

**CITY OF MARSHALL, TEXAS**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED**

**DECEMBER 31, 2009**

# 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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Marshall, Texas. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of December 31, 2009, and the respective changes in financial position, and, where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,

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

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

July 1, 2010

# **KNUCKOLS • DUVALL • HALLUM & CO.**

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

The Honorable City Commission  
Marshall, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of and for the year ended December 31, 2009, which collectively comprise the City of Marshall, Texas' basic financial statements and have issued our report thereon dated July 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

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

Respectfully submitted,

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

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

July 1, 2010

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

# **CITY OF MARSHALL, TEXAS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **DECEMBER 31, 2009**

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, 2009. 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 \$76,592,765 (net assets). Of this amount, \$15,864,991 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$12,307,494. Approximately 66% of this total amount is *available for spending* at the City's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,805,845 or 47% of total general fund expenditures.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Marshall's basic financial statements. The City of Marshall's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Marshall's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

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

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

**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 23 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 and the 2007 Capital Improvement Fund, which are considered to be major funds. 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 funds to account for its 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. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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

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

# CITY OF MARSHALL, TEXAS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)** **DECEMBER 31, 2009**

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Marshall, assets exceeded liabilities by \$76,592,765 at the close of the most recent fiscal year.

By far the largest portion of the City of Marshall's net assets, reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and water and wastewater system), less any related debt used to acquire those assets that is still outstanding. The City of Marshall uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Marshall's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### **City of Marshall's Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	18,128,418	19,609,991	7,867,931	9,347,845	25,996,349	28,957,836
Capital assets	39,321,974	37,878,100	46,768,001	46,971,289	86,089,975	84,849,389
Total assets	<u>57,450,392</u>	<u>57,488,091</u>	<u>54,635,932</u>	<u>56,319,134</u>	<u>112,086,324</u>	<u>113,807,225</u>
Long-term liabilities						
Outstanding	9,632,243	9,819,841	21,461,766	23,131,340	31,094,009	32,951,181
Other liabilities	1,907,777	1,889,224	2,291,773	2,877,737	4,399,550	4,766,961
Total liabilities	<u>11,540,020</u>	<u>11,709,065</u>	<u>23,753,539</u>	<u>26,009,077</u>	<u>35,493,559</u>	<u>37,718,142</u>
Net assets:						
Invested in capital assets,						
Net of related debt	32,235,254	36,473,006	24,064,583	22,649,229	56,299,837	59,122,235
Restricted	3,712,791	781,466	715,146	730,580	4,427,937	1,512,046
Unrestricted	<u>9,962,327</u>	<u>8,524,554</u>	<u>5,902,664</u>	<u>6,930,248</u>	<u>15,864,991</u>	<u>15,454,802</u>
Total net assets	<u>45,910,372</u>	<u>45,779,026</u>	<u>30,682,393</u>	<u>30,310,057</u>	<u>76,592,765</u>	<u>76,089,083</u>

An additional portion of the City of Marshall's net assets (5.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$15,864,991) may be used to meet the government's ongoing obligations to citizens and creditors.

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

### **Governmental Activities**

The City's general revenues decreased when compared to the prior year by 4.7% or \$630,034. The primary reason for this decrease is due to decrease in sales taxes. Sales tax revenue decreased 6.3% or \$456,325 compared to the prior year and can be attributed to economic conditions.

# CITY OF MARSHALL, TEXAS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)** **DECEMBER 31, 2009**

Governmental activities increased the City of Marshall's net assets by \$131,346 and is outlined as follows:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Revenue:</b>						
Program Revenue:						
Charges for Services	5,204,516	5,608,588	9,364,824	9,252,859	14,569,340	14,861,447
Operating Grants and Contr.	733,641	1,560,280	-	-	733,641	1,560,280
Capital Grants and Contr.	173,196	279,564	-	-	173,196	279,564
General Revenue:						
Property taxes	4,818,168	4,606,879	-	-	4,818,168	4,606,879
Other taxes	7,857,910	8,348,626	-	-	7,857,910	8,348,626
Other	29,557	380,164	66,726	246,275	96,283	626,439
Total Revenue	<u>18,816,988</u>	<u>20,784,101</u>	<u>9,431,550</u>	<u>9,499,134</u>	<u>28,248,538</u>	<u>30,283,235</u>
<b>Expenses:</b>						
General Government	2,346,441	2,064,237	-	-	2,346,441	2,064,237
Event Facilities	777,403	836,960	-	-	777,403	836,960
Facilities Maintenance	847,331	924,139	-	-	847,331	924,139
Finance	212,269	209,085	-	-	212,269	209,085
Public Safety	7,783,255	7,453,969	-	-	7,783,255	7,453,969
Public Works	4,016,664	4,272,456	-	-	4,016,664	4,272,456
Planning	564,617	606,162	-	-	564,617	606,162
Purchasing	3,146	85,327	-	-	3,146	85,327
Library	518,440	488,107	-	-	518,440	488,107
Non-Departmental	1,635,106	2,237,182	-	-	1,635,106	2,237,182
Tax Collection	67,554	75,807	-	-	67,554	75,807
Housing	185,360	206,472	-	-	185,360	206,472
Tourist and Convention	886,645	793,690	-	-	886,645	793,690
Code Enforcement	62,330	51,954	-	-	62,330	51,954
Interest on Long-Term Debt	294,558	322,339	972,975	1,093,375	1,267,533	1,415,714
Water and Sewer	-	-	6,504,612	6,383,066	6,504,612	6,383,066
Business Development Center	-	-	66,150	66,331	66,150	66,331
Total Expenses	<u>20,201,119</u>	<u>20,627,886</u>	<u>7,543,737</u>	<u>7,542,772</u>	<u>27,744,856</u>	<u>28,170,658</u>
<b>Increase (Decrease) in Net Assets</b>						
Before Transfers	(1,384,131)	156,215	1,887,813	1,956,362	503,682	2,112,577
Transfers	<u>1,515,477</u>	<u>1,720,976</u>	<u>(1,515,477)</u>	<u>(1,720,976)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	<u>131,346</u>	<u>1,877,191</u>	<u>372,336</u>	<u>235,386</u>	<u>503,682</u>	<u>2,112,577</u>
Net Assets – 01/01/09	<u>45,779,026</u>	<u>43,901,835</u>	<u>30,310,057</u>	<u>30,074,671</u>	<u>76,089,083</u>	<u>73,976,506</u>
Net Assets – 12/31/09	<u>45,910,372</u>	<u>45,779,026</u>	<u>30,682,393</u>	<u>30,310,057</u>	<u>76,592,765</u>	<u>76,089,083</u>

# CITY OF MARSHALL, TEXAS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009**

### **Business - Type Activities**

Revenues of the City's business-type activities were \$9,431,550 for the year ending December 31, 2009. Expenses for the City's business-type activities were \$9,059,214 for the year, resulting in net income of \$372,336.

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

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

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

As of the end of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$12,307,494. Approximately 66.6% of this total amount (\$8,201,827) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) library \$304,435, 2) to pay debt service \$456,063, 3) capital projects \$3,256,728, 4) prepaid expenditures \$4,040, and 5) advances to non-current loans \$84,401.

The General Fund is the chief operating fund of the City of Marshall. At the end of the current fiscal year, unreserved fund balance of the general fund was \$7,877,738, with 98.89% of the total fund balance (\$7,966,179) being unreserved. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 47.6% of total General Fund expenditures. Total fund balance represents 48.16% of total General Fund expenditures. The total fund balance of the City of Marshall's General Fund increased by \$1,754,622 during the current fiscal year.

The other major governmental fund is the 2007 Capital Improvement Fund. In March 2007, the City issued \$6,230,000 General Obligation Bonds, Series 2007. The proceeds of the issuance is being used for improvements to public safety facilities, improvements to various parks within the City, and to pay cost of issuance relating to the Bonds. The fund balance of this fund (\$3,142,242) as of December 31, 2009, is 100% reserved for capital projects.

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$5,535,510. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Marshall's business-type activities.

### **General Fund Budgetary Highlights**

During the year, revenues exceeded budgetary estimates by \$1,070,406 and expenditures were under amended budget estimates by \$694,737.

# CITY OF MARSHALL, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009

### Capital Asset and Debt Administration

**Capital Assets.** The City of Marshall's investment in capital assets for its governmental and business type activities as of December 31, 2009, is \$86,089,975 (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.

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

During 2009 we continued infrastructure improvements and line extensions in both the water and wastewater systems, as well as completing the water plant improvement that allow for the increased production of treated water for the community. The 2009 water plant upgrade amounted to an investment of 2.0 million dollars and greatly improved our treatment process, turn-around time for treatment, and increases our treatment capacity to 14.0 million gallons of water per day; which is critical to providing water needs for future commercial and residential development.

In calendar year 2009, we treated and distributed 1.969 billion gallons of water to our residential and commercial customers in compliance with guidelines of the EPA and TCEQ federal and state agencies. Our divisions installed 2,042 feet of new water lines, 1,702 feet of new wastewater service lines, rehabilitated 73 manhole locations and replaced 306 water meters as part of our annual program to extend water related utility services to under and unserved portions of the community and maintain our distribution system maintenance program at an extremely high level.

The 2009 Sanitary Sewer and Rehabilitation program was initiated to maximize our distribution system, increase capacity and reduce infiltration and inflow within the distribution system. This rehab program will greatly improve our entire system and extend the useful life of existing piping systems. This 2009 rehab program amounts to a \$1.4 million dollar investment in our wastewater distribution system and represents our commitment of continued improvements and maintenance. This rehab program is nearly 70% complete and will continue into our 2010 calendar year period.

	City of Marshall's Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	1,101,036	1,096,136	310,612	310,612	1,411,648	1,406,748
Buildings	13,132,187	13,132,187	2,967,181	2,963,734	16,099,368	16,095,921
Improvements	2,051,766	2,030,216	-	-	2,051,766	2,030,216
Machinery and Equipment	10,460,174	10,545,118	2,526,557	2,536,290	12,986,731	13,081,408
Infrastructure	52,038,943	51,991,559	-	-	52,038,943	51,991,559
Water and Wastewater System	-	-	45,752,914	45,493,750	45,752,914	45,493,750
Construction in Progress	4,221,334	1,001,861	22,064,115	21,388,472	26,285,449	22,390,333
Less Accumulated Depreciation	(43,683,466)	(41,918,977)	(26,853,378)	(25,721,569)	(70,536,844)	(67,640,546)
<hr/>						
Total Capital Assets (Net of Accumulated Depreciation)	39,321,974	37,878,100	46,768,001	46,971,289	86,089,975	84,849,389

# CITY OF MARSHALL, TEXAS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)** **DECEMBER 31, 2009**

**Long-term debt.** On November 7, 2006, City voters authorized the issuance of \$6,230,000 General Obligation Bonds, Series 2007. The proceeds of the issuance are being 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.

At the end of the current fiscal year, the City of Marshall had total bonded debt outstanding of \$29,376,066. Of this amount, \$5,935,000 comprises debt backed by the full faith and credit of the government and \$895,000 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 \$22,546,066 represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General Obligation Bonds						
Series 2007	5,880,000	6,030,000	-	-	5,880,000	6,030,000
General Obligation Bonds						
Series 1995	55,000	110,000	-	-	55,000	110,000
General Obligation Bonds						
Certificates of Obligation	895,000	1,000,000	-	-	895,000	1,000,000
Revenue Bonds	-	-	22,546,066	24,110,738	22,546,066	24,110,738
Total	<u>6,830,000</u>	<u>7,140,000</u>	<u>22,546,066</u>	<u>24,110,738</u>	<u>29,376,066</u>	<u>31,250,738</u>

The City of Marshall, Texas maintains bond ratings from one investment house:

Company	Insured Ratings	<u>Underlying Ratings</u>	
		GO Bonds	Revenue Bonds
Moody's	"Aaa"	"A3"	"A3"

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 \$8,232,076, per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$941,928,201.

# **CITY OF MARSHALL, TEXAS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)** **DECEMBER 31, 2009**

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

#### **Economic Factors**

- New residential construction in 2009 was 25 single family units.
- The average price of a single family unit was \$171,840.
- The City's annual growth in valuation has increased 4.45%.
- Sales tax decreased 6.3% over 2008 and revenue generated was approximately \$456,325 less than 2008.
- The tax rate is expected to remain at \$0.47604/\$100 valuation.
- Commercial construction started during 2009 was Fish and Still Tractor.
- 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.
- Unemployment rate is 9.3% for Harrison County at December 31, 2009.
- Median household income is estimated at \$24,582 and is 72.4% of the state average.

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

At the time the 2010 City of Marshall Annual Budget was adopted, we had not experienced a decline in sales tax revenue. In our 2010 budget we restored some budget cuts we had made in the 2009 budget. In the last quarter of 2009, sales tax revenue declined and due to economic conditions and increase in unemployment we anticipate this decline to continue into 2010. We will closely monitor revenue and expenditures in 2010 and make adjustments as needed.

#### **Requests for Information**

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

## **Basic Financial Statements**

# CITY OF MARSHALL, TEXAS

## GOVERNMENT-WIDE STATEMENT OF NET ASSETS

**DECEMBER 31, 2009**

	<i>Primary Government</i>		
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
<b><u>ASSETS</u></b>			
Cash and Temporary Investments	7,600,930	1,276,364	8,877,294
Certificates of Deposit	3,608,219	-	3,608,219
Receivables (Net, Where Applicable, of			
Allowance for Uncollectibles)	5,160,115	932,594	6,092,709
Due From Other Governments	1,691,325	-	1,691,325
Prepaid Expenses	4,040	20,000	24,040
Inventory	18,795	62,848	81,643
Restricted Assets:			
Cash and Temporary Investments	-	3,302,838	3,302,838
Certificates of Deposit	-	1,815,327	1,815,327
Accrued Interest Receivable	-	6,551	6,551
Unamortized Bond Issue Costs	44,994	451,409	496,403
Capital Assets:			
Land	1,101,036	310,612	1,411,648
Construction in Progress	4,221,334	22,064,115	26,285,449
Buildings	13,132,187	2,967,181	16,099,368
Machinery and Equipment	10,460,174	2,526,557	12,986,731
Improvements	2,051,766	-	2,051,766
Infrastructure	52,038,943	-	52,038,943
Water and Wastewater System	-	45,752,914	45,752,914
Accumulated Depreciation	(43,683,466)	(26,853,378)	(70,536,844)
<b>Total Assets</b>	<b>57,450,392</b>	<b>54,635,932</b>	<b>112,086,324</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable	1,740,688	122,806	1,863,494
Accrued Interest	19,276	-	19,276
Accrued Liabilities	147,813	72,540	220,353
Current Portion of Accrued Leases Payable	-	50,976	50,976
Payable From Restricted Assets:			
Current Portion of Bonds Payable	-	1,580,000	1,580,000
Customer Deposits	-	618,998	618,998
Accounts Payable	-	3,218	3,218
Accrued Liabilities	-	43,235	43,235
Security Deposits	-	-	-
Noncurrent Liabilities:			
Due Within One Year	504,803	-	504,803
Due In More Than One Year	9,127,440	21,461,766	30,589,206
<b>Total Liabilities</b>	<b>11,540,020</b>	<b>23,953,539</b>	<b>35,493,559</b>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets,			
Net of Related Debt	32,235,254	24,064,583	56,299,837
Restricted for:			
Debt Service	456,063	715,146	1,171,209
Capital Projects	3,256,728	-	3,256,728
Unrestricted	9,962,327	5,902,664	15,864,991
<b>Total Net Assets</b>	<b>45,910,372</b>	<b>30,682,393</b>	<b>76,592,765</b>

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

<i>Discretely Presented Component Units</i>			
<i>Marshall Economic Dev. Corp.</i>	<i>Marshall Downtown Dev. Corp.</i>	<i>Marshall Conv. &amp; Vis. Bureau</i>	
2,232,535	17,560	677,049	
-	-	-	
27,596	-	-	
324,954	-	-	
-	-	9,000	
-	-	-	
-	-	-	
-	-	-	
-	-	-	
3,007,293	-	-	
1,677,366	-	-	
7,336,474	50,217	-	
512,258	-	-	
952,876	2,421,363	-	
-	-	-	
-	-	-	
<u>(2,625,448)</u>	<u>(159,954)</u>	<u>-</u>	
<u>13,445,904</u>	<u>2,329,186</u>	<u>686,049</u>	
56,832	20,217	-	
-	-	-	
20,117	-	1,839	
-	-	-	
-	-	-	
-	-	-	
16,359	-	-	
57,437	-	-	
924,085	929,604	-	
<u>1,074,830</u>	<u>949,821</u>	<u>1,839</u>	
9,879,297	1,362,022	-	
-	-	-	
-	-	-	
<u>2,491,777</u>	<u>17,343</u>	<u>684,210</u>	
<u>12,371,074</u>	<u>1,379,365</u>	<u>684,210</u>	

# CITY OF MARSHALL, TEXAS

## GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	2,346,441	875,018	247,533	-
Event Facilities	777,403	-	-	-
Facilities Maintenance	847,331	-	-	-
Finance	212,269	-	-	-
Public Safety	7,783,255	2,014,843	149,695	-
Public Works	4,016,664	2,235,756	10,140	173,196
Planning	564,617	-	-	-
Purchasing	3,146	-	-	-
Library	518,440	49,061	77,083	-
Non-Departmental	1,635,106	-	-	-
Tax Collection	67,554	-	-	-
Housing	185,360	-	185,360	-
Tourist and Convention	886,645	29,838	1,500	-
Code Enforcement	62,330	-	62,330	-
Interest on Long-Term Debt	294,558	-	-	-
Total Governmental Activities	<u>20,201,119</u>	<u>5,204,516</u>	<u>733,641</u>	<u>173,196</u>
Business-Type Activities:				
Water and Sewer	7,477,587	9,364,824	-	-
Business Development Center	66,150	-	-	-
Total Business-Type Activities	<u>7,543,737</u>	<u>9,364,824</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>27,744,856</u>	<u>14,569,340</u>	<u>733,641</u>	<u>173,196</u>
<b>Component Units:</b>				
Marshall Economic Develop. Corp.	1,193,492	290,062	-	-
Marshall Downtown Develop. Corp.	48,979	-	40,551	-
Marshall Conv. & Vis. Bureau	510,293	854,283	-	-
Total Component Units	<u>1,752,764</u>	<u>1,144,345</u>	<u>40,551</u>	<u>-</u>
<b>General Revenues:</b>				
Taxes:				
Property				
Sales				
Franchise				
Investment Earnings				
Gain (Loss) on Sale/Retirement of Capital Assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets Beginning of Year				
<b>Net Assets End of Year</b>				

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

**Exhibit B-1**

<i>Net (Expenses) Revenue and Changes in Net Assets</i>						
<i>Primary Government</i>			<i>Discretely Presented Component Units</i>			
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Marshall Economic Dev. Corp.</i>	<i>Marshall Downtown Dev. Corp.</i>	<i>Marshall Conv. &amp; Vis. Bureau</i>	
(1,223,890)	-	(1,223,890)	-	-	-	-
(777,403)	-	(777,403)	-	-	-	-
(847,331)	-	(847,331)	-	-	-	-
(212,269)	-	(212,269)	-	-	-	-
(5,618,717)	-	(5,618,717)	-	-	-	-
(1,597,572)	-	(1,597,572)	-	-	-	-
(564,617)	-	(564,617)	-	-	-	-
(3,146)	-	(3,146)	-	-	-	-
(392,296)	-	(392,296)	-	-	-	-
(1,635,106)	-	(1,635,106)	-	-	-	-
(67,554)	-	(67,554)	-	-	-	-
-	-	-	-	-	-	-
(855,307)	-	(855,307)	-	-	-	-
-	-	-	-	-	-	-
<u>(294,558)</u>	<u>-</u>	<u>(294,558)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(14,089,766)</u>	<u>-</u>	<u>(14,089,766)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	1,887,237	1,887,237	-	-	-	-
-	(66,150)	(66,150)	-	-	-	-
-	<u>1,821,087</u>	<u>1,821,087</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(14,089,766)</u>	<u>1,821,087</u>	<u>(12,268,679)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
			(903,430)	-	-	-
			-	(8,428)	-	-
			-	-	343,990	-
			<u>(903,430)</u>	<u>(8,428)</u>	<u>343,990</u>	<u>-</u>
4,818,168	-	4,818,168	-	-	-	-
6,765,277	-	6,765,277	1,964,323	-	-	-
1,092,633	-	1,092,633	-	-	-	-
107,603	65,201	172,804	11,708	-	2,047	-
(78,046)	1,525	(76,521)	-	-	-	-
<u>1,515,477</u>	<u>(1,515,477)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>14,221,112</u>	<u>(1,448,751)</u>	<u>12,772,361</u>	<u>1,976,031</u>	<u>-</u>	<u>2,047</u>	<u>-</u>
131,346	372,336	503,682	1,072,601	(8,428)	346,037	-
<u>45,779,026</u>	<u>30,310,057</u>	<u>76,089,083</u>	<u>11,298,473</u>	<u>1,387,793</u>	<u>338,173</u>	<u>-</u>
<u>45,910,372</u>	<u>30,682,393</u>	<u>76,592,765</u>	<u>12,371,074</u>	<u>1,379,365</u>	<u>684,210</u>	<u>-</u>

# CITY OF MARSHALL, TEXAS

Exhibit C-1

## GOVERNMENTAL FUNDS

### BALANCE SHEET

DECEMBER 31, 2009

	<i>2007</i>			
	<i>General Fund</i>	<i>Capital Improvement Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>ASSETS</b>				
Cash and Temporary Investments	5,077,812	1,757,632	1,055,677	7,891,121
Certificates of Deposit	1,654,134	1,954,085	-	3,608,219
Receivables (Net of Allowance for Uncollectible)				
Current Taxes	2,359,503	-	353,878	2,713,381
Delinquent Taxes	601,706	-	105,592	707,298
Customer	1,113,799	-	-	1,113,799
Franchise Taxes	250,217	-	-	250,217
Other	248,302	-	2,363	250,665
Accrued Interest	6,472	2,806	-	9,278
Note Receivable	84,401	-	-	84,401
Prepaid Expenditures	4,040	-	-	4,040
Due from Other Governments	1,449,479	-	241,846	1,691,325
<b>TOTAL ASSETS</b>	<b>12,849,865</b>	<b>3,714,523</b>	<b>1,759,356</b>	<b>18,323,744</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts Payable	958,935	572,281	173,082	1,704,298
Accrued Liabilities	147,813	-	-	147,813
Deferred Revenue	3,776,938	-	387,201	4,164,139
<b>Total Liabilities</b>	<b>4,883,686</b>	<b>572,281</b>	<b>560,283</b>	<b>6,016,250</b>
<b>Fund Balances</b>				
Reserved for Debt Service	-	-	456,063	456,063
Reserved for Prepaid Expenditures	4,040	-	-	4,040
Reserved for Library	-	-	304,435	304,435
Reserved for Capital Projects	-	3,142,242	114,486	3,256,728
Reserved for Noncurrent Loans	84,401	-	-	84,401
Unreserved, Designated for OPEB	71,893	-	-	71,893
Unreserved, Reported in General Fund	7,805,845	-	-	7,805,845
Unreserved, Reported in Special Revenue Funds	-	-	324,089	324,089
<b>Total Fund Balances</b>	<b>7,966,179</b>	<b>3,142,242</b>	<b>1,199,073</b>	<b>12,307,494</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>12,849,865</b>	<b>3,714,523</b>	<b>1,759,356</b>	<b>18,323,744</b>

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

# CITY OF MARSHALL, TEXAS

Exhibit C-2

## **RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS DECEMBER 31, 2009**

Total Fund Balances - Total Governmental Funds	12,307,494
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (Includes capital assets of Internal Service Funds.)	39,321,974
Bond issuance costs are not current financial resources and therefore are not reported in governmental funds balance sheet.	44,994
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(19,276)
Internal service funds are used by management to charge the cost of certain activities, such as equipment replacement and stores inventory to individual funds. The assets and liabilities of the Internal Service Funds are net of amount allocated to business-type activities, capital assets and long-term liabilities. The net effect of this consolidation is to increase (decrease) net assets.	(276,710)
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	(504,803)
Due in More Than One Year	(9,127,440)
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>4,164,139</u>
Net Assets of Governmental Activities	<u>45,910,372</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, 2009

	<i>2007</i>			
	<i>General Fund</i>	<i>Capital Improvement Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b><u>REVENUE:</u></b>				
Ad Valorem Taxes	4,197,058	-	479,443	4,676,501
Sales Taxes	5,919,519	-	-	5,919,519
Franchise Tax	1,092,633	-	-	1,092,633
Motel Occupancy Tax	-	-	845,758	845,758
Permits and Fees	4,273,510	-	-	4,273,510
Municipal Court Fines	472,251	-	11,983	484,234
Interest	51,337	52,275	3,990	107,602
Intergovernmental	684,243	-	555,065	1,239,308
Donations	-	-	56,953	56,953
Miscellaneous	157,041	-	142,797	299,838
<b>Total Revenue</b>	<b>16,847,592</b>	<b>52,275</b>	<b>2,095,989</b>	<b>18,995,856</b>
<b><u>EXPENDITURES:</u></b>				
Current:				
General Government	1,884,475	3,815	59,760	1,948,050
Event Facilities	621,263	-	-	621,263
Facilities Maintenance	708,065	-	-	708,065
Finance	212,269	-	-	212,269
Public Safety	7,215,651	-	41,682	7,257,333
Public Works	2,754,702	-	71,917	2,826,619
Planning	562,873	-	-	562,873
Purchasing	2,893	-	-	2,893
Library	475,735	-	29,962	505,697
Non-Departmental	1,631,308	-	-	1,631,308
Tax Collection	67,554	-	-	67,554
Housing	-	-	185,360	185,360
Tourist and Convention	-	-	886,645	886,645
Code Enforcement	-	-	62,330	62,330
Debt Service:				
Principal Retirement	210,584	-	310,000	520,584
Interest and Fees	9,763	-	291,487	301,250
Capital Outlay	183,689	3,062,970	258,985	3,505,644
<b>Total Expenditures</b>	<b>16,540,824</b>	<b>3,066,785</b>	<b>2,198,128</b>	<b>21,805,737</b>

# CITY OF MARSHALL, TEXAS

Exhibit C-3  
Page 2 of 2

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2009

	<i>General Fund</i>	<i>2007 Capital Improvement Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<b><u>CONTINUED:</u></b>				
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<u>306,768</u>	<u>(3,014,510)</u>	<u>(102,139)</u>	<u>(2,809,881)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	1,616,229	-	542,362	2,158,591
Transfers Out	(256,855)	-	(646,091)	(902,946)
Loan Proceeds	45,458	-	-	45,458
Sale of Assets	43,022	-	-	43,022
<b>Total Other Financing Sources (Uses)</b>	<u>1,447,854</u>	<u>-</u>	<u>(103,729)</u>	<u>1,344,125</u>
Net Change in Fund Balances	1,754,622	(3,014,510)	(205,868)	(1,465,756)
Fund Balances at Beginning of Year	<u>6,211,557</u>	<u>6,156,752</u>	<u>1,404,941</u>	<u>13,773,250</u>
<b>Fund Balances at End of Year</b>	<u>7,966,179</u>	<u>3,142,242</u>	<u>1,199,073</u>	<u>12,307,494</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, 2009**

Net Change in Fund Balances - Total Governmental Funds	(1,465,756)
--	-------------

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.

3,420,069

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (Includes Internal Service Funds' depreciation expense of \$336,068.)

(2,175,091)

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

(2,621)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

187,598

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.

6,691

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

261,279

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.

(100,823)

Changes in Net Assets of Governmental Activities

131,346

*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, 2009

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUE:</b>				
Ad Valorem Taxes	3,890,536	3,890,536	4,197,058	306,522
Sales Taxes	5,800,000	5,800,000	5,919,519	119,519
Franchise Tax	1,160,000	1,160,000	1,092,633	(67,367)
Permits and Fees	4,110,850	4,110,850	4,273,510	162,660
Municipal Court Fines	550,000	550,000	472,251	(77,749)
Interest	100,000	100,000	51,337	(48,663)
Intergovernmental	114,800	114,800	684,243	569,443
Miscellaneous	51,000	51,000	157,041	106,041
<b>Total Revenue</b>	<b>15,777,186</b>	<b>15,777,186</b>	<b>16,847,592</b>	<b>1,070,406</b>
<b>EXPENDITURES:</b>				
General Government	1,722,546	1,908,546	1,884,475	24,071
Event Facilities	641,284	641,284	621,263	20,021
Facilities Maintenance	774,365	774,365	708,065	66,300
Finance	231,288	231,288	212,269	19,019
Public Safety	7,389,093	7,389,093	7,215,651	173,442
Public Works	2,770,351	2,770,351	2,754,702	15,649
Planning	616,594	616,594	562,873	53,721
Purchasing	37,556	37,556	2,893	34,663
Library	475,342	475,342	475,735	(393)
Non-Departmental	1,743,105	1,743,105	1,631,308	111,797
Tax Collection	75,000	75,000	67,554	7,446
Debt Service	226,337	226,337	220,347	5,990
Capital Outlay	346,700	346,700	183,689	163,011
<b>Total Expenditures</b>	<b>17,049,561</b>	<b>17,235,561</b>	<b>16,540,824</b>	<b>694,737</b>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>	<b>(1,272,375)</b>	<b>(1,458,375)</b>	<b>306,768</b>	<b>1,765,143</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	1,512,500	1,512,500	1,616,229	103,729
Transfers Out	(249,909)	(249,909)	(256,855)	(6,946)
Loan Proceeds	-	-	45,458	45,458
Sale of Assets	10,000	10,000	43,022	33,022
<b>Total Other Financing Sources (Uses)</b>	<b>1,272,591</b>	<b>1,272,591</b>	<b>1,447,854</b>	<b>175,263</b>
Net Change in Fund Balance	216	(185,784)	1,754,622	1,940,406
<b>Fund Balance at Beginning of Year</b>	<b>6,211,557</b>	<b>6,211,557</b>	<b>6,211,557</b>	<b>-</b>
<b>Fund Balance at End of Year</b>	<b>6,211,773</b>	<b>6,025,773</b>	<b>7,966,179</b>	<b>1,940,406</b>

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

# CITY OF MARSHALL, TEXAS

Exhibit D-1  
Page 1 of 2

## PROPRIETARY FUNDS STATEMENT OF NET ASSETS DECEMBER 31, 2009

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	Internal Service Funds
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Temporary Investments	959,756	(50,546)	909,210	76,963
Customer Receivables (Net of Allowance for Uncollectibles)	882,048	50,546	932,594	31,076
Prepaid Expenses	20,000	-	20,000	-
Inventory	62,848	-	62,848	18,795
Total Current Assets	<u>1,924,652</u>	<u>-</u>	<u>1,924,652</u>	<u>126,834</u>
<i>Noncurrent Assets:</i>				
Restricted Assets:				
Cash and Temporary Investments	3,302,838	-	3,302,838	-
Certificates of Deposit	1,815,327	-	1,815,327	-
Accrued Interest Receivable	6,551	-	6,551	-
Total Restricted Assets	<u>5,124,716</u>	<u>-</u>	<u>5,124,716</u>	<u>-</u>
Other Assets:				
Unamortized Bond Issuance Costs	451,409	-	451,409	-
Total Other Assets	<u>451,409</u>	<u>-</u>	<u>451,409</u>	<u>-</u>
Capital Assets:				
Land	230,281	80,331	310,612	327,272
Construction in Progress	22,064,115	-	22,064,115	-
Buildings	778,361	2,188,820	2,967,181	591,796
Machinery and Equipment	1,743,413	320,313	2,063,726	5,431,152
Water and Wastewater System	45,752,914	-	45,752,914	-
Less: Accumulated Depreciation	(25,522,395)	(960,339)	(26,482,734)	(3,354,813)
Total Capital Assets (Net of Accumulated Depreciation)	<u>45,046,689</u>	<u>1,629,125</u>	<u>46,675,814</u>	<u>2,995,407</u>
Total Noncurrent Assets	<u>50,622,814</u>	<u>1,629,125</u>	<u>52,251,939</u>	<u>2,995,407</u>
<b>TOTAL ASSETS</b>	<b><u>52,547,466</u></b>	<b><u>1,629,125</u></b>	<b><u>54,176,591</u></b>	<b><u>3,122,241</u></b>
Reconciliation to Government-Wide Statement of Net Assets:				
Adjustment to Reflect the Consolidation of Internal Service Funds Activities				
Related to Enterprise Funds			459,341	
Assets of Business-Type Activities			<u>54,635,932</u>	

# CITY OF MARSHALL, TEXAS

Exhibit D-1  
Page 2 of 2

## PROPRIETARY FUNDS STATEMENT OF NET ASSETS DECEMBER 31, 2009

CONTINUED:

LIABILITIES

*Current Liabilities:*

	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Accounts Payable	122,806	-	122,806	36,390
Unearned Revenue	34,800	-	34,800	-
Accrued Salaries and Wages	37,740	-	37,740	-
Current Portion of Lease Payable	50,976	-	50,976	-
Total Current Liabilities	<u>246,322</u>	<u>-</u>	<u>246,322</u>	<u>36,390</u>

*Current Liabilities Payable from Restricted Assets:*

	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Current Portion of Bonds Payable	1,580,000	-	1,580,000	-
Customer Deposits	618,998	-	618,998	-
Accounts Payable	3,218	-	3,218	-
Accrued Liabilities	43,235	-	43,235	-
Total Current Liabilities Payable from Restricted Assets	<u>2,245,451</u>	<u>-</u>	<u>2,245,451</u>	<u>-</u>

*Other Liabilities:*

	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Bonds Payable (Net of Current Portion)	20,966,066	-	20,966,066	-
Lease Payable (Net of Current Portion)	106,376	-	106,376	-
Accrued Post Retirement Health Care	112,905	-	112,905	-
Compensated Absences	276,419	-	276,419	-
Total Other Liabilities	<u>21,461,766</u>	<u>-</u>	<u>21,461,766</u>	<u>-</u>

**TOTAL LIABILITIES**

23,953,539      -      23,953,539      36,390

**NET ASSETS**

	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Invested in Capital Assets, Net of Related Debt	22,343,271	1,629,125	23,972,396	2,995,407
Restricted for Retirement of Bonds	715,146	-	715,146	-
Unrestricted	<u>5,535,510</u>	<u>-</u>	<u>5,535,510</u>	<u>90,444</u>
<b>TOTAL NET ASSETS</b>	<b><u>28,593,927</u></b>	<b><u>1,629,125</u></b>	<b><u>30,223,052</u></b>	<b><u>3,085,851</u></b>

Reconciliation to Government-Wide Statement of Net Assets:

Adjustment to Reflect the Consolidation of Internal Service Funds' Activities

Related to Enterprise Funds  
Net Assets of Business-Type Activities

459,341  
30,682,393

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

# CITY OF MARSHALL, TEXAS

Exhibit D-2

## PROPRIETARY FUNDS

### STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2009

	<b>Business-Type Activities - Enterprise Funds</b>			
	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
<b>OPERATING REVENUE:</b>				
Charges for Services	9,364,824	-	9,364,824	331,347
<b>Total Operating Revenue</b>	<b>9,364,824</b>	<b>-</b>	<b>9,364,824</b>	<b>331,347</b>
<b>OPERATING EXPENSES:</b>				
Administrative	237,475	-	237,475	-
Water Production	1,238,367	-	1,238,367	-
Water Distribution/ Collection	1,068,747	-	1,068,747	-
Sewage Treatment	1,169,284	-	1,169,284	-
Water Billing	392,371	-	392,371	-
Engineering	221,789	-	221,789	-
Non-Departmental	938,687	-	938,687	-
Materials and Supplies	-	-	-	332,502
Depreciation	1,079,753	66,150	1,145,903	366,778
Amortization	103,477	-	103,477	-
Bad Debt Expense	23,951	-	23,951	-
<b>Total Operating Expenses</b>	<b>6,473,901</b>	<b>66,150</b>	<b>6,540,051</b>	<b>699,280</b>
<b>Operating Income (Loss)</b>	<b>2,890,923</b>	<b>(66,150)</b>	<b>2,824,773</b>	<b>(367,933)</b>
<b>NONOPERATING REVENUE (EXPENSES):</b>				
Interest Income	64,804	-	64,804	396
Interest Expense and Fees	(972,975)	-	(972,975)	-
Gain (Loss) on Disposal of Assets	2,197	-	2,197	(35,860)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(905,974)</b>	<b>-</b>	<b>(905,974)</b>	<b>(35,464)</b>
<b>Income (Loss) Before Transfers</b>	<b>1,984,949</b>	<b>(66,150)</b>	<b>1,918,799</b>	<b>(403,397)</b>
Transfers In (Out)	(1,515,477)	-	(1,515,477)	259,833
<b>Change in Net Assets</b>	<b>469,472</b>	<b>(66,150)</b>	<b>403,322</b>	<b>(143,564)</b>
Total Net Assets, Beginning of Year	28,124,455	1,695,275		3,229,415
<b>Total Net Assets, End of Year</b>	<b>28,593,927</b>	<b>1,629,125</b>		<b>3,085,851</b>
Reconciliation to Government-Wide Statement of Activities:				
Adjustment to Reflect the Consolidation of Internal Service Funds' Activities				
Related to Enterprise Funds			(30,986)	
Change in Net Assets of Business-Type Activities			372,336	

*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, 2009

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Nonmajor Enterprise Fund	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	9,351,660	-	9,351,660
Cash Payments to Suppliers for Goods and Services	(3,672,965)	-	(3,672,965)
Cash Payments to Employees for Services	(2,045,966)	-	(2,045,966)
Net Cash Provided (Used) by Operating Activities	<u>3,632,729</u>	<u>-</u>	<u>3,632,729</u>
			(16,814)
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfers In (Out)	(1,515,477)	-	(1,515,477)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,515,477)</u>	<u>-</u>	<u>259,833</u>
			259,833
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and Construction of Capital Assets	(988,411)	-	(988,411)
Principal Paid on Bonds and Leases	(1,595,905)	-	(1,595,905)
Proceeds From Sale of Capital Assets	6,911	-	6,911
Payment of Interest on Bonds and Other Debt	(1,025,772)	-	(1,025,772)
Net Cash (Used) by Capital and Related Financing Activities	<u>(3,603,177)</u>	<u>-</u>	<u>(186,594)</u>
<b>Cash Flows from Investing Activities:</b>			
Purchase of Investments	(3,614,946)	-	(3,614,946)
Proceeds from Sale and Maturities of Investments	3,566,344	-	3,566,344
Interest on Investments	70,299	-	70,299
Net Cash Provided by Investing Activities	<u>21,697</u>	<u>-</u>	<u>396</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,464,228)	-	(1,464,228)
Cash and Cash Equivalents (Deficit), Beginning of Year	<u>5,726,822</u>	<u>(50,546)</u>	<u>5,676,276</u>
<b>Cash and Cash Equivalents (Deficit), End of Year</b>	<u>4,262,594</u>	<u>(50,546)</u>	<u>4,212,048</u>
			76,963

# CITY OF MARSHALL, TEXAS

Exhibit D-3  
Page 2 of 2

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	Internal Service Funds
<b>Continued</b>				
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>				
Operating Income (Loss)	<u>2,890,923</u>	<u>(66,150)</u>	<u>2,824,773</u>	<u>(367,933)</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation	1,079,753	66,150	1,145,903	366,778
Amortization	103,477	-	103,477	-
Other Post Employment Benefits	56,452	-	56,452	-
(Increase) Decrease in Assets:				
Accounts Receivable	(32,720)	-	(32,720)	(7,888)
Prepaid Expenses	10,859	-	10,859	-
Inventory	(22,790)	-	(22,790)	(4,845)
Increase (Decrease) in Liabilities:				
Accounts Payable	(422,295)	-	(422,295)	(2,926)
Unearned Revenue	19,555	-	19,555	-
Accrued Liabilities	(96,745)	-	(96,745)	-
Customer Deposits	37,667	-	37,667	-
Compensated Absences	8,593	-	8,593	-
Total Adjustments	<u>741,806</u>	<u>66,150</u>	<u>807,956</u>	<u>351,119</u>
Net Cash Provided (Used) By Operating Activities	<u>3,632,729</u>	<u>-</u>	<u>3,632,729</u>	<u>(16,814)</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 ASSETS DECEMBER 31, 2009**

	<i>Agency Funds</i>
<b><u>ASSETS</u></b>	
Cash and Temporary Investments	108,633
<b>TOTAL ASSETS</b>	<u>108,633</u>
<b><u>LIABILITIES</u></b>	
Due to Employees	108,633
<b>TOTAL LIABILITIES</b>	<u>108,633</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, 2009**

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

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

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

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

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

Marshall Economic Development Corporation (MEDCO) was incorporated under the Development Corporation Act of 1979, as amended, Article 5190.6, Tex. Rev. Civ. Stat. Ann., as amended as a non-profit industrial development corporation. The purpose of the corporation is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City. The City appoints its five (5) member board of directors and all its policies for program administration must be submitted to the City for approval. Marshall Economic Development Corporation is subject to audit by the City or its representatives, and may not issue any debt without City approval. Its revenue is derived from a \$.005 City sales tax. A separate audit for the year ended December 31, 2009, 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 2009, 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, 2009, was performed and may be obtained by contacting MDDC.

Marshall Convention and Visitors Bureau (MCVB) was incorporated under the Texas Business organizations Code, Chapter 22 on October 12, 2007. MCVB also complies with Chapter 351 of the Texas Tax Code with regard to any funds granted to MCVB by the City of Marshall. The purposes of the Corporation are (1) to promote the City of Marshall related to tourism, visitors and economic growth; (2) solicit groups for conventions expositions and other events to increase the hotel activity; and (3) branding and product development. MCVB has a Board of Directors comprised of seven (7) members who are all

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

appointed by the City. A separate audit for the year ended December 31, 2009, was performed and may be obtained by contacting MCVB.

#### **Basis of Presentation:**

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

#### **Fund Financial Statements:**

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

#### **Governmental Funds:**

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

**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.

**2007 Capital Improvement Fund:** The 2007 Capital Improvement Fund was created to account for the Series 2007 General Obligation Bond proceeds, which will be used for improvements to public safety facilities, improvements to various parks within the City, and to pay costs of issuance relating to the bonds.

Additionally, the City reports the following governmental fund types:

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

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

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

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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

#### **Proprietary Funds:**

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

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

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers delinquent property taxes as available if they are collected within 60 days after year-end. The current year property tax levy is reported as deferred revenue because the levy is to be used to fund 2010 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, 2009**

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

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

#### **Budget and Budgetary Accounting:**

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

The Statement of Revenue, Expenditures and Changes in Fund Balances - 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. The City made various amendments to the General Fund budgeted expenditures during the year.

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

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

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

Also, in addition to pooling cash and temporary investments, the City utilizes a sweep account with Texas Bank and Trust. Each night after meeting the minimum balance requirement, additional funds are swept into an overnight investment to maximize interest earnings.

The carrying amounts of investments (which are fair value) are based on quoted market values at December 31, 2009. The market values of temporary investments are based on values provided by TexPool at December 31, 2009.

#### **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.

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### **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.

The City transfers funds from the General Fund and the Enterprise Funds to the Internal Service Fund to provide for the purchase of capital assets. These transfers have been accounted for as operating transfers.

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

#### **Estimates:**

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

#### **Ad Valorem Tax:**

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

#### **Capital Assets:**

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

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

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

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### **Compensated Absences:**

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

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

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

#### **Net Assets and Fund Balances:**

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

In the Fund Balances section of the Governmental Funds Balance Sheet, there are various reservations of fund balance reported. Governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes. Designations of fund balance represent tentative management plans for financial resource utilization in a future period. The City has designated \$71,893 for other post employment benefit cost. (See Note 10)

### **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.

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### **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, 2009. 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. For reporting purposes, the money market accounts of \$75,442 are included in the cash total. The money market accounts are invested in J. P. Morgan U.S. Treasury Securities. At year-end, the carrying amount of the City's deposits (including \$4,899 petty cash, \$5,423,546 certificates of deposit, and \$75,442 money market accounts) was \$6,293,979 and the respective bank balances totaled \$6,232,366. For GASB 40, purposes, certificates of deposit are included under deposits. All of the certificates of deposit have maturity dates of one year, or less.

Of the total bank balances, \$250,000 was covered by Federal Depository Insurance. The remainder was covered by collateral with a value of \$6,739,080. The collateral is held by Texas Independent Bank of Dallas in the City's name under a joint safekeeping agreement with Texas Bank and Trust.

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

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

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

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.

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### 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, 2009, 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:

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

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

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

The City's investments as of December 31, 2009 are:

<u>Investment Type</u>	<u>Rating</u>	<u>Concentration of Credit Risk</u>	<u>Market Value</u>	<u>Investment Maturities (Callable In Years)</u>	
				<u>Less Than 1</u>	<u>1-5</u>
<b><i>Public Funds Investment Pools:</i></b>					
TexPool (2a7- Like Pool)	AAAm (S&P)	100%	11,418,332	11,418,332	-
<b>Total</b>		<b>100%</b>	<b>11,418,332</b>	<b>11,418,332</b>	<b>-</b>

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

At December 31, 2009, 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, designations of management, and accountability for fiscal matters. These investments are classified as temporary investments in the City's financial statements because these investments are not subject to any restrictions for withdrawal purposes.

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

### **NOTE 3: RECEIVABLES:**

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

	<b>2007</b>	<b>Water and Sewer</b>	<b>Nonmajor Governmental</b>	<b>Nonmajor Enterprise</b>	<b>Internal Service</b>	<b>Total</b>
	<b>General</b>	<b>Capital Improv.</b>				
Receivables:						
Interest	6,472	2,806	6,551	-	-	15,829
Taxes	3,367,279	-	-	477,822	-	3,845,101
Accounts	1,113,799	-	916,112	-	50,546	2,111,533
Other	248,302	-	-	2,363	-	250,665
Note Receivable	84,401	-	-	-	-	84,401
Gross	<u>4,820,253</u>	<u>2,806</u>	<u>922,663</u>	<u>480,185</u>	<u>50,546</u>	<u>31,076</u>
Receivables Less:						
Allowance for Uncollectibles	(155,853)	-	(34,064)	(18,352)	-	(208,269)
Net Total Receivables	<u>4,664,400</u>	<u>2,806</u>	<u>888,599</u>	<u>461,833</u>	<u>50,546</u>	<u>31,076</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### **NOTE 4: CAPITAL ASSETS:**

Capital asset activity for the year ended December 31, 2009, was as follows:

	<b>December 31,</b>		<b>December 31,</b>
	<b>2008</b>	<b>Additions</b>	<b>Deletions</b>
<b><u>Governmental Activities:</u></b>			
Capital Assets Not Being Depreciated:			
Land	1,096,136	4,900	-
Construction in Progress	1,001,861	3,244,808	(25,335)
Total Capital Assets Not Being Depreciated	<u>2,097,997</u>	<u>3,249,708</u>	<u>(25,335)</u>
Capital Assets Being Depreciated:			
Buildings	13,132,187	-	-
Machinery and Equipment	10,545,118	450,225	(535,169)
Improvements	2,030,216	21,550	-
Infrastructure	51,991,559	47,384	-
Total Capital Assets, Being Depreciated	<u>77,699,080</u>	<u>519,159</u>	<u>(535,169)</u>
Less: Accumulated Depreciation For:			
Buildings	6,097,928	247,939	-
Equipment	6,314,076	668,238	(410,602)
Improvements	643,819	64,163	-
Infrastructure	28,863,154	1,194,751	-
Total Accumulated Depreciation	<u>41,918,977</u>	<u>2,175,091</u>	<u>(410,602)</u>
Total Capital Assets, Being Depreciated, Net	<u>35,780,103</u>	<u>(1,655,932)</u>	<u>(124,567)</u>
Governmental Activities Capital Assets, Net	<u><u>37,878,100</u></u>	<u><u>1,593,776</u></u>	<u><u>(149,902)</u></u>
<b><u>Business-Type Activities:</u></b>			
Capital Assets Not Being Depreciated:			
Land	310,612	-	-
Construction in Progress	21,388,472	713,794	(38,151)
Total Capital Assets Not Being Depreciated	<u>21,699,084</u>	<u>713,794</u>	<u>(38,151)</u>
Capital Assets Being Depreciated:			
Buildings	2,963,734	3,447	-
Machinery and Equipment	2,536,290	50,157	(59,890)
Water and Wastewater System	45,493,750	259,164	-
Total Capital Assets, Being Depreciated	<u>50,993,774</u>	<u>312,768</u>	<u>(59,890)</u>
Less: Accumulated Depreciation For:			
Buildings and Improvements	1,013,291	59,073	-
Machinery and Equipment	1,487,206	151,244	(44,805)
Water and Wastewater System	23,221,072	966,297	-
Total Accumulated Depreciation	<u>25,721,569</u>	<u>1,176,614</u>	<u>(44,805)</u>
Total Capital Assets, Being Depreciated, Net	<u><u>25,272,205</u></u>	<u><u>(863,846)</u></u>	<u><u>(15,085)</u></u>
Business-Type Activities Capital Assets, Net	<u><u>46,971,289</u></u>	<u><u>(150,052)</u></u>	<u><u>(53,236)</u></u>

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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

#### **Governmental Activities:**

General Government	106,188
Event Facilities	156,140
Facilities Maintenance	139,266
Public Safety	564,914
Public Works	1,190,045
Planning	1,744
Purchasing	253
Library	12,743
Non-Departmental	3,798
Total Depreciation Expense - Governmental Activities	<u>2,175,091</u>

#### **Business-Type Activities:**

Water and Sewer	1,110,464
Business Development Center	66,150
Total Depreciation Expense - Business-Type Activities	<u>1,176,614</u>

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

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

On May 17, 2005, the City defeased a Section 108 Loan in the amount of \$380,000, by placing the proceeds of the loan in an irrevocable trust to provide for all future debt service payments of the loan. Accordingly, the trust account assets and liabilities for the defeased loan are not included in the City's financial statements. On December 31, 2009, \$285,000 of the loan considered defeased is still outstanding.

#### **Notes Payable-Governmental Activities:**

On April 27, 2006, the City executed a note with Texas Bank and Trust in the amount of \$216,569 to purchase ten police cars. The payments are due annually at \$77,969 (includes principal and interest) for the next three years at a fixed interest rate of 3.95%. This note was paid off this year.

On March 9, 2007, the City executed a note with Texas Bank and Trust in the amount of \$176,789 to purchase eight police vehicles. Payments are due annually at \$64,071 (includes principal and interest) for the next three years at a fixed interest rate of 3.95%.

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

On June 2, 2009, the City executed a note with Texas Bank and Trust in the amount of \$45,458 to purchase two police vehicles. The payment of the note, plus interest of 2.50%, is due January 28, 2010.

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

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### **Enterprise Funds Debt:**

On September 25, 1997, the City passed an ordinance authorizing the issuance of \$7,020,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 1997, with an average interest rate of 4.3%, for the purpose of providing money for improvements and extensions to the sewer system; the wastewater treatment plant and the wastewater collection system. The initial bond was issued, sold, and delivered as a single fully registered bond, dated September 15, 1997, in the principal amount of \$7,020,000, payable in annual installments of principal and interest to the initial registered owner, the Texas Water Development Board.

On May 29, 1998, the City passed an ordinance authorizing the issuance of \$8,455,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 1998, with interest from 6.5% to 4.5%, for the purpose of providing money for improvements and extensions to the sewer system; water supply and treatment facilities. The initial bond was issued, sold and delivered as a single fully registered bond, without interest coupons, dated June 15, 1998, in the denomination and aggregate principal amount of \$8,445,000, payable in annual installments of principal and interest to the initial registered owner, Dean Witter Reynolds, or to the registered assignee or assignees of said bond.

On September 16, 1999, the City passed an ordinance authorizing the issuance of \$3,500,000 City of Marshall, Texas, Waterworks and Sewer System Revenue Bonds, Series 1999, with interest from 6.75% to 4.75%, for the purpose of providing money for improvements and extensions to the sewer system; water supply and treatment facilities. The initial bond was issued, sold and delivered as a single fully registered bond, without interest coupons, dated September 15, 1999, in the denomination and aggregate principal amount of \$3,500,000, payable in annual installments of principal and interest to the initial registered owner, Nike Securities, L.P., or to the registered assignee or assignees of said bond.

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

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

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

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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

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, 2009, \$9,525,000 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:

<b><u>Schedule of Refunded Bonds</u></b>			
	<b><u>Date Maturity</u></b>	<b><u>Interest Rates</u></b>	<b><u>Amount</u></b>
Waterworks and Sewer System Revenue Bonds, Series 1998	June 15, 2013-2019	4.500%	4,325,000
Waterworks and Sewer System Revenue Bonds, Series 1999	June 15, 2011-2019	4.750% - 6.350%	2,175,000
Waterworks and Sewer System Revenue Bonds, Series 2000	June 15, 2014-2019	5.125%	1,995,000
Waterworks and Sewer System Revenue Bonds, Series 2001	June 15, 2017-2022	4.750% - 5.000%	1,030,000 <u>9,525,000</u>

### **General Obligation Debt:**

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

On August 15, 1995, the City voters authorized the issuance of \$3,600,000 General Obligation Bonds, Series 1995. The proceeds of the issuance are to be used for improvements to streets, parks, downtown sidewalks, and flood control. The bonds were issued on November 1, 1995, with interest payable June 1 and December 1 of each year, commencing June 1, 1996. The City reserves the right, at its option, to redeem bonds maturing June 1, 2006 through June 1, 2010 in whole or part, at par value, plus accrued interest, to the date fixed for redemption.

On September 20, 2001, the City passed an ordinance authorizing the issuance of \$1,540,000 Combination Tax and Revenue Certificate of Obligation Bonds, Series 2001. The proceeds of the issuance are to be used for the purpose of improving the Civic Center, and for paying legal, fiscal and engineering fees in connection with these projects. The bonds were issued on

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

October 30, 2001, with interest payable June 15 and December 15 of each year, commencing June 15, 2002. The City reserves the right, at its option, to redeem Certificates maturing June 15, 2012 through June 15, 2016, both inclusive, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof on June 15, 2011 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

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.

A summary of changes in long-term debt for the year ended December 31, 2009 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issued</u>	<u>Amounts Outstanding 1/1/2009</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amounts Outstanding 12/31/2009</u>	<u>Interest Current Year</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>								
<u>Bonded Indebtedness</u>								
General Obligation Bonds, Series 1995	4.50-6.50%	3,600,000	110,000	-	(55,000)	55,000	3,898	55,000
Certificate of Obligations, Series 2001	4.75%	1,540,000	1,000,000	-	(105,000)	895,000	42,575	110,000
General Obligation Bonds, Series 2007	3.85-5.00%	6,230,000	6,030,000	-	(150,000)	5,880,000	244,238	160,000
Total Governmental Activities Bonded Indebtedness		<u>11,370,000</u>	<u>7,140,000</u>	<u>-</u>	<u>(310,000)</u>	<u>6,830,000</u>	<u>290,711</u>	<u>325,000</u>
<u>Business-Type Activities:</u>								
<u>Bonded Indebtedness</u>								
Water and Sewer Revenue Bonds, Series 1997	2.80-4.25%	7,020,000	4,215,000	-	(385,000)	3,830,000	164,930	405,000
Water and Sewer Revenue Bonds, Series 1998	4.50-6.50%	8,455,000	1,515,000	-	(355,000)	1,160,000	60,275	370,000
Water and Sewer Revenue Bonds, Series 1999	4.75-6.75%	3,500,000	335,000	-	(165,000)	170,000	16,554	170,000
Water and Sewer Revenue Bonds, Series 2000	5.125-7.13%	4,580,000	1,230,000	-	(220,000)	1,010,000	57,202	230,000
Water and Sewer Revenue Bonds, Series 2001	4.60-6.00%	2,500,000	965,000	-	(100,000)	865,000	45,129	105,000
Water and Sewer Revenue Bonds, Series 2003	3.50-4.50%	7,000,000	5,970,000	-	(290,000)	5,680,000	235,010	300,000
Water and Sewer Revenue Refunding Bonds, 2006	4.00-5.50%	9,235,000	9,235,000	-	-	9,235,000	436,913	-
Premium (Refunding Bonds, Series 2006)	N/A	<u>745,082</u>	<u>645,738</u>	<u>-</u>	<u>(49,672)</u>	<u>596,066</u>	<u>-</u>	<u>-</u>
Total Business-Type Bonded Indebtedness		<u>43,035,082</u>	<u>24,110,738</u>	<u>-</u>	<u>(1,564,672)</u>	<u>22,546,066</u>	<u>1,016,013</u>	<u>1,580,000</u>
Total Bonded Indebtedness		<u>54,405,082</u>	<u>31,250,738</u>	<u>-</u>	<u>(1,874,672)</u>	<u>29,376,066</u>	<u>1,306,724</u>	<u>1,905,000</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

Debt service requirements are as follows:

#### General Obligation Bonds:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	215,000	238,192	453,192
2011	225,000	227,192	452,192
2012	235,000	215,692	450,692
2013	250,000	204,505	454,505
2014	260,000	193,993	453,993
2015-2019	1,500,000	800,919	2,300,919
2020-2024	1,890,000	469,612	2,359,612
2025-2027	<u>1,360,000</u>	<u>84,335</u>	<u>1,444,335</u>
<b>Total</b>	<b><u>5,935,000</u></b>	<b><u>2,434,440</u></b>	<b><u>8,369,440</u></b>

#### Certificate of Obligation:

<u>Year Ended</u> <u>December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	110,000	37,688	147,688
2011	115,000	32,631	147,631
2012	120,000	27,562	147,562
2013	125,000	22,125	147,125
2014	135,000	16,275	151,275
2015-2017	<u>290,000</u>	<u>13,556</u>	<u>303,556</u>
<b>Total</b>	<b><u>895,000</u></b>	<b><u>149,837</u></b>	<b><u>1,044,837</u></b>

#### Water and Sewer Revenue Bonds:

<u>Year Ended</u> <u>December 31,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	1,580,000	946,414	2,526,414
2011	1,640,000	872,992	2,512,992
2012	1,715,000	799,550	2,514,550
2013	1,800,000	723,855	2,523,855
2014	1,880,000	646,569	2,526,569
2015-2019	<u>10,870,000</u>	<u>1,834,165</u>	<u>12,704,165</u>
2020-2023	<u>2,465,000</u>	<u>209,723</u>	<u>2,674,723</u>
<b>Total</b>	<b><u>21,950,000</u></b>	<b><u>6,033,268</u></b>	<b><u>27,983,268</u></b>

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### **General Long-Term Debt Notes Payable:**

<b>Year Ended</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>December 31,</b>			<b>Requirements</b>
2010	179,803	8,795	188,598
2011	76,917	2,692	79,609
<b>Total</b>	<b>256,720</b>	<b>11,487</b>	<b>268,207</b>

#### **Capital Lease Payable - Governmental Activities:**

In January 2003, the City entered into a lease agreement with Chase Equipment Leasing, Inc. formerly Banc One Leasing Corporation (Lessor). The agreement was to assist the City in financing the acquisition of a traffic signal. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreement totaled \$30,356 and required seven annual payments of \$4,337. This lease was paid off in 2009.

The asset acquired through the capital lease is as follows:

<b>Assets:</b>	<b>Amount</b>
Traffic Signal	26,000
Total	26,000
Less: Accumulated Depreciation	(18,157)
<b>Total</b>	<b>7,843</b>

#### **Capital Lease Payable - Business-Type Activities:**

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

The assets acquired through the capital lease are as follows:

<b>Assets:</b>	<b>Amount</b>
Case Dozer	77,917
Case Excavator	106,382
Flatbed Trailer	14,832
Ford F-250	20,755
Ford F-250	20,755
Freightliner Dump Truck	28,500
Total	269,141
Less: Accumulated Depreciation	(50,558)
<b>Total</b>	<b>218,583</b>

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

The future minimum lease payments under the capital lease and the present value of the net minimum lease payments at December 31, 2009, were as follows:

<b>Year Ended</b>	<b>Various Equipment</b>
<b><u>December 31,</u></b>	
2010	55,485
2011	55,485
2012	<u>55,485</u>
Total Minimum Lease Payments	166,455
Less: Amount Representing Interest Costs	<u>(9,103)</u>
Present Value of Minimum Lease Payments	<u>157,352</u>

### **Changes In Long-Term Liabilities:**

Long-term activity for the year ended December 31, 2009, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b><u>Governmental Activities:</u></b>					
Bonds Payable:					
General Obligation Bonds	6,140,000	-	(205,000)	5,935,000	215,000
Certificate of Obligations	1,000,000	-	(105,000)	895,000	110,000
Total Bonds Payable	<u>7,140,000</u>	<u>-</u>	<u>(310,000)</u>	<u>6,830,000</u>	<u>325,000</u>
Other Liabilities:					
Notes Payable	417,736	45,458	(206,474)	256,720	179,803
Capital Lease Payable	4,110	-	(4,110)	-	-
Accrued Post Retirement Health Care	131,722	131,722	-	263,444	-
Compensated Absences	2,126,273	155,806	-	2,282,079	-
Total Other Liabilities	<u>2,679,841</u>	<u>332,986</u>	<u>(210,584)</u>	<u>2,802,243</u>	<u>179,803</u>
Total Governmental Activities	<u>9,819,841</u>	<u>332,986</u>	<u>(520,584)</u>	<u>9,632,243</u>	<u>504,803</u>
<b><u>Business-Type Activities:</u></b>					
Revenue Bonds Payable	24,110,738	-	(1,564,672)	22,546,066	1,580,000
Total Bonds Payable	<u>24,110,738</u>	<u>-</u>	<u>(1,564,672)</u>	<u>22,546,066</u>	<u>1,580,000</u>
Other Liabilities:					
Capital Lease Payable	238,257	-	(80,905)	157,352	50,976
Accrued Post Retirement Health Care	56,453	56,452	-	112,905	-
Compensated Absences	267,826	8,593	-	276,419	-
Total Other Liabilities	<u>562,536</u>	<u>65,045</u>	<u>(80,905)</u>	<u>546,676</u>	<u>50,976</u>
Total Business-Type Activities	<u>24,673,274</u>	<u>65,045</u>	<u>(1,645,577)</u>	<u>23,092,742</u>	<u>1,630,976</u>
Total Government	<u>34,493,115</u>	<u>398,031</u>	<u>(2,166,161)</u>	<u>32,724,985</u>	<u>2,135,779</u>

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

### **NOTE 6: INTERFUND BALANCES AND TRANSFERS:**

Interfund transfers for the year ended December 31, 2009, consisted of the following individual amounts:

Transfers to General Fund From (Major Governmental Fund):

Peter Whetstone Square Renovation (Nonmajor Governmental Fund)	103,729
Water and Sewer Fund (Major Enterprise Fund)	1,512,500
<b>Total Transfers to General Fund (Major Governmental Fund)</b>	<b><u>1,616,229</u></b>

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

Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	147,794
<b>Total Transfers to 2001 Combination Tax and Revenue Debt Service Fund (Nonmajor Gov. Fund)</b>	<b><u>147,794</u></b>

Transfers to Equipment Replacement Fund (Internal Service Fund):

General Fund (Major Governmental Fund)	249,909
<b>Total Transfers to Equipment Replacement Fund (Internal Service Fund)</b>	<b><u>249,909</u></b>

Transfers to 2007 General Obligation Fund (Debt Service Fund):

1995 General Obligation Fund (Nonmajor Governmental Fund)	394,568
<b>Total Transfers to 2007 General Obligation Fund (Debt Service Fund)</b>	<b><u>394,568</u></b>

Transfers to Stores Inventory Fund (Internal Service Fund):

General Fund (Major Governmental Fund)	6,947
Water and Sewer Fund (Major Enterprise Fund)	2,977
<b>Total Transfers to Stores Inventory Fund (Internal Service Fund)</b>	<b><u>9,924</u></b>

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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

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

<u>Fund Balance</u>	<u>December 31, 2009</u>
<b><u>Budgeted Special Revenue Funds:</u></b>	
Motel Occupancy Tax Fund	67,483
Litter Control Fund	-
D.A.R.E. Donations Fund	60,842
<b>Total</b>	<b>128,325</b>
<b><u>Non-budgeted Special Revenue Funds:</u></b>	
Controlled Substance Fund	113,219
Fire Department Restitution Fund	-
Art Center Projects Fund	16,638
Muni Court Tech Fund	10,112
Arena Maintenance Fund	1,951
Library Grants Fund	2
Peter Whetstone Square Renovation	-
Disaster Relief Fund	2,644
Main Street Fund	7,890
Police Special Projects Fund	43,163
State Grant Fund	145
<b>Total</b>	<b>195,764</b>
<b>All Special Revenue Funds</b>	<b>324,089</b>

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

<u>Fund Balance</u>	<u>December 31, 2009</u>
<b><u>Budgeted Debt Service Fund:</u></b>	
1995 General Obligation Debt Service Fund	431,573
<b><u>Non-budgeted Debt Service Funds:</u></b>	
2001 Combination Tax and Revenue Debt Service Fund	3,723
2007 General Obligation Debt Service Fund	20,767
<b>Total</b>	<b>24,490</b>
<b>All Debt Service Funds</b>	<b>456,063</b>

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

### **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), one of 833 administered by 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.

##### **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.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

##### **Contributions:**

The contribution rate for employees is 7%, and the City matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the State law governing TMRS, the actuary annually determines the City contribution rate. 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 currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 29-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2009 valuation is effective for rates beginning January 2011.)

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city.

Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2009 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the TMRS Board also adopted in 2007 a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

#### **Pension Benefit Obligation:**

Actuarial Valuation Date	12/31/09
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level % of Payroll
Remaining Amortization Period	28 Years- "Closed"
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7.50%
Projected Salary Increases	Varies by Age and Service
Inflation Rates	3.00%
Cost-of-Living Adjustments	2.1% (3.00% CPI)
Actuarial Value of Assets	17,671,205
Actuarial Accrued Liability	32,095,373
Percentage Funded	55.10%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	14,424,168
Annual Covered Payroll	8,160,194
UAAL as a Percentage of Covered Payroll	176.80%
Net Pension Obligation (NPO) at the Beginning of Period	-
Annual Pension Cost:	
Annual Required Contribution (ARC)	1,402,742
Contributions Made	<u>(1,402,742)</u>
<b>NPO at the End of the Period</b>	<u><u>-</u></u>

The City of Marshall is one of 833 municipalities having the benefit plan administered by TMRS. Each of the 833 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2009 valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing P. O. Box 149153, Austin, Texas 78714-9153.

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

#### Analysis of Funding Progress:

Information for the last ten years is as follows:

Report Year Ended <u>Dec. 31</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability</u>	Percentage Funded	Unfunded Actuarial Accrued <u>Liability</u>	Annual Covered <u>Payroll</u>	Unfunded Actuarial Accrued <u>Liability</u> as a Percentage of Covered <u>Payroll</u>
2000	12,050,559	16,679,106	72%	4,628,547	5,191,471	89%
2001	13,685,851	18,866,303	73%	5,180,452	5,813,758	89%
2002	13,541,764	19,186,456	71%	5,644,692	6,115,763	92%
2003	13,285,181	19,799,616	67%	6,514,435	6,173,058	106%
2004	14,074,145	21,077,619	67%	7,003,474	6,356,102	110%
2005	14,610,502	22,003,644	66%	7,393,142	6,339,397	117%
2006	15,254,379	23,203,409	66%	7,949,030	6,835,077	116%
2007	15,327,307	28,142,023	55%	12,814,716	7,270,965	176%
2008	15,936,612	29,084,256	55%	13,147,644	7,580,382	173%
2009	17,671,205	32,095,373	55%	14,424,168	8,160,194	177%

#### Trend Information for Annual Pension Cost:

Information for the last six years is as follows:

Year Ended <u>Dec. 31</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2004	980,659	100%	-
2005	1,049,695	100%	-
2006	1,102,398	100%	-
2007	1,203,090	100%	-
2008	1,316,351	100%	-
2009	1,402,742	100%	-

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

### **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, 2009, was \$2,232,334. 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% of their annual salary to the Fund. The City contributes a matching 17.19% of annual covered payroll to the Fund.

##### **Funding Status and Contributions:**

The latest actuarial study of the Fund was made as of December 31, 2008. The actuarial cost method used in the valuation was a variation of the Aggregate Entry Age Normal Actuarial Cost Method. Significant actuarial assumptions used included a rate of return on investments of 8.00% per year, and projected salary increases of 4.25% per year. The market value of the Firemen's Relief and Retirement Fund at December 31, 2009 was \$5,905,214, 95% of the book value as of December 31, 2009.

At December 31, 2008, the unfunded actuarial accrued liability was \$8,119,887, computed as follows:

##### **Actuarial Present Value of Accumulated Benefits:**

Inactive participants	6,770,325
Active participants	<u>6,147,508</u>
Total Actuarial Liability	12,917,833
Actuarial Value of Assets	<u>4,797,946</u>
<b>Unfunded Actuarial Accrued Liability</b>	<b><u>8,119,887</u></b>

Contribution rates are not actuarially determined, but established by state statute. At December 31, 2008, normal cost of present benefits for each participant was 13.64% of covered payroll. The unfunded actuarial accrued liability would be amortized using the level method of payroll over 51.1 years, based on a combined City and firefighter's annual contribution of 30% of covered payroll.

Contributions for 2009 totaling \$724,781 were made in accordance with the contribution requirements established by State statute.

### **NOTE 9: HEALTH INSURANCE COVERAGE:**

The City provides health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. Currently, the City pays 100% of the health insurance premiums for retirees retiring prior to October 30, 2007. Employees who retire after October 30, 2007 and wish to continue on the City's health plan must pay the difference between the retiree blended rate of \$599 and \$371, which is the amount the City currently pays for active employee coverage. Currently, the City contributes \$386 per employee/\$391 per retirees per month, and the employee/retiree, 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, 2009**

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

#### **Plan Description and Funding Policy:**

City Policy allows the City to provide health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. Currently, the City pays 100% of the health insurance premiums for retirees retiring prior to October 30, 2007. The current rate for active employees is \$371 per month. The current rate for retirees is \$427 per month. Employees who retire after October 30, 2007, and who have completed 20 years of service and have reached age 60 and wish to continue on the City's health plan must pay the difference between the retiree blended rate and the amount the City currently pays for active employee coverage. The current rate for these retirees is \$599 per month, which is intended to be the blended rate that does not create an implicit subsidy. The City's contribution toward this retiree premium is the same as the amount contributed for active employees (\$371 per month). Retiree medical and dental coverage ends at age 65. Retirees pay for any dependent coverage and for dental coverage. Employees hired after August 1, 2005 will not be eligible to remain on the health plan upon retirement.

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

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

In the prior year the City implemented Governmental Accounting Standards Board (GASB) Statement 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*" prospectively (no beginning Net OPEB obligation). The last valuation performed was at December 31, 2008. 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 30 year period, using a 4% discount rate. The Unfunded Actuarial Liability and the Annual Cost at December 31, 2008 was as follows:

<b>Category</b>	<b>Liability (Actuarial Present Value)</b>			<b>Annual Cost</b>			<b>12/31/2009 Funding %</b>
	<b>Past Service</b>	<b>Future</b>	<b>Total</b>	<b>Past Service</b>	<b>(Normal Cost) Future</b>	<b>Total</b>	
Active	265,865	277,023	542,888	14,784	18,326	33,110	
Retirees	2,788,657	-	2,788,657	155,066	-	155,066	
<b>Total</b>	<b>3,054,522</b>	<b>277,023</b>	<b>3,331,545</b>	<b>169,850</b>	<b>18,326</b>	<b>188,176</b>	<b>0%</b>

#### **Determination of Annual Required Contribution:**

Normal Cost at Fiscal Year End	18,326
Amortization of Unfunded Actuarial Accrued Liability	169,850
<b>Annual Required Contribution</b>	<b>188,176</b>

#### **Determination of Net OPEB Obligation:**

Annual Required Contribution	188,176
Less Assumed Contributions Made	-
Estimated Increase in Net OPEB Obligation	188,176
Net OPEB Obligations - Beginning of Year	188,176
<b>Net OPEB Obligations - End of Year</b>	<b>376,352</b>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

#### Trend Information for Annual OPEB Cost:

Year Ended <u>Dec. 31</u>	Annual OPEB <u>Cost</u>	Percent of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligations</u>
2008	188,176	-	188,176
2009	188,176	-	376,352

#### Schedule of Funding Progress:

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

### 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 2,000,000	Each Occurrence Annual Aggregate
Auto Liability	1,000,000	Each Occurrence
Law Enforcement Liability	1,000,000 2,000,000	Each Occurrence Annual Aggregate
Errors and Omissions Liability	1,000,000 2,000,000	Each Wrongful Act Annual Aggregate
Real & Personal Property	76,014,845	1,000
Mobile Equipment	1,859,655	1,000
Boiler & Machinery	5,531,392	1,000

### NOTE 12: SOLID WASTE COLLECTION CONTRACT:

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

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

The City entered into an agreement with Northeast Texas Municipal Water District on February 1, 2006. The District shall sell and deliver water from Lake of The Pines in amounts up to and including 9,000 acre-feet per annum to the City. Payments made to the District are based on schedules, quantities, and rates detailed in the contract. The term of the agreement is for fifty years. At the expiration of the agreement, it may be renewed and extended up to an additional period of

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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, 2009, there are no claims or lawsuits pending against the City.

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

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

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

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

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

On January 28, 2010, the City issued \$1,140,000 Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation. The certificates are payable as principal and interest from the levy and collection of ad valorem taxes and from a limited pledge (not to exceed \$1,000) of surplus revenues of the City's Waterworks and Sewer System. Payments will be payable June 15 and December 15 of each year, commencing June 15, 2010. The certificates were issued for improvements to municipal buildings (energy efficiency improvements) and to pay issuance costs. The City also entered into an energy services contract with the Schneider Electric Buildings Americas, Inc., which guarantees energy savings over 15 years. The City plans to repay the certificates of obligation with the energy savings.

On May 15, 2010, the City issued \$2,100,000 Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation. The certificates are payable as principal and interest from the levy and collection of ad valorem taxes and from a limited pledge (not to exceed \$1,000) of surplus revenues of the City's Waterworks and Sewer System. Payments will be payable June 15 and December 15 of each year, commencing December 15, 2010. The certificates of obligation will be paid back over 15 years using Hotel Occupancy tax funds. The certificates were issued for improvements to an existing municipal building (Memorial City Hall) and to pay issuance costs.

### **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)

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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, 2009, the carrying amount of MEDCO's deposits (including \$400 petty cash) was \$41,790, and the respective bank balance was \$123,005. MEDCO's cash deposits at December 31, 2009, were entirely covered by FDIC insurance.

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

At December 31, 2009, MEDCO was not exposed to custodial credit risk. MEDCO only had investments in TexPool, a state investment pool, which is not subject to custodial credit risk.

3. Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. According to MEDCO's policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of MEDCO and conforming to all applicable state and MEDCO statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. MEDCO had investments in TexPool, which is classified as a 2a-7 like pool and is not subject to reporting interest rate risk.

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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, 2009 are:

	<u>Rating</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Public Funds Investment Pools (TexPool)	AAAm (S&P)	<u>2,190,745</u>	<u>2,190,745</u>

At December 31, 2009, 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.

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

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

#### **Receivables:**

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

	<b><u>Business Development Center</u></b>	<b><u>Center For Applied Technology</u></b>	<b><u>Total</u></b>
Receivables:			
Accounts	<u>18,241</u>	<u>16,306</u>	<u>34,547</u>
Gross	<u>18,241</u>	<u>16,306</u>	<u>34,547</u>
Receivables Less:			
Allowance for Uncollectibles	<u>(4,022)</u>	<u>(2,929)</u>	<u>(6,951)</u>
Net Total Receivables	<u>14,219</u>	<u>13,377</u>	<u>27,596</u>

#### **Due From Other Governments:**

The City is required to contribute to MEDCO, \$.005 of the \$.0825 sales tax levied on taxable sales. Monthly, the City receives sales tax remittances from the State of Texas for taxes collected by the State on behalf of the City. Because of the time allowed by the State for merchants to file Sales Tax Returns, a lag exists between when the tax is earned by the City and when it is received. At December 31, 2009, the amount due to MEDCO from the City for its portion of sales tax revenue less payroll was \$324,954, including \$5,339 due from the City from previous years.

#### **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
Machinery and Equipment	5-10 Years
Improvements	10-20 Years

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

Capital asset activity for the year ended December 31, 2009, was as follows:

<b><u>Component Unit Activities:</u></b>	<b><u>December 31, 2008</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>December 31, 2009</u></b>
Capital Assets Not Being Depreciated:				
Land	2,168,547	838,746	-	3,007,293
Construction In Progress	<u>1,674,466</u>	<u>2,900</u>	<u>-</u>	<u>1,677,366</u>
Total Capital Assets Not Being Depreciated	<u>3,843,013</u>	<u>841,646</u>	<u>-</u>	<u>4,684,659</u>
Capital Assets Being Depreciated:				
Buildings	6,886,300	450,174	-	7,336,474
Improvements	952,876	-	-	952,876
Machinery, Tools, and Equipment	<u>481,178</u>	<u>31,080</u>	<u>-</u>	<u>512,258</u>
Total Capital Assets Being Depreciated	<u>8,320,354</u>	<u>481,254</u>	<u>-</u>	<u>8,801,608</u>
Less Accumulated Depreciation For:				
Buildings	(1,910,402)	(172,157)	-	(2,082,559)
Improvements	(35,557)	(49,917)	-	(85,474)
Machinery, Tools, and Equipment	<u>(442,595)</u>	<u>(14,820)</u>	<u>-</u>	<u>(457,415)</u>
Total Accumulated Depreciation	<u>(2,388,554)</u>	<u>(236,894)</u>	<u>-</u>	<u>(2,625,448)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,931,800</u>	<u>244,360</u>	<u>-</u>	<u>6,176,160</u>
Component Unit Activities Capital Assets, Net	<u>9,774,813</u>	<u>1,086,006</u>	<u>-</u>	<u>10,860,819</u>

#### **Revenue Bonds Payable:**

MEDCO obtained approval from the City Commission of Marshall, Texas, on March 29, 1993, to issue \$7,000,000 of revenue bonds for the construction of Texas State Technical College, Marshall Center. The City will not be obligated in any way for the debt issued by MEDCO. On March 31, 2009, the MEDCO board of directors exercised its right to redeem the remaining balance of the bonds prior to maturity. Payment for the redemption maturities 2010 through 2013 occurred on June 1, 2009.

The following is a summary of MEDCO bond transactions for the year ended December 31, 2009:

Balance - Beginning of Year	2,065,000
Bonds Retired	<u>(2,065,000)</u>
Balance At End of Year	<u>-</u>
Interest Current Year	<u>55,367</u>

# CITY OF MARSHALL, TEXAS

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

#### **Notes Payable:**

On October 8, 2009, MEDCO executed a note with Texas Bank and Trust in the amount of \$1,000,000 to purchase land, building, and improvements. Payments are due quarterly at \$33,173 (includes principal and interest) for the next nine years at a fixed interest rate of 5.83%. Current requirements for principal and interest expenditures are accounted for in the General Fund.

Debt service requirements are as follows:

<b>Year Ended <u>December 31,</u></b>	<b>Governmental Activities</b>			<b>Total <u>Requirements</u></b>
	<b>Principal</b>	<b>Interest</b>	<b> </b>	
2010	57,437	42,082		99,519
2011	80,565	52,127		132,692
2012	85,366	47,326		132,692
2013	90,453	42,239		132,692
2014	95,842	36,850		132,692
2015-2019	<u>571,859</u>	<u>91,349</u>		663,208
<b>Total</b>	<b><u>981,522</u></b>	<b><u>311,973</u></b>		<b><u>1,293,495</u></b>

Long-term activity for the year ended December 31, 2009, was as follows:

<b>Component Unit Activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
	<b> </b>	<b> </b>	<b> </b>	<b> </b>	<b> </b>
Bonds Payable:					
Tax Revenue Bonds	2,065,000	-	(2,065,000)	-	-
Total Bonds Payable	<u>2,065,000</u>	<u>-</u>	<u>(2,065,000)</u>	<u>-</u>	<u>-</u>
Other Liabilities:					
Notes Payable	-	1,000,000	(18,478)	981,522	57,437
Total Other Liabilities	<u>-</u>	<u>1,000,000</u>	<u>(18,478)</u>	<u>981,522</u>	<u>57,437</u>
Total Governmental Activities					
Long-Term Liabilities	<u>2,065,000</u>	<u>1,000,000</u>	<u>(2,083,478)</u>	<u>981,522</u>	<u>57,437</u>

#### **Pension Plan:**

#### **Texas Municipal Retirement System:**

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

# **CITY OF MARSHALL, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

### **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, 2009, the carrying amount of MDDC's deposits was \$17,560 and the respective bank balances were \$17,560. MDDC's cash consists of demand deposits. For GASB 40 purposes, all of MDDC's deposits and investments are covered under deposits. All of MDDC's cash deposits at December 31, 2009, were entirely covered by FDIC insurance.

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

#### **Capital Assets:**

Capital asset activity for the year ended December 31, 2009, was as follows:

<b><u>Component Unit Activities:</u></b>	<b><u>December 31, 2008</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>December 31, 2009</u></b>
Capital Assets Being Depreciated:				
Building Improvements	2,421,363	-		2,421,363
Building	<u>-</u>	<u>50,217</u>	<u>-</u>	<u>50,217</u>
Total Capital Assets Being Depreciated	<u>2,421,363</u>	<u>50,217</u>	<u>-</u>	<u>2,471,580</u>
Less Accumulated Depreciation For:				
Building Improvements	(111,526)	(48,428)		(159,954)
Total Accumulated Depreciation	<u>(111,526)</u>	<u>(48,428)</u>	<u>-</u>	<u>(159,954)</u>
Total Capital Assets Being Depreciated, Net	<u>2,309,837</u>	<u>1,789</u>	<u>-</u>	<u>2,311,626</u>
Component Unit Activities Capital Assets, Net	<u>2,309,837</u>	<u>1,789</u>	<u>-</u>	<u>2,311,626</u>

#### **Note Payable:**

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

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

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

# CITY OF MARSHALL, TEXAS

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

The following is a summary of MDDC note transactions for the year ended December 31, 2009:

	<u>2009</u>
Balance - Beginning of Year	929,604
Current Year Transactions	<u>-</u>
<b>Balance At End of Year</b>	<b><u>929,604</u></b>

### **Changes In Long-Term Liabilities:**

Long-term activity for the year ended December 31, 2009, was as follows:

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

### **NOTE 20: COMPONENT UNIT DISCLOSURES – MARSHALL CONVENTION AND VISITORS BUREAU:**

#### **Deposits and Investments:**

At December 21, 2009, the carrying amount of MCVB's deposits was \$677,049 and the respective bank balances were \$696,380. MCVB's cash consists of demand deposits. For GASB 40 purposes, all of MCVB's deposits and investments are covered under deposits. \$250,000 of MCVB's cash deposits at December 31, 2009, were covered by FDIC insurance.

#### **Pension Plan:**

#### **Texas Municipal Retirement System:**

One of the employees of MCVB is 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 this employee are reimbursed by MCVB to the City. The contribution rate for the employee is 7%, and the City and/or MCVB's matching percent is currently 200% as adopted by the governing body of the City.

## **Combining and Individual Fund Financial Statements**

# CITY OF MARSHALL, TEXAS

Exhibit F-1

**GENERAL FUND  
BALANCE SHEET  
DECEMBER 31, 2009**

	<i>General Fund</i>
<b>ASSETS</b>	
Cash and Temporary Investments	5,077,812
Certificates of Deposit	1,654,134
Receivables (Net of Allowance for Uncollectible)	
Current Taxes	2,359,503
Delinquent Taxes	601,706
Customer:	
Sanitation	219,170
Ambulance	<u>894,629</u>
Franchise Taxes	1,113,799
Other	250,217
Accrued Interest	248,302
Note Receivable- Marshall Festival	6,472
Total Receivables	<u>84,401</u>
Prepaid Expenditures	4,664,400
Due from Other Governments	<u>4,040</u>
<b>TOTAL ASSETS</b>	<u>1,449,479</u>
	<u>12,849,865</u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts Payable	958,935
Accrued Liabilities	147,813
Deferred Revenue	<u>3,776,938</u>
<b>Total Liabilities</b>	<u>4,883,686</u>
<b>Fund Balance</b>	
Reserved for Prepaid Expenditures	4,040
Reserved for Noncurrent Loans	84,401
Unreserved, Designated for OPEB	71,893
Unreserved, Reported in General Fund	<u>7,805,845</u>
<b>Total Fund Balance</b>	<u>7,966,179</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>12,849,865</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, 2009

	<i>General Fund</i>
<b>REVENUE:</b>	
Ad Valorem Taxes	4,197,058
Sales Taxes	5,919,519
Franchise Tax	1,092,633
Permits and Fees:	
Refuse Collections	2,173,238
Ambulance Fees	1,299,616
Other Fees and Permits	<u>800,656</u>
Total Permits and Fees	4,273,510
Municipal Court Fines	472,251
Interest	51,337
Intergovernmental	684,243
Miscellaneous	<u>157,041</u>
<b>Total Revenue</b>	<u>16,847,592</u>
<b>EXPENDITURES:</b>	
Current:	
General Government:	
Legislative	51,782
Municipal Court	220,613
Legal	67,913
Administrative	224,390
Information Technology	196,694
City Secretary	99,642
Buildings and Risk Management	861,161
Human Resources	96,080
Main Street	63,158
Emergency Management	<u>3,042</u>
Total General Government	1,884,475
Event Facilities	621,263
Facilities Maintenance	708,065
Finance	212,269
Public Safety:	
Police Department	3,851,509
Fire Department	<u>3,364,142</u>
Total Public Safety	7,215,651
Public Works	2,754,702
Planning	562,873
Purchasing	2,893
Library	475,735
Non-Departmental	1,631,308
Tax Collection	67,554
Debt Service	220,347
Capital Outlay	<u>183,689</u>
<b>Total Expenditures</b>	<u>16,540,824</u>

# CITY OF MARSHALL, TEXAS

Exhibit F-2

Page 2 of 2

## **GENERAL FUND**

### **STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2009**

*General  
Fund*

#### **CONTINUED:**

<b>Excess (Deficiency) of Revenue Over Expenditures</b>	
<b>Before Other Financing Sources (Uses)</b>	<u>306,768</u>
 <b>Other Financing Sources (Uses)</b>	
Transfers In	1,616,229
Transfers Out	(256,855)
Loan Proceeds	45,458
Sale of Assets	43,022
<b>Total Other Financing Sources (Uses)</b>	<u>1,447,854</u>
 Net Change in Fund Balance	1,754,622
 Fund Balance at Beginning of Year	<u>6,211,557</u>
 <b>Fund Balance at End of Year</b>	<u>7,966,179</u>

# CITY OF MARSHALL, TEXAS

**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**DECEMBER 31, 2009**

Exhibit F-3  
Page 1 of 2

		Special Revenue							
Motel Occupancy Tax Fund	Community Development Fund	Municipal Court Tech Fund	Arena Maintenance Fund	Library Grants Fund	Litter Control Fund	D.A.R.E. Donations Fund	Controlled Substance Fund	Fire Dept. Restitution Fund	Art Center Projects Fund
72,958	(87,187)	10,112	1,951	10,418	4,400	61,091	39,454	-	16,638
76,038	-	-	-	-	-	-	-	-	-
34,739	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	149,152	-	-	-	-	-	92,694	-	-
-	<u>183,735</u>	<u>61,965</u>	<u>10,112</u>	<u>1,951</u>	<u>10,418</u>	<u>4,400</u>	<u>61,091</u>	<u>132,148</u>	<u>16,638</u>
<b>ASSETS</b>									
Cash and Temporary Investments									
Receivable- Current Taxes									
Receivable- Delinquent Taxes									
Other Receivables									
Due from Other Governments									
<b>TOTAL ASSETS</b>	<b><u>183,735</u></b>	<b><u>61,965</u></b>	<b><u>10,112</u></b>	<b><u>1,951</u></b>	<b><u>10,418</u></b>	<b><u>4,400</u></b>	<b><u>61,091</u></b>	<b><u>132,148</u></b>	<b><u>16,638</u></b>
<b>LIABILITIES AND FUND BALANCES</b>									
Liabilities									
Accounts Payable	81,513	61,965	-	-	-	4,400	249	18,929	-
Deferred Revenue	34,739	-	-	-	-	<u>4,400</u>	<u>249</u>	<u>18,929</u>	<u>-</u>
<b>Total Liabilities</b>	<b><u>116,252</u></b>	<b><u>61,965</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>4,400</u></b>	<b><u>249</u></b>	<b><u>18,929</u></b>	<b><u>-</u></b>
Fund Balances									
Reserved for Debt Service	-	-	-	-	-	-	-	-	-
Reserved for Library	-	-	-	-	-	-	-	-	-
Reserved for Capital Projects	-	-	-	-	-	-	-	-	-
Unreserved	67,483	-	10,112	1,951	2	-	60,842	113,219	16,638
<b>Total Fund Balances</b>	<b><u>67,483</u></b>	<b><u>-</u></b>	<b><u>10,112</u></b>	<b><u>1,951</u></b>	<b><u>2</u></b>	<b><u>-</u></b>	<b><u>60,842</u></b>	<b><u>113,219</u></b>	<b><u>16,638</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>183,735</u></b>	<b><u>61,965</u></b>	<b><u>10,112</u></b>	<b><u>1,951</u></b>	<b><u>10,418</u></b>	<b><u>4,400</u></b>	<b><u>61,091</u></b>	<b><u>132,148</u></b>	<b><u>16,638</u></b>

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET DECEMBER 31, 2009

<u>CONTINUED:</u>	<u>Special Revenue Continued</u>						<u>Debt Service</u>			<u>Capital Projects</u>			<u>Permanent</u>		
	<i>Peter</i>	<i>Police</i>	<i>Disaster</i>	<i>Main</i>	<i>State</i>	<i>Grant</i>	<i>1995</i>	<i>2001</i>	<i>2007</i>	<i>Civic</i>	<i>1995</i>	<i>Capital</i>	<i>Total</i>	<i>Nonmajor</i>	<i>Governmental</i>
	<i>Whistone</i>	<i>Special</i>	<i>Relief</i>	<i>Street</i>	<i>Grant</i>	<i>Fund</i>	<i>General</i>	<i>Combination</i>	<i>General</i>	<i>Center</i>	<i>Capital</i>	<i>Imp.</i>	<i>Library</i>	<i>Fund</i>	<i>Funds</i>
<i>Square</i>	<i>Projects</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Obligation</i>	<i>Tax &amp; Revenue</i>	<i>Obligation</i>	<i>Imp.</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Funds</i>
<i>Renovation</i>							<i>Debt Service</i>	<i>Debt Service</i>	<i>Debt Service</i>	<i>Debt Service</i>					
<b>ASSETS</b>															
Cash and Temporary Investments	-	43,163	2,644	8,917	145	424,926	3,723	20,767	79,799	34,687	307,071	1,055,677	-		
Receivable- Current Taxes	-	-	-	-	-	277,840	-	-	-	-	-	353,878			
Receivable- Delinquent Taxes	-	-	-	-	-	70,853	-	-	-	-	-	105,592			
Other Receivables	-	-	-	-	-	-	-	-	-	-	-	2,363			
Due from Other Governments	-	-	-	-	-	-	-	-	-	-	-	-	241,846		
<b>TOTAL ASSETS</b>	<b>-</b>	<b>43,163</b>	<b>2,644</b>	<b>8,917</b>	<b>145</b>	<b>773,619</b>	<b>3,723</b>	<b>20,767</b>	<b>79,799</b>	<b>34,687</b>	<b>309,434</b>	<b>1,759,356</b>			
<b>LIABILITIES AND FUND BALANCES</b>															
<b>Liabilities</b>															
Accounts Payable	-	-	-	-	-	1,027	-	-	-	-	-	4,999		173,082	
Deferred Revenue	-	-	-	-	-	-	342,046	-	-	-	-	-	387,201		
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,027</b>	<b>-</b>	<b>342,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,999</b>	<b>560,283</b>	
<b>Fund Balances</b>															
Reserved for Debt Service	-	-	-	-	-	-	431,573	3,723	20,767	-	-	-	456,063		
Reserved for Library	-	-	-	-	-	-	-	-	-	-	-	304,435		304,435	
Reserved for Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-	114,486		
Unreserved	-	-	-	-	-	-	-	-	-	-	-	-	324,089		
<b>Total Fund Balances</b>	<b>-</b>	<b>43,163</b>	<b>2,644</b>	<b>7,890</b>	<b>145</b>	<b>431,573</b>	<b>3,723</b>	<b>20,767</b>	<b>79,799</b>	<b>34,687</b>	<b>304,435</b>	<b>1,199,073</b>			
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>-</b>	<b>43,163</b>	<b>2,644</b>	<b>8,917</b>	<b>145</b>	<b>773,619</b>	<b>3,723</b>	<b>20,767</b>	<b>79,799</b>	<b>34,687</b>	<b>309,434</b>	<b>1,759,356</b>			

# CITY OF MARSHALL, TEXAS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2009

	<i>Motel Occupancy Tax Fund</i>	<i>Community Development Fund</i>	<i>Municipal Court Tech Fund</i>	<i>Arena Maintenance Fund</i>	<i>Library Grants Fund</i>	<i>Special Revenue Litter Control Fund</i>	<i>D.A.R.E. Donations Fund</i>	<i>Controlled Substance Fund</i>	<i>Fire Dept. Restitution Fund</i>	<i>Art Center Projects Fund</i>
<b>REVENUE:</b>										
Ad Valorem Taxes	-	447,275	-	-	8,176	-	-	94,644	-	4,970
Intergovernmental	845,758	-	-	-	-	-	-	-	-	-
Motel Occupancy Tax	-	-	11,983	-	-	-	-	-	-	-
Municipal Court Fines	-	-	-	-	-	-	213	435	-	-
Interest	354	-	-	-	-	10,140	12,655	7,936	-	10,231
Donations	-	-	-	-	-	61,143	-	17,183	-	-
Miscellaneous	267	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>846,379</b>	<b>447,275</b>	<b>11,983</b>	<b>-</b>	<b>8,176</b>	<b>71,283</b>	<b>-</b>	<b>12,868</b>	<b>120,198</b>	<b>-</b>
<b>EXPENDITURES:</b>										
Current:	-	-	-	-	-	-	-	-	-	-
General Government	-	26,389	13,755	-	-	-	-	-	-	15,281
Public Safety	-	-	-	-	-	-	-	-	-	-
Public Works	-	185,360	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-
Tourist and Convention	854,104	-	62,330	-	-	-	-	-	-	-
Code Enforcement	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	8,175	-	-	-	-	-
Debt Service- Principal Retirement	-	-	-	-	-	-	-	-	-	-
Debt Service- Interest and Fees	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	173,196	-	-	-	-	-	77,882	-	-
<b>Total Expenditures</b>	<b>854,104</b>	<b>447,275</b>	<b>13,755</b>	<b>-</b>	<b>8,175</b>	<b>71,283</b>	<b>-</b>	<b>7,439</b>	<b>32,535</b>	<b>449</b>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)				(1,772)		1				
Other Financing Sources (Uses)								5,429	9,781	(449)
Transfers In								-	-	-
Transfers Out		(147,794)	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(147,794)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	(155,519)	-	(1,772)	-	1	-	-	5,429	9,781	(449)
Fund Balances at Beginning of Year	223,002	-	11,884	1,951	-	-	-	55,413	103,438	(80)
Fund Balances at End of Year	67,483	-	10,112	1,951	2	-	-	60,842	113,219	16,718
										16,638

## CITY OF MARSHALL, TEXAS

**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUE**  
**FOR THE YEAR ENDED DECEMBER 31.**

Exhibit F-4  
Page 2 of 2

# 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, 2009**

	<i>Motel Occupancy Tax Fund</i>				<i>Litter Control Fund</i>			
	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>			<i>Original</i>	<i>Final</i>		
<b>REVENUE:</b>								
Motel Occupancy Tax	715,000	715,000	845,758	130,758	-	-	-	-
Interest	250	250	354	104	-	-	-	-
Donations	-	-	-	-	9,000	9,000	10,140	1,140
Miscellaneous	-	-	267	267	71,600	71,600	61,143	(10,457)
<b>Total Revenue</b>	<b>715,250</b>	<b>715,250</b>	<b>846,379</b>	<b>131,129</b>	<b>80,600</b>	<b>80,600</b>	<b>71,283</b>	<b>(9,317)</b>
<b>EXPENDITURES:</b>								
Current:								
Public Safety	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	80,600	80,600	71,283	9,317
Tourist and Convention	560,900	877,400	854,104	23,296	-	-	-	-
<b>Total Expenditures</b>	<b>560,900</b>	<b>877,400</b>	<b>854,104</b>	<b>23,296</b>	<b>80,600</b>	<b>80,600</b>	<b>71,283</b>	<b>9,317</b>
<b>Excess (Deficiency) of Revenue</b>								
Over Expenditures Before								
Other Financing Sources (Uses)	154,350	(162,150)	(7,725)	154,425	-	-	-	-
<b>Other Financing Sources (Uses)</b>								
Transfers Out	(147,794)	(147,794)	(147,794)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(147,794)</b>	<b>(147,794)</b>	<b>(147,794)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balances	6,556	(309,944)	(155,519)	154,425	-	-	-	-
Fund Balances (Deficit),								
Beginning of Year	223,002	223,002	223,002	-	-	-	-	-
<b>Fund Balances (Deficit),</b>								
<b>End of Year</b>	<b>229,558</b>	<b>(86,942)</b>	<b>67,483</b>	<b>154,425</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Exhibit F-5**

<i>D.A.R.E. Donations Fund</i>				<i>Total</i>			
<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
<i>Original</i>	<i>Final</i>			<i>Original</i>	<i>Final</i>		
-	-	-	-	715,000	715,000	845,758	130,758
-	-	213	213	250	250	567	317
12,500	12,500	12,655	155	21,500	21,500	22,795	1,295
-	-	-	-	71,600	71,600	61,410	(10,190)
<u>12,500</u>	<u>12,500</u>	<u>12,868</u>	<u>368</u>	<u>808,350</u>	<u>808,350</u>	<u>930,530</u>	<u>122,180</u>
12,500	12,500	7,439	5,061	12,500	12,500	7,439	5,061
-	-	-	-	80,600	80,600	71,283	9,317
-	-	-	-	560,900	877,400	854,104	23,296
<u>12,500</u>	<u>12,500</u>	<u>7,439</u>	<u>5,061</u>	<u>654,000</u>	<u>970,500</u>	<u>932,826</u>	<u>37,674</u>
-	-	<u>5,429</u>	<u>5,429</u>	<u>154,350</u>	<u>(162,150)</u>	<u>(2,296)</u>	<u>159,854</u>
-	-	-	-	(147,794)	(147,794)	(147,794)	-
-	-	-	-	(147,794)	(147,794)	(147,794)	-
-	-	5,429	5,429	6,556	(309,944)	(150,090)	159,854
<u>55,413</u>	<u>55,413</u>	<u>55,413</u>	<u>-</u>	<u>278,415</u>	<u>278,415</u>	<u>278,415</u>	<u>-</u>
<u>55,413</u>	<u>55,413</u>	<u>60,842</u>	<u>5,429</u>	<u>284,971</u>	<u>(31,529)</u>	<u>128,325</u>	<u>159,854</u>

# CITY OF MARSHALL, TEXAS

Exhibit F-6

**1995 GENERAL OBLIGATION DEBT SERVICE FUND  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUE:</b>				
Ad Valorem Taxes	453,863	453,863	479,443	25,580
Interest	6,000	6,000	1,892	(4,108)
<b>Total Revenue</b>	<b>459,863</b>	<b>459,863</b>	<b>481,335</b>	<b>21,472</b>
<b>EXPENDITURES:</b>				
Principal Retirement	55,000	55,000	55,000	-
Interest and Fees	4,125	4,125	4,125	-
<b>Total Expenditures</b>	<b>59,125</b>	<b>59,125</b>	<b>59,125</b>	<b>-</b>
<b>Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)</b>				
	<u>400,738</u>	<u>400,738</u>	<u>422,210</u>	<u>21,472</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(394,568)	(394,568)	(394,568)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(394,568)</b>	<b>(394,568)</b>	<b>(394,568)</b>	<b>-</b>
Net Change in Fund Balance	6,170	6,170	27,642	21,472
Fund Balance, Beginning of Year	<u>403,931</u>	<u>403,931</u>	<u>403,931</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<b><u>410,101</u></b>	<b><u>410,101</u></b>	<b><u>431,573</u></b>	<b><u>21,472</u></b>

# CITY OF MARSHALL, TEXAS

Exhibit G-1

## WATER AND SEWER ENTERPRISE FUND STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2009

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<b>OPERATING REVENUE:</b>				
Charges for Services	<u>9,349,775</u>	<u>9,349,775</u>	<u>9,364,824</u>	<u>15,049</u>
<b>Total Operating Revenue</b>	<b><u>9,349,775</u></b>	<b><u>9,349,775</u></b>	<b><u>9,364,824</u></b>	<b><u>15,049</u></b>
<b>OPERATING EXPENSES:</b>				
Administrative	261,646	261,646	237,475	24,171
Water Production	1,156,565	1,277,565	1,238,367	39,198
Water Distribution/ Collection	995,191	1,085,891	1,068,747	17,144
Sewage Treatment	1,100,530	1,180,530	1,169,284	11,246
Water Billing	418,321	418,321	392,371	25,950
Engineering	253,131	253,131	221,789	31,342
Non-Departmental	935,146	935,146	928,591	6,555
Depreciation	-	-	1,079,753	(1,079,753)
Amortization	-	-	103,478	(103,478)
Bad Debt Expense	-	-	23,951	(23,951)
<b>Total Operating Expenses</b>	<b><u>5,120,530</u></b>	<b><u>5,412,230</u></b>	<b><u>6,463,806</u></b>	<b><u>(1,051,576)</u></b>
<b>Operating Income (Loss)</b>	<b><u>4,229,245</u></b>	<b><u>3,937,545</u></b>	<b><u>2,901,018</u></b>	<b><u>(1,036,527)</u></b>
<b>NONOPERATING REVENUE (EXPENSES):</b>				
Interest Income	50,000	50,000	25,381	(24,619)
Interest Expense and Fees	(972,975)	(972,975)	(972,975)	-
Gain (Loss) on Disposal of Assets	-	-	2,197	2,197
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>(922,975)</u></b>	<b><u>(922,975)</u></b>	<b><u>(945,397)</u></b>	<b><u>(22,422)</u></b>
<b>Income (Loss) Before Transfers</b>	<b><u>3,306,270</u></b>	<b><u>3,014,570</u></b>	<b><u>1,955,621</u></b>	<b><u>(1,058,949)</u></b>
Transfers (Out)	<u>(1,512,500)</u>	<u>(1,512,500)</u>	<u>(1,515,477)</u>	<u>(2,977)</u>
<b>Change in Net Assets</b>	<b><u>1,793,770</u></b>	<b><u>1,502,070</u></b>	<b><u>440,144</u></b>	<b><u>(1,061,926)</u></b>
<b>ADDITIONAL BUDGETED AMOUNTS:</b>				
Capital Outlay	226,500	369,800	290,386	79,414
Principal Retirement	<u>1,561,164</u>	<u>1,561,164</u>	<u>1,595,906</u>	<u>(34,742)</u>
	<b><u>1,787,664</u></b>	<b><u>1,930,964</u></b>	<b><u>1,886,292</u></b>	<b><u>44,672</u></b>

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

# CITY OF MARSHALL, TEXAS

Exhibit H-1

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET ASSETS DECEMBER 31, 2009

	<i>Equipment Replacement Fund</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<b><u>ASSETS</u></b>			
<i>Current Assets:</i>			
Cash and Temporary Investments	90,415	(13,452)	76,963
Accounts Receivable	-	31,076	31,076
Inventory	-	18,795	18,795
Total Current Assets	<u>90,415</u>	<u>36,419</u>	<u>126,834</u>
<i>Noncurrent Assets:</i>			
Capital Assets:			
Land	327,272	-	327,272
Buildings	469,200	122,596	591,796
Machinery and Equipment	5,410,492	20,660	5,431,152
Less: Accumulated Depreciation	<u>(3,211,557)</u>	<u>(143,256)</u>	<u>(3,354,813)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>2,995,407</u>	<u>-</u>	<u>2,995,407</u>
Total Noncurrent Assets	<u>2,995,407</u>	<u>-</u>	<u>2,995,407</u>
<b>TOTAL ASSETS</b>	<u>3,085,822</u>	<u>36,419</u>	<u>3,122,241</u>
<b><u>LIABILITIES</u></b>			
<i>Current Liabilities:</i>			
Accounts Payable	-	<u>36,390</u>	<u>36,390</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>-</u>	<u>36,390</u>	<u>36,390</u>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	2,995,407	-	2,995,407
Unrestricted	<u>90,415</u>	<u>29</u>	<u>90,444</u>
<b>TOTAL NET ASSETS</b>	<u>3,085,822</u>	<u>29</u>	<u>3,085,851</u>

# CITY OF MARSHALL, TEXAS

Exhibit H-2

## INTERNAL SERVICE FUNDS

## COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND

### NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2009

	<i>Equipment Replacement Fund</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<b><u>OPERATING REVENUE:</u></b>			
Charges for Services	-	331,347	331,347
<b>Total Operating Revenue</b>	<b>-</b>	<b>331,347</b>	<b>331,347</b>
<b><u>OPERATING EXPENSES:</u></b>			
Materials and Supplies	-	332,502	332,502
Depreciation	366,778	-	366,778
<b>Total Operating Expenses</b>	<b>366,778</b>	<b>332,502</b>	<b>699,280</b>
<b>Operating (Loss)</b>	<b>(366,778)</b>	<b>(1,155)</b>	<b>(367,933)</b>
<b><u>NONOPERATING REVENUE:</u></b>			
Interest Income	396	-	396
Gain (Loss) on Disposal of Assets	(35,860)	-	(35,860)
<b>Total Nonoperating Revenue</b>	<b>(35,464)</b>	<b>-</b>	<b>(35,464)</b>
<b>Income (Loss) Before Transfers</b>	<b>(402,242)</b>	<b>(1,155)</b>	<b>(403,397)</b>
Transfers In	249,909	9,924	259,833
<b>Change in Net Assets</b>	<b>(152,333)</b>	<b>8,769</b>	<b>(143,564)</b>
Total Net Assets (Deficit), Beginning of Year	3,238,155	(8,740)	3,229,415
<b>Total Net Assets (Deficit), End of Year</b>	<b>3,085,822</b>	<b>29</b>	<b>3,085,851</b>

# CITY OF MARSHALL, TEXAS

Exhibit H-3

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

	<i>Equipment Replacement Fund</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<b><u>Cash Flows from Operating Activities:</u></b>			
Cash Received from Customers	-	323,458	323,458
Cash Payments to Suppliers for Goods and Services	-	(340,272)	(340,272)
Net Cash (Used) by Operating Activities	-	(16,814)	(16,814)
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>			
Transfers In	249,909	9,924	259,833
Net Cash Provided by Noncapital Financing Activities	249,909	9,924	259,833
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>			
Acquisition and Construction of Capital Assets	(198,896)	-	(198,896)
Proceeds from Sale of Capital Assets	12,302		12,302
Net Cash (Used) by Capital and Related Financing Activities	(186,594)	-	(186,594)
<b><u>Cash Flows from Investing Activities:</u></b>			
Interest on Investments	396	-	396
Net Cash Provided by Investing Activities	396	-	396
Net Increase (Decrease) in Cash and Cash Equivalents	63,711	(6,890)	56,821
Cash and Cash Equivalents (Deficit), Beginning of Year	26,704	(6,562)	20,142
<b>Cash and Cash Equivalents (Deficit), End of Year</b>	<b>90,415</b>	<b>(13,452)</b>	<b>76,963</b>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>			
Operating (Loss)	(366,778)	(1,155)	(367,933)
<b><u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u></b>			
Depreciation	366,778	-	366,778
(Increase) Decrease in Assets:			
Accounts Receivable	-	(7,888)	(7,888)
Inventory	-	(4,845)	(4,845)
Increase (Decrease) in Liabilities:			
Accounts Payable	-	(2,926)	(2,926)
Total Adjustments	366,778	(15,659)	351,119
Net Cash (Used) by Operating Activities	-	(16,814)	(16,814)

# CITY OF MARSHALL, TEXAS

Exhibit I-1

## AGENCY FUNDS

### COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES DECEMBER 31, 2009

	<i>Balance</i> <i>December 31,</i> <u><i>2008</i></u>	<i>Additions</i>	<i>Deductions</i>	<i>Balance</i> <i>December 31,</i> <u><i>2009</i></u>
<b><u>POLICE LOCAL RELIEF FUND:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	69,786	2,746	1,801	70,731
<b>TOTAL ASSETS</b>	<u>69,786</u>	<u>2,746</u>	<u>1,801</u>	<u>70,731</u>
<b><u>LIABILITIES</u></b>				
Due to Employees	69,786	2,746	1,801	70,731
<b>TOTAL LIABILITIES</b>	<u>69,786</u>	<u>2,746</u>	<u>1,801</u>	<u>70,731</u>
<b><u>FIREMEN'S EMERGENCY RELIEF FUND:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	38,524	10,709	11,331	37,902
<b>TOTAL ASSETS</b>	<u>38,524</u>	<u>10,709</u>	<u>11,331</u>	<u>37,902</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	2,201	-	2,201	-
Due to Employees	36,323	10,709	9,130	37,902
<b>TOTAL LIABILITIES</b>	<u>38,524</u>	<u>10,709</u>	<u>11,331</u>	<u>37,902</u>
<b><u>TOTAL AGENCY FUNDS:</u></b>				
<b><u>ASSETS</u></b>				
Cash and Temporary Investments	108,310	13,455	13,132	108,633
<b>TOTAL ASSETS</b>	<u>108,310</u>	<u>13,455</u>	<u>13,132</u>	<u>108,633</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	2,201	-	2,201	-
Due to Employees	106,109	13,455	10,931	108,633
<b>TOTAL LIABILITIES</b>	<u>108,310</u>	<u>13,455</u>	<u>13,132</u>	<u>108,633</u>

## **Supplemental Schedules**

# CITY OF MARSHALL, TEXAS

Exhibit SS-1

## SCHEDULE OF GENERAL OBLIGATION DEBT DECEMBER 31, 2009

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance</u>		<u>Retired 2009</u>	<u>December 31, 2009</u>	<u>Requirements</u>	
			<u>January 1, 2009</u>	<u>Issued 2009</u>			<u>Principal</u>	<u>Interest</u>
<b>General Obligation Bonds</b>								
November 1, 1995 Rate 6.5%, 4.5%, 4.6%, 4.8%, 4.9%, 5%	1995	3,600,000	110,000	-	(55,000)	55,000	55,000	1,375
<b>Combination Tax and Revenue Certificates Of Obligation Series</b>								
October 30, 2001 Rate 4.75%, 4.25%, 4.375%, 4.50%, 4.625%	2001	1,540,000	1,000,000	-	(105,000)	895,000	110,000	37,688
<b>General Obligation Bonds</b>								
March 28, 2007 Rate 3.85%- 5.00%	2007	6,230,000	6,030,000	-	(150,000)	5,880,000	160,000	236,817
<b>TOTAL GENERAL OBLIGATION DEBT</b>								
		11,370,000	7,140,000	-	(310,000)	6,830,000	325,000	275,880

# CITY OF MARSHALL, TEXAS

Exhibit SS-2

## SCHEDULE OF WATER AND SEWER REVENUE BONDS DECEMBER 31, 2009

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance</u>			<u>Retired 2009</u>	<u>December 31, 2009</u>	<u>Requirements</u>	
			<u>January 1, 2009</u>	<u>Issued 2009</u>	<u>2009</u>			<u>Calendar Year 2010</u>	<u>Principal</u>
Waterworks and Sewer System									
Revenue Bonds									
September 15, 1997									
Rate 2.8%, 3.0%, 3.1%, 3.2%									
3.3%, 3.4%, 3.5%, 3.55%, 3.6%,									
3.65%, 3.75%, 3.85%, 3.95%,									
4.0%, 4.05%, 4.10%,									
4.15%, 4.2%, 4.25%	1997	7,020,000	4,215,000	-	(385,000)	3,830,000	405,000	150,171	
Waterworks and Sewer System									
Revenue Bonds									
June 15, 1998									
Rate 6.5%, 4.5%, 4.6%, 4.5%	1998	8,455,000	1,515,000	-	(355,000)	1,160,000	370,000	44,665	
Waterworks and Sewer System									
Revenue Bonds									
September 16, 1999									
Rate 6.75%, 6.35%, 5.125%,									
4.75%	1999	3,500,000	335,000	-	(165,000)	170,000	170,000	5,738	
Waterworks and Sewer System									
Revenue Bonds									
November 15, 2000									
Rate 7.125%, 5.30%,									
5.25%, 5.2%, 5.125%	2000	4,580,000	1,230,000	-	(220,000)	1,010,000	230,000	45,955	
Waterworks and Sewer System									
Revenue Bonds									
January 22, 2002									
Rate 6.0%, 5.25%, 4.6%,									
4.65%, 4.7%, 4.75%, 4.8%,									
4.85%, 5.0%	2001	2,500,000	965,000	-	(100,000)	865,000	105,000	39,253	
Water and Sewer									
Revenue Bonds									
November 15, 2003									
Rate 3.5%, 4.0%, 3.75%,									
3.6%, 3.7%, 3.8%, 4.0%, 4.1%									
4.2%, 4.3%, 4.4%, 4.5%	2003	7,000,000	5,970,000	-	(290,000)	5,680,000	300,000	223,720	
Water and Sewer Revenue									
Refunding Bonds,									
December 1, 2006									
Rate 4.25%, 5.50%, 4.00%	2006	9,235,000	9,235,000	-	-	9,235,000	-	436,912	
<b>TOTAL WATER AND</b>									
<b>SEWER REVENUE BONDS</b>		<b>42,290,000</b>	<b>23,465,000</b>	<b>-</b>	<b>(1,515,000)</b>	<b>21,950,000</b>	<b>1,580,000</b>	<b>946,414</b>	

# CITY OF MARSHALL, TEXAS

Exhibit SS-3

## **SCHEDULE OF DELINQUENT TAXES RECEIVABLE DECEMBER 31, 2009**

<u>Year</u>	<u>Amount</u>
1988	105
1989	12,269
1990	10,584
1991	8,120
1992	8,224
1993	8,652
1994	9,586
1995	10,491
1996	13,144
1997	13,582
1998	15,677
1999	17,127
2000	19,637
2001	24,144
2002	29,512
2003	36,112
2004	50,293
2005	59,384
2006	77,662
2007	103,410
2008	<u>180,242</u>
Total Delinquent Taxes Receivable	707,957
Less: Allowance for Uncollectables	<u>(35,398)</u>
<b>NET DELINQUENT TAXES RECEIVABLE</b>	<b><u>672,559</u></b>

# CITY OF MARSHALL, TEXAS

Exhibit SS-4

## COMPARISON OF ASSESSED VALUATIONS FROM 1980 THROUGH 2009

<u>Tax Levy Year</u>	<u>Tax Rate</u>	<u>Assessed Value</u>
1980	1.6600	99,060,942
1981	1.6600	105,840,090
1982	1.1900	160,677,475
1983	.6900	360,114,269
1984	.7150	361,211,581
1985	.7025	374,867,393
1986	.7025	383,088,128
1987	.7025	397,763,392
1988	.7025	404,037,616
1989	.7025	402,380,021
1990	.7025	395,425,308
1991	.7025	404,487,140
1992	.5100	391,811,409
1993	.5100	390,340,453
1994	.5100	394,297,185
1995	.50766	412,191,439
1996	.50604	451,539,855
1997	.50256	463,076,601
1998	.49955	487,240,124
1999	.49455	521,508,117
2000	.49455	523,921,037
2001	.49455	533,820,564
2002	.49455	573,043,522
2003	.49455	594,090,057
2004	.49455	598,079,884
2005	.49455	653,807,222
2006	.49455	715,900,782
2007	.49455	772,503,458
2008	.47604	901,805,181
2009	.47604	941,928,201

**FEDERAL AWARDS SECTION**

# KNUCKOLS • DUVALL • HALLUM & CO. A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable City Commission  
Marshall, Texas

### Compliance

We have audited the compliance of City of Marshall, Texas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. City of Marshall, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Marshall, Texas' management. Our responsibility is to express an opinion on City of Marshall, Texas' compliance based on our audit.

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

In our opinion, City of Marshall, Texas, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

### Internal Control Over Compliance

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

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

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

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

Respectfully submitted,

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

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

July 1, 2010

# CITY OF MARSHALL, TEXAS

Exhibit FA-1  
Page 1 of 2

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b><u>U.S. Department of Homeland Security</u></b>			
Assistance to Firefighters Grant/			
Staffing for Adequate Fire and Emergency Response-ARRA	97.115	EMW-2007-FF-00365	65,140
Total U.S. Department of Homeland Security			<u>65,140</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Community Development Block Grant-Entitlement (Note B)	14.218	N/A	394,737
Community Development Block Grant-Entitlement-ARRA	14.253	B-09-MY-48-0034	<u>52,538</u>
Total U.S. Department of Housing and Urban Development			<u>447,275</u>
<b><u>U.S. Department of Justice</u></b>			
Bureau of Justice Assistance:			
COPS Hiring Recovering Program-ARRA	16.710	2009RKWX0823	10,872
2009 Edward Byrne Local Project-ARRA	16.804	2009-SB-B9-0269	74,554
Edward Byrne Justice Assistance Grant Program	16.580	2009-DJ-BX-0831	<u>18,141</u>
Total U.S. Department of Justice			<u>103,567</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>615,982</u></b>

# **CITY OF MARSHALL, TEXAS**

**Exhibit FA-1**  
**Page 2 of 2**

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009**

### **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, 2009/May 31, 2010 year, there were \$420,241 (Project Number B-09-MC-48-0034) funds available. For the June 1, 2008/May 31, 2009 year, there were \$411,221 (Project Number B-08-MC-48-0034) funds available. Various expenditures were budgeted and funded from previous years grant awards.

# **CITY OF MARSHALL, TEXAS**

**Exhibit FA-2**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009**

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

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Marshall.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Marshall were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit in internal control over compliance of major programs.
5. The auditors' report on compliance for major federal award programs for City of Marshall expresses an unqualified opinion.
6. The audit did not disclose any audit findings which the auditor is required to report under Section .510(a).
7. The major programs for the City of Marshall were the Community Development Block Grant - Entitlement, CFDA Number 14.218, and Community Development Block Grant-Entitlement-ARRA, CFDA Number 14.253, 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 2009 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, 2009**

### **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

#### **Finding 08-1: Financial Reporting Requirements**

***Condition:*** The City was not in compliance with financial reporting requirements of the Community Development Block Grant. The Form SF-272 did not include some expenditures for one month.

***Recommendation:*** In order to be in compliance regarding financial reporting, the City must file quarterly, accurate Federal Form SF-272, Federal Cash Transactions Reports.

***Current Status:*** The City concurred with the recommendation and are currently filing accurate reports.

# **CITY OF MARSHALL, TEXAS**

**Exhibit FA-4**

## **CORRECTIVE ACTION PLAN – FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009**

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N/A