairs:	14.218	N/A	103,764
2008 Supplemental Community Development Block Grant	14.228	DRS010111	313,925
Total U.S. Department of Housing and Urban Development			<u>417,689</u>
<b><u>U.S. Department of Justice</u></b>			
Bureau of Justice Assistance:			
COPS Hiring Recovering Program-ARRA	16.710	2009RKWX0823	102,664
2009 Edward Byrne Local Project - ARRA	16.804	2009-SB-B9-0269	118
Edward Byrne Justice Assistance Grant Program	16.580	2009-DJ-BX-0831	23
2010 Justice Assistance Grant Program	16.580	2010-DJ-BX-0082	251
2011 Justice Assistance Grant Program	16.580	2011-DJ-BX-2657	6,823
Total U.S. Department of Justice			<u>109,879</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>653,146</u></u>

# **CITY OF MARSHALL, TEXAS**

Exhibit FA-1

Page 2 of 2

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011**

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

#### **NOTE A – Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Marshall and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **NOTE B – Community Development Block Grant – Entitlement**

The Community Development Block Grant (CDBG) has a fiscal year ending in May. For the June 1, 2011/May 31, 2012 year, there were \$380,773 (Project Number B-11-MC-48-0034) funds available. For the June 1, 2010/May 31, 2011 year, there were \$420,241 (Project Number B-10-MC-48-0034) funds available. Various expenditures were budgeted and funded from previous years grant awards.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **A. SUMMARY OF AUDIT RESULTS:**

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Marshall.
2. No deficiencies in internal control over financial reporting that we considered to be a material weakness relating to the audit of the financial statements were reported in the 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*.
3. No instances of noncompliance or other matters which is material to the financial statements of City of Marshall were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit in internal control over compliance of major programs.
5. The auditors' report on compliance for major federal award programs for City of Marshall expresses an unqualified opinion.
6. The audit did not disclose any audit findings which the auditor is required to report under Section 510(a) of OMB Circular A-133.
7. The major programs for the City of Marshall were the Community Development Block Grant - Entitlement, CFDA Number 14.218, and 2008 Supplemental Community Development Block Grant, CFDA Number 14.228, as listed in the Schedule of Expenditures of Federal Awards.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. City of Marshall did not qualify as a low-risk auditee for the 2011 fiscal year.

### **B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS*:**

NONE

### **C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DESCRIBED A.6 ABOVE:**

NONE

# CITY OF MARSHALL, TEXAS

Exhibit FA-3

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011**

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N/A

# **CITY OF MARSHALL, TEXAS**

**Exhibit FA-4**

## **CORRECTIVE ACTION PLAN – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011**

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N/A