

CITY OF MARSHALL, TEXAS

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

DECEMBER 31, 2013

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, 2013, 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, 2013, 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the Schedule of Expenditures of Federal Awards, 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 September 18, 2014, 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

September 18, 2014

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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, 2013, 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 September 18, 2014.

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.

Knuckols, Duvall, Hallum & Co.

Certified Public Accountants

Marshall, Texas

September 18, 2014

Management's Discussion and Analysis

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013

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, 2013. 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 \$78,393,250 (net position). Of this amount, \$13,136,015 (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 \$9,564,823. Approximately 63% of this total amount is *available for spending* at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,135,915 or 34% 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 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, 2013

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 22 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 21 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 and equipment replacement.

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. The City uses its internal service funds to account for its stores inventory and equipment replacement and are 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 statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

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 \$78,393,250 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	15,316,818	14,651,927	6,984,755	7,345,139	22,301,573	21,997,066
Capital assets	42,204,857	42,374,923	44,681,810	45,668,884	86,886,667	88,043,807
Total assets	<u>57,521,675</u>	<u>57,026,850</u>	<u>51,666,565</u>	<u>53,014,023</u>	<u>109,188,240</u>	<u>110,040,873</u>
Deferred Outflows of Resources:						
Deferred charges on refunding, net of unamortized premium	-	-	46,038	50,542	46,038	50,542
Total outflows of resources	<u>-</u>	<u>-</u>	<u>46,038</u>	<u>50,542</u>	<u>46,038</u>	<u>50,542</u>
Liabilities:						
Current and other liabilities	1,888,868	1,429,812	2,874,687	2,786,284	4,763,555	4,216,096
Long-term liabilities	11,808,750	12,304,999	13,849,025	15,733,508	25,657,775	28,038,507
Total liabilities	<u>13,697,618</u>	<u>13,734,811</u>	<u>16,723,712</u>	<u>18,519,792</u>	<u>30,421,330</u>	<u>32,254,603</u>
Deferred inflows of resources:						
Deferred unamortized bond premium	-	-	419,698	471,602	419,698	471,602
Total inflows of resources	<u>-</u>	<u>-</u>	<u>419,698</u>	<u>471,602</u>	<u>419,698</u>	<u>471,602</u>
Net Position:						
Net invest. in capital assets	33,687,902	33,226,751	29,103,150	28,187,824	62,791,052	61,414,575
Restricted	2,466,183	2,385,128	-	16,766	2,466,183	2,401,894
Unrestricted	7,669,972	7,680,160	5,466,043	5,868,581	13,136,015	13,548,741
Total net position	<u>43,824,057</u>	<u>43,292,039</u>	<u>34,569,193</u>	<u>34,073,171</u>	<u>78,393,250</u>	<u>77,365,210</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 (\$13,136,015) 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 increased when compared to the prior year by 5.1% or \$641,104. The City recognized increases in sales tax revenue and franchise tax revenue over the prior year.

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

Governmental activities increased the City of Marshall's net position by \$532,018 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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
REVENUES:						
Program Revenues:						
Charges for Services	4,928,794	4,905,870	9,848,012	9,951,626	14,776,806	14,857,496
Operating Grants and Contributions	691,141	558,479	-	2,500	691,141	560,979
Capital Grants and Contributions	652,650	198,147	118,617	89,039	771,267	287,186
General Revenues:						
Property Taxes	4,765,718	4,873,856	-	-	4,765,718	4,873,856
Other Taxes	8,264,450	7,515,427	-	-	8,264,450	7,515,427
Other	<u>32,647</u>	<u>34,158</u>	<u>13,436</u>	<u>11,706</u>	<u>46,083</u>	<u>45,864</u>
Total Revenues	<u>19,335,400</u>	<u>18,085,937</u>	<u>9,980,065</u>	<u>10,054,871</u>	<u>29,315,465</u>	<u>28,140,808</u>
EXPENSES:						
General Government	2,458,999	2,022,660	-	-	2,458,999	2,022,660
Parks and Recreation	1,068,123	1,089,720	-	-	1,068,123	1,089,720
Finance	198,596	202,048	-	-	198,596	202,048
Public Safety	8,362,277	8,373,679	-	-	8,362,277	8,373,679
Public Works	4,301,674	4,434,753	-	-	4,301,674	4,434,753
Purchasing	3,478	4,059	-	-	3,478	4,059
Library	483,439	509,343	-	-	483,439	509,343
Non-Departmental	1,850,446	1,953,424	-	-	1,850,446	1,953,424
Tax Collection	91,545	70,187	-	-	91,545	70,187
Inspections	297,137	299,161	-	-	297,137	299,161
Tourist and Convention	1,066,784	1,143,403	-	-	1,066,784	1,143,403
Code Enforcement	40,535	40,886	-	-	40,535	40,886
Interest on Long-Term Debt	326,349	344,619	540,976	688,184	867,325	1,032,803
Water and Sewer	-	-	7,153,291	7,106,804	7,153,291	7,106,804
Business Development Center	-	-	<u>43,776</u>	<u>43,896</u>	<u>43,776</u>	<u>43,896</u>
Total Expenses	<u>20,549,382</u>	<u>20,487,942</u>	<u>7,738,043</u>	<u>7,838,884</u>	<u>28,287,425</u>	<u>28,326,826</u>
Increase (Decrease) in Net Position Before Transfers	(1,213,982)	(2,402,005)	2,242,022	2,215,987	1,028,040	(186,018)
Transfers	<u>1,746,000</u>	<u>1,350,000</u>	<u>(1,746,000)</u>	<u>(1,350,000)</u>	-	-
Change in Net Position	532,018	(1,052,005)	496,022	865,987	1,028,040	(186,018)
Net Position – 01/01/13	43,292,039	44,442,866	34,073,171	33,553,033	77,365,210	77,995,899
Reclassification-Prior Period Debt Issuance Cost	-	<u>(98,822)</u>	-	<u>(345,849)</u>	-	<u>(444,671)</u>
Net Position – 12/31/13	<u>43,824,057</u>	<u>43,292,039</u>	<u>34,569,193</u>	<u>34,073,171</u>	<u>78,393,250</u>	<u>77,365,210</u>

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

Business - Type Activities

Revenues of the City's business-type activities were \$9,980,065 for the year ending December 31, 2013. Expenses for the City's business-type activities were \$9,484,043 for the year, resulting in net income of \$496,022.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Marshall's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Marshall's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$9,564,823. Approximately 62.7% of this total amount (\$5,999,518) 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 \$203,570. Restricted fund balance consists of the following: 1) promotion and tourism \$6,062, 2) law enforcement \$488,627, 3) purpose of grantors and donors \$10,440, 4) debt service \$597,191, 5) library \$278,945, 6) capital projects \$1,868,992, 7) other post-employment benefits \$73,458, and 8) street maintenance \$38,020.

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 \$6,135,915, with 96% of the total fund balance (\$6,412,943) 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 34.5% of total General Fund expenditures. Total fund balance represents 35.9% of total General Fund expenditures. The total fund balance of the City of Marshall's General Fund decreased by \$292,045 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 \$4,837,702. Other factors concerning the finances of this fund 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 \$84,801 and expenditures were under amended budget estimates by \$479,179.

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, 2013, is \$86,886,667 (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, 2013

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 2013, we continued our annual infrastructure improvements which included line replacements and repairs in both the water and wastewater systems. Contractors completed replacement of approximately 1,800 feet of water line and installed four new fire hydrant installations on Linwood Drive, improving water quality and providing enhance fire safety in the neighborhood. We initiated a detailed water and wastewater rate study in order to determine if our retail and wholesale water rates are sufficient to fund current expenses and future capital improvement needs; of major interest was the wholesale water rate charges to our largest water customer, Norit Americas, Inc. which amounts to approximately 39% of our annual water billed volume.

Through the annual budgeting process, funds were reallocated to address our annual program needs to 1) rehab old and leaking wastewater manholes, and 2) to continue our smoke testing of sewer distribution lines in order to locate leaks or infiltrations into our sewer system which need to be repaired; failure to locate these infiltrations into our distribution system cause overflows and excessive wastewater treatment volume.

In calendar year 2013, 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 1.47 billion gallons of wastewater. Our staff installed 250 feet of new wastewater mains, performed preventative maintenance on 210,880 feet of our sanitary sewer mains, rehabilitated 20 manholes, and replaced 115 water meters, as part of our annual maintenance program of our water and wastewater distribution system maintenance program.

City of Marshall's Capital Assets

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	1,175,849	1,157,459	310,612	310,612	1,486,461	1,468,071
Buildings	20,004,658	19,959,388	2,979,061	2,979,061	22,983,719	22,938,449
Improvements other than Buildings	3,575,123	3,569,877	-	-	3,575,123	3,569,877
Machinery and equipment	12,645,759	12,664,417	3,254,634	3,163,548	15,900,393	15,827,965
Infrastructure	56,824,614	54,750,658	-	-	56,824,614	54,750,658
Water and wastewater System	-	-	69,948,746	69,876,123	69,948,746	69,876,123
Construction in progress	545,023	578,972	511,805	89,039	1,056,828	668,011
Less Accumulated Depreciation	(52,566,169)	(50,305,848)	(32,323,048)	(30,749,499)	(84,889,217)	(81,055,347)
Total Capital Assets (Net of Accumulated Depreciation)	42,204,857	42,374,923	44,681,810	45,668,884	86,886,667	88,043,807

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

Long-term debt. At the end of the current fiscal year, the City of Marshall had total bonded debt outstanding of \$23,320,000. Of this amount, \$5,010,000 comprises debt backed by the full faith and credit of the government and \$3,105,000 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, \$15,205,000, 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</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General Obligation Bonds Series 2007	5,010,000	5,260,000	-	-	5,010,000	5,260,000
Certificates of Obligation	2,695,000	2,885,000	-	-	2,695,000	2,885,000
Revenue Bonds	<u>410,000</u>	<u>535,000</u>	<u>15,205,000</u>	<u>17,060,000</u>	<u>15,615,000</u>	<u>17,595,000</u>
Total	<u>8,115,000</u>	<u>8,680,000</u>	<u>15,205,000</u>	<u>17,060,000</u>	<u>23,320,000</u>	<u>25,740,000</u>

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

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

The City Charter of the City of Marshall, Texas, and the statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. The City operates under a Home Rule Charter, which also imposes a limit of \$1.35. The budgeted property tax rate was \$.47604 per \$100 valuation with a tax margin of \$.87396 per \$100 valuation based upon the maximum ad valorem tax rate noted above. Additional revenues up to \$8,593,416, per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$983,273,367.

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

Economic Factors and Next Year's Budgets and Rates

Economic Factors

- ❑ New residential construction in 2013 was 13 single family units.
- ❑ The average price of a single family unit was \$118,230.
- ❑ The City's annual growth in valuation has decreased 4.4%.
- ❑ The tax rate is expected to remain at \$0.47604/\$100 valuation.
- ❑ Commercial construction started during 2013 was an Office Building at 112 W. Austin, Golden Chick Restaurant, and Highway 59 Retail Center.
- ❑ 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.
- ❑ 2013 Annual unemployment for Harrison County is 6.4%.
- ❑ 2013 Median household income for Harrison County is estimated at \$44,958.

Next Year's Budgets and Rates

The 2014 City of Marshall Annual Budget reflected an approximate 3% decrease (\$835,371) over the 2013 budget. We will closely monitor economic indicators, revenues, and expenditures in 2014 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, 2013

	<i>Primary Government</i>		<i>Total</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	
<u>ASSETS</u>			
Cash and Temporary Investments	3,552,495	2,833,395	6,385,890
Certificates of Deposit	4,877,372		4,877,372
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	4,749,301	962,554	5,711,855
Due From Other Governments	1,918,545	-	1,918,545
Prepayments	203,570	58,388	261,958
Inventory	15,535	9,189	24,724
Restricted Assets:			
Cash and Temporary Investments	-	2,154,280	2,154,280
Certificates of Deposit	-	966,442	966,442
Accrued Interest Receivable	-	507	507
Capital Assets:			
Land	1,175,849	310,612	1,486,461
Construction in Progress	545,023	511,805	1,056,828
Buildings	20,004,658	2,979,061	22,983,719
Machinery and Equipment	12,645,759	3,254,634	15,900,393
Improvements	3,575,123	-	3,575,123
Infrastructure	56,824,614	-	56,824,614
Water and Wastewater System	-	69,948,746	69,948,746
Accumulated Depreciation	(52,566,169)	(32,323,048)	(84,889,217)
Total Assets	<u>57,521,675</u>	<u>51,666,565</u>	<u>109,188,240</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Charges on Refunding, Net of Unamortized Premium	-	46,038	46,038
Total Outflows of Resources	<u>-</u>	<u>46,038</u>	<u>46,038</u>
<u>LIABILITIES</u>			
Accounts Payable	1,456,774	127,236	1,584,010
Accrued Interest Payable	18,464	-	18,464
Accrued Liabilities	254,148	70,487	324,635
Current Portion of Accrued Leases Payable	159,482	-	159,482
Payable From Restricted Assets:			
Current Portion of Bonds Payable	-	1,915,000	1,915,000
Customer Deposits	-	725,247	725,247
Accounts Payable	-	655	655
Accrued Liabilities	-	36,062	36,062
Security Deposits	-	-	-
Noncurrent Liabilities:			
Due Within One Year	627,742	-	627,742
Due In More Than One Year	11,181,008	13,849,025	25,030,033
Total Liabilities	<u>13,697,618</u>	<u>16,723,712</u>	<u>30,421,330</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Unamortized Bond Premium	-	419,698	419,698
Total Inflows of Resources	<u>-</u>	<u>419,698</u>	<u>419,698</u>
<u>NET POSITION (DEFICIT)</u>			
Invested in Capital Assets, Net of Related Debt	33,687,902	29,103,150	62,791,052
Restricted for:			
Debt Service	597,191	-	597,191
Capital Projects	1,868,992	-	1,868,992
Unrestricted (Deficit)	7,669,972	5,466,043	13,136,015
Total Net Position	<u>43,824,057</u>	<u>34,569,193</u>	<u>78,393,250</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. & Vis. Bureau</i>
3,954,759	13,438	47,654
-	-	-
21,755	-	5,686
281,634	-	71,225
-	-	-
-	-	-
-	-	-
-	-	-
4,235,720	-	-
2,545,783	-	-
949,629	50,217	101,681
148,218	-	-
293,593	-	105,104
-	-	-
-	-	-
(422,983)	(3,013)	(50,342)
<u>12,008,108</u>	<u>60,642</u>	<u>281,008</u>
-	-	-
-	-	-
85,528	12,000	164,947
-	-	-
8,213	-	37,518
-	-	-
-	-	-
-	-	-
-	-	-
35,608	-	-
72,503	-	45,307
569,049	-	25,100
<u>770,901</u>	<u>12,000</u>	<u>272,872</u>
-	-	-
-	-	-
7,108,408	47,204	86,036
-	-	-
-	-	-
4,128,799	1,438	(77,900)
<u>11,237,207</u>	<u>48,642</u>	<u>8,136</u>

CITY OF MARSHALL, TEXAS

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2013

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	2,458,999	371,050	539,489	-
Finance	198,596	-	-	-
Inspections	297,137	-	-	-
Public Safety	8,362,277	1,921,104	11,657	10,008
Public Works	4,301,674	2,266,126	7,082	626,177
Purchasing	3,478	-	-	-
Library	483,439	20,432	48,256	-
Non-Departmental	1,850,446	-	-	-
Tax Collection	91,545	-	-	-
Parks and Recreation	1,068,123	210,737	2,504	16,465
Tourist and Convention	1,066,784	139,345	41,618	-
Code Enforcement	40,535	-	40,535	-
Interest on Long-Term Debt	326,349	-	-	-
Total Governmental Activities	<u>20,549,382</u>	<u>4,928,794</u>	<u>691,141</u>	<u>652,650</u>
Business-Type Activities:				
Water and Sewer	7,694,267	9,848,012	-	118,617
Business Development Center	43,776	-	-	-
Total Business-Type Activities	<u>7,738,043</u>	<u>9,848,012</u>	<u>-</u>	<u>118,617</u>
Total Primary Government	<u>28,287,425</u>	<u>14,776,806</u>	<u>691,141</u>	<u>771,267</u>
Component Units:				
Marshall Economic Develop. Corp.	990,751	395,468	-	-
Marshall Downtown Develop. Corp.	3,005	-	5,878	-
Marshall Conv. & Vis. Bureau	782,401	641,290	115,286	-
Total Component Units	<u>1,776,157</u>	<u>1,036,758</u>	<u>121,164</u>	<u>-</u>

General Revenues:

Taxes:
 Property
 Sales
 Franchise
 Investment Earnings
 Transfers
 Total General Revenues and Transfers

Change in Net Position

Net Position (Deficit) Beginning of Year

Net Position (Deficit) End of Year

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

Exhibit B-1

<i>Net (Expenses) Revenue and Changes in Net 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. & Vis. Bureau</i>
(1,548,460)	-	(1,548,460)	-	-	-
(198,596)	-	(198,596)	-	-	-
(297,137)	-	(297,137)	-	-	-
(6,419,508)	-	(6,419,508)	-	-	-
(1,402,289)	-	(1,402,289)	-	-	-
(3,478)	-	(3,478)	-	-	-
(414,751)	-	(414,751)	-	-	-
(1,850,446)	-	(1,850,446)	-	-	-
(91,545)	-	(91,545)	-	-	-
(838,417)	-	(838,417)	-	-	-
(885,821)	-	(885,821)	-	-	-
-	-	-	-	-	-
(326,349)	-	(326,349)	-	-	-
<u>(14,276,797)</u>	<u>-</u>	<u>(14,276,797)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	2,272,362	2,272,362	-	-	-
-	(43,776)	(43,776)	-	-	-
-	<u>2,228,586</u>	<u>2,228,586</u>	-	-	-
<u>(14,276,797)</u>	<u>2,228,586</u>	<u>(12,048,211)</u>	<u>-</u>	<u>-</u>	<u>-</u>
			(595,283)	-	-
			-	2,873	-
			-	-	(25,825)
			<u>(595,283)</u>	<u>2,873</u>	<u>(25,825)</u>
4,765,718	-	4,765,718	-	-	-
7,214,723	-	7,214,723	1,495,232	-	-
1,049,727	-	1,049,727	-	-	-
32,647	13,436	46,083	2,217	-	-
1,746,000	(1,746,000)	-	-	-	-
<u>14,808,815</u>	<u>(1,732,564)</u>	<u>13,076,251</u>	<u>1,497,449</u>	<u>-</u>	<u>-</u>
532,018	496,022	1,028,040	902,166	2,873	(25,825)
<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>
<u>43,824,057</u>	<u>34,569,193</u>	<u>78,393,250</u>	<u>11,237,207</u>	<u>48,642</u>	<u>8,136</u>

CITY OF MARSHALL, TEXAS

Exhibit C-1

**GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2013**

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<u>ASSETS</u>			
Cash and Temporary Investments	1,791,019	1,598,890	3,389,909
Certificates of Deposit	3,316,789	1,560,583	4,877,372
Receivables (Net of Allowance for Uncollectible)			
Current Taxes	2,019,063	448,158	2,467,221
Delinquent Taxes	578,814	104,719	683,533
Customer	1,074,900	-	1,074,900
Franchise Taxes	258,718	-	258,718
Other	224,908	1,500	226,408
Accrued Interest	2,802	119	2,921
Prepaid Expenditures	203,570	-	203,570
Due from Other Funds	145,001	92,098	237,099
Due from Other Governments	1,559,154	359,391	1,918,545
TOTAL ASSETS	11,174,738	4,165,458	15,340,196
<u>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</u>			
Liabilities			
Accounts Payable	1,037,532	402,637	1,440,169
Accrued Liabilities	254,148	-	254,148
Due to Other Funds	92,098	145,001	237,099
Unearned Revenues	805,586	62	805,648
Total Liabilities	2,189,364	547,700	2,737,064
Deferred Inflows of Resources			
Unavailable Revenue-Property Taxes	2,572,431	465,878	3,038,309
Total Inflows of Resources	2,572,431	465,878	3,038,309
Fund Balances			
 Nonspendable:			
Prepaid Expenditures	203,570	-	203,570
 Restricted:			
Promotion and Tourism	-	6,062	6,062
Law Enforcement	-	488,627	488,627
Street Maintenance	-	38,020	38,020
Purpose of Grantors and Donors	-	10,440	10,440
Debt Service	-	597,191	597,191
Library	-	278,945	278,945
Capital Projects	-	1,868,992	1,868,992
Other Post-Employment Benefits	73,458	-	73,458
 Unassigned:			
Reported in General Fund	6,135,915	-	6,135,915
Reported in Motel Occupancy Tax Fund	-	(136,397)	(136,397)
Total Fund Balances	6,412,943	3,151,880	9,564,823
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	11,174,738	4,165,458	15,340,196

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, 2013

Total Fund Balances - Total Governmental Funds	9,564,823
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.)	42,204,857
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.	(18,464)
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.	197,117
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	(787,224)
Due in More Than One Year	(11,181,008)
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>3,843,956</u>
Net Position of Governmental Activities	<u><u>43,824,057</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, 2013

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
REVENUE:			
Ad Valorem Taxes	3,994,144	749,677	4,743,821
Sales Taxes	5,984,971	496,540	6,481,511
Franchise Tax	1,049,727	-	1,049,727
Motel Occupancy Tax	-	733,212	733,212
Permits and Fees	3,986,042	-	3,986,042
Municipal Court Fines	569,524	13,210	582,734
Interest	25,821	6,826	32,647
Intergovernmental	235,886	1,052,589	1,288,475
Donations	-	40,512	40,512
Miscellaneous	65,424	340,720	406,144
Total Revenue	15,911,539	3,433,286	19,344,825
EXPENDITURES:			
Current:			
General Government	1,862,202	375,777	2,237,979
Tourism and Convention Center	277,558	597,375	874,933
Code Enforcement	-	40,535	40,535
Finance	198,596	-	198,596
Public Safety	7,833,609	22,804	7,856,413
Public Works	2,676,979	65,675	2,742,654
Inspections	297,137	-	297,137
Purchasing	3,143	-	3,143
Library	443,043	23,426	466,469
Non-Departmental	1,837,620	-	1,837,620
Tax Collection	91,545	-	91,545
Parks and Recreation	884,250	-	884,250
Debt Service:			
Principal Retirement	221,217	565,000	786,217
Interest and Fees	11,405	316,407	327,812
Capital Outlay	1,209,917	1,201,497	2,411,414
Total Expenditures	17,848,221	3,208,496	21,056,717

CITY OF MARSHALL, TEXAS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>CONTINUED:</i>			
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(1,936,682)</u>	<u>224,790</u>	<u>(1,711,892)</u>
Other Financing Sources (Uses)			
Transfers In	1,922,688	183,051	2,105,739
Transfers Out	(433,051)	(176,688)	(609,739)
Loan Proceeds	<u>155,000</u>	<u>-</u>	<u>155,000</u>
Total Other Financing Sources (Uses)	<u>1,644,637</u>	<u>6,363</u>	<u>1,651,000</u>
Net Change in Fund Balances	(292,045)	231,153	(60,892)
Fund Balances at Beginning of Year	<u>6,704,988</u>	<u>2,920,727</u>	<u>9,625,715</u>
Fund Balances at End of Year	<u><u>6,412,943</u></u>	<u><u>3,151,880</u></u>	<u><u>9,564,823</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, 2013

Net Change in Fund Balances - Total Governmental Funds (60,892)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the net amount of capital assets recorded in the current period. 2,444,632

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. (2,614,700)

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. 557,984

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. 1,463

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. 207,742

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. (4,211)

Changes in Net Position of Governmental Activities 532,018

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, 2013**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
REVENUE:				
Ad Valorem Taxes	4,187,188	4,187,188	3,994,144	(193,044)
Sales Taxes	5,592,500	5,592,500	5,984,971	392,471
Franchise Tax	1,050,000	1,050,000	1,049,727	(273)
Permits and Fees	4,162,250	4,162,250	3,986,042	(176,208)
Municipal Court Fines	550,000	550,000	569,524	19,524
Interest	20,000	20,000	25,821	5,821
Intergovernmental	229,800	229,800	235,886	6,086
Miscellaneous	35,000	35,000	65,424	30,424
Total Revenue	15,826,738	15,826,738	15,911,539	84,801
EXPENDITURES:				
General Government	1,786,370	1,851,370	1,862,202	(10,832)
Tourism and Convention Center	281,944	281,944	277,558	4,386
Finance	214,451	214,451	198,596	15,855
Public Safety	8,105,733	8,105,733	7,833,609	272,124
Public Works	2,757,731	2,757,731	2,676,979	80,752
Inspections	296,853	296,853	297,137	(284)
Purchasing	3,675	3,675	3,143	532
Library	471,666	471,666	443,043	28,623
Non-Departmental	1,591,172	1,828,172	1,837,620	(9,448)
Tax Collection	91,800	91,800	91,545	255
Parks and Recreation	973,580	973,580	884,250	89,330
Debt Service	292,825	292,825	232,622	60,203
Capital Outlay	881,600	1,157,600	1,209,917	(52,317)
Total Expenditures	17,749,400	18,327,400	17,848,221	479,179
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	(1,922,662)	(2,500,662)	(1,936,682)	563,980
Other Financing Sources (Uses)				
Transfers In	1,922,688	1,922,688	1,922,688	-
Transfers Out	-	(274,750)	(433,051)	(158,301)
Loan Proceeds	-	-	155,000	155,000
Total Other Financing Sources (Uses)	1,922,688	1,647,938	1,644,637	(3,301)
Net Change in Fund Balance	26	(852,724)	(292,045)	560,679
Fund Balance at Beginning of Year	6,704,988	6,704,988	6,704,988	-
Fund Balance at End of Year	6,705,014	5,852,264	6,412,943	560,679

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, 2013**

	Business-Type Activities - Enterprise Funds			Governmental Internal Service Funds
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	
ASSETS				
<i>Current Assets:</i>				
Cash and Temporary Investments	2,255,600	(50,546)	2,205,054	790,928
Customer Receivables (Net of Allowance for Uncollectibles)	912,008	50,546	962,554	35,600
Prepaid Expenditures	58,388	-	58,388	-
Inventory	9,189	-	9,189	15,535
Total Current Assets	<u>3,235,185</u>	<u>-</u>	<u>3,235,185</u>	<u>842,063</u>
<i>Noncurrent Assets:</i>				
Restricted Assets:				
Cash and Temporary Investments	2,154,280	-	2,154,280	-
Certificates of Deposit	966,442	-	966,442	-
Accrued Interest Receivable	507	-	507	-
Total Restricted Assets	<u>3,121,229</u>	<u>-</u>	<u>3,121,229</u>	<u>-</u>
Capital Assets:				
Land	230,281	80,331	310,612	-
Construction in Progress	511,805	-	511,805	-
Buildings	790,241	2,188,820	2,979,061	122,596
Machinery and Equipment	2,898,662	320,313	3,218,975	94,753
Water and Wastewater System	69,948,746	-	69,948,746	-
Less: Accumulated Depreciation	(31,161,960)	(1,157,998)	(32,319,958)	(146,671)
Total Capital Assets (Net of Accumulated Depreciation)	<u>43,217,775</u>	<u>1,431,466</u>	<u>44,649,241</u>	<u>70,678</u>
Total Noncurrent Assets	<u>46,339,004</u>	<u>1,431,466</u>	<u>47,770,470</u>	<u>70,678</u>
TOTAL ASSETS	<u>49,574,189</u>	<u>1,431,466</u>	<u>51,005,655</u>	<u>912,741</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charges on Refunding, Net of Unamortized Premium	46,038	-	46,038	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>46,038</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation to Government-Wide Statement of Net Position:				
Adjustment to Reflect the Consolidation of Internal Service Funds Activities Related to Enterprise Funds			660,910	
Assets of Business-Type Activities			<u>51,712,603</u>	

CITY OF MARSHALL, TEXAS

Exhibit D-1

Page 2 of 2

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

<u>CONTINUED:</u>	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Internal Service Funds</u>
	<u>Water and Sewer Fund</u>	<u>Nonmajor Enterprise Fund</u>	<u>Total</u>	
<u>LIABILITIES</u>				
<i>Current Liabilities:</i>				
Accounts Payable	127,236	-	127,236	16,605
Accrued Salaries and Wages	70,487	-	70,487	-
Total Current Liabilities	<u>197,723</u>	<u>-</u>	<u>197,723</u>	<u>16,605</u>
<i>Current Liabilities Payable from Restricted Assets:</i>				
Current Portion of Bonds Payable	1,915,000	-	1,915,000	-
Customer Deposits	725,247	-	725,247	-
Accounts Payable	655	-	655	-
Unearned Revenue	10,000	-	10,000	-
Accrued Liabilities	26,062	-	26,062	-
Total Current Liabilities Payable from Restricted Assets	<u>2,676,964</u>	<u>-</u>	<u>2,676,964</u>	<u>-</u>
<i>Other Liabilities:</i>				
Bonds Payable (Net of Current Portion)	13,290,000	-	13,290,000	-
Accrued Post Retirement Health Care and TMRS	251,448	-	251,448	-
Compensated Absences	307,577	-	307,577	-
Total Other Liabilities	<u>13,849,025</u>	<u>-</u>	<u>13,849,025</u>	<u>-</u>
TOTAL LIABILITIES	<u>16,723,712</u>	<u>-</u>	<u>16,723,712</u>	<u>16,605</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Unamortized Premium	419,698	-	419,698	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>419,698</u>	<u>-</u>	<u>419,698</u>	<u>-</u>
<u>NET POSITION (DEFICIT)</u>				
Invested in Capital Assets, Net of Related Debt	27,639,115	1,431,466	29,070,581	70,678
Restricted for Retirement of Bonds	-	-	-	-
Unrestricted (Deficit)	<u>4,837,702</u>	<u>-</u>	<u>4,837,702</u>	<u>825,458</u>
TOTAL NET POSITION (DEFICIT)	<u>32,476,817</u>	<u>1,431,466</u>	<u>33,908,283</u>	<u>896,136</u>

Reconciliation to Government-Wide Statement of Net Position:

Adjustment to Reflect the Consolidation of Internal Service Funds Activities	
Related to Enterprise Funds	660,910
Net Position of Business-Type Activities	<u>34,569,193</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, 2013

	Business-Type Activities - Enterprise Funds			Governmental Internal Service Funds
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	
<u>OPERATING REVENUE:</u>				
Charges for Services	9,828,492	-	9,828,492	483,137
Total Operating Revenue	9,828,492	-	9,828,492	483,137
<u>OPERATING EXPENSES:</u>				
Administrative	287,997	-	287,997	-
Water Production	1,385,284	-	1,385,284	-
Water Distribution/ Collection	1,171,686	-	1,171,686	-
Sewage Treatment	1,202,114	-	1,202,114	-
Water Billing	488,022	-	488,022	-
Engineering	109,672	-	109,672	-
Non-Departmental	895,449	-	895,449	-
Materials and Supplies	-	-	-	486,961
Depreciation	1,545,183	43,776	1,588,959	3,415
Amortization	34,477	-	34,477	-
Bad Debt Expense	30,317	-	30,317	-
Total Operating Expenses	7,150,201	43,776	7,193,977	490,376
Operating Income (Loss)	2,678,291	(43,776)	2,634,515	(7,239)
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Interest Income	13,436	-	13,436	-
Interest Expense and Fees	(540,976)	-	(540,976)	-
Intergovernmental Revenue	118,617	-	118,617	-
Other Nonoperating Income (Expense)	19,520	-	19,520	-
Total Nonoperating Revenues (Expenses)	(389,403)	-	(389,403)	-
Income (Loss) Before Transfers	2,288,888	(43,776)	2,245,112	(7,239)
Transfers In	-	-	-	914,000
Transfers (Out)	(2,410,000)	-	(2,410,000)	-
Total Transfers In (Out)	(2,410,000)	-	(2,410,000)	914,000
Change in Net Position	(121,112)	(43,776)	(164,888)	906,761
Total Net Position (Deficit), Beginning of Year	32,597,929	1,475,242		(10,625)
Total Net Position (Deficit), End of Year	32,476,817	1,431,466		896,136
Reconciliation to Government-Wide Statement of Activities:				
Adjustment to Reflect the Consolidation of Internal Service Funds Activities				
Related to Enterprise Funds				
Change in Net Position of Business-Type Activities				
			660,910	
			496,022	

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

CITY OF MARSHALL, TEXAS

Exhibit D-3
Page 1 of 2

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Business-Type Activities - Enterprise Funds			Governmental Internal Service Funds
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	9,930,642	-	9,930,642	482,694
Cash Payments to Suppliers for Goods and Services	(3,528,625)	-	(3,528,625)	(501,325)
Cash Payments to Employees for Services	(2,052,949)	-	(2,052,949)	-
Net Cash Provided (Used) by Operating Activities	<u>4,349,068</u>	<u>-</u>	<u>4,349,068</u>	<u>(18,631)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Transfers In	-	-	-	914,000
Transfers (Out)	(2,410,000)	-	(2,410,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,410,000)</u>	<u>-</u>	<u>(2,410,000)</u>	<u>914,000</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition and Construction of Capital Assets	(569,316)	-	(569,316)	(74,093)
Intergovernmental Revenues	118,617	-	118,617	-
Other Revenues	19,520	-	19,520	-
Principal Paid on Bonds and Leases	(1,855,000)	-	(1,855,000)	-
Payment of Interest on Bonds and Other Debt	(625,724)	-	(625,724)	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,911,903)</u>	<u>-</u>	<u>(2,911,903)</u>	<u>(74,093)</u>
<u>Cash Flows from Investing Activities:</u>				
Purchase of Investments	(7,083)	-	(7,083)	-
Proceeds from Sale and Maturities of Investments	-	-	-	-
Interest on Investments	13,291	-	13,291	-
Net Cash Provided by Investing Activities	<u>6,208</u>	<u>-</u>	<u>6,208</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(966,627)	-	(966,627)	821,276
Cash and Cash Equivalents (Deficit), Beginning of Year	<u>5,376,507</u>	<u>(50,546)</u>	<u>5,325,961</u>	<u>(30,348)</u>
Cash and Cash Equivalents (Deficit), End of Year	<u><u>4,409,880</u></u>	<u><u>(50,546)</u></u>	<u><u>4,359,334</u></u>	<u><u>790,928</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, 2013**

<u>Continued</u>	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Internal Service Funds</u>
	<u>Water and Sewer Fund</u>	<u>Nonmajor Enterprise Fund</u>	<u>Total</u>	
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Operating Income (Loss)	<u>2,678,291</u>	<u>(43,776)</u>	<u>2,634,515</u>	<u>(7,239)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	1,545,183	43,776	1,588,959	3,415
Amortization	34,478	-	34,478	-
Other Post Employment Benefits	18,930	-	18,930	-
(Increase) Decrease in Assets:				
Accounts Receivable	77,489	-	77,489	(442)
Prepaid Expenses	(58,388)	-	(58,388)	-
Inventory	10,224	-	10,224	5,502
Increase (Decrease) in Liabilities:				
Accounts Payable	(2,018)	-	(2,018)	(19,867)
Accrued Liabilities	8,631	-	8,631	-
Customer Deposits	24,661	-	24,661	-
Compensated Absences	11,587	-	11,587	-
Total Adjustments	<u>1,670,777</u>	<u>43,776</u>	<u>1,714,553</u>	<u>(11,392)</u>
Net Cash Provided (Used) By Operating Activities	<u>4,349,068</u>	<u>-</u>	<u>4,349,068</u>	<u>(18,631)</u>

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, 2013**

	<i>Agency Funds</i>
<u>ASSETS</u>	
Cash and Temporary Investments	119,956
TOTAL ASSETS	<u>119,956</u>
<u>LIABILITIES</u>	
Accounts Payable	1,587
Due to Employees	118,369
TOTAL LIABILITIES	<u>119,956</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, 2013

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 accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. 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 \$.00375 City sales tax. A separate audit for the year ended December 31, 2013, was performed and may be obtained by contacting MEDCO.

Marshall Higher Education Financing Corporation (HEFCO) was incorporated as a non-profit organization to provide an instrumentality to exercise the powers granted to a higher education authority under Section 53.33 of the Texas Education Code, as authorized by Section 53.35(b) of the Texas Education Code. The Board of Directors are appointed by and subject to removal by the governing body of the City of Marshall and consists of seven (7) persons. HEFCO is authorized by the City of Marshall to carry on functions of a higher education authority for the purpose of financing educational institutions in Harrison County. HEFCO had no assets at year-end and no activity for the year. Since HEFCO had no assets or activity for 2013, 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, 2013, was performed and may be obtained by contacting MDDC.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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, 2013, 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:

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.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Proprietary Funds:

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer and Business Development Center. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its stores inventory and equipment replacement programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements, except for the Equipment Replacement Fund. The Equipment Replacement Funds are split between governmental and business-type activities. At the beginning of this year, the City elected to reinstate the Equipment Replacement Funds. The City established Equipment Replacement Fund - W & S and Equipment Replacement Fund - General in 2013. The City has presented the following major enterprise fund:

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

Additionally, the City reports the Business Development Center as a nonmajor enterprise fund type. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report.

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

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

Measurement Focus/Basis of Accounting:

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net 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 2013 expenditures. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

Budget and Budgetary Accounting:

Prior to the end of August, the City Commission, City Manager, and department heads meet in publicly held budget workshops and prepare a tentative budget for the following year. Duly advertised public hearings are held to obtain taxpayers comments. Prior to October 1, the budget is legally enacted. The General Fund, 2007 General Obligation and 2010 Certificate of Obligation Debt Service Funds, Motel Occupancy Tax Fund, Street Maintenance 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 \$237,000; and Capital Outlay expenditures were increased by \$276,000.

As noted in Exhibit C-5, Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, General Government expenditures exceeded the budget by \$10,832; Inspections expenditures exceeded the budget by \$284; Non-Departmental expenditures exceeded the budget by \$9,448; and Capital Outlay expenditures exceeded the budget by \$52,317. 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 and 2010 Certificate of Obligation Debt Service Funds, Motel Occupancy Tax Fund, Street Maintenance 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 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.

Cash and Investments - Statement of Cash Flows:

Cash of all funds, including restricted cash, but excluding the Payroll and 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 and certificates of deposit 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, 2013. The market values of temporary investments are based on values provided by TexPool at December 31, 2013.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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.

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

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Compensated Absences:

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

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

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

Net 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, 2013

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, 2013. 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 \$6,345,756 certificates of deposit) was \$7,574,160 and the respective bank balances totaled \$7,476,950. 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. Certificates of deposit that have maturities of three months or less are included in Cash and Temporary Investments. At December 31, 2013, there was \$501,942 of certificates of deposit that were included in Cash and Temporary Investments.

Of the total bank balances, \$250,500 was covered by Federal Depository Insurance for all accounts. The remainder of the accounts were covered by collateral with a value of \$9,282,547. 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, 2013

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, 2013, 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, 2013

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, 2013 are:

<u>Investment Type</u>	<u>Rating</u>	<u>Concentration of Credit Risk</u>	<u>Market Value</u>	<u>Investment Maturities (Callable In Years)</u>	
				<u>Less Than 1</u>	<u>1-5</u>
<i>Public Funds Investment Pool:</i>					
TexPool (2a7- Like Pool)	AAA-m (S&P)	100%	6,929,780	6,929,780	-
Total		100%	6,929,780	6,929,780	-

At December 31, 2013, 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 position 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	2,802	507	119	-	-	3,428
Taxes	2,993,326	-	577,614	-	-	3,570,940
Accounts	1,080,712	936,780	-	50,546	35,600	2,103,638
Other	224,908	-	1,500	-	-	226,408
Gross	<u>4,301,748</u>	<u>937,287</u>	<u>579,233</u>	<u>50,546</u>	<u>35,600</u>	<u>5,904,414</u>
Receivables Less:						
Allowance for Uncollectibles	(142,543)	(24,772)	(24,737)	-	-	(192,052)
Net Total Receivables	<u>4,159,205</u>	<u>912,515</u>	<u>554,496</u>	<u>50,546</u>	<u>35,600</u>	<u>5,712,362</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 4: CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2013, was as follows:

<u>Governmental Activities:</u>	<u>December 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2013</u>
Capital Assets Not Being Depreciated:				
Land	1,157,459	18,390	-	1,175,849
Construction in Progress	<u>578,972</u>	<u>3,200</u>	<u>(37,149)</u>	<u>545,023</u>
Total Capital Assets Not Being Depreciated	<u>1,736,431</u>	<u>21,590</u>	<u>(37,149)</u>	<u>1,720,872</u>
Capital Assets Being Depreciated:				
Buildings	19,959,388	90,270	(45,000)	20,004,658
Machinery and Equipment	12,664,417	352,944	(371,602)	12,645,759
Improvements	3,569,877	5,246	-	3,575,123
Infrastructure	<u>54,750,658</u>	<u>2,073,956</u>	<u>-</u>	<u>56,824,614</u>
Total Capital Assets, Being Depreciated	<u>90,944,340</u>	<u>2,522,416</u>	<u>(416,602)</u>	<u>93,050,154</u>
Less: Accumulated Depreciation For:				
Buildings	7,342,954	373,866	(45,000)	7,671,820
Equipment	8,138,631	864,773	(309,379)	8,694,025
Improvements	1,079,446	126,878	-	1,206,324
Infrastructure	<u>33,744,817</u>	<u>1,249,183</u>	<u>-</u>	<u>34,994,000</u>
Total Accumulated Depreciation	<u>50,305,848</u>	<u>2,614,700</u>	<u>(354,379)</u>	<u>52,566,169</u>
Total Capital Assets, Being Depreciated, Net	<u>40,638,492</u>	<u>(92,284)</u>	<u>(62,223)</u>	<u>40,483,985</u>
Governmental Activities Capital Assets, Net	<u>42,374,923</u>	<u>(70,694)</u>	<u>(99,372)</u>	<u>42,204,857</u>
<u>Business-Type Activities:</u>	<u>December 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2013</u>
Capital Assets Not Being Depreciated:				
Land	310,612	-	-	310,612
Construction in Progress	<u>89,039</u>	<u>422,766</u>	<u>-</u>	<u>511,805</u>
Total Capital Assets Not Being Depreciated	<u>399,651</u>	<u>422,766</u>	<u>-</u>	<u>822,417</u>
Capital Assets Being Depreciated:				
Buildings	2,979,061	-	-	2,979,061
Machinery and Equipment	3,163,548	109,586	(18,500)	3,254,634
Water and Wastewater System	69,876,123	72,623	-	69,948,746
Total Capital Assets, Being Depreciated	<u>76,018,732</u>	<u>182,209</u>	<u>(18,500)</u>	<u>76,182,441</u>
Less: Accumulated Depreciation For:				
Buildings and Improvements	1,229,585	58,559	-	1,288,144
Machinery and Equipment	1,989,989	183,936	(18,500)	2,155,425
Water and Wastewater System	<u>27,529,925</u>	<u>1,349,554</u>	<u>-</u>	<u>28,879,479</u>
Total Accumulated Depreciation	<u>30,749,499</u>	<u>1,592,049</u>	<u>(18,500)</u>	<u>32,323,048</u>
Total Capital Assets, Being Depreciated, Net	<u>45,269,233</u>	<u>(1,409,840)</u>	<u>-</u>	<u>43,859,393</u>
Business-Type Activities Capital Assets, Net	<u>45,668,884</u>	<u>(987,074)</u>	<u>-</u>	<u>44,681,810</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 4: CAPITAL ASSETS: (Continued)

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

Governmental Activities:

General Government	142,295
Tourism and Convention Center	191,851
Parks and Recreation	183,873
Public Safety	505,864
Public Works	1,559,020
Planning	1,666
Purchasing	335
Library	16,970
Non-Departmental	12,826
Total Depreciation Expense - Governmental Activities	<u>2,614,700</u>

Business-Type Activities:

Water and Sewer	1,548,273
Business Development Center	43,776
Total Depreciation Expense - Business-Type Activities	<u>1,592,049</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, 2013, \$209,000 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 and the Motel Occupancy Tax 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, 2013

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 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, 2013, \$425,000 of the bonds considered defeased are still outstanding.

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

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Combination Tax and Revenue Certificates of Obligation, Series 2001	June 15, 2012-2016	4.375%- 4.625%	<u>425,000</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Enterprise Funds Debt:

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 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, 2013, \$8,555,000 of the bonds considered defeased are still outstanding.

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

Schedule of Refunded Bonds

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 1998	June 15, 2013-2019	4.500%	3,900,000
Waterworks and Sewer System Revenue Bonds, Series 1999	June 15, 2011-2019	4.750% - 6.350%	1,630,000
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>8,555,000</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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, 2013, \$2,090,000 of the bonds considered defeased are still outstanding.

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

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 1997	June 15, 2011-2017	4.000%- 4.250%	<u>2,090,000</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, 2013 \$4,805,000 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%	410,000
Waterworks and Sewer System Revenue Bonds, Series 2003	June 15, 2014-2023	3.60%- 4.50%	<u>4,395,000</u>
			<u>4,805,000</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

A summary of changes in long-term debt for the year ended December 31, 2013 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issued</u>	<u>Amounts Outstanding 1/1/2013</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amounts Outstanding 12/31/2013</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	5,260,000	-	(250,000)	5,010,000	204,505	260,000
Certificate of Obligation, Series 2010A	2.00-4.00%	2,100,000	1,885,000	-	(115,000)	1,770,000	61,688	120,000
Certificate of Obligation, Series 2010	2.75-4.50%	1,140,000	1,000,000	-	(75,000)	925,000	30,503	75,000
Tax and Surplus Revenue Refunding Bonds Series 2010	2.00-3.00%	660,000	535,000	-	(125,000)	410,000	14,692	135,000
Total Governmental Activities Bonded Indebtedness		<u>10,130,000</u>	<u>8,680,000</u>	<u>-</u>	<u>(565,000)</u>	<u>8,115,000</u>	<u>311,388</u>	<u>590,000</u>
<u>Business-Type Activities:</u>								
<u>Bonded Indebtedness</u>								
Water and Sewer Revenue Bonds, Series 2000	5.125-7.13%	4,580,000	275,000	-	(275,000)	-	7,047	-
Water and Sewer Revenue Bonds, Series 2003	3.50-4.50%	7,000,000	340,000	-	(340,000)	-	6,375	-
Water and Sewer Revenue Refunding Bonds, 2006	4.00-5.50%	9,235,000	8,915,000	-	(595,000)	8,320,000	410,669	910,000
Tax and Surplus Revenue Refunding Bonds Series 2010	2.00-3.00%	3,490,000	2,550,000	-	(485,000)	2,065,000	56,183	490,000
Water and Sewer Revenue Refunding Bonds Series 2012	3.60-4.75%	5,065,000	4,980,000	-	(160,000)	4,820,000	145,450	515,000
Premium (Refunding Bonds, Series 2010)	N/A	31,250	24,552	-	(2,232)	22,320	-	-
Premium (Refunding Bonds, Series 2006)	N/A	745,082	447,050	-	(49,672)	397,378	-	-
Net Costs and Premium (Refunding Bonds, Series 2012)	N/A	(54,532)	(50,542)	-	4,504	(46,038)	-	-
Total Business-Type Bonded Indebtedness		<u>30,091,800</u>	<u>17,481,060</u>	<u>-</u>	<u>(1,902,400)</u>	<u>15,578,660</u>	<u>625,724</u>	<u>1,915,000</u>
Total Bonded Indebtedness		<u>40,221,800</u>	<u>26,161,060</u>	<u>-</u>	<u>(2,467,400)</u>	<u>23,693,660</u>	<u>937,112</u>	<u>2,505,000</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Debt service requirements are as follows:

General Obligation Bonds:

Year Ended <u>December 31,</u>	<u>Governmental Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2014	260,000	193,993	453,993
2015	270,000	183,393	453,393
2016	285,000	172,293	457,293
2017	300,000	160,593	460,593
2018	315,000	148,529	463,529
2019-2023	1,805,000	542,560	2,347,560
2024-2027	<u>1,775,000</u>	<u>147,500</u>	<u>1,922,500</u>
Total	<u><u>5,010,000</u></u>	<u><u>1,548,861</u></u>	<u><u>6,558,861</u></u>

Certificates of Obligation and Revenue Bonds:

Year Ended <u>December 31,</u>	<u>Governmental Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
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	230,000	62,756	292,756
2019-2023	1,290,000	187,978	1,477,978
2024-2025	<u>355,000</u>	<u>14,300</u>	<u>369,300</u>
Total	<u><u>3,105,000</u></u>	<u><u>605,847</u></u>	<u><u>3,710,847</u></u>

Water and Sewer Revenue Bonds:

Year Ended <u>December 31,</u>	<u>Business-Type Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
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	2,290,000	236,050	2,526,050
2019-2023	<u>4,815,000</u>	<u>375,125</u>	<u>5,190,125</u>
Total	<u><u>15,205,000</u></u>	<u><u>2,445,695</u></u>	<u><u>17,650,695</u></u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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. This lease was paid off this year.

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)	236,195
Total	706,031
Less: Accumulated Depreciation	(222,812)
Total	<u><u>483,219</u></u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013, were as follows:

<u>Year Ended December 31,</u>	<u>Various Autos and Golf Carts</u>
2014	164,938
2015	<u>89,117</u>
Total Minimum Lease Payments	254,055
Less: Amount Representing Interest Costs	<u>(7,100)</u>
Present Value of Minimum Lease Payments	<u>246,955</u>

Note Payable - Governmental Activities:

On March 18, 2013, the City entered into a loan agreement with Texas Bank and Trust in the amount of \$155,000 for the purchase of an ambulance. Payments are due annually in 3 payments of \$40,619 (includes principal and interest) beginning on March 1, 2014, and on the same day each year thereafter. A single final payment of the entire unpaid balance of principal and interest will be paid on March 1, 2017. The interest rate on the loan is fixed at 1.947%.

Long-Term Debt Note Payable:

<u>Year Ended December 31,</u>	<u>Governmental Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2014	37,742	2,877	40,619
2015	38,336	2,283	40,619
2016	39,078	1,541	40,619
2017	<u>39,844</u>	<u>776</u>	<u>40,620</u>
Total	<u><u>155,000</u></u>	<u><u>7,477</u></u>	<u><u>162,477</u></u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Bonds Payable:					
General Obligation Bonds	5,260,000	-	(250,000)	5,010,000	260,000
Certificate of Obligations and Revenue Bonds	3,420,000	-	(315,000)	3,105,000	330,000
Total Bonds Payable	<u>8,680,000</u>	<u>-</u>	<u>(565,000)</u>	<u>8,115,000</u>	<u>590,000</u>
Other Liabilities:					
Capital Leases Payable	468,172	-	(221,217)	246,955	159,482
Note Payable	-	155,000	-	155,000	37,742
Accrued Post Retirement Health Care and TMRS	976,879	31,313	-	1,008,192	-
Compensated Absences	2,401,165	41,920	-	2,443,085	-
Total Other Liabilities	<u>3,846,216</u>	<u>228,233</u>	<u>(221,217)</u>	<u>3,853,232</u>	<u>197,224</u>
Total Governmental Activities	<u>12,526,216</u>	<u>228,233</u>	<u>(786,217)</u>	<u>11,968,232</u>	<u>787,224</u>
<u>Business-Type Activities:</u>					
Revenue Bonds Payable	17,481,060	-	(1,902,400)	15,578,660	1,915,000
Total Bonds Payable	<u>17,481,060</u>	<u>-</u>	<u>(1,902,400)</u>	<u>15,578,660</u>	<u>1,915,000</u>
Other Liabilities:					
Accrued Post Retirement Health Care and TMRS	232,518	18,930	-	251,448	-
Compensated Absences	295,990	11,587	-	307,577	-
Total Other Liabilities	<u>528,508</u>	<u>30,517</u>	<u>-</u>	<u>559,025</u>	<u>-</u>
Total Business-Type Activities	<u>18,009,568</u>	<u>30,517</u>	<u>(1,902,400)</u>	<u>16,137,685</u>	<u>1,915,000</u>
Total Government	<u>30,535,784</u>	<u>258,750</u>	<u>(2,688,617)</u>	<u>28,105,917</u>	<u>2,702,224</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Interfund balances at December 31, 2013, consisted of the following amounts:

Due to General Fund (Major Governmental Fund) From:	
Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	145,000
Controlled Substance Fund (Nonmajor Governmental Fund)	1
Total Due to General Fund	<u>145,001</u>
Due to Street Maintenance Fund (Nonmajor Governmental Fund) From:	
General Fund (Major Governmental Fund)	92,098
Total Due to Street Maintenance Fund	<u>92,098</u>

Interfund transfers for the year ended December 31, 2013, consisted of the following amounts:

Transfers to General Fund From (Major Governmental Fund):	
Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	176,688
Water and Sewer Fund (Major Enterprise Fund)	1,746,000
Total Transfers to General Fund (Major Governmental Fund)	<u>1,922,688</u>
Transfers to 2007 Capital Improvement Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	158,301
Total Transfers to 2007 Capital Improvement Fund	<u>158,301</u>
Transfers to Downtown Restrooms Project Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	24,750
Total Transfers to Downtown Restrooms Project Fund	<u>24,750</u>
Transfers to Equipment Replacement Funds (Internal Service Funds):	
Water and Sewer Fund (Major Enterprise Fund)	664,000
General Fund (Major Governmental Fund)	250,000
Total Transfers to Equipment Replacement Funds	<u>914,000</u>

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	<u>(136,397)</u>
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The deficit in the Motel Occupancy Tax Fund was due to a transfer made to the General Fund for \$176,688 in the current year to fund additional expenditures for Boogie Woogie and Wonderland of Lights. 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	<u>(14,449)</u>
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The deficit in the Stores Inventory Fund was due to expenses exceeding operating revenue for the current and/or prior years. Management will strive to generate more charges for services than operating expenses for this fund in the future.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 7: BUDGET RECONCILIATION OF FUND BALANCES:

The City does not legally adopt a budget for all special revenue. In the Combining Budgetary Comparison Schedules for Budgeted Special Revenue Funds, only the budgeted special revenue 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, 2013</u>
<u>Budgeted Special Revenue Funds:</u>	
Motel Occupancy Tax Fund	(136,397)
Street Maintenance Fund	38,020
Litter Control Fund	-
D.A.R.E. Donations Fund	43,235
Total	<u>(55,142)</u>
<u>Non-budgeted Special Revenue Funds:</u>	
Controlled Substance Fund	137,780
Art Center Projects Fund	3,116
Muni Court Tech Fund	14,407
Library Grants Fund	-
Park Trails Fund	4,533
Disaster Relief Fund	2,646
Police Special Projects Fund	293,205
State Grant Fund	145
Main Street Fund	6,062
Total	<u>461,894</u>
All Special Revenue Funds	<u><u>406,752</u></u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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.

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>2013 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, 2013

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. The City's contribution rate for 2013 was 17.63%. 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, 2013 valuation is effective for rates beginning January 2014.) The annual pension cost and net pension obligation as of December 2013 are as follows:

	<u>12/31/13</u>
Annual Required Contribution (ARC)	1,413,826
Interest on Net Pension Obligation	67,511
Adjustment to the ARC	<u>(59,314)</u>
Annual Pension Cost (APC)	1,422,023
Contributions Made	<u>(1,413,826)</u>
Increase (Decrease) in Net Pension Obligation	8,197
Net Pension Obligation/(Asset), Beginning of Year	<u>964,447</u>
Net Pension Obligation/(Asset), End of Year	<u>972,644</u>

The City's contributions were based on an annual covered payroll of \$8,019,435. There were no related-party transactions.

Trend Information for Annual Pension Cost:

Information for the last three years is as follows:

<u>Dec. 31</u>	<u>Cost (APC)</u>	<u>Made</u>	<u>Contributed</u>	<u>Obligation</u>
2011	1,867,615	1,628,645	87%	935,491
2012	1,627,310	1,598,354	98%	964,447
2013	1,422,023	1,413,826	99%	972,644

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 8: PENSION PLANS: (Continued)

Actuarial Method and Assumptions:

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

<u>Valuation Date</u>	<u>12/31/10</u>	<u>12/31/11</u> <u>Restructured</u>	<u>12/31/12</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	27.2 Years; Closed Period	26.2 Years; Closed Period	25.2 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 #	7.00%	7.00%	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%	1.5%	1.5%

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>
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%
2012	39,251,848	46,714,829	84%	7,462,981	7,904,838	94%

* Actuarial valuation performed under the original fund structure.

** Actuarial valuation performed under the new fund structure.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 8: PENSION PLANS: (Continued)

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.

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>
2011	0.07%	0.07%	100%
2012	0.07%	0.07%	100%
2013	0.07%	0.07%	100%

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 8: PENSION PLANS: (Continued)

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, 2013, was \$2,503,863. 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 19.05% 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, 2013 was \$7,859,847, 122% of the book value as of December 31, 2013.

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>
Unfunded Actuarial Accrued Liability	<u><u>8,832,086</u></u>

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 2013 totaling \$821,044 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 \$692 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.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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 \$692 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.

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:

<u>Category</u>	<u>Liability (Actuarial Present Value)</u>			<u>Annual Cost</u>			<u>12/31/2013 Funding %</u>
	<u>Past Service</u>	<u>Future</u>	<u>Total</u>	<u>Past Service</u>	<u>Future (Normal Cost)</u>	<u>Total</u>	
Active	473,963	461,892	935,855	28,514	28,769	57,283	
Retirees	523,628	-	523,628	31,502	-	31,502	
Total	997,591	461,892	1,459,483	60,016	28,769	88,785	0%

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

(1) Normal Cost for 2013	28,769
(2) Accrued Actuarial Liability	997,591
(3) Beginning Assets	-
(4) Unfunded Accrued Liability (UAL)	997,591
(5) Net OPEB Obligation as of 1/1/13	244,950
(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)	83,938
(12) Employer Pay-As-You-Go Cost	41,892
(13) Employer Contributions to Trust (Prefunding)	-
(14) Total Employer Contributions (12 + 13)	41,892
(15) Change in Net OPEB Obligation/(Asset) During Year (11 - 14)	42,046
(16) Net OPEB Obligation (Asset) as of 12/31/13 (5 + 15)	286,996

Trend Information for Annual OPEB Cost:

<u>Year</u> <u>Ended</u> <u>Dec. 31</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percent of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligations</u>
2010	160,276	-	306,349
2011	160,276	-	240,384
2012	83,938	-	244,950
2013	83,938	-	286,996

Schedule of Funding Progress:

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>AAL</u>	<u>Funded</u> <u>Ratio</u>	<u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>UAAL</u> <u>as a %</u> <u>of Covered</u> <u>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%

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

NOTE 12: SOLID WASTE COLLECTION CONTRACT:

The City has contracted for solid waste collection with a third party. The contract was initially for a five year period and is automatically extended for successive additional five year terms unless either party notifies the other party within sixty days of the expiration of any five year period of its intention to terminate the contract. Under the terms of the agreement the City bills customers and collects payments and retains a percentage of the charges. On July 26, 2012, this contract was amended for a fixed period from October 1, 2012, and ending December 31, 2013.

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, 2013, 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.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 17: SUBSEQUENT EVENTS:

The City has evaluated subsequent events through September 18, 2014, 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.

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, 2013, the carrying amount of MEDCO's deposits (including \$400 petty cash) was \$263,323, and the respective bank balance was \$268,648. MEDCO's cash deposits at December 31, 2013, were entirely covered by FDIC insurance and pledged securities.

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, 2013, MEDCO was not exposed to custodial credit risk. MEDCO only had investments in TexPool, a state investment pool, which is not subject to custodial credit risk.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

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

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

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

MEDCO's investments as of December 31, 2013 are:

	<u>Rating</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Public Funds Investment Pools (TexPool)	AAA-m (S&P)	<u>3,691,436</u>	<u>3,691,436</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

At December 31, 2013, 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.

Receivables:

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

	<u>Business Development Center</u>	<u>Center For Applied Technology</u>	<u>Total</u>
Receivables:			
Accounts	<u>14,862</u>	<u>19,949</u>	<u>34,811</u>
Gross	<u>14,862</u>	<u>19,949</u>	<u>34,811</u>
Receivables Less:			
Allowance for Uncollectibles	<u>(6,249)</u>	<u>(6,807)</u>	<u>(13,056)</u>
Net Total Receivables	<u>8,613</u>	<u>13,142</u>	<u>21,755</u>

Due From Other Governments:

The City is required to contribute to MEDCO, \$.00375 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, 2013, the amount due to MEDCO from the City for its portion of sales tax revenue was \$281,634, 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, 2013

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

Capital asset activity for the year ended December 31, 2013, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2013</u>
Capital Assets Not Being Depreciated:				
Land	4,172,407	63,313	-	4,235,720
Construction In Progress	<u>2,502,072</u>	<u>43,711</u>	<u>-</u>	<u>2,545,783</u>
Total Capital Assets Not Being Depreciated	<u>6,674,479</u>	<u>107,024</u>	<u>-</u>	<u>6,781,503</u>
Capital Assets Being Depreciated:				
Buildings	949,629	-	-	949,629
Improvements	260,910	32,683	-	293,593
Machinery, Tools, and Equipment	<u>135,574</u>	<u>12,644</u>	<u>-</u>	<u>148,218</u>
Total Capital Assets Being Depreciated	<u>1,346,113</u>	<u>45,327</u>	<u>-</u>	<u>1,391,440</u>
Less Accumulated Depreciation For:				
Buildings	109,478	23,741	-	133,219
Improvements	132,137	16,693	-	148,830
Machinery, Tools, and Equipment	<u>138,030</u>	<u>2,904</u>	<u>-</u>	<u>140,934</u>
Total Accumulated Depreciation	<u>379,645</u>	<u>43,338</u>	<u>-</u>	<u>422,983</u>
Total Capital Assets, Being Depreciated, Net	<u>966,468</u>	<u>1,989</u>	<u>-</u>	<u>968,457</u>
Component Unit Activities Capital Assets, Net	<u><u>7,640,947</u></u>	<u><u>109,013</u></u>	<u><u>-</u></u>	<u><u>7,749,960</u></u>

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 2013 was \$39,609 and principal paid totaled \$93,084 to leave the balance owed of \$641,552 at December 31, 2013. Current requirements for principal and interest expenditures are accounted for in the General Fund.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Debt service requirements are as follows:

Year Ended December 31,	Governmental Activities		Total Requirements
	Principal	Interest	
2014	72,503	27,017	99,520
2015	101,585	31,107	132,692
2016	107,565	25,127	132,692
2017	114,048	18,644	132,692
2018	120,844	11,848	132,692
2019	125,007	4,648	129,655
Total	641,552	118,391	759,943

Long-term activity for the year ended December 31, 2013, was as follows:

Component Unit Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other Liabilities:					
Notes Payable	734,636	-	(93,084)	641,552	72,503
Total Other Liabilities	<u>734,636</u>	<u>-</u>	<u>(93,084)</u>	<u>641,552</u>	<u>72,503</u>
Total Governmental Activities					
Long-Term Liabilities	<u>734,636</u>	<u>-</u>	<u>(93,084)</u>	<u>641,552</u>	<u>72,503</u>

Pension Plan:

Texas Municipal Retirement System:

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

Subsequent Events:

On May 22, 2014, MEDCO entered into a loan agreement for \$6,540,000 with Texas Bank & Trust. The interest rate of the loan is 3.25% and the payment terms are: accrued interest shall be payable monthly starting June 1, 2014, and continuing each month until and including December 31, 2014. Principal and interest shall be payable in monthly installments of \$46,100 including interest, starting February 1, 2015, and continuing each month until the entire principal balance is due on January 1, 2025. The entire unpaid interest and principal shall be due and payable in full with a balloon payment on January 1, 2025, the scheduled maturity date. The purposes of the loan are to provide funds to pay for a project relating to a Performance Agreement and lease between MEDCO and Rio Ammunition, Inc. to the extent of \$5,900,000 and to the extent of \$640,000 the loan represents a refinance and renewal of an existing loan. MEDCO pledges and grants a security interest and a first lien on pledged revenues (sales tax).

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013, the carrying amount of MDDC's deposits was \$13,438 and the respective bank balances were \$13,438. 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, 2013, were entirely covered by FDIC insurance.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Capital Assets:

Capital asset activity for the year ended December 31, 2013, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2013</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	2,008	1,005	-	3,013
Total Accumulated Depreciation	<u>2,008</u>	<u>1,005</u>	<u>-</u>	<u>3,013</u>
Total Capital Assets Being Depreciated, Net	<u>48,209</u>	<u>(1,005)</u>	<u>-</u>	<u>47,204</u>
Component Unit Activities Capital Assets, Net	<u>48,209</u>	<u>(1,005)</u>	<u>-</u>	<u>47,204</u>

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

Deposits and Investments:

At December 31, 2013, the carrying amount of MCVB's deposits was \$47,654 and the respective bank balances were \$80,558. 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, 2013, 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, 2013, the balance owed for Hotel/Motel Occupancy Tax collections to MCVB was \$71,225.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Capital Assets:

Capital asset activity for the year ended December 31, 2013, was as follows:

<u>Component Unit Activities:</u>	<u>December 31,</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2013</u>
Capital Assets Not Being Depreciated:				
Construction in Progress	18,651	-	(18,651)	-
Total Capital Assets Not Being Depreciated	<u>18,651</u>	<u>-</u>	<u>(18,651)</u>	<u>-</u>
Capital Assets Being Depreciated:				
Building	101,681	-	-	101,681
Christmas Lights	46,427	-	-	46,427
Other Christmas Attractions	40,026	18,651	-	58,677
Total Capital Assets Being Depreciated	<u>188,134</u>	<u>18,651</u>	<u>-</u>	<u>206,785</u>
Less Accumulated Depreciation For:				
Building	10,168	10,168	-	20,336
Lights	9,285	9,285	-	18,570
Attractions	5,718	5,718	-	11,436
Total Accumulated Depreciation	<u>25,171</u>	<u>25,171</u>	<u>-</u>	<u>50,342</u>
Total Capital Assets Being Depreciated, Net	<u>162,963</u>	<u>(6,520)</u>	<u>-</u>	<u>156,443</u>
Component Unit Activities Capital Assets, Net	<u>181,614</u>	<u>(6,520)</u>	<u>(18,651)</u>	<u>156,443</u>

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. In January 2013, MCVB entered into an unsecured loan with Texas Bank and Trust Company for the balance of the line of credit which was \$39,998. Payments are due monthly at \$2,000 (includes principal and interest) for twenty months at a fixed interest rate of 4.25%. Interest paid on the note for 2013 was \$1,166 and principal paid was \$20,834 to leave the balance owed of \$19,164.

On September 21, 2012, MCVB executed a note with Citizens National Bank (CNB) 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 2013 was \$1,426 and principal paid totaled \$12,201 to leave the balance owed of \$22,835 at December 31, 2013.

On January 29, 2013, MCVB executed a note with Citizens National Bank (CNB) in the amount of \$40,000 to fund the purchase of additional Christmas decorations for the Wonderland of Lights. Payments are due monthly at \$1,196 (includes principal and interest) for three years at a fixed rate of interest of 4.75%. Interest paid on the note for 2013 was \$1,565 and principal paid totaled \$11,592 to leave the balance owed of \$28,408 at December 31, 2013.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

Debt service requirements on all loans 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>
2014	45,307	2,253	47,560
2015	23,909	624	24,533
2016	1,191	5	1,196
Total	<u>70,407</u>	<u>2,882</u>	<u>73,289</u>

Long-term activity for the year ended December 31, 2013 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:					
Note Payable - TB&T	39,998	-	(20,834)	19,164	19,164
Notes Payable - CNB	35,036	40,000	(23,793)	51,243	26,143
Total Other Liabilities:	<u>75,034</u>	<u>40,000</u>	<u>(44,627)</u>	<u>70,407</u>	<u>45,307</u>
Total Governmental Activities					
Long-Term Liabilities	<u>75,034</u>	<u>40,000</u>	<u>(44,627)</u>	<u>70,407</u>	<u>45,307</u>

Subsequent Events:

On August 19, 2014, MCVB's board approved the sale of all Christmas inflatables and buildings that MCVB had acquired for the Wonderland of Lights for \$60,000. The proceeds are to be used to pay off the loans to the banks.

Combining and Individual Fund Financial Statements

CITY OF MARSHALL, TEXAS

Exhibit F-1

GENERAL FUND BALANCE SHEET DECEMBER 31, 2013

		<u>General Fund</u>
ASSETS		
Cash and Temporary Investments		1,791,019
Certificates of Deposit		3,316,789
Receivables (Net of Allowance for Uncollectible)		
Current Taxes	2,019,063	
Delinquent Taxes	578,814	
Customer:		
Sanitation	213,388	
Ambulance	<u>861,512</u>	1,074,900
Franchise Taxes		258,718
Other		224,908
Accrued Interest		<u>2,802</u>
Total Receivables		4,159,205
Prepaid Expenditures		203,570
Due from Other Funds		145,001
Due from Other Governments		<u>1,559,154</u>
TOTAL ASSETS		<u><u>11,174,738</u></u>
 <u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</u>		
Liabilities		
Accounts Payable		1,037,532
Accrued Liabilities		254,148
Due to Other Funds		92,098
Unearned Revenues		<u>805,586</u>
Total Liabilities		<u>2,189,364</u>
 Deferred Inflows of Resources		
Unavailable Revenue-Property Taxes		<u>2,572,431</u>
Total Inflows of Resources		<u>2,572,431</u>
 Fund Balances:		
Nonspendable:		
Prepaid Expenditures		203,570
Restricted:		
Other Post-Employment Benefits		73,458
Unassigned		<u>6,135,915</u>
Total Fund Balance		<u>6,412,943</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE		<u><u>11,174,738</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, 2013**

		<i>General Fund</i>
		<hr/>
<u>REVENUE:</u>		
Ad Valorem Taxes		3,994,144
Sales Taxes		5,984,971
Franchise Tax		1,049,727
Permits and Fees:		
Refuse Collections	2,196,678	
Ambulance Fees	1,097,597	
Other Fees and Permits	691,767	
Total Permits and Fees		3,986,042
Municipal Court Fines		569,524
Interest		25,821
Intergovernmental		235,886
Miscellaneous		65,424
		<hr/>
Total Revenue		15,911,539
<u>EXPENDITURES:</u>		
Current:		
General Government:		
Legislative	19,001	
Municipal Court	241,723	
Legal	108,269	
Administrative	198,824	
Information Technology	170,004	
City Secretary	80,498	
Buildings and Risk Management	705,654	
Human Resources	95,115	
Code Enforcement	88,863	
Main Street and Visual Arts Center	154,251	
Total General Government		1,862,202
Tourism and Convention Center		277,558
Finance		198,596
Public Safety:		
Emergency Management	6,023	
Police Department	4,124,232	
Fire Department	3,703,354	
Total Public Safety		7,833,609
Public Works		2,676,979
Inspections		297,137
Purchasing		3,143
Library		443,043
Non-Departmental		1,837,620
Tax Collection		91,545
Parks and Recreation		884,250
Debt Service		232,622
Capital Outlay		1,209,917
		<hr/>
Total Expenditures		17,848,221

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, 2013**

*General
Fund*

CONTINUED:

Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources	<u>(1,936,682)</u>
Other Financing Sources	
Transfers In	1,922,688
Transfers (Out)	(433,051)
Loan Proceeds	155,000
Total Other Financing Sources	<u>1,644,637</u>
Net Change in Fund Balance	(292,045)
Fund Balance at Beginning of Year	<u>6,704,988</u>
Fund Balance at End of Year	<u><u>6,412,943</u></u>

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2013

	<i>Special Revenue</i>													
	<i>Motel Occupancy Tax Fund</i>	<i>Community Development Fund</i>	<i>Municipal Court Tech Fund</i>	<i>Street Maintenance Fund</i>	<i>Library Grants Fund</i>	<i>Litter Control Fund</i>	<i>D.A.R.E. Donations Fund</i>	<i>Controlled Substance Fund</i>	<i>Art Center Projects Fund</i>	<i>Park Trails Fund</i>	<i>Police Special Projects Fund</i>	<i>Disaster Relief Fund</i>	<i>Main Street Fund</i>	<i>State Grant Fund</i>
ASSETS														
Cash and Temporary Investments	14,217	(172,461)	14,557	(54,078)	-	4,250	43,235	113,052	3,116	4,533	293,205	2,646	6,765	145
Certificates of Deposit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Current Taxes	82,873	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Delinquent Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	1,500	-
Accrued Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	92,098	-	-	-	-	-	-	-	-	-	-
Due from Other Governments	-	333,793	-	-	-	-	-	25,598	-	-	-	-	-	-
TOTAL ASSETS	97,090	161,332	14,557	38,020	-	4,250	43,235	138,650	3,116	4,533	293,205	2,646	8,265	145
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES														
Liabilities														
Accounts Payable	88,425	161,332	150	-	-	4,250	-	869	-	-	-	-	2,203	-
Due to Other Funds	145,000	-	-	-	-	-	-	1	-	-	-	-	-	-
Unearned Revenues	62	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	233,487	161,332	150	-	-	4,250	-	870	-	-	-	-	2,203	-
Deferred Inflows of Resources														
Unavailable Revenue-Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Inflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Balances (Deficit)														
Restricted:														
Promotion and Tourism	-	-	-	-	-	-	-	-	-	-	-	-	6,062	-
Law Enforcement	-	-	14,407	-	-	-	43,235	137,780	-	-	293,205	-	-	-
Street Maintenance	-	-	-	38,020	-	-	-	-	-	-	-	-	-	-
Purpose of Grantors and Donors	-	-	-	-	-	-	-	-	3,116	4,533	-	2,646	-	145
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned (Deficit)	(136,397)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances (Deficit)	(136,397)	-	14,407	38,020	-	-	43,235	137,780	3,116	4,533	293,205	2,646	6,062	145
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	97,090	161,332	14,557	38,020	-	4,250	43,235	138,650	3,116	4,533	293,205	2,646	8,265	145

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2013

	<i>Debt Service</i>	<i>Capital Projects</i>				<i>Permanent</i>	<i>Total Nonmajor Governmental Funds</i>	
	<i>2001, 2007, & 2010 Debt Service Funds</i>	<i>1995 Capital Imp. Fund</i>	<i>2007 Capital Imp. Fund</i>	<i>2010 Utility Conserv. Fund</i>	<i>2010 Memorial City Hall Fund</i>	<i>Downtown Restrooms Project Fund</i>		<i>Library Fund</i>
<u>CONTINUED:</u>								
ASSETS								
Cash and Temporary Investments	593,065	13,957	371,652	24,548	68,187	-	254,299	1,598,890
Certificates of Deposit	-	-	-	-	1,530,494	-	30,089	1,560,583
Receivable- Current Taxes	365,285	-	-	-	-	-	-	448,158
Receivable- Delinquent Taxes	104,719	-	-	-	-	-	-	104,719
Other Receivables	-	-	-	-	-	-	-	1,500
Accrued Interest	-	-	-	-	84	-	35	119
Due from Other Funds	-	-	-	-	-	-	-	92,098
Due from Other Governments	-	-	-	-	-	-	-	359,391
TOTAL ASSETS	1,063,069	13,957	371,652	24,548	1,598,765	-	284,423	4,165,458
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES								
Liabilities								
Accounts Payable	-	-	139,930	-	-	-	5,478	402,637
Due to Other Funds	-	-	-	-	-	-	-	145,001
Unearned Revenues	-	-	-	-	-	-	-	62
Total Liabilities	-	-	139,930	-	-	-	5,478	547,700
Deferred Inflows of Resources								
Unavailable Revenue-Property Taxes	465,878	-	-	-	-	-	-	465,878
Total Inflows of Resources	465,878	-	-	-	-	-	-	465,878
Fund Balances (Deficit)								
Restricted:								
Promotion and Tourism	-	-	-	-	-	-	-	6,062
Law Enforcement	-	-	-	-	-	-	-	488,627
Street Maintenance	-	-	-	-	-	-	-	38,020
Purpose of Grantors and Donors	-	-	-	-	-	-	-	10,440
Debt Service	597,191	-	-	-	-	-	-	597,191
Library	-	-	-	-	-	-	278,945	278,945
Capital Projects	-	13,957	231,722	24,548	1,598,765	-	-	1,868,992
Unassigned (Deficit)	-	-	-	-	-	-	-	(136,397)
Total Fund Balances (Deficit)	597,191	13,957	231,722	24,548	1,598,765	-	278,945	3,151,880
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	1,063,069	13,957	371,652	24,548	1,598,765	-	284,423	4,165,458

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2013

	<i>Special Revenue</i>													
	<i>Motel Occupancy Tax Fund</i>	<i>Community Development Fund</i>	<i>Municipal Court Tech Fund</i>	<i>Street Maintenance Fund</i>	<i>Library Grants Fund</i>	<i>Litter Control Fund</i>	<i>D.A.R.E. Donations Fund</i>	<i>Controlled Substance Fund</i>	<i>Art Center Projects Fund</i>	<i>Park Trails Fund</i>	<i>Police Special Projects Fund</i>	<i>Disaster Relief Fund</i>	<i>Main Street Fund</i>	<i>State Grant Fund</i>
REVENUE:														
Ad Valorem Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales Taxes	-	-	-	496,540	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	1,040,338	-	-	-	-	-	12,249	-	-	-	2	-	-
Motel Occupancy Tax	733,212	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Court Fines	-	-	13,210	-	-	-	-	-	-	-	-	-	-	-
Interest	7	-	-	57	-	-	14	75	-	-	-	-	-	-
Donations	-	-	-	-	-	7,082	6,527	2,889	100	1,160	-	-	18,498	-
Miscellaneous	330	-	-	-	-	58,593	100	22,559	-	1,344	235,873	-	13,462	-
Total Revenue	733,549	1,040,338	13,210	496,597	-	65,675	6,641	37,772	100	2,504	235,873	2	31,960	-
EXPENDITURES:														
Current:														
General Government	-	357,161	12,209	-	-	-	-	-	2,250	2,725	-	-	-	-
Public Safety	-	-	-	-	-	-	4,291	18,087	-	-	426	-	-	-
Public Works	-	-	-	-	-	65,675	-	-	-	-	-	-	-	-
Tourist and Convention	543,253	-	-	-	-	-	-	-	-	-	-	-	29,372	-
Code Enforcement	-	40,535	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	3	-	-	-	-	-	-	-	-	-
Debt Service- Principal Retirement	125,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service- Interest and Fees	14,692	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	642,642	-	458,577	-	-	-	10,008	-	-	-	-	-	-
Total Expenditures	682,945	1,040,338	12,209	458,577	3	65,675	4,291	28,095	2,250	2,725	426	-	29,372	-
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	50,604	-	1,001	38,020	(3)	-	2,350	9,677	(2,150)	(221)	235,447	2	2,588	-
Other Financing Sources (Uses)														
Transfers In	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	(176,688)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	(176,688)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Fund Balances	(126,084)	-	1,001	38,020	(3)	-	2,350	9,677	(2,150)	(221)	235,447	2	2,588	-
Fund Balances (Deficit) at Beginning of Year	(10,313)	-	13,406	-	3	-	40,885	128,103	5,266	4,754	57,758	2,644	3,474	145
Fund Balances (Deficit) at End of Year	(136,397)	-	14,407	38,020	-	-	43,235	137,780	3,116	4,533	293,205	2,646	6,062	145

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2013

	<i>Debt Service</i>	<i>Capital Projects</i>					<i>Permanent</i>	<i>Total Nonmajor Governmental Funds</i>
	<i>2001, 2007, & 2010 Debt Service Funds</i>	<i>1995 Capital Imp. Fund</i>	<i>2007 Capital Imp. Fund</i>	<i>2010 Utility Conserv. Fund</i>	<i>2010 Memorial City Hall Fund</i>	<i>Downtown Restrooms Project Fund</i>	<i>Library Fund</i>	
<u>CONTINUED:</u>								
REVENUE:								
Ad Valorem Taxes	749,677	-	-	-	-	-	-	749,677
Sales Taxes	-	-	-	-	-	-	-	496,540
Intergovernmental	-	-	-	-	-	-	-	1,052,589
Motel Occupancy Tax	-	-	-	-	-	-	-	733,212
Municipal Court Fines	-	-	-	-	-	-	-	13,210
Interest	441	-	106	-	5,947	-	179	6,826
Donations	-	-	-	-	-	-	4,256	40,512
Miscellaneous	-	-	-	-	-	-	8,459	340,720
Total Revenue	750,118	-	106	-	5,947	-	12,894	3,433,286
EXPENDITURES:								
Current:								
General Government	-	-	499	-	933	-	-	375,777
Public Safety	-	-	-	-	-	-	-	22,804
Public Works	-	-	-	-	-	-	-	65,675
Tourist and Convention	-	-	-	-	-	24,750	-	597,375
Code Enforcement	-	-	-	-	-	-	-	40,535
Library	-	-	-	-	-	-	23,423	23,426
Debt Service- Principal Retirement	440,000	-	-	-	-	-	-	565,000
Debt Service- Interest and Fees	301,715	-	-	-	-	-	-	316,407
Capital Outlay	-	-	90,270	-	-	-	-	1,201,497
Total Expenditures	741,715	-	90,769	-	933	24,750	23,423	3,208,496
Excess (Deficiency) of Revenue Over Expenditures								
Before Other Financing Sources (Uses)	8,403	-	(90,663)	-	5,014	(24,750)	(10,529)	224,790
Other Financing Sources (Uses)								
Transfers In	-	-	158,301	-	-	24,750	-	183,051
Transfers Out	-	-	-	-	-	-	-	(176,688)
Total Other Financing Sources (Uses)	-	-	158,301	-	-	24,750	-	6,363
Net Change in Fund Balances	8,403	-	67,638	-	5,014	-	(10,529)	231,153
Fund Balances (Deficit) at Beginning of Year	588,788	13,957	164,084	24,548	1,593,751	-	289,474	2,920,727
Fund Balances (Deficit) at End of Year	597,191	13,957	231,722	24,548	1,598,765	-	278,945	3,151,880

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, 2013

	<i>Motel Occupancy Tax Fund</i>				<i>Street Maintenance 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>		
REVENUE:								
Motel Occupancy Tax	680,000	680,000	733,212	53,212	-	-	-	-
Sales Taxes	-	-	-	-	463,750	463,750	496,540	32,790
Interest	-	-	7	7	-	-	57	57
Donations	-	-	-	-	-	-	-	-
Miscellaneous	-	-	330	330	-	-	-	-
Total Revenue	680,000	680,000	733,549	53,549	463,750	463,750	496,597	32,847
EXPENDITURES:								
Current:								
Public Safety	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	-	-	-	-
Tourist and Convention	363,620	508,620	543,253	(34,633)	-	-	-	-
Debt Service- Principal Retirement	125,000	125,000	125,000	-	-	-	-	-
Debt Service- Interest and Fees	14,692	14,692	14,692	-	-	-	-	-
Capital Outlay	-	-	-	-	425,000	425,000	458,577	(33,577)
Total Expenditures	503,312	648,312	682,945	(34,633)	425,000	425,000	458,577	(33,577)
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	176,688	31,688	50,604	18,916	38,750	38,750	38,020	(730)
Other Financing Sources (Uses)								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(176,688)	(176,688)	(176,688)	-	-	-	-	-
Total Other Financing Sources (Uses)	(176,688)	(176,688)	(176,688)	-	-	-	-	-
Net Change in Fund Balances	-	(145,000)	(126,084)	18,916	38,750	38,750	38,020	(730)
Fund Balances (Deficit), Beginning of Year	(10,313)	(10,313)	(10,313)	-	-	-	-	-
Fund Balances (Deficit), End of Year	(10,313)	(155,313)	(136,397)	18,916	38,750	38,750	38,020	(730)

<i>Litter Control Fund</i>				<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>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>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>Basis</i>	<i>Variance with</i>
			<i>Final Budget</i>				<i>Final Budget</i>				<i>Final Budget</i>
-	-	-	-	-	-	-	-	680,000	680,000	733,212	53,212
-	-	-	-	-	-	-	-	463,750	463,750	496,540	32,790
-	-	-	-	-	-	14	14	-	-	78	78
7,700	7,700	7,082	(618)	4,000	4,000	6,527	2,527	11,700	11,700	13,609	1,909
57,900	57,900	58,593	693	7,000	7,000	100	(6,900)	64,900	64,900	59,023	(5,877)
<u>65,600</u>	<u>65,600</u>	<u>65,675</u>	<u>75</u>	<u>11,000</u>	<u>11,000</u>	<u>6,641</u>	<u>(4,359)</u>	<u>1,220,350</u>	<u>1,220,350</u>	<u>1,302,462</u>	<u>82,112</u>
-	-	-	-	11,000	11,000	4,291	6,709	11,000	11,000	4,291	6,709
65,600	65,600	65,675	(75)	-	-	-	-	65,600	65,600	65,675	(75)
-	-	-	-	-	-	-	-	363,620	508,620	543,253	(34,633)
-	-	-	-	-	-	-	-	125,000	125,000	125,000	-
-	-	-	-	-	-	-	-	14,692	14,692	14,692	-
-	-	-	-	-	-	-	-	425,000	425,000	458,577	(33,577)
<u>65,600</u>	<u>65,600</u>	<u>65,675</u>	<u>(75)</u>	<u>11,000</u>	<u>11,000</u>	<u>4,291</u>	<u>6,709</u>	<u>1,004,912</u>	<u>1,149,912</u>	<u>1,211,488</u>	<u>(61,576)</u>
-	-	-	-	-	-	2,350	2,350	215,438	70,438	90,974	20,536
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(176,688)	(176,688)	(176,688)	-
-	-	-	-	-	-	-	-	(176,688)	(176,688)	(176,688)	-
-	-	-	-	-	-	2,350	2,350	38,750	(106,250)	(85,714)	20,536
-	-	-	-	40,885	40,885	40,885	-	30,572	30,572	30,572	-
-	-	-	-	40,885	40,885	43,235	2,350	69,322	(75,678)	(55,142)	20,536

CITY OF MARSHALL, TEXAS

Exhibit F-6

**2001 COMBINATION TAX AND REVENUE, 2007 GENERAL
OBLIGATION, AND 2010 CERTIFICATE OF OBLIGATION DEBT
SERVICE FUNDS - STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<u>REVENUE:</u>				
Ad Valorem Taxes	736,787	736,787	749,677	12,890
Interest	500	500	441	(59)
Total Revenue	737,287	737,287	750,118	12,831
<u>EXPENDITURES:</u>				
Principal Retirement	440,000	440,000	440,000	-
Interest and Fees	296,996	296,996	301,715	(4,719)
Total Expenditures	736,996	736,996	741,715	(4,719)
Net Change in Fund Balance	291	291	8,403	8,112
Fund Balance, Beginning of Year	588,788	588,788	588,788	-
Fund Balance, End of Year	589,079	589,079	597,191	8,112

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, 2013**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<u>OPERATING REVENUE:</u>				
Charges for Services	10,074,000	10,074,000	9,828,342	(245,658)
Total Operating Revenue	10,074,000	10,074,000	9,828,342	(245,658)
<u>OPERATING EXPENSES:</u>				
Administrative	289,506	289,506	287,997	1,509
Water Production	1,436,429	1,436,429	1,385,284	51,145
Water Distribution/ Collection	1,098,915	1,098,915	1,171,686	(72,771)
Wastewater Treatment	1,222,034	1,222,034	1,202,114	19,920
Water Billing	498,639	498,639	488,022	10,617
Engineering	158,096	158,096	109,672	48,424
Non-Departmental	856,933	881,433	848,049	33,384
Depreciation	-	-	1,545,183	(1,545,183)
Bad Debt Expense	-	-	30,317	(30,317)
Total Operating Expenses	5,560,552	5,585,052	7,068,324	(1,483,272)
Operating Income (Loss)	4,513,448	4,488,948	2,760,018	(1,728,930)
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Interest Income	3,000	3,000	6,313	3,313
Intergovernmental Revenue	-	-	118,617	118,617
Interest Expense and Fees	(622,853)	(622,853)	(622,853)	-
Other Nonoperating Income	7,000	7,000	19,520	12,520
Total Nonoperating Revenues (Expenses)	(612,853)	(612,853)	(478,403)	134,450
Income (Loss) Before Transfers	3,900,595	3,876,095	2,281,615	(1,594,480)
Transfers (Out)	(1,802,000)	(2,402,000)	(2,410,000)	(8,000)
Change in Net Position	2,098,595	1,474,095	(128,385)	(1,602,480)
<u>ADDITIONAL BUDGETED AMOUNTS:</u>				
Capital Outlay	240,000	240,000	549,971	(309,971)
Principal Retirement	1,857,871	1,857,871	1,855,000	2,871
	2,097,871	2,097,871	2,404,971	(307,100)

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

CITY OF MARSHALL, TEXAS

Exhibit H-1

**INTERNAL SERVICE FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<i>Equipment Replacement Fund - W&S</i>	<i>Equipment Replacement Fund - GF</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<u>ASSETS</u>				
<i>Current Assets:</i>				
Cash and Temporary Investments	628,341	211,566	(48,979)	790,928
Accounts Receivable	-	-	35,600	35,600
Inventory	-	-	15,535	15,535
Total Current Assets	<u>628,341</u>	<u>211,566</u>	<u>2,156</u>	<u>842,063</u>
<i>Noncurrent Assets:</i>				
Capital Assets:				
Buildings	-	-	122,596	122,596
Machinery and Equipment	35,659	38,434	20,660	94,753
Less: Accumulated Depreciation	<u>(3,090)</u>	<u>(325)</u>	<u>(143,256)</u>	<u>(146,671)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>32,569</u>	<u>38,109</u>	<u>-</u>	<u>70,678</u>
Total Noncurrent Assets	<u>32,569</u>	<u>38,109</u>	<u>-</u>	<u>70,678</u>
TOTAL ASSETS	<u>660,910</u>	<u>249,675</u>	<u>2,156</u>	<u>912,741</u>
<u>LIABILITIES</u>				
<i>Current Liabilities:</i>				
Accounts Payable	-	-	16,605	16,605
TOTAL CURRENT LIABILITIES	<u>-</u>	<u>-</u>	<u>16,605</u>	<u>16,605</u>
<u>NET POSITION (DEFICIT)</u>				
Invested in Capital Assets, Net of Related Debt	32,569	38,109	-	70,678
Unrestricted (Deficit)	<u>628,341</u>	<u>211,566</u>	<u>(14,449)</u>	<u>825,458</u>
TOTAL NET POSITION (DEFICIT)	<u>660,910</u>	<u>249,675</u>	<u>(14,449)</u>	<u>896,136</u>

CITY OF MARSHALL, TEXAS

Exhibit H-2

**INTERNAL SERVICE FUNDS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<i>Equipment Replacement Fund - W&S</i>	<i>Equipment Replacement Fund - GF</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<u>OPERATING REVENUE:</u>				
Charges for Services	-	-	483,137	483,137
Total Operating Revenue	-	-	483,137	483,137
<u>OPERATING EXPENSES:</u>				
Materials and Supplies	-	-	486,961	486,961
Depreciation	3,090	325	-	3,415
Total Operating Expenses	3,090	325	486,961	490,376
Operating (Loss)	(3,090)	(325)	(3,824)	(7,239)
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Other Nonoperating Expenses	-	-	-	-
Total Nonoperating Revenue (Expenses)	-	-	-	-
Income (Loss) Before Transfers	(3,090)	(325)	(3,824)	(7,239)
Transfers In	664,000	250,000	-	914,000
Change in Net Position	660,910	249,675	(3,824)	906,761
Total Net Position (Deficit), Beginning of Year	-	-	(10,625)	(10,625)
Total Net Position (Deficit), End of Year	660,910	249,675	(14,449)	896,136

CITY OF MARSHALL, TEXAS

Exhibit H-3

**INTERNAL SERVICE FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<i>Equipment Replacement Fund - W&S</i>	<i>Equipment Replacement Fund - GF</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	-	-	482,694	482,694
Cash Payments to Suppliers for Goods and Services	-	-	(501,325)	(501,325)
Net Cash (Used) by Operating Activities	-	-	(18,631)	(18,631)
<u>Cash Flows from Noncapital Financing Activities:</u>				
Transfers In (Out)	664,000	250,000	-	914,000
Net Cash Provided by Noncapital Financing Activities	664,000	250,000	-	914,000
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition of Capital Assets	(35,659)	(38,434)	-	(74,093)
Net Cash (Used) by Capital and Related Financing Activities	(35,659)	(38,434)	-	(74,093)
Net Increase (Decrease) in Cash and Cash Equivalents	628,341	211,566	(18,631)	821,276
Cash and Cash Equivalents (Deficit), Beginning of Year	-	-	(30,348)	(30,348)
Cash and Cash Equivalents (Deficit), End of Year	628,341	211,566	(48,979)	790,928
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Operating (Loss)	(3,090)	(325)	(3,824)	(7,239)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Depreciation	3,090	325	-	3,415
(Increase) Decrease in Assets:				
Accounts Receivable	-	-	(442)	(442)
Inventory	-	-	5,502	5,502
Increase (Decrease) in Liabilities:				
Accounts Payable	-	-	(19,867)	(19,867)
Total Adjustments	3,090	325	(14,807)	(11,392)
Net Cash (Used) by Operating Activities	-	-	(18,631)	(18,631)

CITY OF MARSHALL, TEXAS

Exhibit I-1

**AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
DECEMBER 31, 2013**

	<i>Balance December 31, 2012</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance December 31, 2013</i>
<u>POLICE LOCAL RELIEF FUND:</u>				
<u>ASSETS</u>				
Cash and Temporary Investments	67,826	2,772	2,180	68,418
TOTAL ASSETS	<u>67,826</u>	<u>2,772</u>	<u>2,180</u>	<u>68,418</u>
<u>LIABILITIES</u>				
Due to Employees	67,826	2,772	2,180	68,418
TOTAL LIABILITIES	<u>67,826</u>	<u>2,772</u>	<u>2,180</u>	<u>68,418</u>
<u>FIREMEN'S EMERGENCY RELIEF FUND:</u>				
<u>ASSETS</u>				
Cash and Temporary Investments	46,995	10,962	6,419	51,538
TOTAL ASSETS	<u>46,995</u>	<u>10,962</u>	<u>6,419</u>	<u>51,538</u>
<u>LIABILITIES</u>				
Accounts Payable	-	1,587	-	1,587
Due to Employees	46,995	9,375	6,419	49,951
TOTAL LIABILITIES	<u>46,995</u>	<u>10,962</u>	<u>6,419</u>	<u>51,538</u>
<u>TOTAL AGENCY FUNDS:</u>				
<u>ASSETS</u>				
Cash and Temporary Investments	114,821	13,734	8,599	119,956
TOTAL ASSETS	<u>114,821</u>	<u>13,734</u>	<u>8,599</u>	<u>119,956</u>
<u>LIABILITIES</u>				
Accounts Payable	-	1,587	-	1,587
Due to Employees	114,821	12,147	8,599	118,369
TOTAL LIABILITIES	<u>114,821</u>	<u>13,734</u>	<u>8,599</u>	<u>119,956</u>

Supplemental Schedules

CITY OF MARSHALL, TEXAS

Exhibit SS-1

SCHEDULE OF GENERAL OBLIGATION DEBT DECEMBER 31, 2013

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2013</u>	<u>Issued 2013</u>	<u>Retired 2013</u>	<u>December 31, 2013</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	5,260,000	-	(250,000)	5,010,000	193,993	260,000
Tax and Surplus Revenue Refunding Bonds, Series 2010 July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	660,000	535,000	-	(125,000)	410,000	12,396	135,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010 January 28, 2010 Rate 2.75% - 4.5%	2010	1,140,000	1,000,000	-	(75,000)	925,000	28,206	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	1,885,000	-	(115,000)	1,770,000	58,737	120,000
TOTAL GENERAL OBLIGATION DEBT		10,130,000	8,680,000	-	(565,000)	8,115,000	293,332	590,000

CITY OF MARSHALL, TEXAS

Exhibit SS-2

SCHEDULE OF WATER AND SEWER REVENUE BONDS DECEMBER 31, 2013

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2013</u>	<u>Issued 2013</u>	<u>Retired 2013</u>	<u>Dec. 31, 2013</u>	<u>Requirements Calendar Year 2014</u>	
							<u>Interest</u>	<u>Principal</u>
Waterworks and Sewer System Revenue Bonds November 15, 2000 Rate 7.125%, 5.30%, 5.25%, 5.2%, 5.125%	2000	4,580,000	275,000	-	(275,000)	-	-	-
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	340,000	-	(340,000)	-	-	-
Water and Sewer Revenue Refunding Bonds December 1, 2006 Rate 4.25%, 5.50%, 4.00%	2006	9,235,000	8,915,000	-	(595,000)	8,320,000	378,688	910,000
Tax and Surplus Revenue Refunding Bonds July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	3,490,000	2,550,000	-	(485,000)	2,065,000	46,129	490,000
Tax and Surplus Revenue Refunding Bonds April 1, 2012 Rate 3.6%, 4.5%, 4.6%, 4.75%	2012	5,065,000	4,980,000	-	(160,000)	4,820,000	138,700	515,000
TOTAL WATER AND SEWER REVENUE BONDS		29,370,000	17,060,000	-	(1,855,000)	15,205,000	563,517	1,915,000

CITY OF MARSHALL, TEXAS

Exhibit SS-3

SCHEDULE OF DELINQUENT TAXES RECEIVABLE DECEMBER 31, 2013

<u>Year</u>	<u>Amount</u>
1993	1,940
1994	6,941
1995	7,489
1996	8,773
1997	9,145
1998	9,477
1999	10,567
2000	11,549
2001	14,199
2002	16,622
2003	19,309
2004	25,483
2005	28,471
2006	34,626
2007	39,406
2008	49,937
2009	61,690
2010	83,686
2011	111,637
2012	<u>168,561</u>
Total Delinquent Taxes Receivable	719,508
Less: Allowance for Uncollectibles	<u>(35,975)</u>
NET DELINQUENT TAXES RECEIVABLE	<u><u>683,533</u></u>

CITY OF MARSHALL, TEXAS

Exhibit SS-4

COMPARISON OF ASSESSED VALUATIONS FROM 1984 THROUGH 2013

<u>Tax Levy Year</u>	<u>Tax Rate</u>	<u>Assessed Value</u>
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
2013	.47604	1,049,190,644

FEDERAL AWARDS SECTION

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Honorable City Commission
Marshall, Texas

Report on Compliance for Each Major Federal Program

We have audited the compliance of City of Marshall, Texas with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City Marshall, Texas' major federal programs for the year ended December 31, 2013. City of Marshall, Texas' major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Marshall, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Marshall, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Marshall, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, City of Marshall, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report On Internal Control Over Compliance

Management of City of Marshall, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Marshall, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Marshall, Texas' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.



Certified Public Accountants

Marshall, Texas

September 18, 2014

CITY OF MARSHALL, TEXAS

Exhibit FA-1
Page 1 of 2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant-Entitlement (Note B)	14.218	N/A	<u>1,040,338</u>
Total U.S. Department of Housing and Urban Development			<u>1,040,338</u>
<u>U.S. Department of Interior</u>			
2008 Preserve America Grant	15.929	48-08-AP-4138	<u>9,658</u>
Total U.S. Department of Interior			<u>9,658</u>
<u>U.S. Department of Justice</u>			
Bureau of Justice Assistance:			
2012 Edward Byrne Memorial Justice Assistance Grant Program	16.580	2012-DJ-BX-0921	<u>12,249</u>
Total U.S. Department of Justice			<u>12,249</u>
Total Expenditures of Federal Awards			<u><u>1,062,245</u></u>

CITY OF MARSHALL, TEXAS

Exhibit FA-1

Page 2 of 2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A – Significant Accounting Policies

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

NOTE B – Community Development Block Grant – Entitlement

The Community Development Block Grant (CDBG) has a fiscal year ending in May. For the June 1, 2013/May 31, 2014 year, there were \$304,203 (Project Number B-13-MC-48-0034) funds available. For the June 1, 2012/May 31, 2013 year, there were \$300,836 (Project Number B-12-MC-48-0034) funds available. Various expenditures were budgeted and funded from previous years grant awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

A. SUMMARY OF AUDIT RESULTS:

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Marshall.
2. No deficiencies in internal control over financial reporting that we considered to be a material weakness relating to the audit of the financial statements were reported in the 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*.
3. No instances of noncompliance or other matters which is material to the financial statements of City of Marshall were disclosed during the audit.
4. No deficiencies in internal control over compliance that we considered to be a material weakness relating to the audit of major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and Internal Control Over Compliance Required By OMB Circular A-133.
5. The auditors' report on compliance for major federal award programs for City of Marshall expresses an unmodified opinion.
6. The audit did not disclose any audit findings which the auditor is required to report under Section 510(a) of OMB Circular A-133.
7. The major program for the City of Marshall was the Community Development Block Grant - Entitlement, CFDA Number 14.218, as listed in the Schedule of Expenditures of Federal Awards.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. City of Marshall did not qualify as a low-risk auditee for the 2013 fiscal year.

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

NONE

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

NONE

CITY OF MARSHALL, TEXAS

Exhibit FA-3

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

N/A

CITY OF MARSHALL, TEXAS

Exhibit FA-4

CORRECTIVE ACTION PLAN – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

N/A