

**CITY OF MARSHALL, TEXAS**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED**

**DECEMBER 31, 2012**

# 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

**Auditors' Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marshall, Texas' basic financial statements. 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 basic financial statements.

The combining and individual nonmajor fund financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2013 on our consideration of City of Marshall, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Marshall, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

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

  
Certified Public Accountants

Marshall, Texas

August 9, 2013

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable City Commission  
Marshall, Texas

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Marshall, Texas, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Marshall, Texas' basic financial statements, and have issued our report thereon dated August 9, 2013.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Marshall, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

A handwritten signature in cursive script that reads "Knuckols, Duvall, Hallum & Co." is written over a horizontal line.

Certified Public Accountants

Marshall, Texas

August 9, 2013

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

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012

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, 2012. 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 \$77,365,210 (net position). Of this amount, \$13,548,741 (unrestricted net position) 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 \$9,625,715. Approximately 68% of this total amount is *available for spending* at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6,596,126 or 37% 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 position* presents information on all of the City of Marshall's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Marshall is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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, finance, parks and recreation, library, non-departmental, tax collection, purchasing, code enforcement, inspections, 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, 2012

**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 24 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 23 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 fund 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. This year the City only has one internal service fund which is the Stores Inventory Fund and it is presented in the combining statements section.

**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 statement.** 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, 2012

### Government-Wide Financial Analysis

As noted earlier, net position 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 \$77,365,210 at the close of the most recent fiscal year.

By far the largest portion of the City of Marshall's net position, 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 Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	14,651,927	15,054,041	7,345,139	7,537,960	21,997,066	22,592,001
Capital assets	42,374,923	43,648,015	45,668,884	46,794,899	88,043,807	90,442,914
Total assets	<u>57,026,850</u>	<u>58,702,056</u>	<u>53,014,023</u>	<u>54,332,859</u>	<u>110,040,873</u>	<u>113,034,915</u>
Deferred outflows of Resources:						
Deferred charges on refunding, net of unamortized premium	-	-	50,542	-	50,542	-
Total outflows of resources	<u>-</u>	<u>-</u>	<u>50,542</u>	<u>-</u>	<u>50,542</u>	<u>-</u>
Liabilities:						
Current and other liabilities	1,429,812	1,459,425	2,786,284	2,727,313	4,216,096	4,186,738
Long-term liabilities	12,304,999	12,799,765	15,733,508	18,052,513	28,038,507	30,852,278
Total liabilities	<u>13,734,811</u>	<u>14,259,190</u>	<u>18,519,792</u>	<u>18,052,513</u>	<u>32,254,603</u>	<u>35,039,016</u>
Deferred inflows of resources:						
Deferred unamortized bond premium	-	-	471,602	-	471,602	-
Total inflows of resources	<u>-</u>	<u>-</u>	<u>471,602</u>	<u>-</u>	<u>471,602</u>	<u>-</u>
Net Position:						
Net invest. in capital assets	33,226,751	34,070,428	28,187,824	27,462,453	61,414,575	61,532,881
Restricted	2,385,128	2,304,593	16,766	612,362	2,401,894	2,916,955
Unrestricted	7,680,160	8,067,845	5,868,581	5,478,218	13,548,741	13,546,063
Total net position	<u>43,292,039</u>	<u>44,442,866</u>	<u>34,073,171</u>	<u>33,553,033</u>	<u>77,365,210</u>	<u>77,995,899</u>

An additional portion of the City of Marshall's net position (3.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$13,548,741) 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 position, 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 2.5% or \$323,736. The City recognized decreases in property tax revenue and sales and franchise tax revenue over the prior year.

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2012

Governmental activities decreased the City of Marshall's net position by \$1,052,005 and are outlined as follows:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>REVENUES:</b>						
<b>Program Revenues:</b>						
Charges for Services	4,905,870	5,132,938	9,951,626	10,600,288	14,857,496	15,733,226
Operating Grants and Contributions	558,479	591,789	2,500	-	560,979	591,789
Capital Grants and Contributions	198,147	390,108	89,039	313,925	287,186	704,033
<b>General Revenues:</b>						
Property taxes	4,873,856	4,927,433	-	-	4,873,856	4,927,433
Other taxes	7,515,427	7,779,599	-	-	7,515,427	7,779,599
Other	<u>34,158</u>	<u>40,145</u>	<u>11,706</u>	<u>11,972</u>	<u>45,864</u>	<u>52,117</u>
<b>Total Revenues</b>	<u>18,085,937</u>	<u>18,862,012</u>	<u>10,054,871</u>	<u>10,926,185</u>	<u>28,140,808</u>	<u>29,788,197</u>
<b>EXPENSES:</b>						
General Government	2,022,660	2,632,944	-	-	2,022,660	2,632,944
Parks and Recreation	1,089,720	976,368	-	-	1,089,720	976,368
Finance	202,048	200,972	-	-	202,048	200,972
Public Safety	8,373,679	8,378,335	-	-	8,373,679	8,378,335
Public Works	4,434,753	4,407,776	-	-	4,434,753	4,407,776
Planning	-	353,476	-	-	-	353,476
Purchasing	4,059	3,677	-	-	4,059	3,677
Library	509,343	513,196	-	-	509,343	513,196
Non-Departmental	1,953,424	1,992,817	-	-	1,953,424	1,992,817
Tax Collection	70,187	60,816	-	-	70,187	60,816
Inspections	299,161	-	-	-	299,161	-
Tourist and Convention	1,143,403	1,027,905	-	-	1,143,403	1,027,905
Code Enforcement	40,886	65,697	-	-	40,886	65,697
Interest on Long-Term Debt	344,619	349,238	688,184	828,610	1,032,803	1,177,848
Water and Sewer	-	-	7,106,804	6,876,520	7,106,804	6,876,520
Business Development Center	-	-	<u>43,896</u>	<u>43,837</u>	<u>43,896</u>	<u>43,837</u>
<b>Total Expenses</b>	<u>20,487,942</u>	<u>20,963,217</u>	<u>7,838,884</u>	<u>7,748,967</u>	<u>28,326,826</u>	<u>28,712,184</u>
Increase (Decrease) in Net Position Before Transfers	(2,402,005)	(2,101,205)	2,215,987	3,177,218	(186,018)	1,076,013
Transfers	<u>1,350,000</u>	<u>1,608,177</u>	<u>(1,350,000)</u>	<u>(1,608,177)</u>	-	-
Change in Net Position	(1,052,005)	(493,028)	865,987	1,569,041	(186,018)	1,076,013
Net Position – 01/01/12	44,442,866	44,935,894	33,553,033	31,983,992	77,995,899	76,919,886
Reclassification-Prior Period Debt Issuance Cost	<u>(98,822)</u>	-	<u>(345,849)</u>	-	<u>(444,671)</u>	-
Net Position – 12/31/12	<u>43,292,039</u>	<u>44,442,866</u>	<u>34,073,171</u>	<u>33,553,033</u>	<u>77,365,210</u>	<u>77,995,899</u>

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2012

### Business - Type Activities

Revenues of the City's business-type activities were \$10,054,871 for the year ending December 31, 2012. Expenses for the City's business-type activities were \$9,188,884 for the year, resulting in net income of \$865,987.

### 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, *unreserved 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 \$9,625,715. Approximately 68.4% of this total amount (\$6,585,813) constitutes *unassigned*, which is available for spending at the government's discretion. The remainder of fund balance is *restricted or non-spendable* to indicate that it is not available for new spending because it has already been committed. The portion of fund balance classified as non-spendable totals \$36,077. Restricted fund balance consists of the following: 1) promotion and tourism \$3,474, 2) law enforcement \$240,152, 3) purpose of grantors and donors \$12,809, 4) debt service \$588,788, 5) library \$289,477, 6) capital projects \$1,796,340, and 7) other post-employment benefits \$72,785.

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 \$6,596,126, with 98% of the total fund balance (\$6,704,988) 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 36.7% of total General Fund expenditures. Total fund balance represents 37.3% of total General Fund expenditures. The total fund balance of the City of Marshall's General Fund increased by \$380,142 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 position of the Water and Sewer Fund at the end of the year was \$5,868,581. 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 \$460,781 and expenditures were under amended budget estimates by \$158,453.

### Capital Assets 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, 2012, is \$88,043,807 (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, 2012

The primary functions of our Water and 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 collection system.

In 2012, we continued our annual infrastructure improvements which included line extensions in both the water and wastewater systems as well as completing replacement of the second of our two trickling filter sweep arms at the wastewater treatment plant, which insures sufficient treatment capacity for the community; one set of sweep arms was previously replaced in 2011. Contractors also completed the 2009 Sanitary Sewer and Rehabilitation program which was initiated to maximize our collection system, increase flow capacity, and reduce infiltration and inflow within the distribution system. This rehab program has greatly improved our entire wastewater collection system while extending the useful life of our 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.

Through the annual budgeting process, funds were allocated to re-establish annual programs to 1) rehab old and leaking manholes, and 2) to re-establish a smoke testing of sewer distribution lines. Both programs are designed to locate and rehab or repair sources of manhole or sewer line water in-flow or infiltrations into our distribution system, which can cause overflows and excessive wastewater treatment volume.

In calendar year 2012, 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 and treated 1.38 billion gallons of wastewater. Our staff installed 1,662 feet of new water lines, 469 feet of new wastewater mains, performed preventative maintenance on 214,897 feet of our sanitary sewer mains, rehabilitated 28 manhole repairs and replaced 139 water meters, as part of our annual program to extend water related utility services to under and unserved portions of the community and maintain our distribution system maintenance program at an extremely high level.

### City of Marshall's Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	1,157,459	1,155,374	310,612	310,612	1,468,071	1,465,986
Buildings	19,959,388	19,939,988	2,979,061	2,967,181	22,938,449	22,907,169
Improvements other than Buildings	3,569,877	3,562,143	-	-	3,569,877	3,562,143
Machinery and equipment	12,664,417	12,486,181	3,163,548	3,076,601	15,827,965	15,562,782
Infrastructure	54,750,658	54,019,171	-	-	54,750,658	54,019,171
Water and wastewater System	-	-	69,876,123	68,373,513	69,876,123	68,373,513
Construction in progress	578,972	548,904	89,039	1,317,519	668,011	1,866,423
Less Accumulated Depreciation	<u>(50,305,848)</u>	<u>(48,063,746)</u>	<u>(30,749,499)</u>	<u>(29,250,527)</u>	<u>(81,055,347)</u>	<u>(77,314,273)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>42,374,923</u>	<u>43,648,015</u>	<u>45,668,884</u>	<u>46,794,899</u>	<u>88,043,807</u>	<u>90,442,914</u>

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2012

**Long-term debt.** At the end of the current fiscal year, the City of Marshall had total bonded debt outstanding of \$25,740,000. Of this amount, \$5,260,000 comprises debt backed by the full faith and credit of the government and \$3,420,000 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, \$17,060,000, 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General Obligation Bonds						
Series 2007	5,260,000	5,495,000	-	-	5,260,000	5,495,000
Certificates of Obligation	2,885,000	3,065,000	-	-	2,885,000	3,065,000
Revenue Bonds	<u>535,000</u>	<u>660,000</u>	<u>17,060,000</u>	<u>18,755,000</u>	<u>17,595,000</u>	<u>19,415,000</u>
Total	<u>8,680,000</u>	<u>9,220,000</u>	<u>17,060,000</u>	<u>18,755,000</u>	<u>25,740,000</u>	<u>27,975,000</u>

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

Company	Insured Ratings	Underlying Ratings	
		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 \$9,169,506, per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$1,049,190,644.

# **CITY OF MARSHALL, TEXAS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2012**

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

#### **Economic Factors**

- New residential construction in 2012 was 26 single family units.
- The average price of a single family unit was \$111,788.
- The City's annual growth in valuation has increased 2.3%.
- The tax rate is expected to remain at \$0.47604/\$100 valuation.
- Commercial construction started during 2012 was Sherman, Sherman and Briscow Orthodontics, 100 West Grand Retail Plaza, Sears Hometown Store, Peake Fuel Solutions, and Fidelity Communications.
- 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 6.9% for 2012.
- Median household income is estimated at \$53,100.

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

The 2013 City of Marshall Annual Budget reflected an approximate 1.75% increase (\$480,000) over the 2012 budget. We will closely monitor economic indicators, revenues and expenditures in 2013 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 POSITION DECEMBER 31, 2012

	<i>Primary Government</i>		<i>Total</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	
<b><u>ASSETS</u></b>			
Cash and Temporary Investments	3,371,584	2,726,483	6,098,067
Certificates of Deposit	4,819,713	500,000	5,319,713
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	4,771,286	1,040,043	5,811,329
Due From Other Governments	1,632,230	-	1,632,230
Prepayments	36,077	-	36,077
Inventory	21,037	19,413	40,450
Restricted Assets:			
Cash and Temporary Investments	-	2,099,478	2,099,478
Certificates of Deposit	-	959,360	959,360
Accrued Interest Receivable	-	362	362
Capital Assets:			
Land	1,157,459	310,612	1,468,071
Construction in Progress	578,972	89,039	668,011
Buildings	19,959,388	2,979,061	22,938,449
Machinery and Equipment	12,664,417	3,163,548	15,827,965
Improvements	3,569,877	-	3,569,877
Infrastructure	54,750,658	-	54,750,658
Water and Wastewater System	-	69,876,123	69,876,123
Accumulated Depreciation	(50,305,848)	(30,749,499)	(81,055,347)
<b>Total Assets</b>	<u>57,026,850</u>	<u>53,014,023</u>	<u>110,040,873</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred Charges on Refunding, Net of Unamortized Premium	-	50,542	50,542
<b>Total Outflows of Resources</b>	<u>-</u>	<u>50,542</u>	<u>50,542</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	971,561	122,628	1,094,189
Accrued Interest Payable	19,927	-	19,927
Accrued Liabilities	217,107	61,856	278,963
Current Portion of Accrued Leases Payable	221,217	-	221,217
Payable From Restricted Assets:			
Current Portion of Bonds Payable	-	1,855,000	1,855,000
Customer Deposits	-	707,867	707,867
Accrued Liabilities	-	38,933	38,933
Security Deposits	-	-	-
Noncurrent Liabilities:			
Due Within One Year	565,000	-	565,000
Due In More Than One Year	11,739,999	15,733,508	27,473,507
<b>Total Liabilities</b>	<u>13,734,811</u>	<u>18,519,792</u>	<u>32,254,603</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Deferred Unamortized Bond Premium	-	471,602	471,602
<b>Total Inflows of Resources</b>	<u>-</u>	<u>471,602</u>	<u>471,602</u>
<b><u>NET POSITION (DEFICIT)</u></b>			
Invested in Capital Assets, Net of Related Debt	33,226,751	28,187,824	61,414,575
Restricted for:			
Debt Service	588,788	16,766	605,554
Capital Projects	1,796,340	-	1,796,340
Unrestricted (Deficit)	7,680,160	5,868,581	13,548,741
<b>Total Net Position</b>	<u>43,292,039</u>	<u>34,073,171</u>	<u>77,365,210</u>

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

Exhibit A-1

<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>
3,204,832	7,560	51,342
-	-	-
14,067	-	-
347,966	-	60,104
-	-	-
-	-	-
-	-	-
-	-	-
4,172,407	-	-
2,502,072	-	18,651
949,629	50,217	101,681
135,574	-	-
260,910	-	86,453
-	-	-
(379,645)	(2,008)	(25,171)
<u>11,207,812</u>	<u>55,769</u>	<u>293,060</u>
-	-	-
-	-	-
100,492	10,000	161,960
-	-	-
8,993	-	22,105
-	-	-
-	-	-
-	-	-
28,650	-	-
67,515	-	52,225
667,121	-	22,809
<u>872,771</u>	<u>10,000</u>	<u>259,099</u>
-	-	-
-	-	-
6,906,311	48,209	146,578
-	-	-
-	-	-
3,428,730	(2,440)	(112,617)
<u>10,335,041</u>	<u>45,769</u>	<u>33,961</u>

# CITY OF MARSHALL, TEXAS

## GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2012

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<i>Program Revenues</i>		
		<i>Fees, Fines, and Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	2,022,660	394,644	203,433	-
Finance	202,048	-	-	-
Inspections	299,161	-	-	-
Public Safety	8,373,679	1,813,669	228,093	-
Public Works	4,434,753	2,376,926	7,426	198,147
Purchasing	4,059	-	-	-
Library	509,343	23,564	49,200	-
Non-Departmental	1,953,424	-	-	-
Tax Collection	70,187	-	-	-
Parks and Recreation	1,089,720	182,778	21	-
Tourist and Convention	1,143,403	114,289	29,420	-
Code Enforcement	40,886	-	40,886	-
Interest on Long-Term Debt	344,619	-	-	-
Total Governmental Activities	20,487,942	4,905,870	558,479	198,147
Business-Type Activities:				
Water and Sewer	7,794,988	9,951,626	2,500	89,039
Business Development Center	43,896	-	-	-
Total Business-Type Activities	7,838,884	9,951,626	2,500	89,039
Total Primary Government	28,326,826	14,857,496	560,979	287,186
<b>Component Units:</b>				
Marshall Economic Develop. Corp.	1,459,608	432,292	-	-
Marshall Downtown Develop. Corp.	1,004	-	-	-
Marshall Conv. & Vis. Bureau	694,842	657,459	102,850	-
Total Component Units	2,155,454	1,089,751	102,850	-
<b>General Revenues:</b>				
Taxes:				
Property				
Sales				
Franchise				
Investment Earnings				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net Position (Deficit) Beginning of Year				
Reclassification-Prior Period Debt Issuance Costs				
<b>Net Position (Deficit) End of Year</b>				

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

Exhibit B-1

<i>Net (Expenses) Revenue and Changes in Net Position</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>
(1,424,583)	-	(1,424,583)	-	-	-
(202,048)	-	(202,048)	-	-	-
(299,161)	-	(299,161)	-	-	-
(6,331,917)	-	(6,331,917)	-	-	-
(1,852,254)	-	(1,852,254)	-	-	-
(4,059)	-	(4,059)	-	-	-
(436,579)	-	(436,579)	-	-	-
(1,953,424)	-	(1,953,424)	-	-	-
(70,187)	-	(70,187)	-	-	-
(906,921)	-	(906,921)	-	-	-
(999,694)	-	(999,694)	-	-	-
-	-	-	-	-	-
(344,619)	-	(344,619)	-	-	-
<u>(14,825,446)</u>	<u>-</u>	<u>(14,825,446)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	2,248,177	2,248,177	-	-	-
-	(43,896)	(43,896)	-	-	-
-	<u>2,204,281</u>	<u>2,204,281</u>	-	-	-
<u>(14,825,446)</u>	<u>2,204,281</u>	<u>(12,621,165)</u>	-	-	-
			(1,027,316)	-	-
			-	(1,004)	-
			-	-	65,467
			<u>(1,027,316)</u>	<u>(1,004)</u>	<u>65,467</u>
4,873,856	-	4,873,856	-	-	-
6,505,363	-	6,505,363	1,932,511	-	-
1,010,064	-	1,010,064	-	-	-
34,158	11,706	45,864	3,447	-	36
1,350,000	(1,350,000)	-	-	-	-
<u>13,773,441</u>	<u>(1,338,294)</u>	<u>12,435,147</u>	<u>1,935,958</u>	<u>-</u>	<u>36</u>
(1,052,005)	865,987	(186,018)	908,642	(1,004)	65,503
44,442,866	33,553,033	77,995,899	9,426,399	46,773	(31,542)
<u>(98,822)</u>	<u>(345,849)</u>	<u>(444,671)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>43,292,039</u>	<u>34,073,171</u>	<u>77,365,210</u>	<u>10,335,041</u>	<u>45,769</u>	<u>33,961</u>

# CITY OF MARSHALL, TEXAS

Exhibit C-1

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and Temporary Investments	2,146,786	1,255,146	3,401,932
Certificates of Deposit	3,295,153	1,524,560	4,819,713
Receivables (Net of Allowance for Uncollectible)			
Current Taxes	2,015,977	408,393	2,424,370
Delinquent Taxes	569,459	101,909	671,368
Customer	1,121,029	-	1,121,029
Franchise Taxes	227,921	-	227,921
Other	290,616	-	290,616
Accrued Interest	752	71	823
Prepaid Expenditures	36,077	-	36,077
Due from Other Governments	1,414,214	218,016	1,632,230
<b>TOTAL ASSETS</b>	<b><u>11,117,984</u></b>	<b><u>3,508,095</u></b>	<b><u>14,626,079</u></b>
<b><u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts Payable	856,057	79,032	935,089
Accrued Liabilities	217,107	-	217,107
Unearned Revenues	782,015	49,741	831,756
<b>Total Liabilities</b>	<b><u>1,855,179</u></b>	<b><u>128,773</u></b>	<b><u>1,983,952</u></b>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue-Property Taxes	2,557,817	458,595	3,016,412
<b>Total Inflows of Resources</b>	<b><u>2,557,817</u></b>	<b><u>458,595</u></b>	<b><u>3,016,412</u></b>
<b>Fund Balances</b>			
<b>Nonspendable:</b>			
Prepaid Expenditures	36,077	-	36,077
<b>Restricted:</b>			
Promotion and Tourism	-	3,474	3,474
Law Enforcement	-	240,152	240,152
Purpose of Grantors and Donors	-	12,809	12,809
Debt Service	-	588,788	588,788
Library	-	289,477	289,477
Capital Projects	-	1,796,340	1,796,340
Other Post-Employment Benefits	72,785	-	72,785
<b>Unassigned:</b>			
Reported in General Fund	6,596,126	-	6,596,126
Reported in Motel Occupancy Tax Fund	-	(10,313)	(10,313)
<b>Total Fund Balances</b>	<b><u>6,704,988</u></b>	<b><u>2,920,727</u></b>	<b><u>9,625,715</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b><u>11,117,984</u></b>	<b><u>3,508,095</u></b>	<b><u>14,626,079</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 POSITION DECEMBER 31, 2012

Total Fund Balances - Total Governmental Funds	9,625,715
Amounts reported for governmental activities in the statement of net position of 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.)	42,374,923
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.	(19,927)
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 position.	(10,624)
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	(786,217)
Due in More Than One Year	(11,739,999)
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>3,848,168</u>
Net Position of Governmental Activities	<u><u>43,292,039</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, 2012

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUE:</b>			
Ad Valorem Taxes	4,480,699	808,243	5,288,942
Sales Taxes	5,822,252	-	5,822,252
Franchise Tax	1,010,064	-	1,010,064
Motel Occupancy Tax	-	683,111	683,111
Permits and Fees	4,172,262	-	4,172,262
Municipal Court Fines	522,342	14,453	536,795
Interest	24,814	9,344	34,158
Intergovernmental	424,601	66,082	490,683
Donations	-	67,795	67,795
Miscellaneous	195,590	120,271	315,861
<b>Total Revenue</b>	<u>16,652,624</u>	<u>1,769,299</u>	<u>18,421,923</u>
<b>EXPENDITURES:</b>			
Current:			
General Government	1,825,767	39,449	1,865,216
Tourism and Convention Center	325,520	623,864	949,384
Code Enforcement	-	40,886	40,886
Finance	202,048	-	202,048
Public Safety	7,839,626	23,424	7,863,050
Public Works	2,806,839	63,983	2,870,822
Inspections	299,161	-	299,161
Purchasing	3,719	-	3,719
Library	447,899	44,213	492,112
Non-Departmental	1,940,546	-	1,940,546
Tax Collection	70,187	-	70,187
Parks and Recreation	903,019	-	903,019
Debt Service:			
Principal Retirement	11,595	540,000	551,595
Interest and Fees	147,021	335,919	482,940
Capital Outlay	1,146,610	21,008	1,167,618
<b>Total Expenditures</b>	<u>17,969,557</u>	<u>1,732,746</u>	<u>19,702,303</u>

# CITY OF MARSHALL, TEXAS

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i><b>CONTINUED:</b></i>			
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	(1,316,933)	36,553	(1,280,380)
<b>Other Financing Sources (Uses)</b>			
Transfers In	1,439,470	142,275	1,581,745
Transfers Out	-	(231,745)	(231,745)
Capital Lease Proceeds	257,605	-	257,605
<b>Total Other Financing Sources (Uses)</b>	<u>1,697,075</u>	<u>(89,470)</u>	<u>1,607,605</u>
Net Change in Fund Balances	380,142	(52,917)	327,225
Fund Balances at Beginning of Year	<u>6,324,846</u>	<u>2,973,644</u>	<u>9,298,490</u>
<b>Fund Balances at End of Year</b>	<u><u>6,704,988</u></u>	<u><u>2,920,727</u></u>	<u><u>9,625,715</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, 2012**

Net Change in Fund Balances - Total Governmental Funds 327,225

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. 1,358,462

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. (2,631,554)

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 position. 420,570

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. 2,897

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 position. (2,775)

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. (526,830)

Changes in Net Position of Governmental Activities (1,052,005)

*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, 2012**

	<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	4,190,013	4,190,013	4,480,699	290,686
Sales Taxes	5,950,000	5,950,000	5,822,252	(127,748)
Franchise Tax	1,070,000	1,070,000	1,010,064	(59,936)
Permits and Fees	4,123,380	4,123,380	4,172,262	48,882
Municipal Court Fines	450,000	450,000	522,342	72,342
Interest	25,000	25,000	24,814	(186)
Intergovernmental	214,450	214,450	424,601	210,151
Miscellaneous	169,000	169,000	195,590	26,590
<b>Total Revenue</b>	<b>16,191,843</b>	<b>16,191,843</b>	<b>16,652,624</b>	<b>460,781</b>
<b>EXPENDITURES:</b>				
General Government	1,826,080	1,826,080	1,825,767	313
Tourism and Convention Center	357,416	357,416	325,520	31,896
Finance	211,923	211,923	202,048	9,875
Public Safety	7,963,635	7,963,635	7,839,626	124,009
Public Works	2,758,797	2,758,797	2,806,839	(48,042)
Inspections	296,880	296,880	299,161	(2,281)
Purchasing	4,300	4,300	3,719	581
Library	471,332	471,332	447,899	23,433
Non-Departmental	1,640,757	1,940,757	1,940,546	211
Tax Collection	70,500	70,500	70,187	313
Parks and Recreation	955,574	955,574	903,019	52,555
Debt Service	161,745	161,745	158,616	3,129
Capital Outlay	908,900	1,109,071	1,146,610	(37,539)
<b>Total Expenditures</b>	<b>17,627,839</b>	<b>18,128,010</b>	<b>17,969,557</b>	<b>158,453</b>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<b>(1,435,996)</b>	<b>(1,936,167)</b>	<b>(1,316,933)</b>	<b>619,234</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	1,436,968	1,436,968	1,439,470	2,502
Transfers Out	-	(250,000)	-	250,000
Capital Lease Proceeds	-	-	257,605	257,605
<b>Total Other Financing Sources (Uses)</b>	<b>1,436,968</b>	<b>1,186,968</b>	<b>1,697,075</b>	<b>510,107</b>
Net Change in Fund Balance	972	(749,199)	380,142	1,129,341
<b>Fund Balance at Beginning of Year</b>	<b>6,324,846</b>	<b>6,324,846</b>	<b>6,324,846</b>	<b>-</b>
<b>Fund Balance at End of Year</b>	<b>6,325,818</b>	<b>5,575,647</b>	<b>6,704,988</b>	<b>1,129,341</b>

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

# CITY OF MARSHALL, TEXAS

Exhibit D-1

Page 1 of 2

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Governmental Internal Service Funds</b>
	<b>Water and Sewer Fund</b>	<b>Nonmajor Enterprise Fund</b>	<b>Total</b>	
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Temporary Investments	2,777,029	(50,546)	2,726,483	(30,349)
Certificates of Deposit	500,000	-	500,000	-
Customer Receivables (Net of Allowance for Uncollectibles)	989,497	50,546	1,040,043	35,159
Inventory	19,413	-	19,413	21,037
Total Current Assets	<u>4,285,939</u>	<u>-</u>	<u>4,285,939</u>	<u>25,847</u>
<i>Noncurrent Assets:</i>				
Restricted Assets:				
Cash and Temporary Investments	2,099,478	-	2,099,478	-
Certificates of Deposit	959,360	-	959,360	-
Accrued Interest Receivable	362	-	362	-
Total Restricted Assets	<u>3,059,200</u>	<u>-</u>	<u>3,059,200</u>	<u>-</u>
Capital Assets:				
Land	230,281	80,331	310,612	-
Construction in Progress	89,039	-	89,039	-
Buildings	790,241	2,188,820	2,979,061	122,596
Machinery and Equipment	2,843,235	320,313	3,163,548	20,660
Water and Wastewater System	69,876,123	-	69,876,123	-
Less: Accumulated Depreciation	<u>(29,635,277)</u>	<u>(1,114,222)</u>	<u>(30,749,499)</u>	<u>(143,256)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>44,193,642</u>	<u>1,475,242</u>	<u>45,668,884</u>	<u>-</u>
Total Noncurrent Assets	<u>47,252,842</u>	<u>1,475,242</u>	<u>48,728,084</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>51,538,781</u>	<u>1,475,242</u>	<u>53,014,023</u>	<u>25,847</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Charges on Refunding, Net of Unamortized Premium	<u>50,542</u>	<u>-</u>	<u>50,542</u>	<u>-</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>50,542</u>	<u>-</u>	<u>50,542</u>	<u>-</u>

# CITY OF MARSHALL, TEXAS

Exhibit D-1

Page 2 of 2

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

**CONTINUED:**

**LIABILITIES**

	<b><u>Business-Type Activities - Enterprise Funds</u></b>			<b><u>Governmental Internal Service Funds</u></b>
	<b><u>Water and Sewer Fund</u></b>	<b><u>Nonmajor Enterprise Fund</u></b>	<b><u>Total</u></b>	
<b><i>Current Liabilities:</i></b>				
Accounts Payable	122,628	-	122,628	36,472
Accrued Salaries and Wages	61,856	-	61,856	-
Total Current Liabilities	<u>184,484</u>	<u>-</u>	<u>184,484</u>	<u>36,472</u>
<b><i>Current Liabilities Payable from Restricted Assets:</i></b>				
Current Portion of Bonds Payable	1,855,000	-	1,855,000	-
Customer Deposits	707,867	-	707,867	-
Unearned Revenue	10,000	-	10,000	-
Accrued Liabilities	28,933	-	28,933	-
Total Current Liabilities Payable from Restricted Assets	<u>2,601,800</u>	<u>-</u>	<u>2,601,800</u>	<u>-</u>
<b><i>Other Liabilities:</i></b>				
Bonds Payable (Net of Current Portion)	15,205,000	-	15,205,000	-
Accrued Post Retirement Health Care and TMRS	232,518	-	232,518	-
Compensated Absences	295,990	-	295,990	-
Total Other Liabilities	<u>15,733,508</u>	<u>-</u>	<u>15,733,508</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>18,519,791</u>	<u>-</u>	<u>18,519,791</u>	<u>36,472</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Deferred Unamortized Bond Premium	471,602	-	471,602	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>471,602</u>	<u>-</u>	<u>471,602</u>	<u>-</u>
<b><u>NET POSITION (DEFICIT)</u></b>				
Invested in Capital Assets, Net of Related Debt	26,712,582	1,475,242	28,187,824	-
Restricted for Retirement of Bonds	16,766	-	16,766	-
Unrestricted (Deficit)	5,868,581	-	5,868,581	(10,625)
<b>TOTAL NET POSITION (DEFICIT)</b>	<u>32,597,929</u>	<u>1,475,242</u>	<u>34,073,171</u>	<u>(10,625)</u>

*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 NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2012

	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	9,906,122	-	9,906,122	497,092
Grant Revenues	2,500	-	2,500	-
<b>Total Operating Revenue</b>	<b>9,908,622</b>	<b>-</b>	<b>9,908,622</b>	<b>497,092</b>
<b><u>OPERATING EXPENSES:</u></b>				
Administrative	290,293	-	290,293	-
Water Production	1,278,339	-	1,278,339	-
Water Distribution/ Collection	1,219,730	-	1,219,730	-
Sewage Treatment	1,328,821	-	1,328,821	-
Water Billing	479,713	-	479,713	-
Engineering	145,994	-	145,994	-
Non-Departmental	812,820	-	812,820	-
Materials and Supplies	-	-	-	499,868
Depreciation	1,541,797	43,896	1,585,693	-
Bad Debt Expense	9,297	-	9,297	-
<b>Total Operating Expenses</b>	<b>7,106,804</b>	<b>43,896</b>	<b>7,150,700</b>	<b>499,868</b>
<b>Operating Income (Loss)</b>	<b>2,801,818</b>	<b>(43,896)</b>	<b>2,757,922</b>	<b>(2,776)</b>
<b><u>NONOPERATING REVENUE (EXPENSES):</u></b>				
Interest Income	11,706	-	11,706	-
Interest Expense and Fees	(688,184)	-	(688,184)	-
Other Nonoperating Income	45,504	-	45,504	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(630,974)</b>	<b>-</b>	<b>(630,974)</b>	<b>-</b>
<b><u>CAPITAL CONTRIBUTIONS</u></b>	<b>89,039</b>	<b>-</b>	<b>89,039</b>	<b>-</b>
<b>Income (Loss) Before Transfers</b>	<b>2,259,883</b>	<b>(43,896)</b>	<b>2,215,987</b>	<b>(2,776)</b>
Transfers (Out)	(1,350,000)	-	(1,350,000)	-
<b>Change in Net Position</b>	<b>909,883</b>	<b>(43,896)</b>	<b>865,987</b>	<b>(2,776)</b>
Total Net Position (Deficit), Beginning of Year	32,033,895	1,519,138	33,553,033	(7,849)
Reclassification - Prior Period Debt Issue Cost	(345,849)	-	(345,849)	-
<b>Total Net Position ( Deficit), End of Year</b>	<b>32,597,929</b>	<b>1,475,242</b>	<b>34,073,171</b>	<b>(10,625)</b>

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

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	10,014,277	-	10,014,277	498,379
Cash Payments to Suppliers for Goods and Services	(3,558,138)	-	(3,558,138)	(497,160)
Cash Payments to Employees for Services	(2,016,832)	-	(2,016,832)	-
Net Cash Provided (Used) by Operating Activities	<u>4,439,307</u>	<u>-</u>	<u>4,439,307</u>	<u>1,219</u>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>				
Transfers (Out)	(1,350,000)	-	(1,350,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,350,000)</u>	<u>-</u>	<u>(1,350,000)</u>	<u>-</u>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>				
Acquisition and Construction of Capital Assets	(459,678)	-	(459,678)	-
Proceeds From Sales of Capital Assets	45,504	-	45,504	-
Principal Paid on Bonds and Leases	(6,813,939)	-	(6,813,939)	-
Payment of Fees and Interest on Bonds and Other Debt	(717,361)	-	(717,361)	-
Proceeds From Issuance of Debt	5,010,466	-	5,010,466	-
Contributed Capital - Grant Proceeds	89,039	-	89,039	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,845,969)</u>	<u>-</u>	<u>(2,845,969)</u>	<u>-</u>
<b><u>Cash Flows from Investing Activities:</u></b>				
Purchase of Investments	(1,658,350)	-	(1,658,350)	-
Proceeds from Sale and Maturities of Investments	1,650,509	-	1,650,509	-
Interest on Investments	13,208	-	13,208	-
Net Cash Provided by Investing Activities	<u>5,367</u>	<u>-</u>	<u>5,367</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	248,705	-	248,705	1,219
Cash and Cash Equivalents (Deficit), Beginning of Year	<u>5,127,802</u>	<u>(50,546)</u>	<u>5,077,256</u>	<u>(31,568)</u>
<b>Cash and Cash Equivalents (Deficit), End of Year</b>	<u><u>5,376,507</u></u>	<u><u>(50,546)</u></u>	<u><u>5,325,961</u></u>	<u><u>(30,349)</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, 2012**

<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)	2,801,818	(43,896)	2,757,922	(2,776)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation	1,541,797	43,896	1,585,693	-
Other Post Employment Benefits	1,370	-	1,370	-
(Increase) Decrease in Assets:				
Accounts Receivable	78,121	-	78,121	1,287
Prepaid Expenses	175	-	175	-
Inventory	(1,318)	-	(1,318)	(4,548)
Increase (Decrease) in Liabilities:				
Accounts Payable	(28,566)	-	(28,566)	7,256
Unearned Revenue	(5,082)	-	(5,082)	-
Accrued Liabilities	10,244	-	10,244	-
Customer Deposits	32,616	-	32,616	-
Compensated Absences	8,132	-	8,132	-
Total Adjustments	1,637,489	43,896	1,681,385	3,995
Net Cash Provided (Used) By Operating Activities	4,439,307	-	4,439,307	1,219

*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 POSITION  
DECEMBER 31, 2012**

	<i>Agency Funds</i>
<b><u>ASSETS</u></b>	
Cash and Temporary Investments	114,821
<b>TOTAL ASSETS</b>	<u>114,821</u>
<b><u>LIABILITIES</u></b>	
Accounts Payable	-
Due to Employees	114,821
<b>TOTAL LIABILITIES</b>	<u>114,821</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, 2012

### 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. This year the City adopted GASB Statement No. 62, GASB Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements which incorporates into the GASB's accounting and financial reporting that is included in FASB Statements and Interpretations, APB Opinions and Research Bulletins, which do not conflict with or contradict GASB statements, which were issued on or before November 30, 1989.

The City also implemented GASB Statement No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" – providing guidance for the reporting of deferred outflows, deferred inflows and identifies net position as the residual of all other elements presented in a statement of financial position. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position."

The City also early implemented GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" – clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. As a result of early implementing this statement, the City changed the classification of certain liabilities to deferred inflows.

Also, as a result of implementing GASB Statement No. 65, the net position from the prior year has been reclassified by \$98,822 and \$345,849 in the governmental activities and business-type activities, respectively, for debt issuance costs. 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, 2012, was performed and may be obtained by contacting MEDCO. 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, 2012

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

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 2012, 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, 2012, 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 appointed by the City. A separate audit for the year ended December 31, 2012, was performed and may be obtained by contacting MCVB.

#### Basis of Presentation:

The government-wide financial statements (the statement of net position and the statement of changes in net position) 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:

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

**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).

**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 fund to account for its stores inventory. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. 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 fund 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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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 position and the operating statements present increases (revenues) and decreases (expenses) in net total position. 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 unavailable revenue because the levy is to be used to fund 2012 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.

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, 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. Non-Departmental expenditures were increased by \$300,000; and Capital Outlay expenditures were increased by \$200,171.

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 \$48,042; Inspection expenditures exceeded the budget by \$2,281; and Capital Outlay expenditures exceeded the budget by \$37,539. In the future, the City will strive to amend the budget throughout the year to adhere to the budget is legally adopted.

The 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 Position 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.

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

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

#### **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, 2012. The market values of temporary investments are based on values provided by TexPool at December 31, 2012.

#### **Inventories:**

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

#### **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 Unavailable Revenue – Property Taxes. 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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

#### 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 Position:

Net position represents the residual of assets plus deferred outflows less liabilities plus deferred inflows. Net position 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 position is reported as restricted when there are limitations imposed on its 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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### 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 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, 2012. 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 \$5,099 petty cash and \$6,279,073 certificates of deposit) was \$7,431,601 and the respective bank balances totaled \$7,288,633. 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, \$250,500 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 \$9,633,264. 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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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.

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, 2012, 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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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.

The City's investments as of December 31, 2012 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>
<b>Public Funds Investment Pool:</b>					
TexPool (2a7- Like Pool)	AAA-m (S&P)	100%	7,159,838	7,159,838	-
<b>Total</b>		<u>100%</u>	<u>7,159,838</u>	<u>7,159,838</u>	<u>-</u>

At December 31, 2012, 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	752	362	71	-	-	1,185
Taxes	2,949,432	-	534,654	-	-	3,484,086
Accounts	1,126,376	1,014,382	-	50,546	35,159	2,226,463
Other	290,616	-	-	-	-	290,616
Gross	<u>4,367,176</u>	<u>1,014,744</u>	<u>534,725</u>	<u>50,546</u>	<u>35,159</u>	<u>6,002,350</u>
Receivables Less:						
Allowance for Uncollectibles	<u>(141,422)</u>	<u>(24,885)</u>	<u>(24,352)</u>	<u>-</u>	<u>-</u>	<u>(190,659)</u>
Net Total Receivables	<u>4,225,754</u>	<u>989,859</u>	<u>510,373</u>	<u>50,546</u>	<u>35,159</u>	<u>5,811,691</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### NOTE 4: CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2012, was as follows:

<b><u>Governmental Activities:</u></b>	<b><u>December 31,</u></b> <b><u>2011</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>December 31,</u></b> <b><u>2012</u></b>
Capital Assets Not Being Depreciated:				
Land	1,155,374	2,085	-	1,157,459
Construction in Progress	<u>548,904</u>	<u>30,068</u>	-	<u>578,972</u>
Total Capital Assets Not Being Depreciated	<u>1,704,278</u>	<u>32,153</u>	-	<u>1,736,431</u>
Capital Assets Being Depreciated:				
Buildings	19,939,988	19,400	-	19,959,388
Machinery and Equipment	12,486,181	626,095	(447,859)	12,664,417
Improvements	3,562,143	7,734	-	3,569,877
Infrastructure	<u>54,019,171</u>	<u>731,487</u>	-	<u>54,750,658</u>
Total Capital Assets, Being Depreciated	<u>90,007,483</u>	<u>1,384,716</u>	<u>(447,859)</u>	<u>90,944,340</u>
Less: Accumulated Depreciation For:				
Buildings	6,958,692	384,262	-	7,342,954
Equipment	7,666,196	861,887	(389,452)	8,138,631
Improvements	942,359	137,087	-	1,079,446
Infrastructure	<u>32,496,499</u>	<u>1,248,318</u>	-	<u>33,744,817</u>
Total Accumulated Depreciation	<u>48,063,746</u>	<u>2,631,554</u>	<u>(389,452)</u>	<u>50,305,848</u>
Total Capital Assets, Being Depreciated, Net	<u>41,943,737</u>	<u>(1,246,838)</u>	<u>(58,407)</u>	<u>40,638,492</u>
Governmental Activities Capital Assets, Net	<u>43,648,015</u>	<u>(1,214,685)</u>	<u>(58,407)</u>	<u>42,374,923</u>
	<b><u>December 31,</u></b> <b><u>2011</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>December 31,</u></b> <b><u>2012</u></b>
<b><u>Business-Type Activities:</u></b>				
Capital Assets Not Being Depreciated:				
Land	310,612	-	-	310,612
Construction in Progress	<u>1,317,519</u>	<u>89,039</u>	<u>(1,317,519)</u>	<u>89,039</u>
Total Capital Assets Not Being Depreciated	<u>1,628,131</u>	<u>89,039</u>	<u>(1,317,519)</u>	<u>399,651</u>
Capital Assets Being Depreciated:				
Buildings	2,967,181	11,880	-	2,979,061
Machinery and Equipment	3,076,601	173,668	(86,721)	3,163,548
Water and Wastewater System	<u>68,373,513</u>	<u>1,502,610</u>	-	<u>69,876,123</u>
Total Capital Assets, Being Depreciated	<u>74,417,295</u>	<u>1,688,158</u>	<u>(86,721)</u>	<u>76,018,732</u>
Less: Accumulated Depreciation For:				
Buildings and Improvements	1,170,914	58,671	-	1,229,585
Machinery and Equipment	1,899,992	176,718	(86,721)	1,989,989
Water and Wastewater System	<u>26,179,621</u>	<u>1,350,304</u>	-	<u>27,529,925</u>
Total Accumulated Depreciation	<u>29,250,527</u>	<u>1,585,693</u>	<u>(86,721)</u>	<u>30,749,499</u>
Total Capital Assets, Being Depreciated, Net	<u>45,166,768</u>	<u>102,465</u>	-	<u>45,269,233</u>
Business-Type Activities Capital Assets, Net	<u>46,794,899</u>	<u>191,504</u>	<u>(1,317,519)</u>	<u>45,668,884</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

#### Governmental Activities:

General Government	144,134
Tourism and Convention Center	194,019
Parks and Recreation	186,701
Public Safety	510,629
Public Works	1,563,931
Planning	1,691
Purchasing	340
Library	17,231
Non-Departmental	12,878
Total Depreciation Expense - Governmental Activities	<u>2,631,554</u>

#### Business-Type Activities:

Water and Sewer	1,541,797
Business Development Center	43,896
Total Depreciation Expense - Business-Type Activities	<u>1,585,693</u>

### NOTE 5: 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, 2012, \$228,000 of the loan considered defeased is still outstanding.

#### General Obligation Debt:

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

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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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, 2012, \$550,000 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:

<u>Schedule of Refunded Bonds</u>			
	<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>550,000</u>

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

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

#### **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, 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.

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, 2012, \$9,170,000 of the bonds considered defeased are still outstanding.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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%	1,820,000
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%	1,030,000
			<u>9,170,000</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 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, 2012, \$2,555,000 of the bonds considered defeased are still outstanding.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### NOTE 5: 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>
Waterworks and Sewer System Revenue Bonds, Series 1997	June 15, 2011-2017	4.000%- 4.250%	<u>2,555,000</u>

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 are to 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 be payable June 15 and December 15 of each year until maturity or prior redemption. Principal payments will be payable each year until maturity or prior redemption.

The proceeds from the refunded existing bonds 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 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, 2012 \$4,930,000 of the bonds considered defeased are still outstanding.

A summary of the refunded bond maturities provided by the Tax and Surplus Revenue Refunding Bonds, Series 2012, 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 2001	June 15, 2013-2016	4.60%- 4.75%	535,000
Waterworks and Sewer System Revenue Bonds, Series 2003	June 15, 2014-2023	3.60%- 4.50%	<u>4,395,000</u>
			<u>4,930,000</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

A summary of changes in long-term debt for the year ended December 31, 2012 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issued</u>	<u>Amounts Outstanding 1/1/2012</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amounts Outstanding 12/31/2012</u>	<u>Interest Current Year</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>								
<u>Bonded Indebtedness</u>								
General Obligation Bonds, Series 2007	3.85-5.00%	6,230,000	5,495,000	-	(235,000)	5,260,000	215,693	250,000
Certificate of Obligation, Series 2010A	2.00-4.00%	2,100,000	1,995,000	-	(110,000)	1,885,000	63,936	115,000
Certificate of Obligation, Series 2010	2.75-4.50%	1,140,000	1,070,000	-	(70,000)	1,000,000	33,438	75,000
Tax and Surplus Revenue Refunding Bonds Series 2010	2.00-3.00%	660,000	660,000	-	(125,000)	535,000	17,275	125,000
<b>Total Governmental Activities Bonded Indebtedness</b>		<b>10,130,000</b>	<b>9,220,000</b>	<b>-</b>	<b>(540,000)</b>	<b>8,680,000</b>	<b>330,342</b>	<b>565,000</b>
<u>Business-Type Activities:</u>								
<u>Bonded Indebtedness</u>								
Water and Sewer Revenue Bonds, Series 1998	4.50-6.50%	8,455,000	405,000	-	(405,000)	-	9,315	-
Water and Sewer Revenue Bonds, Series 2000	5.125-7.13%	4,580,000	535,000	-	(260,000)	275,000	20,756	275,000
Water and Sewer Revenue Bonds, Series 2001	4.60-6.00%	2,500,000	650,000	-	(650,000)	-	2,645	-
Water and Sewer Revenue Bonds, Series 2003	3.50-4.50%	7,000,000	5,065,000	-	(4,725,000)	340,000	18,938	340,000
Water and Sewer Revenue Refunding Bonds, 2006	4.00-5.50%	9,235,000	9,075,000	-	(160,000)	8,915,000	426,713	595,000
Tax and Surplus Revenue Refunding Bonds Series 2010	2.00-3.00%	3,490,000	3,025,000	-	(475,000)	2,550,000	65,700	485,000
Water and Sewer Revenue Refunding Bonds Series 2012	3.60-4.75%	5,065,000	-	5,065,000	(85,000)	4,980,000	104,101	160,000
Premium (Refunding Bonds, Series 2010)	N/A	31,250	26,785	-	(2,233)	24,552	-	-
Premium (Refunding Bonds, Series 2006)	N/A	745,082	496,722	-	(49,672)	447,050	-	-
Net Costs and Premium (Refunding Bonds, Series 2012)	N/A	(54,532)	-	(54,532)	3,990	(50,542)	-	-
<b>Total Business-Type Bonded Indebtedness</b>		<b>41,046,800</b>	<b>19,278,507</b>	<b>5,010,468</b>	<b>(6,807,915)</b>	<b>17,481,060</b>	<b>648,168</b>	<b>1,855,000</b>
<b>Total Bonded Indebtedness</b>		<b>51,176,800</b>	<b>28,498,507</b>	<b>5,010,468</b>	<b>(7,347,915)</b>	<b>26,161,060</b>	<b>978,510</b>	<b>2,420,000</b>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

Debt service requirements are as follows:

#### General Obligation Bonds:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
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	300,000	160,593	460,593
2018-2022	1,725,000	611,724	2,336,724
2023-2027	<u>2,170,000</u>	<u>226,865</u>	<u>2,396,865</u>
<b>Total</b>	<b><u>5,260,000</u></b>	<b><u>1,753,364</u></b>	<b><u>7,013,364</u></b>

#### Certificates of Obligation and Revenue Bonds:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
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	215,000	69,613	284,613
2018-2022	1,240,000	231,566	1,471,566
2023-2025	<u>635,000</u>	<u>33,469</u>	<u>668,469</u>
<b>Total</b>	<b><u>3,420,000</u></b>	<b><u>712,731</u></b>	<b><u>4,132,731</u></b>

#### Water and Sewer Revenue Bonds:

<u>December 31,</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2013	1,855,000	625,723	2,480,723
2014	1,915,000	563,517	2,478,517
2015	1,980,000	502,588	2,482,588
2016	2,060,000	427,652	2,487,652
2017	2,145,000	340,763	2,485,763
2018-2022	6,595,000	602,250	7,197,250
2023	<u>510,000</u>	<u>8,925</u>	<u>518,925</u>
<b>Total</b>	<b><u>17,060,000</u></b>	<b><u>3,071,418</u></b>	<b><u>20,131,418</u></b>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### NOTE 5: 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. This lease was paid off this year.

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.

On September 5, 2012, the City entered into a lease agreement with JP Morgan Chase Bank, N.A. (Lessor). The agreement was to assist the City in financing the acquisition of eight vehicles for the police department. The City has legal title to the property during the lease term subject to the security interests of the Lessor in all the property. The lease agreement totals \$257,605 and requires three annual payments of \$89,117.

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)	214,522
2011 Dodge Police Car	21,410
2012 Dodge Police Cars (7)	<u>236,195</u>
Total	706,031
Less: Accumulated Depreciation	<u>(133,524)</u>
Total	<u><u>572,507</u></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

The future minimum lease payments under the capital leases and the present value of the net minimum lease payments at December 31, 2012, were as follows:

<u>Year Ended December 31,</u>	<u>Various Autos and Golf Carts</u>
2013	232,622
2014	164,938
2015	<u>89,117</u>
Total Minimum Lease Payments	486,677
Less: Amount Representing Interest Costs	<u>(18,505)</u>
Present Value of Minimum Lease Payments	<u>468,172</u>

### 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. This lease was paid off this year.

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>(138,484)</u>
<b>Total</b>	<u><b>130,657</b></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### Changes In Long-Term Liabilities:

Long-term debt activity for the year ended December 31, 2012, 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	5,495,000	-	(235,000)	5,260,000	250,000
Certificate of Obligations and Revenue Bonds	3,725,000	-	(305,000)	3,420,000	315,000
Total Bonds Payable	<u>9,220,000</u>	<u>-</u>	<u>(540,000)</u>	<u>8,680,000</u>	<u>565,000</u>
Other Liabilities:					
Capital Leases Payable	357,587	257,605	(147,020)	468,172	221,217
Accrued Post Retirement Health Care and TMRS	944,727	87,712	(55,560)	976,879	-
Compensated Absences	2,424,472	-	(23,307)	2,401,165	-
Total Other Liabilities	<u>3,726,786</u>	<u>345,317</u>	<u>(225,887)</u>	<u>3,846,216</u>	<u>221,217</u>
Total Governmental Activities	<u>12,946,786</u>	<u>345,317</u>	<u>(765,887)</u>	<u>12,526,216</u>	<u>786,217</u>
<b><u>Business-Type Activities:</u></b>					
Revenue Bonds Payable	19,278,507	5,010,468	(6,807,915)	17,481,060	1,855,000
Total Bonds Payable	<u>19,278,507</u>	<u>5,010,468</u>	<u>(6,807,915)</u>	<u>17,481,060</u>	<u>1,855,000</u>
Other Liabilities:					
Capital Lease Payable	53,939	-	(53,939)	-	-
Accrued Post Retirement Health Care and TMRS	231,148	25,182	(23,812)	232,518	-
Compensated Absences	287,858	8,132	-	295,990	-
Total Other Liabilities	<u>572,945</u>	<u>33,314</u>	<u>(77,751)</u>	<u>528,508</u>	<u>-</u>
Total Business-Type Activities	<u>19,851,452</u>	<u>5,043,782</u>	<u>(6,885,666)</u>	<u>18,009,568</u>	<u>1,855,000</u>
Total Government	<u>32,798,238</u>	<u>5,389,099</u>	<u>(7,651,553)</u>	<u>30,535,784</u>	<u>2,641,217</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

**Interfund transfers for the year ended December 31, 2012, consisted of the following individual amounts:**

Transfers to General Fund From (Major Governmental Fund):

    Motel Occupancy Tax Fund (Nonmajor Governmental Fund)

89,470

    Water and Sewer Fund (Major Enterprise Fund)

1,350,000

**Total Transfers to General Fund (Major Governmental Fund)**

1,439,470

Transfers to 2001 Combination Tax and Revenue Debt Service Fund (Nonmajor Governmental Fund):

    Motel Occupancy Tax Fund (Nonmajor Governmental Fund)

142,275

**Total Transfers to 2001 Combination Tax and Revenue Debt Service Fund (Nonmajor Gov. Fund)**

142,275

### Fund Balance/Net Position (Deficit):

In the current year, the following individual funds have a deficit as indicated:

#### Nonmajor Governmental Fund:

Motel Occupancy Tax Fund

(10,313)

The deficit in the Motel Occupancy Tax Fund was due to expenditures exceeding motel occupancy tax revenue for the current year. In the future, the City will budget to pay out less expenditures than revenue received to cover the deficit.

#### Internal Service Fund:

Stores Inventory Fund

(10,625)

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, 2012

### 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 (Deficit)</u>	<u>December 31, 2012</u>
<b><u>Budgeted Special Revenue Funds:</u></b>	
Motel Occupancy Tax Fund	(10,313)
Litter Control Fund	-
D.A.R.E. Donations Fund	40,885
<b>Total</b>	<u>30,572</u>
<b><u>Non-budgeted Special Revenue Funds:</u></b>	
Controlled Substance Fund	128,103
Art Center Projects Fund	5,266
Muni Court Tech Fund	13,406
Library Grants Fund	3
Park Trails Fund	4,754
Disaster Relief Fund	2,644
Police Special Projects Fund	57,758
State Grant Fund	145
Main Street Fund	3,474
<b>Total</b>	<u>215,553</u>
<b>All Special Revenue Funds</b>	<u><u>246,125</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, 2012</u>
<b><u>Budgeted Debt Service Fund:</u></b>	
2007 General Obligation Debt Service Fund	<u>574,516</u>
<b><u>Non-budgeted Debt Service Funds:</u></b>	
2001 Combination Tax and Revenue Debt Service Fund	8,431
2010 Certification of Obligation Mem. City Hall	5,841
<b>Total</b>	<u>14,272</u>
<b>All Debt Service Funds</b>	<u><u>588,788</u></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### 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>2012 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, 2012

### 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, 2012 valuation is effective for rates beginning January 2013.) The annual pension cost and net pension obligation as of December 2012 are as follows:

	<u>12/31/12</u>
Annual Required Contribution (ARC)	1,618,116
Interest on Net Pension Obligation	65,484
Adjustment to the ARC	<u>(56,290)</u>
Annual Pension Cost (APC)	1,627,310
Contributions Made	<u>(1,598,354)</u>
Increase (Decrease) in Net Pension Obligation	28,956
Net Pension Obligation/(Asset), Beginning of Year	<u>935,491</u>
<b>Net Pension Obligation/(Asset), End of Year</b>	<b><u>964,447</u></b>

The City's contributions were based on an annual covered payroll of \$7,904,818. There were no related-party transactions.

#### Trend Information for Annual Pension Cost:

Information for the last three years is as follows:

<u>Ended Dec. 31</u>	<u>Pension Cost (APC)</u>	<u>Contribution Made</u>	<u>of APC Contributed</u>	<u>Pension Obligation</u>
2010	1,852,497	1,505,232	81%	696,521
2011	1,867,615	1,628,645	87%	935,491
2012	1,627,310	1,598,354	98%	964,447

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### Actuarial Method and Assumptions:

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

<u>Valuation Date</u>	<u>12/31/09</u>	<u>12/31/10</u>	<u>12/31/11</u> <u>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	27.2 Years; Closed Period	26.2 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%

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### Funding Status and Progress:

Information for the last nine years is as follows:

<u>Report Year Ended Dec. 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Percentage Funded</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
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%
2011	36,763,882	48,166,302	76%	11,402,420	8,022,883	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 2012 was 20.00% versus the actuarially determined rate of 20.47%.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### 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>
2010	0.07%	0.07%	100%
2011	0.07%	0.07%	100%
2012	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, 2012, was \$2,489,923. 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 20.22% of annual covered payroll to the Fund.

##### Funding Status and Contributions:

The latest actuarial study of the Fund was made as of December 31, 2012. 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 7.75% per year, and projected salary increases of 5.00% per year. The market value of the Firemen's Relief and Retirement Fund at December 31, 2012 was \$6,990,903, 110% of the book value as of December 31, 2012.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

At December 31, 2012, the unfunded actuarial accrued liability was \$8,832,086, computed as follows:

#### Actuarial Present Value of Accumulated Benefits:

Inactive participants	10,426,154
Active participants	<u>5,396,836</u>
Total Actuarial Liability	15,822,990
Actuarial Value of Assets	<u>6,990,904</u>
<b>Unfunded Actuarial Accrued Liability</b>	<b><u><u>8,832,086</u></u></b>

Contribution rates are not actuarially determined, but established by state statute. At December 31, 2012, normal cost of present benefits for each participant was 15.19% of covered payroll. The unfunded actuarial accrued liability would be amortized using the level method of payroll over 38.6 years, based on a combined City and firefighter's annual contribution of 34.22% of covered payroll.

Contributions for 2012 totaling \$812,280 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. Employees who retire and wish to continue on the City's health plan must pay the difference between the retiree blended rate of \$646 and \$396, which is the amount the City currently pays for active employee coverage. Currently, the City contributes \$396 per employee and retirees per month, and the employee, 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. The current rate for active employee and retirees is \$396 per month. Employees who have retired, 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 \$646 per month, which is intended to be the blended rate that does not create an implicit subsidy. 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, 2012

### 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, 2012. 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 26 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, 2012 was as follows:

Category	Liability (Actuarial Present Value)			Annual Cost			12/31/2012 Funding %
	Past Service	Future	Total	Past Service	Future (Normal Cost)	Total	
Active	473,963	461,892	935,855	28,514	28,769	57,283	
Retirees	523,628	-	523,628	31,502	-	31,502	
Total	<u>997,591</u>	<u>461,892</u>	<u>1,459,483</u>	<u>60,016</u>	<u>28,769</u>	<u>88,785</u>	<u>0%</u>

(1) Normal Cost for 2012	28,769
(2) Accrued Actuarial Liability	997,591
(3) Beginning Assets	-
(4) Unfunded Accrued Liability (UAL)	997,591
(5) Net OPEB Obligation as of 1/1/12	240,384
(6) Amortization Period	26
(7) Amortization of UAL	60,016
(8) Annual Required Contribution (ARC) (1 + 7)	88,785
(9) Interest on Prior Year OPEB Obligation	9,615
(10) Amortization of Prior Year OPEB Obligation	(14,462)
(11) Annual OPEB Cost (8 + 9 - 10)	<u>83,938</u>
(12) Employer Pay-As-You-Go Cost	79,372
(13) Employer Contributions to Trust (Prefunding)	-
(14) Total Employer Contributions (12 + 13)	<u>79,372</u>
(15) Change in Net OPEB Obligation/(Asset) During Year (11 - 14)	<u>4,566</u>
(16) Net OPEB Obligation (Asset) as of 12/31/12 (5 + 15)	<u>244,950</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### 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
2012	83,938	-	244,950

#### 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%
2012	-	1,459,483	1,459,483	0%	7,904,818	18.46%

### 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	73,873,550	1,000
Mobile Equipment	1,959,610	1,000
Boiler & Machinery	5,531,392	1,000

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012**

### **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, 2012, 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:**

The City has evaluated subsequent events through August 9, 2013, the date which the financial statements were available for issue.

### **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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### 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, 2012, the carrying amount of MEDCO's deposits (including \$400 petty cash) was \$235,599, and the respective bank balance was \$241,616. MEDCO's cash deposits at December 31, 2012, 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, 2012, 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.

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:

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

<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.

MEDCO's investments as of December 31, 2012 are:

	<u>Rating</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Public Funds Investment Pools (TexPool)	AAA-m (S&P)	<u>2,969,233</u>	<u>2,969,233</u>

At December 31, 2012, 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 position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### 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	13,833	13,373	27,206
Gross	<u>13,833</u>	<u>13,373</u>	<u>27,206</u>
Receivables Less:			
Allowance for Uncollectibles	<u>(6,332)</u>	<u>(6,807)</u>	<u>(13,139)</u>
Net Total Receivables	<u><u>7,501</u></u>	<u><u>6,566</u></u>	<u><u>14,067</u></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, 2012, the amount due to MEDCO from the City for its portion of sales tax revenue less payroll was \$347,966, including \$5,339 due from the City from previous years.

#### 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

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2012</u>
Capital Assets Not Being Depreciated:				
Land	4,172,407	-	-	4,172,407
Construction In Progress	<u>2,400,045</u>	<u>102,027</u>	<u>-</u>	<u>2,502,072</u>
Total Capital Assets Not Being Depreciated	<u>6,572,452</u>	<u>102,027</u>	<u>-</u>	<u>6,674,479</u>
Capital Assets Being Depreciated:				
Buildings	949,629	-	-	949,629
Improvements	246,204	14,706	-	260,910
Machinery, Tools, and Equipment	<u>135,574</u>	<u>-</u>	<u>-</u>	<u>135,574</u>
Total Capital Assets Being Depreciated	<u>1,331,407</u>	<u>14,706</u>	<u>-</u>	<u>1,346,113</u>
Less Accumulated Depreciation For:				
Buildings	85,737	23,741	-	109,478
Improvements	120,304	11,833	-	132,137
Machinery, Tools, and Equipment	<u>133,190</u>	<u>4,840</u>	<u>-</u>	<u>138,030</u>
Total Accumulated Depreciation	<u>339,231</u>	<u>40,414</u>	<u>-</u>	<u>379,645</u>
Total Capital Assets, Being Depreciated, Net	<u>992,176</u>	<u>(25,708)</u>	<u>-</u>	<u>966,468</u>
Component Unit Activities Capital Assets, Net	<u><u>7,564,628</u></u>	<u><u>76,319</u></u>	<u><u>-</u></u>	<u><u>7,640,947</u></u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### 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 2012 was \$46,355 and principal paid totaled \$86,337 to leave the balance owed of \$734,636 at December 31, 2012. 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>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2013	67,515	32,004	99,519
2014	95,872	36,820	132,692
2015	101,585	31,107	132,692
2016	107,565	25,127	132,692
2017	114,048	18,644	132,692
2018-2019	248,051	16,497	264,548
<b>Total</b>	<u>734,636</u>	<u>160,199</u>	<u>894,835</u>

Long-term activity for the year ended December 31, 2012, 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	<u>820,973</u>	<u>-</u>	<u>(86,337)</u>	<u>734,636</u>	<u>67,515</u>
Total Other Liabilities	<u>820,973</u>	<u>-</u>	<u>(86,337)</u>	<u>734,636</u>	<u>67,515</u>
Total Governmental Activities					
Long-Term Liabilities	<u>820,973</u>	<u>-</u>	<u>(86,337)</u>	<u>734,636</u>	<u>67,515</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.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

### 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, 2012, the carrying amount of MDDC's deposits was \$7,560 and the respective bank balances were \$7,560. 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, 2012, were entirely covered by FDIC insurance.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### Capital Assets:

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2012</u>
Capital Assets Being Depreciated:				
Building	50,217	-	-	50,217
Total Capital Assets Being Depreciated	<u>50,217</u>	<u>-</u>	<u>-</u>	<u>50,217</u>
Less Accumulated Depreciation For:				
Building Improvements	1,004	1,004	-	2,008
Total Accumulated Depreciation	<u>1,004</u>	<u>1,004</u>	<u>-</u>	<u>2,008</u>
Total Capital Assets Being Depreciated, Net	<u>49,213</u>	<u>(1,004)</u>	<u>-</u>	<u>48,209</u>
Component Unit Activities Capital Assets, Net	<u>49,213</u>	<u>(1,004)</u>	<u>-</u>	<u>48,209</u>

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

#### Deposits and Investments:

At December 31, 2012, the carrying amount of MCVB's deposits was \$51,342 and the respective bank balances were \$109,820. 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, 2012, 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, 2012, the balance owed for Hotel/Motel Occupancy Tax collections to MCVB was \$60,104.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

#### Capital Assets:

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2012</u>
Capital Assets Not Being Depreciated:				
Construction in Progress	-	18,651	-	18,651
Total Capital Assets Not Being Depreciated	-	18,651	-	18,651
Capital Assets Being Depreciated:				
Building	-	101,681	-	101,681
Christmas Lights	-	46,427	-	46,427
Other Christmas Attractions	-	40,026	-	40,026
Total Capital Assets Being Depreciated	-	188,134	-	188,134
Less Accumulated Depreciation For:				
Building	-	10,168	-	10,168
Lights	-	9,285	-	9,285
Attractions	-	5,718	-	5,718
Total Accumulated Depreciation	-	25,171	-	25,171
Total Capital Assets Being Depreciated, Net	-	162,963	-	162,963
Component Unit Activities Capital Assets, Net	-	181,614	-	181,614

#### Notes Payable:

On August 10, 2012, MCVB entered into a commercial revolving line of credit with Texas Bank and Trust Company in the amount of \$60,000 with a fixed interest rate of 4.25%. The outstanding balance on the line of credit at December 31, 2012 was \$39,998. The final maturity date for the line of credit is January 15, 2013.

On September 21, 2012, MCVB executed a note with Citizens National Bank in the amount of \$37,997 to fund the purchase of attractions and Christmas decorations for the Wonderland of Lights. Payments are due monthly at \$1,136 (includes principal and interest) for the next three years at a fixed interest rate of 4.75%. Interest paid on the note for 2012 was \$440 and principal paid totaled \$2,967 to leave the balance owned of \$35,036 at December 31, 2012.

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>
2013	12,227	1,400	13,627
2014	12,821	806	13,627
2015	9,988	198	10,186
<b>Total</b>	<u>35,036</u>	<u>2,404</u>	<u>37,440</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

Long-term activity for the year ended December 31, 2012 was as follows:

<b><u>Component Unit Activities:</u></b>	<b><u>Beginning</u></b>			<b><u>Ending</u></b>	<b><u>Due Within</u></b>
	<b><u>Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Balance</u></b>	<b><u>One Year</u></b>
Other Liabilities:					
Line of Credit	-	84,971	(44,973)	39,998	39,998
Note Payable	-	37,997	(2,961)	35,036	12,227
Total Other Liabilities:	-	122,968	(47,934)	75,034	52,225
Total Governmental Activities					
Long-Term Liabilities	-	122,968	(47,934)	75,034	52,225

**Combining and Individual Fund Financial Statements**

# CITY OF MARSHALL, TEXAS

Exhibit F-1

**GENERAL FUND  
BALANCE SHEET  
DECEMBER 31, 2012**

			<u><i>General Fund</i></u>
<b><u>ASSETS</u></b>			
Cash and Temporary Investments			2,146,786
Certificates of Deposit			3,295,153
Receivables (Net of Allowance for Uncollectible)			
Current Taxes		2,015,977	
Delinquent Taxes		569,459	
Customer:			
Sanitation	212,318		
Ambulance	908,711	1,121,029	
Franchise Taxes		227,921	
Other		290,616	
Accrued Interest		752	
Total Receivables			4,225,754
Prepaid Expenditures			36,077
Due from Other Governments			1,414,214
<b>TOTAL ASSETS</b>			<u><u>11,117,984</u></u>
<b><u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</u></b>			
<b>Liabilities</b>			
Accounts Payable			856,057
Accrued Liabilities			217,107
Unearned Revenues			782,015
<b>Total Liabilities</b>			<u>1,855,179</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue-Property Taxes			2,557,817
<b>Total Inflows of Resources</b>			<u>2,557,817</u>
<b>Fund Balances:</b>			
<b>    Nonspendable:</b>			
Prepaid Expenditures			36,077
<b>    Restricted:</b>			
Other Post-Employment Benefits			72,785
<b>Unassigned</b>			6,596,126
<b>Total Fund Balance</b>			<u>6,704,988</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</b>			<u><u>11,117,984</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, 2012**

		<u>General Fund</u>
<b><u>REVENUE:</u></b>		
Ad Valorem Taxes		4,480,699
Sales Taxes		5,822,252
Franchise Tax		1,010,064
Permits and Fees:		
Refuse Collections	2,266,304	
Ambulance Fees	1,226,927	
Other Fees and Permits	679,031	
Total Permits and Fees		4,172,262
Municipal Court Fines		522,342
Interest		24,814
Intergovernmental		424,601
Miscellaneous		195,590
		<u>16,652,624</u>
<b>Total Revenue</b>		<u>16,652,624</u>
<b><u>EXPENDITURES:</u></b>		
Current:		
General Government:		
Legislative	55,155	
Municipal Court	238,583	
Legal	64,323	
Administrative	196,595	
Information Technology	168,890	
City Secretary	84,308	
Buildings and Risk Management	701,550	
Human Resources	96,469	
Code Enforcement	58,740	
Main Street and Visual Arts Center	161,154	
Total General Government		1,825,767
Tourism and Convention Center		325,520
Finance		202,048
Public Safety:		
Emergency Management	8,045	
Police Department	4,259,446	
Fire Department	3,572,135	
Total Public Safety		7,839,626
Public Works		2,806,839
Inspections		299,161
Purchasing		3,719
Library		447,899
Non-Departmental		1,940,546
Tax Collection		70,187
Parks and Recreation		903,019
Debt Service		158,616
Capital Outlay		1,146,610
		<u>17,969,557</u>
<b>Total Expenditures</b>		<u>17,969,557</u>

# 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, 2012

	<u>General Fund</u>
<b><u>CONTINUED:</u></b>	
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources	<u>(1,316,933)</u>
<b>Other Financing Sources</b>	
Transfers In	1,439,470
Capital Lease Proceeds	257,605
<b>Total Other Financing Sources</b>	<u>1,697,075</u>
Net Change in Fund Balance	380,142
Fund Balance at Beginning of Year	<u>6,324,846</u>
<b>Fund Balance at End of Year</b>	<u><u>6,704,988</u></u>

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET DECEMBER 31, 2012

	Special Revenue											State Grant Fund		
	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
<b>ASSETS</b>														
Cash and Temporary Investments	14,177	(176,667)	13,767	584	3	4,250	40,903	116,203	5,266	4,754	57,758	2,644	3,819	145
Certificates of Deposit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Current Taxes	47,616	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Delinquent Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued Interest	-	176,667	-	-	-	-	-	13,349	-	-	-	-	-	-
Due from Other Governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	61,793	-	13,767	584	3	4,250	40,903	129,552	5,266	4,754	57,758	2,644	3,819	145
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>														
<b>Liabilities</b>														
Accounts Payable	72,025	-	361	584	-	4,250	18	1,449	-	-	-	-	345	-
Unearned Revenues	81	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	72,106	-	361	584	-	4,250	18	1,449	-	-	-	-	345	-
<b>Deferred Inflows of Resources</b>														
Unavailable Revenue-Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Inflows of Resources</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Fund Balances (Deficit) Restricted:</b>														
Promotion and Tourism	-	-	-	-	-	-	-	-	-	-	-	-	3,474	-
Law Enforcement	-	-	13,406	-	-	-	40,885	128,103	-	-	57,758	-	-	-
Purpose of Grantors and Donors	-	-	-	-	-	-	-	-	5,266	4,754	-	2,644	-	145
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	3	-	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned (Deficit)	(10,313)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Fund Balances (Deficit)</b>	(10,313)	-	13,406	-	3	-	40,885	128,103	5,266	4,754	57,758	2,644	3,474	145
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	61,793	-	13,767	584	3	4,250	40,903	129,552	5,266	4,754	57,758	2,644	3,819	145

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET DECEMBER 31, 2012

	<u>Debt Service</u>			<u>Capital Projects</u>					<u>Permanent</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>2001 Combination Tax &amp; Revenue Debt Service</u>	<u>2007 General Obligation Debt Service</u>	<u>2010 Cert. of Oblig. Mem. City Hall Debt Service</u>	<u>1995 Capital Imp. Fund</u>	<u>2007 Capital Imp. Fund</u>	<u>2010 Utility Conserv. Fund</u>	<u>2010 Memorial City Hall Fund</u>	<u>Downtown Restrooms Project Fund</u>	<u>Library Fund</u>	<u>Fund</u>	
<b>ASSETS</b>											
Cash and Temporary Investments	8,431	570,425	5,841	13,957	213,744	24,548	69,120	(28,000)	289,474	1,255,146	
Certificates of Deposit	-	-	-	-	-	-	1,524,560	-	-	1,524,560	
Receivable- Current Taxes	-	360,777	-	-	-	-	-	-	-	408,393	
Receivable- Delinquent Taxes	-	101,909	-	-	-	-	-	-	-	101,909	
Other Receivables	-	-	-	-	-	-	-	-	-	-	
Accrued Interest	-	-	-	-	-	-	71	-	-	71	
Due from Other Governments	-	-	-	-	-	-	-	28,000	-	218,016	
<b>TOTAL ASSETS</b>	<b>8,431</b>	<b>1,033,111</b>	<b>5,841</b>	<b>13,957</b>	<b>213,744</b>	<b>24,548</b>	<b>1,593,751</b>	<b>-</b>	<b>289,474</b>	<b>3,508,095</b>	
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>											
<b>Liabilities</b>											
Accounts Payable	-	-	-	-	-	-	-	-	-	79,032	
Unearned Revenues	-	-	-	-	49,660	-	-	-	-	49,741	
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,660</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,773</b>	
<b>Deferred Inflows of Resources</b>											
Unavailable Revenue-Property Taxes	-	458,595	-	-	-	-	-	-	-	458,595	
<b>Total Inflows of Resources</b>	<b>-</b>	<b>458,595</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>458,595</b>	
<b>Fund Balances</b>											
<b>Restricted:</b>											
Promotion and Tourism	-	-	-	-	-	-	-	-	-	3,474	
Law Enforcement	-	-	-	-	-	-	-	-	-	240,152	
Purpose of Grantors and Donors	-	-	-	-	-	-	-	-	-	12,809	
Debt Service	8,431	574,516	5,841	-	-	-	-	-	-	588,788	
Library	-	-	-	-	-	-	-	-	289,474	289,477	
Capital Projects	-	-	-	13,957	164,084	24,548	1,593,751	-	-	1,796,340	
Unassigned (Deficit)	-	-	-	-	-	-	-	-	-	(10,313)	
<b>Total Fund Balances (Deficit)</b>	<b>8,431</b>	<b>574,516</b>	<b>5,841</b>	<b>13,957</b>	<b>164,084</b>	<b>24,548</b>	<b>1,593,751</b>	<b>-</b>	<b>289,474</b>	<b>2,920,727</b>	
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>	<b>8,431</b>	<b>1,033,111</b>	<b>5,841</b>	<b>13,957</b>	<b>213,744</b>	<b>24,548</b>	<b>1,593,751</b>	<b>-</b>	<b>289,474</b>	<b>3,508,095</b>	

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2012

	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	-	58,506	-	-	-	-	-	7,576	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Motel Occupancy Tax	683,111	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Court Fines	-	-	14,453	-	-	-	-	-	-	-	-	-	-	-
Interest	14	-	-	-	-	-	26	146	-	-	-	-	-	-
Donations	-	-	-	-	-	7,426	7,891	17,837	1,214	21	-	28,206	-	-
Miscellaneous	505	-	-	-	-	56,557	3,709	31,899	-	-	-	-	-	-
<b>Total Revenue</b>	<b>683,630</b>	<b>58,506</b>	<b>14,453</b>	<b>-</b>	<b>-</b>	<b>63,983</b>	<b>11,626</b>	<b>57,458</b>	<b>1,214</b>	<b>21</b>	<b>17,126</b>	<b>-</b>	<b>28,206</b>	<b>-</b>
<b>EXPENDITURES:</b>														
Curr tourist and Convention	-	17,620	11,687	-	-	-	7,042	16,382	9,229	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	63,983	-	-	-	-	-	-	-	-
Public Works	-	-	-	584	-	-	-	-	-	-	-	29,032	-	-
Tourist and Convention	594,248	-	-	-	-	-	-	-	-	-	-	-	-	-
Code Enforcement	-	40,886	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service- Principal Retirement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service- Interest and Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	18,984	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>594,248</b>	<b>58,506</b>	<b>11,687</b>	<b>584</b>	<b>-</b>	<b>63,983</b>	<b>7,042</b>	<b>35,366</b>	<b>9,229</b>	<b>-</b>	<b>-</b>	<b>29,032</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>89,382</b>	<b>-</b>	<b>2,766</b>	<b>(584)</b>	<b>-</b>	<b>-</b>	<b>4,584</b>	<b>22,092</b>	<b>(8,015)</b>	<b>21</b>	<b>17,126</b>	<b>-</b>	<b>(826)</b>	<b>-</b>
<b>Before Other Financing Sources (Uses)</b>														
Other Financing Sources (Uses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers In	(231,745)	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(231,745)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(142,363)</b>	<b>-</b>	<b>2,766</b>	<b>(584)</b>	<b>-</b>	<b>-</b>	<b>4,584</b>	<b>22,092</b>	<b>(8,015)</b>	<b>21</b>	<b>17,126</b>	<b>-</b>	<b>(826)</b>	<b>-</b>
<b>Fund Balances at Beginning 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>2,644</b>	<b>4,300</b>	<b>145</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>(10,313)</b>	<b>-</b>	<b>13,406</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>40,885</b>	<b>128,103</b>	<b>5,266</b>	<b>4,754</b>	<b>57,758</b>	<b>2,644</b>	<b>3,474</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, 2012

	Debt Service				Capital Projects					Permanent		Total Nonmajor Governmental Funds
	2001 Combination Tax & Revenue Debt Service	2007 General Obligation 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	Library Fund	Total Nonmajor Governmental Funds		
		2007 General Obligation 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	Library Fund			
<b>REVENUE:</b>												
Ad Valorem Taxes	-	808,243	-	-	-	-	-	-	-	-	-	808,243
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-	66,082
Motel Occupancy Tax	-	-	-	-	-	-	-	-	-	-	-	683,111
Municipal Court Fines	-	-	-	-	-	-	-	-	-	-	-	14,453
Interest	47	696	8	-	275	7,847	-	-	285	-	-	9,344
Donations	-	-	-	-	-	-	-	-	5,200	-	-	67,795
Miscellaneous	-	-	-	-	-	-	-	-	10,475	-	-	120,271
<b>Total Revenue</b>	47	808,939	8	-	275	7,847	-	-	15,960	-	-	1,769,299
<b>EXPENDITURES:</b>												
Current:												
General Government	-	-	-	-	913	-	-	-	-	-	-	39,449
Public Safety	-	-	-	-	-	-	-	-	-	-	-	23,424
Public Works	-	-	-	-	-	-	-	-	-	-	-	63,983
Tourist and Convention	-	-	-	-	-	-	-	-	-	-	-	623,864
Code Enforcement	-	-	-	-	-	-	-	-	-	-	-	40,886
Library	-	-	-	-	-	-	-	-	44,213	-	-	44,213
Debt Service- Principal Retirement	125,000	415,000	-	-	-	-	-	-	-	-	-	540,000
Debt Service- Interest and Fees	17,616	318,303	-	-	-	-	-	-	-	-	-	335,919
Capital Outlay	-	-	-	-	-	2,024	-	-	-	-	-	21,008
<b>Total Expenditures</b>	142,616	733,303	-	-	913	2,024	-	-	44,213	-	-	1,732,746
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	(142,569)	75,636	8	-	(638)	5,823	-	-	(28,253)	-	-	36,553
<b>Before Other Financing Sources (Uses)</b>												
Other Financing Sources (Uses)												
Transfers In	142,275	-	-	-	-	-	-	-	-	-	-	142,275
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	(231,745)
<b>Total Other Financing Sources (Uses)</b>	142,275	-	-	-	-	-	-	-	-	-	-	(89,470)
<b>Net Change in Fund Balances</b>	(294)	75,636	8	-	(638)	5,823	-	-	(28,253)	-	-	(52,917)
<b>Fund Balances at Beginning of Year</b>	8,725	498,880	5,833	13,957	164,722	24,548	1,587,928	-	317,727	-	-	2,973,644
<b>Fund Balances (Deficit) at End of Year</b>	8,431	574,516	5,841	13,957	164,084	24,548	1,593,751	-	289,474	-	-	2,920,727

# 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, 2012**

	<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	760,000	760,000	683,111	(76,889)	-	-	-	-
Interest	50	50	14	(36)	-	-	-	-
Donations	-	-	-	-	8,500	8,500	7,426	(1,074)
Miscellaneous	-	-	505	505	64,900	64,900	56,557	(8,343)
<b>Total Revenue</b>	<u>760,050</u>	<u>760,050</u>	<u>683,630</u>	<u>(76,420)</u>	<u>73,400</u>	<u>73,400</u>	<u>63,983</u>	<u>(9,417)</u>
<b>EXPENDITURES:</b>								
Current:								
Public Safety	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	73,400	73,400	63,983	9,417
Tourist and Convention	530,805	642,898	594,248	48,650	-	-	-	-
<b>Total Expenditures</b>	<u>530,805</u>	<u>642,898</u>	<u>594,248</u>	<u>48,650</u>	<u>73,400</u>	<u>73,400</u>	<u>63,983</u>	<u>9,417</u>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<u>229,245</u>	<u>117,152</u>	<u>89,382</u>	<u>(27,770)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(229,245)	(231,745)	(231,745)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(229,245)</u>	<u>(231,745)</u>	<u>(231,745)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>-</u>	<u>(114,593)</u>	<u>(142,363)</u>	<u>(27,770)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances, Beginning of Year</b>	<u>132,050</u>	<u>132,050</u>	<u>132,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u><u>132,050</u></u>	<u><u>17,457</u></u>	<u><u>(10,313)</u></u>	<u><u>(27,770)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Exhibit F-5

<i>D.A.R.E. Donations Fund</i>				<i>Total</i>			
<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Positive</i>	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Positive</i>
<i>Original</i>	<i>Final</i>	<i>GAAP</i>	<i>(Negative)</i>	<i>Original</i>	<i>Final</i>	<i>GAAP</i>	<i>(Negative)</i>
		<i>Basis</i>	<i>Variance with</i>			<i>Basis</i>	<i>Variance with</i>
			<i>Final Budget</i>				<i>Final Budget</i>
-	-	-	-	760,000	760,000	683,111	(76,889)
-	-	26	26	50	50	40	(10)
10,750	10,750	7,891	(2,859)	19,250	19,250	15,317	(3,933)
-	-	3,709	3,709	64,900	64,900	60,771	(4,129)
<u>10,750</u>	<u>10,750</u>	<u>11,626</u>	<u>876</u>	<u>844,200</u>	<u>844,200</u>	<u>759,239</u>	<u>(84,961)</u>
10,750	10,750	7,042	3,708	10,750	10,750	7,042	3,708
-	-	-	-	73,400	73,400	63,983	9,417
-	-	-	-	530,805	642,898	594,248	48,650
<u>10,750</u>	<u>10,750</u>	<u>7,042</u>	<u>3,708</u>	<u>614,955</u>	<u>727,048</u>	<u>665,273</u>	<u>61,775</u>
-	-	4,584	4,584	229,245	117,152	93,966	(23,186)
-	-	-	-	-	-	-	-
-	-	-	-	(229,245)	(231,745)	(231,745)	-
-	-	-	-	(229,245)	(231,745)	(231,745)	-
-	-	4,584	4,584	-	(114,593)	(137,779)	(23,186)
36,301	36,301	36,301	-	168,351	168,351	168,351	-
<u>36,301</u>	<u>36,301</u>	<u>40,885</u>	<u>4,584</u>	<u>168,351</u>	<u>53,758</u>	<u>30,572</u>	<u>(23,186)</u>

# CITY OF MARSHALL, TEXAS

Exhibit F-6

**2007 GENERAL OBLIGATION DEBT SERVICE FUND  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	728,125	728,125	808,243	80,118
Interest	1,000	1,000	696	(304)
<b>Total Revenue</b>	<b>729,125</b>	<b>729,125</b>	<b>808,939</b>	<b>79,814</b>
<b><u>EXPENDITURES:</u></b>				
Principal Retirement	415,000	415,000	415,000	-
Interest and Fees	313,369	313,369	318,303	(4,934)
<b>Total Expenditures</b>	<b>728,369</b>	<b>728,369</b>	<b>733,303</b>	<b>(4,934)</b>
Net Change in Fund Balance	756	756	75,636	74,880
Fund Balance, Beginning of Year	498,880	498,880	498,880	-
<b>Fund Balance, End of Year</b>	<b>499,636</b>	<b>499,636</b>	<b>574,516</b>	<b>74,880</b>

# CITY OF MARSHALL, TEXAS

Exhibit G-1

**WATER AND SEWER ENTERPRISE FUND  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
NET POSITION - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	9,721,400	9,721,400	9,906,122	184,722
Grant Revenues	-	-	2,500	2,500
<b>Total Operating Revenue</b>	<b>9,721,400</b>	<b>9,721,400</b>	<b>9,908,622</b>	<b>187,222</b>
<b><u>OPERATING EXPENSES:</u></b>				
Administrative	292,570	292,570	290,293	2,277
Water Production	1,351,133	1,351,133	1,278,339	72,794
Water Distribution/ Collection	1,075,820	1,125,820	1,219,730	(93,910)
Wastewater Treatment	1,260,620	1,270,620	1,328,821	(58,201)
Water Billing	474,575	479,575	479,713	(138)
Engineering	189,765	189,765	145,994	43,771
Non-Departmental	890,263	890,263	809,275	80,988
Depreciation	-	-	1,541,797	(1,541,797)
Bad Debt Expense	-	-	9,297	(9,297)
<b>Total Operating Expenses</b>	<b>5,534,746</b>	<b>5,599,746</b>	<b>7,103,259</b>	<b>(1,503,513)</b>
<b>Operating Income (Loss)</b>	<b>4,186,654</b>	<b>4,121,654</b>	<b>2,805,363</b>	<b>(1,316,291)</b>
<b><u>NONOPERATING REVENUE (EXPENSES):</u></b>				
Interest Income	3,000	3,000	5,421	2,421
Interest Expense and Fees	(761,652)	(761,652)	(688,184)	73,468
Other Nonoperating Income	-	-	45,504	45,504
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(758,652)</b>	<b>(758,652)</b>	<b>(637,259)</b>	<b>121,393</b>
<b><u>CAPITAL CONTRIBUTIONS:</u></b>				
	-	-	89,039	89,039
<b>Income (Loss) Before Transfers</b>	<b>3,428,002</b>	<b>3,363,002</b>	<b>2,257,143</b>	<b>(1,105,859)</b>
Transfers (Out)	(1,350,000)	(1,950,000)	(1,350,000)	600,000
<b>Change in Net Position</b>	<b>2,078,002</b>	<b>1,413,002</b>	<b>907,143</b>	<b>(505,859)</b>
<b><u>ADDITIONAL BUDGETED AMOUNTS:</u></b>				
Capital Outlay	345,436	451,368	303,167	148,201
Principal Retirement	1,732,437	1,732,437	1,732,437	-
	<b>2,077,873</b>	<b>2,183,805</b>	<b>2,035,604</b>	<b>148,201</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 FUND  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	<i><u>Stores Inventory Fund</u></i>
<b><u>ASSETS</u></b>	
<i>Current Assets:</i>	
Cash and Temporary Investments	(30,349)
Accounts Receivable	35,159
Inventory	<u>21,037</u>
Total Current Assets	<u>25,847</u>
<i>Noncurrent Assets:</i>	
Capital Assets:	
Buildings	122,596
Machinery and Equipment	20,660
Less: Accumulated Depreciation	<u>(143,256)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>
Total Noncurrent Assets	<u>-</u>
<b>TOTAL ASSETS</b>	<u>25,847</u>
 <b><u>LIABILITIES</u></b>	
<i>Current Liabilities:</i>	
Accounts Payable	<u>36,472</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>36,472</u>
 <b><u>NET POSITION (DEFICIT)</u></b>	
Unrestricted (Deficit)	<u>(10,625)</u>
<b>TOTAL NET POSITION (DEFICIT)</b>	<u><u>(10,625)</u></u>

# CITY OF MARSHALL, TEXAS

Exhibit H-2

**INTERNAL SERVICE FUND  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<i>Stores Inventory Fund</i>
<b><u>OPERATING REVENUE:</u></b>	
Charges for Services	<u>497,092</u>
<b>Total Operating Revenue</b>	<u>497,092</u>
<b><u>OPERATING EXPENSES:</u></b>	
Materials and Supplies	499,868
Depreciation	<u>-</u>
<b>Total Operating Expenses</b>	<u>499,868</u>
<b>Operating (Loss)</b>	(2,776)
Total Net Position (Deficit), Beginning of Year	<u>(7,849)</u>
<b>Total Net Position (Deficit), End of Year</b>	<u><u>(10,625)</u></u>

# CITY OF MARSHALL, TEXAS

Exhibit H-3

**INTERNAL SERVICE FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<i>Stores Inventory Fund</i>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from Customers	498,379
Cash Payments to Suppliers for Goods and Services	<u>(497,160)</u>
Net Cash Provided by Operating Activities	<u>1,219</u>
 Net Increase in Cash and Cash Equivalents	 1,219
 Cash and Cash Equivalents (Deficit), Beginning of Year	 <u>(31,568)</u>
 Cash and Cash Equivalents (Deficit), End of Year	 <u><u>(30,349)</u></u>
 <b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>	
 Operating (Loss)	 (2,776)
 <b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
(Increase) Decrease in Assets:	
Accounts Receivable	1,287
Inventory	(4,548)
Increase (Decrease) in Liabilities:	
Accounts Payable	<u>7,256</u>
Total Adjustments	<u>3,995</u>
 Net Cash Provided by Operating Activities	 <u><u>1,219</u></u>

# CITY OF MARSHALL, TEXAS

Exhibit I-1

**AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
DECEMBER 31, 2012**

	<i>Balance December 31, 2011</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance December 31, 2012</i>
<b><u>POLICE LOCAL RELIEF FUND:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	68,123	2,737	3,034	67,826
<b>TOTAL ASSETS</b>	<b>68,123</b>	<b>2,737</b>	<b>3,034</b>	<b>67,826</b>
<b><u>LIABILITIES</u></b>				
Due to Employees	68,123	2,737	3,034	67,826
<b>TOTAL LIABILITIES</b>	<b>68,123</b>	<b>2,737</b>	<b>3,034</b>	<b>67,826</b>
<b><u>FIREMEN'S EMERGENCY RELIEF FUND:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	46,927	10,694	10,626	46,995
<b>TOTAL ASSETS</b>	<b>46,927</b>	<b>10,694</b>	<b>10,626</b>	<b>46,995</b>
<b><u>LIABILITIES</u></b>				
Accounts Payable	1,481	-	1,481	-
Due to Employees	45,446	10,694	9,145	46,995
<b>TOTAL LIABILITIES</b>	<b>46,927</b>	<b>10,694</b>	<b>10,626</b>	<b>46,995</b>
<b><u>TOTAL AGENCY FUNDS:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	115,050	13,431	13,660	114,821
<b>TOTAL ASSETS</b>	<b>115,050</b>	<b>13,431</b>	<b>13,660</b>	<b>114,821</b>
<b><u>LIABILITIES</u></b>				
Accounts Payable	1,481	-	1,481	-
Due to Employees	113,569	13,431	12,179	114,821
<b>TOTAL LIABILITIES</b>	<b>115,050</b>	<b>13,431</b>	<b>13,660</b>	<b>114,821</b>

## **Supplemental Schedules**

# CITY OF MARSHALL, TEXAS

Exhibit SS-1

## SCHEDULE OF GENERAL OBLIGATION DEBT DECEMBER 31, 2012

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2012</u>	<u>Issued 2012</u>	<u>Retired 2012</u>	<u>December 31, 2012</u>	<u>Requirements</u>	
							<u>Interest</u>	<u>Principal</u>
General Obligation Bonds March 28, 2007 Rate 3.85% - 5.00%	2007	6,230,000	5,495,000	-	(235,000)	5,260,000	204,505	250,000
Tax and Surplus Revenue Refunding Bonds, Series 2010 July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	660,000	660,000	-	(125,000)	535,000	14,692	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	1,070,000	-	(70,000)	1,000,000	30,503	75,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010A May 13, 2010 Rate 2.0% - 4.0%	2010	2,100,000	1,995,000	-	(110,000)	1,885,000	61,688	115,000
<b>TOTAL GENERAL OBLIGATION DEBT</b>		<b>10,130,000</b>	<b>9,220,000</b>	<b>-</b>	<b>(540,000)</b>	<b>8,680,000</b>	<b>311,388</b>	<b>565,000</b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-2

## SCHEDULE OF WATER AND SEWER REVENUE BONDS DECEMBER 31, 2012

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2012</u>	<u>Issued 2012</u>	<u>Retired 2012</u>	<u>Dec. 31, 2012</u>	<u>Requirements Calendar Year 2013</u>	
							<u>Interest</u>	<u>Principal</u>
Waterworks and Sewer System Revenue Bonds June 15, 1998 Rate 6.5%, 4.5%, 4.6%, 4.5%	1998	8,455,000	405,000	-	(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	535,000	-	(260,000)	275,000	7,047	275,000
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	650,000	-	(650,000)	-	-	-
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	5,065,000	-	(4,725,000)	340,000	6,375	340,000
Water and Sewer Revenue Refunding Bonds December 1, 2006 Rate 4.25%, 5.50%, 4.00%	2006	9,235,000	9,075,000	-	(160,000)	8,915,000	410,669	595,000
Tax and Surplus Revenue Refunding Bonds July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	3,490,000	3,025,000	-	(475,000)	2,550,000	56,183	485,000
Tax and Surplus Revenue Refunding Bonds April 1, 2012 Rate 3.6%, 4.5%, 4.6%, 4.75%	2012	5,065,000	-	5,065,000	(85,000)	4,980,000	145,450	160,000
<b>TOTAL WATER AND SEWER REVENUE BONDS</b>		<b>40,325,000</b>	<b>18,755,000</b>	<b>5,065,000</b>	<b>(6,760,000)</b>	<b>17,060,000</b>	<b>625,724</b>	<b>1,855,000</b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-3

## SCHEDULE OF DELINQUENT TAXES RECEIVABLE DECEMBER 31, 2012

<u>Year</u>	<u>Amount</u>
1989	88
1990	61
1991	-
1992	-
1993	6,787
1994	7,368
1995	8,042
1996	9,447
1997	9,777
1998	10,233
1999	11,318
2000	12,383
2001	15,309
2002	18,699
2003	21,478
2004	28,623
2005	31,871
2006	39,729
2007	47,093
2008	59,331
2009	76,764
2010	113,797
2011	<u>178,505</u>
Total Delinquent Taxes Receivable	706,703
Less: Allowance for Uncollectibles	<u>(35,335)</u>
<b>NET DELINQUENT TAXES RECEIVABLE</b>	<b><u><u>671,368</u></u></b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-4

## COMPARISON OF ASSESSED VALUATIONS FROM 1983 THROUGH 2012

<u>Tax Levy Year</u>	<u>Tax Rate</u>	<u>Assessed Value</u>
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
2012	.47604	1,048,205,882