

CITY OF MARSHALL, TEXAS

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

DECEMBER 31, 2016

CITY OF MARSHALL, TEXAS

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FINANCIAL SECTION

KNUCKOLS • DUVALL • HALLUM & CO.

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Honorable City Commission
City of Marshall, Texas

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Contributions 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marshall, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, on our consideration of City of Marshall, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Marshall, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Knuckols, Duvall, Hallum & Co.

KNUCKOLS, DUVALL, HALLUM & CO.
Certified Public Accountants

Marshall, Texas

October 5, 2017

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

The Honorable City Commission
Marshall, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Marshall, Texas, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Marshall, Texas' basic financial statements, and have issued our report thereon dated October 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.

Knuckols, Duvall, Hallum & Co.

Certified Public Accountants

Marshall, Texas

October 5, 2017

Management's Discussion and Analysis

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with the Independent Auditors' Report on page 1 and the City's Basic Financial Statements, which begin on page 13.

Financial Highlights

- The assets of the City of Marshall exceeded its liabilities at the close of the most recent fiscal year by \$78,275,212 (net position). Of this amount, \$8,260,963 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$8,938,590. Approximately 67% of this total amount is *available for spending* at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,197,193 or 30% of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

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

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **DECEMBER 31, 2016**

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Marshall, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Marshall can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on *balance of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Marshall maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other 23 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary funds. The City of Marshall maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Marshall uses enterprise funds to account for its Water and Sewer Fund and Business Development Center Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service fund to account for stores inventory and equipment replacement.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund of the City of Marshall. Also, since the Business Development Center Fund is the only non-major enterprise fund, it is presented separately. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. The City uses its internal service funds to account for its stores inventory and equipment replacement and are presented in the combining statements section.

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

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

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2016

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Marshall, assets exceeded liabilities by \$78,275,212 at the close of the most recent fiscal year.

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

City of Marshall's Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	14,957,305	16,922,929	6,342,935	6,124,020	21,300,240	23,046,949
Capital assets	43,690,424	40,938,807	41,888,332	43,037,771	85,578,756	83,976,578
Total assets	58,647,729	57,861,736	48,231,267	49,161,791	106,878,996	107,023,527
Deferred outflows of resources:						
Deferred charges on refunding, net of unamortized premium	-	-	32,524	37,029	32,524	37,029
Deferred outflows related to pensions	3,868,193	1,200,112	792,280	245,806	4,660,473	1,445,918
Total outflows of resources	3,868,193	1,200,112	824,804	282,835	4,692,997	1,482,947
Liabilities:						
Current and other liabilities	1,594,803	1,864,960	3,189,707	3,159,998	4,784,510	5,024,958
Long-term liabilities	17,744,877	14,782,865	9,847,259	11,621,804	27,592,136	26,404,669
Total liabilities	19,339,680	16,647,825	13,036,966	14,781,802	32,376,646	31,429,627
Deferred inflows of resources:						
Deferred inflows related to pensions	763,712	154,966	156,423	31,740	920,135	186,706
Total inflows of resources	763,712	154,966	156,423	31,740	920,135	186,706
Net Position:						
Net invest. in capital assets	36,439,660	33,694,320	31,874,108	30,834,066	68,313,768	64,528,386
Restricted	1,700,481	2,016,544	-	-	1,700,481	2,016,544
Unrestricted	4,272,389	6,548,193	3,988,574	3,797,018	8,260,963	10,345,211
Total net position	42,412,530	42,259,057	35,862,682	34,631,084	78,275,212	76,890,141

An additional portion of the City of Marshall's net position (2.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$8,260,963) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental Activities

The City's general revenues decreased when compared to the prior year by 2.0% or \$288,144. The City recognized a \$317,615 drop in miscellaneous revenue; last year miscellaneous revenue was inflated due to a street light audit.

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2016

Governmental activities increased the City of Marshall's net position by \$153,473 and are outlined as follows:

City of Marshall's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
REVENUES:						
Program Revenues:						
Charges for Services	5,131,847	5,125,370	9,898,589	9,487,590	15,030,436	14,612,960
Operating Grants and Contributions	332,826	592,393	-	-	332,826	592,393
Capital Grants and Contributions	591,695	101,878	-	-	591,695	101,878
General Revenues:						
Property Taxes	5,309,576	5,326,662	-	-	5,309,576	5,326,662
Other Taxes	8,388,073	8,377,494	-	-	8,388,073	8,377,494
Other	<u>475,133</u>	<u>422,675</u>	<u>45,912</u>	<u>380,007</u>	<u>521,045</u>	<u>802,682</u>
Total Revenues	<u>20,229,150</u>	<u>19,946,472</u>	<u>9,944,501</u>	<u>9,867,597</u>	<u>30,173,651</u>	<u>29,814,069</u>
EXPENSES:						
General Government	942,576	727,847	-	-	942,576	727,847
Parks and Recreation	710,330	640,135	-	-	710,330	640,135
Finance	529,483	440,576	-	-	529,483	440,576
Community Facilities	738,201	725,813	-	-	738,201	725,813
Public Safety	8,894,510	8,168,578	-	-	8,894,510	8,168,578
Public Works	4,250,960	4,225,678	-	-	4,250,960	4,225,678
Support Services	2,043,662	1,961,377	-	-	2,043,662	1,961,377
Non-Departmental	1,857,955	1,947,788	-	-	1,857,955	1,947,788
Tax Collection	95,163	94,016	-	-	95,163	94,016
Tourist and Convention	402,372	383,248	-	-	402,372	383,248
Planning & Dev	523,822	480,874	-	-	523,822	480,874
Interest on Long-Term Debt	240,504	284,401	-	-	240,504	284,401
Water and Sewer	-	-	7,515,146	7,639,419	7,515,146	7,639,419
Business Development Center	<u>-</u>	<u>-</u>	<u>43,896</u>	<u>43,777</u>	<u>43,896</u>	<u>43,777</u>
Total Expenses	<u>21,229,538</u>	<u>20,080,331</u>	<u>7,559,042</u>	<u>7,683,196</u>	<u>28,788,580</u>	<u>27,763,527</u>
Increase (Decrease) in Net Position Before Transfers	(1,000,388)	(133,859)	2,385,459	2,184,401	1,385,071	2,050,542
Transfers	<u>1,153,861</u>	<u>1,496,000</u>	<u>(1,153,861)</u>	<u>(1,496,000)</u>	<u>-</u>	<u>-</u>
Change in Net Position	153,473	1,362,141	1,231,598	688,401	1,385,071	2,050,542
Net Position – 01/01/16	42,259,057	44,312,471	34,631,084	34,642,255	76,890,141	78,954,726
Reclassification-Prior Period Pension Adjustment	<u>-</u>	<u>(3,415,555)</u>	<u>-</u>	<u>(699,572)</u>	<u>-</u>	<u>(4,115,127)</u>
Net Position – 12/31/16	<u>42,412,530</u>	<u>42,259,057</u>	<u>35,862,682</u>	<u>34,631,084</u>	<u>78,275,212</u>	<u>76,890,141</u>

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **DECEMBER 31, 2016**

Business - Type Activities

Revenues of the City's business-type activities were \$9,944,501 for the year ending December 31, 2016. Expenses for the City's business-type activities were \$7,559,042 for the year, resulting in net income of \$2,385,459.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$8,938,590. Approximately 67% of this total amount (\$5,968,923) constitutes *unassigned*, which is available for spending at the government's discretion. The remainder of fund balance is *restricted or non-spendable* to indicate that it is not available for new spending because it has already been committed. The portion of fund balance classified as non-spendable totals \$265,116. Restricted fund balance consists of the following: 1) promotion and tourism \$1,472, 2) public safety \$535,772, 3) purpose of grantors and donors \$10,588, 4) debt service \$344,770, 5) library \$362,105, 6) capital projects \$1,355,711, 7) other post-employment benefits \$74,976, and 8) street maintenance \$19,157.

The General Fund is the chief operating fund of the City of Marshall. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6,197,193, with 95% of the total fund balance (\$6,537,285) being unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 30% of total General Fund expenditures. Total fund balance represents 32% of total General Fund expenditures. The total fund balance of the City of Marshall's General Fund decreased by \$1,265,265 during the current fiscal year.

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

Unrestricted net position of the Water and Sewer Fund at the end of the year was \$3,640,260. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Marshall's business-type activities.

General Fund Budgetary Highlights

During the year, revenues exceeded budgetary estimates by \$624,885 and expenditures exceeded amended budget estimates by \$781,307.

Capital Assets and Debt Administration

Capital Assets. The City of Marshall's investment in capital assets for its governmental and business type activities as of December 31, 2016, is \$85,578,756 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure, and water and wastewater systems. Street improvements are a primary focus of the Public Works Department.

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **DECEMBER 31, 2016**

Water – Wastewater Activities

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

In 2016, we continued planning for infrastructure improvements which would include line extensions in both the water and wastewater systems. We executed and completed a Waste Water Master Plan and CIP which sets in place, planned line replacements over the next 20 years. We also began a Water Master Plan, which should be completed in late 2018. Through our annual budgeting process for water operations, funds were allocated to continue annual programs to 1) recondition high service raw water pumps, 2) recondition high service treated water pumps at the Water Treatment Plant, 3) maintain and repair water lines, 4) and for the water meter replacement program.

We also completed a detailed hydraulic study of the Turtle Creek outfall between South Washington, eastward to the Parker Creek sewer outfall, east of Highway 59, to determine areas and reasons for hydraulic flow and capacity issues of this major sewer outfall. Through our annual budgeting process for sewer operations, funds were allocated to continue annual programs to 1) rehab old and leaking manholes and sewer mains, and 2) smoke testing of our sewer distribution lines. Both programs are designed to locate and rehab or repair sources of manhole or sewer line water in-flow or infiltrations into our distribution system, which causes overflows and excessive wastewater treatment volume.

In calendar year 2016, we treated and distributed over 2 billion gallons of water to our residential and commercial customers in compliance with guidelines of the EPA and TCEQ agencies and treated 2 billion gallons of wastewater. Our staff performed preventative maintenance on 445,000 feet of our sanitary sewer mains, replaced 10 fire hydrants, and replaced 240 water meters as part of our annual distribution system maintenance program to insure it continues to function at an extremely high level.

City of Marshall's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	1,175,849	1,175,849	310,612	310,612	1,486,461	1,486,461
Buildings	20,065,558	19,986,836	3,008,835	2,979,061	23,074,393	22,965,897
Improvements other than Buildings	3,770,404	3,723,821	-	-	3,770,404	3,723,821
Machinery and equipment	15,408,060	13,588,892	3,783,059	3,626,360	19,191,119	17,215,252
Infrastructure	61,847,572	58,377,262	-	-	61,847,572	58,377,262
Water and wastewater system	-	-	71,721,053	70,910,796	71,721,053	70,910,796
Construction in progress	1,487,095	1,474,555	85,402	632,441	1,572,497	2,106,996
Less Accumulated Depreciation	(60,064,114)	(57,388,408)	(37,020,629)	(35,421,499)	(97,084,743)	(92,809,907)
Total Capital Assets (Net of Accumulated Depreciation)	<u>43,690,424</u>	<u>40,938,807</u>	<u>41,888,332</u>	<u>43,037,771</u>	<u>85,578,756</u>	<u>83,976,578</u>

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2016

Long-term debt. At the end of the current fiscal year, the City of Marshall had total bonded debt outstanding of \$15,410,000. Of this amount, \$4,070,000 comprises debt backed by the full faith and credit of the government and \$2,090,000 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, \$9,250,000, represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General Obligation Bonds						
Series 2007	300,000	4,480,000	-	-	300,000	4,480,000
Certificates of Obligation	2,090,000	2,300,000	-	-	2,090,000	2,300,000
General Obligation Bonds						
Series 2016	3,770,000	-	-	-	3,770,000	-
Premium (Refunding Bonds, Series 2016)	107,328	-	-	-	107,328	-
Revenue Bonds	-	140,000	9,513,986	11,310,000	9,513,986	11,450,000
Total	6,267,328	6,920,000	9,513,986	11,310,000	15,781,314	18,230,000

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

Company	<u>Underlying Ratings</u>	
	GO Bonds	Water/Sewer Revenue Bonds
Standard & Poors	"AA"	"A"

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 \$.54216 per \$100 valuation with a tax margin of \$.80784 per \$100 valuation based upon the maximum ad valorem tax rate noted above. Additional revenues up to \$8,488,869, per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$971,310,928.

CITY OF MARSHALL, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **DECEMBER 31, 2016**

Economic Factors and Next Year's Budgets and Rates

Economic Factors

- New residential construction for 2016 was 15 single-family units.
- The average price of a single family unit was \$121,654.
- The value of construction permits issued increased from \$6,342,290 in 2015 to \$101,309,632 in 2016 resulting in a significant increase in value of construction permits issued.*
- The tax rate remained at \$0.54216 per \$100 valuation.
- Commercial and institutional construction started during 2016 included doctor's offices and medical clinics, new housing projects at East Texas Baptist University, and significant renovations to Good Shepard Medical Center, Brookshire's and Kroger's Grocery Stores.
- 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.
- 2016 Annual unemployment for Harrison County was 5.7%.
- 2016 Median household income for Harrison County was estimated at \$45,934.

*Please note that in 2016 the City of Marshall changed the way construction permit values were determined. In the past, values were provided by the contractor; now valuation of work is determined by a base cost per square footage of the project.

Next Year's Budgets and Rates

The 2017 City of Marshall Annual Budget reflected an approximate .71% increase (\$199,010) over the 2016 budget. We will closely monitor economic indicators, revenues, and expenditures in 2017 to assure that the City of Marshall maintains a balanced budget.

Requests for Information

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

Basic Financial Statements

CITY OF MARSHALL, TEXAS

GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2016

	<i>Primary Government</i>		
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>
ASSETS			
Cash and Temporary Investments	2,899,043	2,183,149	5,082,192
Certificates of Deposit	4,442,233	-	4,442,233
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	5,415,141	1,092,714	6,507,855
Due From Other Governments	1,831,389	-	1,831,389
Prepayments	265,116	78,939	344,055
Inventory	104,383	19,492	123,875
Restricted Assets:			
Cash and Temporary Investments	-	2,190,157	2,190,157
Certificates of Deposit	-	777,354	777,354
Accrued Interest Receivable	-	1,130	1,130
Capital Assets:			
Land	1,175,849	310,612	1,486,461
Construction in Progress	1,487,095	85,402	1,572,497
Buildings	20,065,558	3,008,835	23,074,393
Machinery and Equipment	15,408,060	3,783,059	19,191,119
Improvements	3,770,404	-	3,770,404
Infrastructure	61,847,572	-	61,847,572
Water and Wastewater System	-	71,721,053	71,721,053
Accumulated Depreciation	(60,064,114)	(37,020,629)	(97,084,743)
Total Assets	58,647,729	48,231,267	106,878,996
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refunding	-	32,524	32,524
Deferred Outflows Related to Pensions	3,868,193	792,280	4,660,473
Total Outflows of Resources	3,868,193	824,804	4,692,997
LIABILITIES			
Accounts Payable	1,182,123	123,440	1,305,563
Accrued Interest Payable	14,718	-	14,718
Accrued Liabilities	397,962	97,626	495,588
Payable From Restricted Assets:			
Current Portion of Bonds Payable	-	2,145,000	2,145,000
Customer Deposits	-	792,247	792,247
Accrued Liabilities	-	31,394	31,394
Security Deposits	-	-	-
Noncurrent Liabilities:			
Due Within One Year	822,491	83,957	906,448
Due In More Than One Year	16,922,386	9,763,302	26,685,688
Total Liabilities	19,339,680	13,036,966	32,376,646
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	763,712	156,423	920,135
Total Inflows of Resources	763,712	156,423	920,135
NET POSITION			
Invested in Capital Assets,			
Net of Related Debt	36,439,660	31,874,108	68,313,768
Restricted for:			
Debt Service	344,770	-	344,770
Capital Projects	1,355,711	-	1,355,711
Unrestricted	4,272,389	3,988,574	8,260,963
Total Net Position	42,412,530	35,862,682	78,275,212

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

Discretely Presented
Component Units

<i>Marshall</i> <i>Economic</i> <i>Dev. Corp.</i>	<i>Marshall</i> <i>Downtown</i> <i>Dev. Corp.</i>	<i>Marshall</i> <i>Conv. & Vis.</i> <i>Bureau</i>
4,868,762	184,255	-
-	-	-
26,120	6,440	-
288,490	-	-
-	-	-
-	-	-
-	-	-
-	-	-
4,235,720	-	-
2,720,783	-	-
10,347,337	50,217	-
192,751	-	-
324,373	-	-
-	-	-
(939,629)	(6,025)	-
<u>22,064,707</u>	<u>234,887</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
422,008	178,557	-
-	-	-
17,114	-	-
-	-	-
-	-	-
611,743	-	-
455,246	-	-
6,187,209	-	-
<u>7,693,320</u>	<u>178,557</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
10,238,880	44,192	-
-	-	-
4,132,507	12,138	-
<u>14,371,387</u>	<u>56,330</u>	<u>-</u>

CITY OF MARSHALL, TEXAS

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

<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>	
Primary Government:				
Governmental Activities:				
General Government	942,576	690,026	124,570	
Finance	529,483	-	-	
Community Facilities	738,201	230,722	-	
Public Safety	8,894,510	1,663,713	38,058	
Public Works	4,250,960	2,376,796	51,900	
Planning and Dev.	523,822	-	61,380	
Non-Departmental	1,857,955	-	-	
Tax Collection	95,163	-	-	
Support Services	2,043,662	26,218	56,918	
Tourist and Convention Dev.	402,372	-	-	
Parks and Recreation	710,330	144,372	-	
Interest on Long-Term Debt	240,504	-	-	
Total Governmental Activities	<u>21,229,538</u>	<u>5,131,847</u>	<u>332,826</u>	
Business-Type Activities:				
Water and Sewer	7,515,146	9,898,589	-	
Business Development Center	43,896	-	-	
Total Business-Type Activities	<u>7,559,042</u>	<u>9,898,589</u>	<u>-</u>	
Total Primary Government	<u>28,788,580</u>	<u>15,030,436</u>	<u>332,826</u>	
Component Units:				
Marshall Economic Develop. Corp.	1,697,064	1,109,308	-	
Marshall Downtown Develop. Corp.	245,676	170,508	50,000	
Marshall Conv. & Vis. Bureau	2,039	-	-	
Total Component Units	<u>1,944,779</u>	<u>1,279,816</u>	<u>50,000</u>	
General Revenues:				
Taxes:				
Property				
Sales				
Franchise				
Investment Earnings				
Miscellaneous				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net Position Beginning of Year				
Net Position End of Year				

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

Exhibit B-1

Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position					
	Primary Government			Discretely Presented Component Units		
	Governmental Activities	Business-Type Activities	Total	Marshall Economic Dev. Corp.	Marshall Downtown Dev. Corp.	Marshall Conv. & Vis. Bureau
-	(127,980)	-	(127,980)	-	-	-
-	(529,483)	-	(529,483)	-	-	-
-	(507,479)	-	(507,479)	-	-	-
276,000	(6,916,739)	-	(6,916,739)	-	-	-
315,695	(1,506,569)	-	(1,506,569)	-	-	-
-	(462,442)	-	(462,442)	-	-	-
-	(1,857,955)	-	(1,857,955)	-	-	-
-	(95,163)	-	(95,163)	-	-	-
-	(1,960,526)	-	(1,960,526)	-	-	-
-	(402,372)	-	(402,372)	-	-	-
-	(565,958)	-	(565,958)	-	-	-
-	(240,504)	-	(240,504)	-	-	-
591,695	(15,173,170)	-	(15,173,170)	-	-	-
-	-	2,383,443	2,383,443	-	-	-
-	-	(43,896)	(43,896)	-	-	-
-	-	2,339,547	2,339,547	-	-	-
591,695	(15,173,170)	2,339,547	(12,833,623)	-	-	-
-	-	-	(587,756)	-	-	-
-	-	-	-	(25,168)	-	-
-	-	-	-	-	(2,039)	-
-	-	-	(587,756)	(25,168)	(2,039)	(2,039)
5,309,576	-	5,309,576	-	-	-	-
7,429,889	-	7,429,889	1,529,876	-	-	-
958,184	-	958,184	-	-	-	-
48,510	18,205	66,715	14,594	-	-	-
426,623	27,707	454,330	-	-	-	-
1,153,861	(1,153,861)	-	-	-	-	-
15,326,643	(1,107,949)	14,218,694	1,544,470	-	-	-
153,473	1,231,598	1,385,071	956,714	(25,168)	(2,039)	(2,039)
42,259,057	34,631,084	76,890,141	13,414,673	81,498	2,039	-
42,412,530	35,862,682	78,275,212	14,371,387	56,330	-	-

CITY OF MARSHALL, TEXAS

Exhibit C-1

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 31, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Temporary Investments	908,757	1,860,447	2,769,204
Certificates of Deposit	3,878,687	563,546	4,442,233
Receivables (Net of Allowance for Uncollectible)			
Current Taxes	2,446,237	484,470	2,930,707
Delinquent Taxes	598,263	89,151	687,414
Customer	931,029	-	931,029
Franchise Taxes	235,004	-	235,004
Other	589,289	15,500	604,789
Accrued Interest	5,800	632	6,432
Prepaid Expenditures	265,116	-	265,116
Inventory	54,469	32,368	86,837
Due from Other Funds	329,950	94,384	424,334
Due from Other Governments	1,556,358	275,031	1,831,389
TOTAL ASSETS	11,798,959	3,415,529	15,214,488
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities			
Accounts Payable	995,405	176,958	1,172,363
Accrued Liabilities	394,585	3,377	397,962
Due to Other Funds	94,384	329,950	424,334
Unearned Revenues	764,542	8	764,550
Total Liabilities	2,248,916	510,293	2,759,209
Deferred Inflows of Resources			
Unavailable Revenue-Property Taxes	3,012,758	503,931	3,516,689
Total Inflows of Resources	3,012,758	503,931	3,516,689
Fund Balances			
Nonspendable:			
Prepaid Expenditures	265,116	-	265,116
Restricted:			
Promotion and Tourism	-	1,472	1,472
Public Safety	-	535,772	535,772
Street Maintenance	-	19,157	19,157
Purpose of Grantors and Donors	-	10,588	10,588
Debt Service	-	344,770	344,770
Library	-	362,105	362,105
Capital Projects	-	1,355,711	1,355,711
Other Post-Employment Benefits	74,976	-	74,976
Unassigned:			
Reported in General Fund	6,197,193	-	6,197,193
Reported in Motel Occupancy Tax Fund	-	(228,270)	(228,270)
Total Fund Balances	6,537,285	2,401,305	8,938,590
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	11,798,959	3,415,529	15,214,488

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

CITY OF MARSHALL, TEXAS

Exhibit C-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION DECEMBER 31, 2016

Total Fund Balances - Total Governmental Funds	8,938,590
Amounts reported for governmental activities in the statement of net position of assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (Includes capital assets of Internal Service Funds.)	43,690,424
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.	(14,718)
Internal service funds are used by management to charge the cost of certain activities, such as equipment replacement and stores inventory to individual funds. The assets and liabilities of the Internal Service Funds are net of amount allocated to business-type activities, capital assets and long-term liabilities. The net effect of this consolidation is to increase (decrease) net position.	157,391
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	(822,491)
Due in More Than One Year	(16,922,386)
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	4,281,239
Deferred outflows related to pensions.	3,868,193
Deferred inflows related to pensions.	<u>(763,712)</u>
Net Position of Governmental Activities	<u><u>42,412,530</u></u>

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

CITY OF MARSHALL, TEXAS

Exhibit C-3
Page 1 of 2

GOVERNMENTAL FUNDS

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
REVENUE:			
Ad Valorem Taxes	4,468,162	723,255	5,191,417
Sales Taxes	6,151,273	509,959	6,661,232
Franchise Tax	958,184	-	958,184
Motel Occupancy Tax	-	768,657	768,657
Permits and Fees	4,054,413	-	4,054,413
Municipal Court Fines	701,440	13,443	714,883
Interest	39,766	8,343	48,109
Intergovernmental	539,902	637,777	1,177,679
Donations	-	17,254	17,254
Miscellaneous	397,086	70,801	467,887
Total Revenue	17,310,226	2,749,489	20,059,715
EXPENDITURES:			
Current:			
General Government	364,422	171,655	536,077
Finance	503,789	-	503,789
Public Safety	8,063,427	57,409	8,120,836
Public Works	2,584,107	51,900	2,636,007
Tourist and Convention Development	-	402,372	402,372
Non-Departmental	1,821,296	-	1,821,296
Tax Collection	95,163	-	95,163
Parks and Recreation	685,236	-	685,236
Planning and Development	435,283	61,380	496,663
Support Services	1,789,050	1,170	1,790,220
Community Facilities	523,640	-	523,640
Debt Service:			
Principal Retirement	101,703	750,619	852,322
Interest and Fees	-	245,797	245,797
Capital Outlay	3,386,317	1,917,290	5,303,607
Total Expenditures	20,353,433	3,659,592	24,013,025

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, 2016

	<i>General Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
<u>CONTINUED:</u>			
Excess (Deficiency) of Revenue Over Expenditures			
Before Other Financing Sources (Uses)	(3,043,207)	(910,103)	(3,953,310)
Other Financing Sources (Uses)			
Lease Proceeds	48,083	-	48,083
Loan Proceeds	880,349	-	880,349
Transfers In	1,330,324	434,595	1,764,919
Transfers (Out)	(480,814)	(176,463)	(657,277)
Proceeds from Issuance of Bonds	-	3,845,000	3,845,000
Premium on Issuance of Bonds	-	320,704	320,704
Payment to Bond Escrow Agent	-	(4,096,451)	(4,096,451)
Total Other Financing Sources (Uses)	1,777,942	327,385	2,105,327
Net Change in Fund Balances	(1,265,265)	(582,718)	(1,847,983)
Fund Balances at Beginning of Year	<u>7,802,550</u>	<u>2,984,023</u>	<u>10,786,573</u>
Fund Balances at End of Year	<u>6,537,285</u>	<u>2,401,305</u>	<u>8,938,590</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, 2016

Net Change in Fund Balances - Total Governmental Funds (1,847,983)

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.

5,303,607

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.

(2,675,706)

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

(442,533)

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

(432)

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

44,388

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.

232,276

Net change in TMRS expenditures, deferred resource inflows and outflows for the current year as required by GASB 68.

(460,144)

Changes in Net Position of Governmental Activities

153,473

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, 2016

	Budgeted Amounts	Actual GAAP Basis	Positive (Negative) Variance with Final Budget
	Original	Final	
REVENUE:			
Ad Valorem Taxes	4,433,341	4,433,341	4,468,162
Sales Taxes	6,235,000	6,235,000	6,151,273
Franchise Tax	1,005,000	1,005,000	958,184
Permits and Fees	3,986,230	3,986,230	4,054,413
Municipal Court Fines	625,000	625,000	701,440
Interest	20,000	20,000	39,766
Intergovernmental	349,770	349,770	539,902
Miscellaneous	31,000	31,000	397,086
Total Revenue	16,685,341	16,685,341	17,310,226
			624,885
EXPENDITURES:			
General Government	380,390	380,390	364,422
Finance	577,792	577,792	503,789
Public Safety	8,013,423	8,013,423	8,063,427
Public Works	2,617,466	2,617,466	2,584,107
Non-Departmental	1,556,071	1,849,464	1,821,296
Tax Collection	95,165	95,165	95,163
Parks and Recreation	726,747	726,747	685,236
Planning and Development	447,123	447,123	435,283
Support Services	1,490,803	1,545,303	1,789,050
Community Facilities	484,674	507,374	523,640
Debt Service	107,120	107,120	101,703
Capital Outlay	1,472,520	2,704,759	3,386,317
Total Expenditures	17,969,294	19,572,126	20,353,433
			(781,307)
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	(1,283,953)	(2,886,785)	(3,043,207)
			(156,422)
Other Financing Sources (Uses)			
Lease Proceeds	-	-	48,083
Loan Proceeds	-	-	880,349
Transfers In	1,330,324	1,330,324	1,330,324
Transfers (Out)	(46,219)	(249,633)	(480,814)
Total Other Financing Sources (Uses)	1,284,105	1,080,691	1,777,942
			697,251
Net Change in Fund Balance	152	(1,806,094)	(1,265,265)
Fund Balance at Beginning of Year	7,802,550	7,802,550	7,802,550
Fund Balance at End of Year	7,802,702	5,996,456	6,537,285
			540,829

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

CITY OF MARSHALL, TEXAS

Exhibit D-1
Page 1 of 2

PROPRIETARY FUNDS STATEMENT OF NET POSITION DECEMBER 31, 2016

ASSETS

Current Assets:

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Nonmajor Enterprise Fund	Governmental Internal Service Funds
		Total	
Cash and Temporary Investments	1,885,381	(50,546)	1,834,835
Customer Receivables (Net of Allowance for Uncollectibles)	1,042,168	50,546	1,092,714
Prepaid Expenditures	78,939	-	78,939
Inventory	19,492	-	19,492
Total Current Assets	<u>3,025,980</u>	<u>-</u>	<u>3,025,980</u>
			<u>515,465</u>

Noncurrent Assets:

Restricted Assets:			
Cash and Temporary Investments	2,190,157	-	2,190,157
Certificates of Deposit	777,354	-	777,354
Accrued Interest Receivable	1,130	-	1,130
Total Restricted Assets	<u>2,968,641</u>	<u>-</u>	<u>2,968,641</u>
			<u>-</u>

Capital Assets:

Land	230,281	80,331	310,612	-
Construction in Progress	85,402	-	85,402	-
Buildings	801,491	2,188,820	2,990,311	141,120
Machinery and Equipment	2,916,019	320,313	3,236,332	807,186
Water and Wastewater System	71,721,053	-	71,721,053	-
Less: Accumulated Depreciation	<u>(35,630,558)</u>	<u>(1,289,448)</u>	<u>(36,920,006)</u>	<u>(297,032)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>40,123,688</u>	<u>1,300,016</u>	<u>41,423,704</u>	<u>651,274</u>
Total Noncurrent Assets	<u>43,092,329</u>	<u>1,300,016</u>	<u>44,392,345</u>	<u>651,274</u>

TOTAL ASSETS

46,118,309 **1,300,016** **47,418,325** **1,166,739**

DEFERRED OUTFLOWS OF RESOURCES

Deferred Charges on Refundings	32,524	-	32,524	-
Deferred Outflows Related to Pensions	<u>792,280</u>	<u>-</u>	<u>792,280</u>	<u>-</u>
TOTAL OUTFLOWS OF RESOURCES	<u>824,804</u>	<u>-</u>	<u>824,804</u>	<u>-</u>

Reconciliation to Government-Wide Statement of Net Position:

Adjustment to Reflect the Consolidation of Internal Service Funds Activities		
Related to Enterprise Funds		
Assets of Business-Type Activities		

812,942

49,056,071

CITY OF MARSHALL, TEXAS

Exhibit D-1
Page 2 of 2

PROPRIETARY FUNDS STATEMENT OF NET POSITION DECEMBER 31, 2015

CONTINUED:

LIABILITIES

Current Liabilities:

	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	<i>Governmental Internal Service Funds</i>
Accounts Payable	123,440	-	123,440	9,760
Accrued Salaries and Wages	97,626	-	97,626	-
Current Portion of Notes Payable	83,957	-	83,957	-
Total Current Liabilities	<u>305,023</u>	<u>-</u>	<u>305,023</u>	<u>9,760</u>

Current Liabilities Payable from Restricted Assets:

Current Portion of Bonds Payable	2,145,000	-	2,145,000	-
Customer Deposits	792,247	-	792,247	-
Unearned Revenue	10,000	-	10,000	-
Accrued Liabilities	21,394	-	21,394	-
Total Current Liabilities Payable from Restricted Assets	<u>2,968,641</u>	<u>-</u>	<u>2,968,641</u>	<u>-</u>

Other Liabilities:

Bonds Payable (Net of Current Portion)	7,368,986	-	7,368,986	-
Note Payable (Net of Current Portion)	448,805		448,805	
Accrued Post Retirement Health Care and TMRS	1,663,412	-	1,663,412	-
Compensated Absences	282,099	-	282,099	-
Total Other Liabilities	<u>9,763,302</u>	<u>-</u>	<u>9,763,302</u>	<u>-</u>

TOTAL LIABILITIES

13,036,966 - 13,036,966 9,760

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	156,423	-	156,423	-
TOTAL INFLOWS OF RESOURCES	<u>156,423</u>	<u>-</u>	<u>156,423</u>	<u>-</u>

NET POSITION

Invested in Capital Assets, Net of Related Debt	30,109,464	1,300,016	31,409,480	651,274
Restricted for Retirement of Bonds	-	-	-	-
Unrestricted	<u>3,640,260</u>	<u>-</u>	<u>3,640,260</u>	<u>505,705</u>
TOTAL NET POSITION	<u>33,749,724</u>	<u>1,300,016</u>	<u>35,049,740</u>	<u>1,156,979</u>

Reconciliation to Government-Wide Statement of Net Position:

Adjustment to Reflect the Consolidation of Internal Service Funds Activities	
Related to Enterprise Funds	812,942
Assets of Business-Type Activities	<u>35,862,682</u>

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

CITY OF MARSHALL, TEXAS

PROPRIETARY FUNDS

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds			<i>Governmental Internal Service Funds</i>
	<i>Water and Sewer Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total</i>	
<u>OPERATING REVENUE:</u>				
Charges for Services	9,898,589	-	9,898,589	253,513
Miscellaneous	<u>27,708</u>	<u>-</u>	<u>27,708</u>	<u>-</u>
Total Operating Revenue	<u>9,926,297</u>	<u>-</u>	<u>9,926,297</u>	<u>253,513</u>
<u>OPERATING EXPENSES:</u>				
Administrative	349,589	-	349,589	-
Water Production	1,222,067	-	1,222,067	-
Water Distribution/ Collection	1,251,435	-	1,251,435	-
Sewage Treatment	1,295,063	-	1,295,063	-
Water Billing	485,879	-	485,879	-
Engineering	62,261	-	62,261	-
Non-Departmental	880,540	-	880,540	-
Materials and Supplies	-	-	-	262,764
Depreciation and Amortization	1,463,807	43,896	1,507,703	74,331
Bad Debt Expense	<u>26,680</u>	<u>-</u>	<u>26,680</u>	<u>-</u>
Total Operating Expenses	<u>7,037,321</u>	<u>43,896</u>	<u>7,081,217</u>	<u>337,095</u>
Operating Income (Loss)	<u>2,888,976</u>	<u>(43,896)</u>	<u>2,845,080</u>	<u>(83,582)</u>
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Interest Income	17,512	-	17,512	1,093
Interest Expense and Fees	<u>(425,680)</u>	<u>-</u>	<u>(425,680)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(408,168)</u>	<u>-</u>	<u>(408,168)</u>	<u>1,093</u>
Income (Loss) Before Transfers	<u>2,480,808</u>	<u>(43,896)</u>	<u>2,436,912</u>	<u>(82,489)</u>
Transfers In	-	-	-	140,064
Transfers (Out)	<u>(1,247,706)</u>	<u>-</u>	<u>(1,247,706)</u>	<u>-</u>
Total Transfers In (Out)	<u>(1,247,706)</u>	<u>-</u>	<u>(1,247,706)</u>	<u>140,064</u>
Change in Net Position	<u>1,233,102</u>	<u>(43,896)</u>	<u>1,189,206</u>	<u>57,575</u>
Net Position, Beginning of Year	<u>32,516,622</u>	<u>1,343,912</u>	<u>33,860,534</u>	<u>1,099,404</u>
Total Net Position, End of Year	<u>33,749,724</u>	<u>1,300,016</u>	<u>35,049,740</u>	<u>1,156,979</u>

Reconciliation to Government-Wide Statement of Net Position:

Adjustment to Reflect the Consolidation of Internal Service Funds Activities

Related to Enterprise Funds

Assets of Business-Type Activities

812,942

35,862,682

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

CITY OF MARSHALL, TEXAS

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	Internal Service Funds
Cash Flows from Operating Activities:				
Cash Received from Customers	9,840,060	-	9,840,060	252,397
Cash Payments to Suppliers for Goods and Services	(3,527,664)	-	(3,527,664)	(272,480)
Cash Payments to Employees for Services	(1,999,089)	-	(1,999,089)	-
Net Cash Provided by Operating Activities	<u>4,313,307</u>	<u>-</u>	<u>4,313,307</u>	<u>(20,083)</u>
Cash Flows from Noncapital Financing Activities:				
Transfers In	-	-	-	140,064
Transfers (Out)	<u>(1,247,706)</u>	<u>-</u>	<u>(1,247,706)</u>	<u>-</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,247,706)</u>	<u>-</u>	<u>(1,247,706)</u>	<u>140,064</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	(278,762)	-	(278,762)	(298,030)
Principal Paid on Bonds	(2,060,000)	-	(2,060,000)	-
Principal Paid on Loan	(82,082)	-	(82,082)	-
Payment of Interest on Bonds and Other Debt	(439,164)	-	(439,164)	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,860,008)</u>	<u>-</u>	<u>(2,860,008)</u>	<u>(298,030)</u>
Cash Flows from Investing Activities:				
Purchase of Investments	(1,551,071)	-	(1,551,071)	-
Proceeds from Sale and Maturities of Investments	<u>1,544,028</u>	<u>-</u>	<u>1,544,028</u>	<u>-</u>
Interest on Investments	<u>16,931</u>	<u>-</u>	<u>16,931</u>	<u>1,093</u>
Net Cash Provided by Investing Activities	<u>9,888</u>	<u>-</u>	<u>9,888</u>	<u>1,093</u>
Net Increase in Cash and Cash Equivalents	<u>215,481</u>	<u>-</u>	<u>215,481</u>	<u>(176,956)</u>
Cash and Cash Equivalents (Deficit), Beginning of Year	<u>3,860,057</u>	<u>(50,546)</u>	<u>3,809,511</u>	<u>655,109</u>
Cash and Cash Equivalents (Deficit), End of Year	<u>4,075,538</u>	<u>(50,546)</u>	<u>4,024,992</u>	<u>478,153</u>

CITY OF MARSHALL, TEXAS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Continued

Reconciliation of Operating Income (Loss) to
Net Cash Provided by Operating Activities:

	Business-Type Activities - Enterprise Funds			
	Water and Sewer Fund	Nonmajor Enterprise Fund	Total	Internal Service Funds
Operating Income (Loss)	2,888,976	(43,896)	2,845,080	(83,582)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	1,463,807	43,896	1,507,703	74,331
Other Post Employment Benefits	106,717	-	106,717	-
(Increase) Decrease in Assets:				
Accounts Receivable	(106,618)	-	(106,618)	(1,116)
Prepaid Expenses	19,417	-	19,417	-
Inventory	4,597	-	4,597	(1,430)
Increase (Decrease) in Liabilities:				
Accounts Payable	(52,353)	-	(52,353)	(8,286)
Accrued Liabilities	(7,549)	-	(7,549)	-
Customer Deposits	20,380	-	20,380	-
Compensated Absences	(24,067)	-	(24,067)	-
Total Adjustments	<u>1,424,331</u>	<u>43,896</u>	<u>1,468,227</u>	<u>63,499</u>
Net Cash Provided by Operating Activities	<u>4,313,307</u>	<u>-</u>	<u>4,313,307</u>	<u>(20,083)</u>

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

CITY OF MARSHALL, TEXAS

Exhibit E-1

FIDUCIARY FUNDS STATEMENT OF NET POSITION DECEMBER 31, 2016

	<i>Agency Funds</i>
<u>ASSETS</u>	
Cash and Temporary Investments	120,965
TOTAL ASSETS	<u>120,965</u>
<u>LIABILITIES</u>	
Accounts Payable	1,489
Due to Employees	119,476
TOTAL LIABILITIES	<u>120,965</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, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB’s *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Pensions. The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS’s fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which improves financial reporting of certain assets and liabilities measured at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 72 in this annual report.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which improves financial reporting of public employee pensions that are not within the scope of GASB Statement 68. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 73 in this annual report.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which improves financial reporting by requiring the disclosure of information about the nature and magnitude of tax abatements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has implemented GASB No. 77 in this annual report.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has implemented GASB No. 78 in this annual report.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 70 in this annual report.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Other more significant accounting and reporting policies and practices used by the City are described below.

Scope of Reporting Entity:

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

Marshall Economic Development Corporation (MEDCO) was incorporated under the Development Corporation Act of 1979, as amended, Article 5190.6, Tex. Rev. Civ. Stat. Ann., as amended as a non-profit industrial development corporation. The purpose of the corporation is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City. The City appoints its five (5) member board of directors and all its policies for program administration must be submitted to the City for approval. Marshall Economic Development Corporation is subject to audit by the City or its representatives, and may not issue any debt without City approval. Its revenue is derived from a \$.00375 City sales tax. A separate audit for the year ended December 31, 2016, 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 2016, 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, 2016, was performed and may be obtained by contacting MDDC.

Marshall Convention and Visitors Bureau (MCVB) was incorporated under the Texas Business Organizations Code, Chapter 22 on October 12, 2007. MCVB also complies with Chapter 351 of the Texas Tax Code with regard to any funds granted to MCVB by the City of Marshall. The purposes of the Corporation are to promote the City of Marshall related to tourism, visitors and economic growth; solicit groups for conventions expositions and other events to increase the hotel activity; and branding and product development. MCVB has a Board of Directors comprised of seven (7) members who are all appointed by the City. Since MCVB did not have any activity for 2016, a separate audit report was not issued this year.

Basis of Presentation:

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

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

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

Governmental Funds:

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

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

Additionally, the City reports the following governmental fund types:

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

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

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

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

Proprietary Funds:

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

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

Measurement Focus/Basis of Accounting:

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred, regardless of the timing of related cash flows. General revenues in the government-wide statement consist of taxes and fees. Program revenues consist of charges for service, contributions, and grant revenues. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

Budget and Budgetary Accounting:

Prior to the end of August, the City Commission, City Manager, and department heads meet in publicly held budget workshops and prepare a tentative budget for the following year. Duly advertised public hearings are held to obtain taxpayers comments. Prior to October 1, the budget is legally enacted. The General Fund, 2007 General Obligation and 2001 Certificate of Obligation Debt Service Funds, Motel Occupancy Tax Fund, Street Maintenance Fund, Litter Control Fund, D.A.R.E. Donations Fund, and the Water and Sewer Enterprise Fund are budgeted. The City budgets by departmental category. Formal budget integration into the accounting system is employed as a management control device. Encumbrance accounting is not employed.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

The Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results. Because the City has a policy of careful budgetary control, several amendments were necessary during the year. There were several significant amendments in the General Fund. Non-Departmental expenditures were increased by \$293,393; Support Services expenditures were increased by \$54,500; Community Facilities expenditures were increased by \$22,700; and Capital Outlay expenditures were increased by \$1,232,239.

As noted in Exhibit C-5, Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, Public Safety expenditures exceeded the budget by \$50,004; Support Services expenditures exceeded the budget by \$243,747; Community Facilities expenditures exceeded the budget by \$16,266, Transfers Out also exceeded the budget by \$231,181; and Capital Outlay expenditures exceeded the budget by \$681,558. In the future, the City will strive to amend the budget throughout the year to adhere to the budget that is legally adopted.

The 2001 Combination Tax and Revenue and 2007 General Obligation Debt Service Funds, Motel Occupancy Tax Fund, Street Maintenance Fund, Litter Control Fund, and D.A.R.E. Donations Fund - Statements of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual, and the Water and Sewer Enterprise Fund - Statement of Revenue, Expenses, and Changes in Net Position - Budget and Actual are presented in the combining and individual fund financial statements section. Various amendments were made in the Water and Sewer Enterprise Fund during the year.

Cash and Investments - Statement of Cash Flows:

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

The carrying amounts of investments (which are fair value) are based on quoted market values at December 31, 2016. The market values of temporary investments are based on values provided by TexPool at December 31, 2016.

Inventories:

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

Restricted Assets:

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

Interfund Receivables and Payables - Transactions Between Funds:

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

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

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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.

Reclassifications:

Certain prior year numbers have been reclassified to conform to the current year presentation. There were no changes to net position or fund balances as previously reported.

Ad Valorem Tax:

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

Capital Assets:

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

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

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

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.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charges on refunding reported in the government-wide and proprietary statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City also has deferred outflows related to pension activities that are reported in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has deferred inflows related to pension activities that are reported in this category.

Net Position:

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

Governmental Fund Balances:

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

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

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

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

NOTE 2: DEPOSITS AND INVESTMENTS:

Legal and Contractual Provisions Governing Deposits and Investments:

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

Policies Governing Deposits and Investments:

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

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

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

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

The City's deposits were fully insured or collateralized as required by the state statutes at December 31, 2016. The City utilizes a sweep account for its consolidated cash bank account. This provides the City an opportunity to invest this account balance at all times. At year-end, the carrying amount of the City's deposits (including \$4,919 petty cash and \$5,219,587 certificates of deposit) was \$6,715,081 and the respective bank balances totaled \$6,390,743. 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.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2: DEPOSITS AND INVESTMENTS: (Continued)

Of the total bank balances, \$250,500 was covered by Federal Depository Insurance for all accounts. The remainder of the accounts were covered by collateral with a value of \$9,193,777. 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.

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, 2016, all of the securities are in the City's name and held by the City or its agent.

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

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 2: DEPOSITS AND INVESTMENTS: (Continued)

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, 2016 are:

<u>Investment Type</u>	<u>Rating</u>	<u>Concentration of Credit Risk</u>	<u>Market Value</u>	<u>Investment Maturities (Callable In Years)</u>	
				<u>Less Than 1</u>	<u>1-5</u>
<i>Public Funds Investment Pool:</i>					
TexPool (2a7- Like Pool)	AAAm (S&P)	100%	5,897,820	5,897,820	-
Total		100%	5,897,820	5,897,820	-

At December 31, 2016, the public funds investment pool consisted of investments in TexPool. TexPool is duly chartered and administered by the Texas Comptroller's Office and the portfolio normally consists of U.S. T-Bills, T-Notes, collateralized certificates of deposit, and repurchase agreements. Oversight by the Texas Comptroller's Office over TexPool includes the ability to significantly influence operations, designations of management, and accountability for fiscal matters. These investments are classified as temporary investments in the City's financial statements because these investments are not subject to any restrictions for withdrawal purposes.

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

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or it's equivalent) as a practical expedient are not classified in the fair value hierarchy.

Instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City's investment in TexPool (statewide 2a7-like external investment pool) is not required to be measured at fair value but is measured at amortized cost. Also, the certificates of deposit held by the City are non-negotiable and are reported at cost.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3: RECEIVABLES:

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

	<u>General</u>	<u>Water and Sewer</u>	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
Receivables:						
Interest	5,800	1,130	632	-	-	7,562
Taxes	3,439,741	-	600,402	-	-	4,040,143
Accounts	937,322	1,069,429	-	50,546	19,766	2,077,063
Other	589,289	-	15,500	-	-	604,789
Gross	4,972,152	1,070,559	616,534	50,546	19,766	6,729,557
Receivables Less:						
Allowance for Uncollectibles	(166,530)	(27,261)	(26,781)	-	-	(220,572)
Net Total Receivables	4,805,622	1,043,298	589,753	50,546	19,766	6,508,985

NOTE 4: CAPITAL ASSETS:

	<u>December 31,</u>			
	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	1,175,849	-	-	1,175,849
Construction in Progress	1,474,555	820,231	(807,691)	1,487,095
Total Capital Assets Not Being Depreciated	2,650,404	820,231	(807,691)	2,662,944
Capital Assets Being Depreciated:				
Buildings	19,986,836	78,722	-	20,065,558
Machinery and Equipment	13,588,892	1,819,168	-	15,408,060
Improvements	3,723,821	46,583	-	3,770,404
Infrastructure	58,377,262	3,470,310	-	61,847,572
Total Capital Assets, Being Depreciated	95,676,811	5,414,783	-	101,091,594
Less: Accumulated Depreciation For:				
Buildings	8,166,564	386,323	-	8,552,887
Equipment	10,200,512	809,828	-	11,010,340
Improvements	1,462,065	132,550	-	1,594,615
Infrastructure	37,559,267	1,347,005	-	38,906,272
Total Accumulated Depreciation	57,388,408	2,675,706	-	60,064,114
Total Capital Assets, Being Depreciated, Net	38,288,403	2,739,077	-	41,027,480
Governmental Activities Capital Assets, Net	40,938,807	3,559,308	(807,691)	43,690,424

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4: CAPITAL ASSETS: (Continued)

	<u>December 31,</u>			<u>December 31,</u>
	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>2016</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	310,612	-	-	310,612
Construction in Progress	632,441	40,938	(587,977)	85,402
Total Capital Assets Not Being Depreciated	<u>943,053</u>	<u>40,938</u>	<u>(587,977)</u>	<u>396,014</u>
Capital Assets Being Depreciated:				
Buildings	2,979,061	29,774	-	3,008,835
Machinery and Equipment	3,626,360	160,084	(3,385)	3,783,059
Water and Wastewater System	70,910,796	810,257	-	71,721,053
Total Capital Assets, Being Depreciated	<u>77,516,217</u>	<u>1,000,115</u>	<u>(3,385)</u>	<u>78,512,947</u>
Less: Accumulated Depreciation For:				
Buildings and Improvements	1,405,264	44,049	-	1,449,313
Machinery and Equipment	2,536,824	241,710	(1,099)	2,777,435
Water and Wastewater System	31,479,411	1,314,470	-	32,793,881
Total Accumulated Depreciation	<u>35,421,499</u>	<u>1,600,229</u>	<u>(1,099)</u>	<u>37,020,629</u>
Total Capital Assets, Being Depreciated, Net	<u>42,094,718</u>	<u>(600,114)</u>	<u>(2,286)</u>	<u>41,492,318</u>
Business-Type Activities Capital Assets, Net	<u>43,037,771</u>	<u>(559,176)</u>	<u>(590,263)</u>	<u>41,888,332</u>

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

Governmental Activities:

General Government	148,134
Community Facilities	194,782
Support Services	207,311
Public Safety	519,267
Public Works	1,591,598
Planning and Development	1,696
Non-Departmental	12,918
Total Depreciation Expense - Governmental Activities	<u>2,675,706</u>

Business-Type Activities:

Water and Sewer	1,556,333
Business Development Center	43,896
Total Depreciation Expense - Business-Type Activities	<u>1,600,229</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5: LONG-TERM DEBT AND CAPITAL LEASES PAYABLE:

Prior Year Loan Defeased-Governmental Activities:

On May 17, 2005, the City defeased a Section 108 Loan in the amount of \$380,000, by placing the proceeds of the loan in an irrevocable trust to provide for all future debt service payments of the loan. Accordingly, the trust account assets and liabilities for the defeased loan are not included in the City's financial statements. On December 31, 2016, \$152,000 of the loan considered defeased is still outstanding.

General Obligation Debt:

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

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

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

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

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

On March 10, 2016, the City passed an ordinance authorizing the issuance of \$3,845,000 General Obligation Refunding Bonds, Series 2016. The proceeds of issuance are to be used for the purpose of refunding \$3,895,000 of the 2018 through 2027 maturities of the City's currently outstanding General Obligation Bonds, Series 2007. The City is refunding the General Obligations Bonds, Series 2007 in order to realize interest cost savings. The bonds were issued on April 15, 2016, with interest payable June 15 and December 15 of each year commencing June 15, 2016, until maturity or prior redemption. The City reserves the right, at its option, to redeem the bonds maturing on and after June 15, 2026, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption, at any time beginning June 15, 2025.

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

Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the General Obligation Debt Service or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2016, \$3,895,000 of the bonds considered defeased are still outstanding.

A summary of refunded bond maturities provided by the General Obligation Refunding Bonds, Series 2016, is as follows:

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
General Obligation Bonds, Series 2007	June 15, 2018-2027	3.85%- 5.00%	<u>3,895,000</u>

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

The City advance refunded selected existing bond maturities and interest due thereon, by placing proceeds of the 2006 Revenue Refunding Bonds with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the refunding bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest on the refunded bonds. Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the Waterworks and Sewer System or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2016, \$5,360,000 of the bonds considered defeased are still outstanding.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

Schedule of Refunded Bonds

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 1998	June 15, 2013-2019	4.500%	2,505,000
Waterworks and Sewer System Revenue Bonds, Series 1999	June 15, 2011-2019	4.750% - 6.350%	1,010,000
Waterworks and Sewer System Revenue Bonds, Series 2000	June 15, 2014-2019	5.125%	1,080,000
		4.750% -	
Waterworks and Sewer System Revenue Bonds, Series 2001	June 15, 2017-2022	5.000%	765,000
			<u>5,360,000</u>

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

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

Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the Water and Sewer System or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2016, \$560,000 of the bonds considered defeased are still outstanding.

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

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 1997	June 15, 2011-2017	4.000%- 4.250%	<u>\$560,000</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the Water and Sewer System or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On December 31, 2016, \$3,275,000 of the bonds considered defeased are still outstanding.

A summary of the refunded bond maturities provided by the Tax and Surplus Revenue Refunding Bonds, Series 2012, is as follows:

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Revenue Bonds, Series 2001	June 15, 2013-2016	4.600%- 4.750%	-
Waterworks and Sewer System Revenue Bonds, Series 2003	June 15, 2014-2023	3.600%- 4.500%	<u>3,275,000</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

A summary of changes in long-term debt for the year ended December 31, 2016 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issued</u>	<u>Amounts Outstanding 1/1/2016</u>	<u>Issued Current Year</u>	<u>Refunded/</u>		<u>Interest Current Year</u>	<u>Due Within One Year</u>						
					<u>Retired Current Year</u>	<u>Amounts Outstanding 12/31/2016</u>								
Governmental Activities:														
Bonded Indebtedness														
General Obligation Bonds, Series 2007	3.85-5.00%	6,230,000	4,480,000	-	(4,180,000)	300,000	17,700	300,000						
Certificate of Obligation, Series 2010A	2.00-4.00%	2,100,000	1,530,000	-	(125,000)	1,405,000	51,463	130,000						
Certificate of Obligation, Series 2010	2.75-4.50%	1,140,000	770,000	-	(85,000)	685,000	24,206	85,000						
Tax and Surplus Revenue														
Refunding Bonds														
Series 2010	2.00-3.00%	660,000	140,000	-	(140,000)	-	5,536	-						
General Obligation Refunding Bonds, Series 2016	2.00-4.00%	3,845,000	-	3,845,000	(75,000)	3,770,000	74,817	-						
Premium (Refunding Bonds, Series 2016)	N/A	119,253	-	119,253	(11,925)	107,328	-	-						
Total Governmental Activities														
Bonded Indebtedness		14,094,253	6,920,000	3,964,253	(4,616,925)	6,267,328	173,722	515,000						
Business-Type Activities:														
Bonded Indebtedness														
Water and Sewer Revenue														
Refunding Bonds, 2006	4.00-5.50%	9,235,000	6,470,000	-	(985,000)	5,485,000	292,313	1,195,000						
Tax and Surplus Revenue														
Refunding Bonds														
Series 2010	2.00-3.00%	3,490,000	1,065,000	-	(530,000)	535,000	20,564	535,000						
Water and Sewer Revenue														
Refunding Bonds														
Series 2012	3.60-4.75%	5,065,000	3,775,000	-	(545,000)	3,230,000	114,775	415,000						
Premium (Refunding Bonds, Series 2010)	N/A	31,250	17,856	-	(2,232)	15,624	-	-						
Premium (Refunding Bonds, Series 2006)	N/A	745,082	298,034	-	(49,672)	248,362	-	-						
Total Business-Type Bonded Indebtedness		18,566,332	11,625,890	-	(2,111,904)	9,513,986	427,652	2,145,000						
Total Bonded Indebtedness		32,660,585	18,545,890	3,964,253	(6,728,829)	15,781,314	601,374	2,660,000						

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Debt service requirements are as follows:

General Obligation Bonds:

Year Ended <u>December 31,</u>	Governmental Activities			Total <u>Requirements</u>
	Principal	Interest		
2017	300,000	117,850		417,850
2018	325,000	108,600		433,600
2019	335,000	102,000		437,000
2020	345,000	95,200		440,200
2021	350,000	86,500		436,500
2022-2026	1,970,000	264,525		2,234,525
2027	445,000	8,900		453,900
Total	<u>4,070,000</u>	<u>783,575</u>		<u>4,853,575</u>

Certificates of Obligation and Revenue Bonds:

Year Ended <u>December 31,</u>	Governmental Activities			Total <u>Requirements</u>
	Principal	Interest		
2017	215,000	69,613		284,613
2018	230,000	62,756		292,756
2019	240,000	55,119		295,119
2020	250,000	46,844		296,844
2021	255,000	38,006		293,006
2022-2025	900,000	62,309		962,309
Total	<u>2,090,000</u>	<u>334,647</u>		<u>2,424,647</u>

Water and Sewer Revenue Bonds:

Year Ended <u>December 31,</u>	Business-Type Activities			Total <u>Requirements</u>
	Principal	Interest		
2017	2,145,000	340,763		2,485,763
2018	2,290,000	236,050		2,526,050
2019	2,400,000	132,675		2,532,675
2020	610,000	150,425		760,425
2021	635,000	53,288		688,288
2022-2023	1,170,000	38,738		1,208,738
Total	<u>9,250,000</u>	<u>951,939</u>		<u>10,201,939</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Capital Leases Payable - Governmental Activities:

On September 10, 2015, the City entered into a lease agreement with JP Morgan Chase Bank, N.A. (Lessor). The agreement was to assist the City in financing the acquisition of six Dodge chargers, a 2015 Ford F150, and a slide-in animal control unit for the Ford F150. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreement totals \$254,940 and requires three annual payments of \$84,980.

On February 4, 2016, the City entered into a lease agreement with VGM Financial Services (Lessor). The agreement was to assist the City in financing the acquisition of fifteen 2016 Club Car Electric i2 Precedent Golf Cars. The City has legal title to the property during the lease term subject to the security interest of the Lessor in all the property. The lease agreement totals \$50,168 and requires three annual payments of \$16,723.

The assets acquired through the capital leases are as follows:

<u>Assets:</u>	<u>Amount</u>
2015 Dodge Police Cars (6)	219,928
2015 Ford F150	28,158
2016 Club Car Golf Cars (15)	48,333
Total	296,419
Less: Accumulated Depreciation	(45,060)
Total	<u>251,359</u>

The future minimum lease payments under the capital leases and the present value of the net minimum lease payments at December 31, 2016, were as follows:

<u>Year Ended</u>		<u>Various Equipment</u>
<u>December 31</u>		
2017		101,703
2018		<u>101,703</u>
Total Minimum Lease Payments		203,406
Less: Amount Representing Interest Costs		<u>(6,802)</u>
Present Value of Minimum Lease Payments		<u>196,604</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Notes Payable - Governmental Activities:

On March 18, 2013, the City entered into a loan agreement with Texas Bank and Trust in the amount of \$155,000 for the purchase of an ambulance. Payments are due annually in 3 payments of \$40,619 (includes principal and interest) beginning on March 1, 2014, and on the same day each year thereafter. A single final payment of the entire unpaid balance of principal and interest will be paid on March 1, 2017. The interest rate on the loan is fixed at 1.947%. Interest paid on this loan in 2016 was \$1,541.

On August 4, 2016, the City entered into a loan agreement with Texas Bank and Trust in the amount of \$253,592 for the purchase of police vehicles. Payments are due annually. Two payments of \$87,742 are due beginning on September 10, 2017, and on the same day each year thereafter. A single, final payment of the entire unpaid balance of principal and interest will be due on September 10, 2019. The interest rate on the loan is fixed at 1.796%. No interest was paid on the loan in 2016.

Also, on November 15, 2016, the City entered into a loan agreement with Panola National Bank in the amount of \$690,000 for the purchase of a fire truck. In 2016, the City spent \$626,757 of the loan proceeds. The rest of the loan proceeds (\$63,243) was spent in 2017 for add-ons to the fire trucks and is included in unearned revenue in the General Fund. Five principal payments of \$115,000 plus interest are due annually beginning January 20, 2018 and one payment of \$117,243 is due on January 20, 2023. The interest rate on the loan is fixed at 1.950%. No interest was paid on the loan in 2016.

Long-Term Debt Notes Payable:

Governmental Activities			
Year Ended	Principal	Interest	Total Requirements
December 31,			
2017	210,303	5,799	216,102
2018	115,000	15,704	130,704
2019	198,133	14,226	212,359
2020	115,000	8,970	123,970
2021	115,000	6,728	121,728
2022-23	230,000	6,728	236,728
Total	983,436	58,155	1,041,591

Note Payable - Business Type Activities:

On August 21, 2015, the City entered into a loan agreement with Texas Bank and Trust in the amount of \$614,844 for the purchase of a bio-tower media filter for the Water and Sewer Fund. Payments are due annually in 7 payments of \$95,880 (includes principal and interest) beginning on August 21, 2016, and on the same day each year thereafter. The interest rate on the loan is fixed at 2.238%. Interest paid on this loan in 2016 was \$13,798.

Long-Term Debt Note Payable:

Year Ended	Principal	Interest	Total Requirements
December 31,			
2017	83,957	11,923	95,880
2018	85,836	10,044	95,880
2019	87,757	8,123	95,880
2020	89,704	6,176	95,880
2021	91,728	4,152	95,880
2022	93,780	2,100	95,880
Total	532,762	42,518	575,280

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Changes In Long-Term Liabilities:

Long-term debt activity for the year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Bonds Payable:					
General Obligation Bonds	4,480,000	3,964,253	(4,266,925)	4,177,328	300,000
Certificate of Obligations and Revenue Bonds	2,440,000	-	(350,000)	2,090,000	215,000
Total Bonds Payable	<u>6,920,000</u>	<u>3,964,253</u>	<u>(4,616,925)</u>	<u>6,267,328</u>	<u>515,000</u>
Other Liabilities:					
Capital Leases Payable	245,565	48,083	(97,044)	196,604	97,188
Note Payable	78,922	943,592	(39,078)	983,436	210,303
Accrued Post Retirement Health Care and TMRS	5,238,986	2,594,104	-	7,833,090	-
Compensated Absences	2,299,392	165,027	-	2,464,419	-
Total Other Liabilities	<u>7,862,865</u>	<u>3,750,806</u>	<u>(136,122)</u>	<u>11,477,549</u>	<u>307,491</u>
Total Governmental Activities	<u>14,782,865</u>	<u>7,715,059</u>	<u>(4,753,047)</u>	<u>17,744,877</u>	<u>822,491</u>
<u>Business-Type Activities:</u>					
Revenue Bonds Payable	11,625,890	-	(2,111,904)	9,513,986	2,145,000
Total Bonds Payable	<u>11,625,890</u>	<u>-</u>	<u>(2,111,904)</u>	<u>9,513,986</u>	<u>2,145,000</u>
Other Liabilities:					
Note Payable	614,844	-	(82,082)	532,762	83,957
Accrued Post Retirement Health Care and TMRS	1,134,904	528,508	-	1,663,412	-
Compensated Absences	306,166	-	(24,067)	282,099	-
Total Other Liabilities	<u>2,055,914</u>	<u>528,508</u>	<u>(106,149)</u>	<u>2,478,273</u>	<u>83,957</u>
Total Business-Type Activities	<u>13,681,804</u>	<u>528,508</u>	<u>(2,218,053)</u>	<u>11,992,259</u>	<u>2,228,957</u>
Total Government	<u>28,464,669</u>	<u>8,243,567</u>	<u>(6,971,100)</u>	<u>29,737,136</u>	<u>3,051,448</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Interfund balances at December 31, 2016, consisted of the following amounts:

Due to General Fund (Major Governmental Fund) From:	
Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	329,915
Controlled Substance Fund (Nonmajor Governmental Fund)	35
Total Due to General Fund	329,950
Due to Street Maintenance Fund (Nonmajor Governmental Fund) From:	
General Fund (Major Governmental Fund)	94,384
Total Due to Street Maintenance Fund	94,384

Interfund transfers for the year ended December 31, 2016, consisted of the following amounts:

Transfers to General Fund From (Major Governmental Fund):	
Motel Occupancy Tax Fund (Nonmajor Governmental Fund)	176,463
Water and Sewer Fund (Major Enterprise Fund)	1,153,861
Total Transfers to General Fund (Major Governmental Fund)	1,330,324
Transfers to Police Special Projects Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	231,181
Total Transfers to Police Special Projects Fund	231,181
Transfers to Special Projects Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	3,414
Total Transfers to Special Projects Fund	3,414
Transfers to Equipment Replacement Funds (Internal Service Funds):	
Water and Sewer Fund (Major Enterprise Fund)	93,845
General Fund (Major Governmental Fund)	46,219
Total Transfers to Equipment Replacement Funds	140,064
Transfers to Capital Improvement Fund (Nonmajor Governmental Fund):	
General Fund (Major Governmental Fund)	200,000
Total Transfers to Capital Improvement Fund	200,000

Fund Balance/Net Position (Deficit):

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

Nonmajor Governmental Funds:	
Motel Occupancy Tax Fund	(228,270)

The deficit in the Motel Occupancy Tax Fund was due to transfers made to the General Fund in prior years to fund additional expenditures for Boogie Woogie and Wonderland of Lights. The City will partially recover the deficit fund balance in 2017 and the remainder will be paid back in the near future.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Internal Service Fund:

Stores Inventory Fund

(23,461)

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

NOTE 7: BUDGET RECONCILIATION OF FUND BALANCES:

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

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

<u>Fund Balance (Deficit)</u>	<u>December 31, 2016</u>
<u>Budgeted Special Revenue Funds:</u>	
Motel Occupancy Tax Fund	(228,270)
Street Maintenance Fund	19,157
Litter Control Fund	-
D.A.R.E. Donations Fund	32,072
Total	<u>(177,041)</u>
<u>Non-budgeted Special Revenue Funds:</u>	
Controlled Substance Fund	128,296
Art Center Projects Fund	3,266
Muni Court Tech Fund	18,218
Park Trails Fund	4,533
Timber Sales Fund	16,735
EMS ESD Fund	45,097
Disaster Relief Fund	2,646
Police Special Projects Fund	295,354
State Grant Fund	143
Main Street Fund	1,472
Total	<u>515,760</u>
All Special Revenue Funds	<u>338,719</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - PENSION PLANS:

Texas Municipal Retirement System –

TMRS Plan Description:

The City of Marshall participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided:

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	20 years at any age, 5 years at age 60 and above	20 years at any age, 5 years at age 60 and above
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - PENSION PLANS: (Continued)

Employees Covered by Benefit Terms:

At the December 31, 2015, valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Inactive employees or beneficiaries currently receiving benefits	168	156
Inactive employees entitled to but not yet receiving benefits	59	60
Active employees	182	179
Total	<u>409</u>	<u>395</u>

Contributions:

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Marshall were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Marshall were 16.73% and 16.19% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended December 31, 2016, were \$1,280,192, and satisfied the required contributions.

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions:

- Inflation at 2.5% per year
- Overall payroll growth at 3.0% per year
- Investment Rate of Return at 6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - PENSION PLANS: (Continued)

Net Pension Liability: (Continued)

Actuarial assumptions used in the December 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	30.0%	1.00%
Non-Core Fixed Income	10.0%	3.65%
Real Return	5.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	5.0%	4.00%
Private Equity	<u>5.0%</u>	8.00%
	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - PENSION PLANS: (Continued)

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset Liability (a)-(b)
Balance at December 31, 2014	51,735,245	45,724,371	6,010,874
Changes for the year:			
Service cost	1,317,472	-	1,317,472
Interest	3,556,882	-	3,556,882
Difference between expected and actual experience	(575,781)	-	(575,781)
Changes of assumptions	695,565	-	695,565
Contributions - employer	-	1,311,982	(1,311,982)
Contributions - employee	-	548,947	(548,947)
Net investment income	-	67,466	(67,466)
Benefit payments, including refunds of employee contributions	(3,162,757)	(3,162,757)	-
Administrative expense	-	(41,095)	41,095
Other changes	-	(2,030)	2,030
Net changes	<u>1,831,381</u>	<u>(1,277,487)</u>	<u>3,108,868</u>
Balance at December 31, 2015	<u>53,566,626</u>	<u>44,446,884</u>	<u>9,119,742</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	<u>16,128,092</u>	<u>9,119,742</u>	<u>3,331,378</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 - PENSION PLANS: (Continued)

Pension Plan Fiduciary Net Pension

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended December 31, 2016, the City recognized pension expense of \$1,749,302.

At December 31, 2016, the City reported deferred outflows of resource and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual economic experience	-	920,135
Changes in actuarial assumptions	533,050	-
Contributions paid to TMRS subsequent to the measurement date	1,280,192	-
Differences between projected and actual investment earnings	<u>2,847,231</u>	-
Total	<u>4,660,473</u>	<u>920,135</u>

\$1,280,192 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending December 31, 2016.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Net Deferred Outflows (Inflows) of Resources</u>
2017	581,476
2018	581,476
2019	662,710
2020	634,484
2021	-
Total	<u>2,460,146</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8: PENSION PLANS: (Continued)

Supplemental Death Benefits Plan –

Plan Description:

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

Contributions:

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

Schedule of Contribution Rates:

(RETIREE – Only Portion of the Rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actuarial Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.07%	0.07%	100%
2012	0.07%	0.07%	100%
2013	0.07%	0.07%	100%
2014	0.08%	0.08%	100%
2015	0.08%	0.08%	100%
2016	0.08%	0.08%	100%

Firemen's Relief and Retirement Fund –

Plan Description:

The City contributes to the Firemen's Relief and Retirement Fund ("Fund") a single employer public employee retirement system (PERS). The City's payroll for employees covered by the Fund for the year ended December 31, 2016, was \$2,658,907. All active City Firefighters are eligible to participate in the Fund. Benefits vest after 10 years of service and the attainment of age 50. Retirement benefits are based upon years of service and salary. The Fund also provides death and disability benefits. Benefit provisions and all other requirements are established by State statute, City ordinance and the Marshall Firemen's Relief and Retirement Fund Board of Trustees.

Firefighters contribute 14.00% of their annual salary to the Fund. The City contributes a matching 19.05% of annual covered payroll to the Fund.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8: PENSION PLANS: (Continued)

Funding Status and Contributions:

The latest actuarial study of the Fund was made as of December 31, 2016. The actuarial cost method used in the valuation was a variation of the Entry Age Normal Actuarial Cost Method. Significant actuarial assumptions used included a rate of return on investments of 7.75% per year, and projected salary increases of 5.00% per year. The market value of the Firemen's Relief and Retirement Fund at December 31, 2016 was \$7,712,228, 121% of the book value as of December 31, 2016.

The December 31, 2016, actuarial valuation determined that contributions at the rates then in existence (14.00% for firefighters and 19.05% for the City of Marshall) will amortize the unfunded liability, based on certain actuarial assumptions, in approximately 56.4 years. Guidelines published by the Texas State Pension Review Board specify that the amortization period of the unfunded actuarial accrued liability should never exceed 40 years, with a 15 to 25 year period being preferable. Based on the December 31, 2016, actuarial valuation, the actuary has certified that the fund contribution structure is currently not sufficient to satisfy PRB guidelines.

Contributions for 2016 totaling \$878,770 were made in accordance with the contribution requirements established by State statute.

Net Pension Liability:

The components of net pension liability as of December 31, 2016 (date of last actuarial update).

Total Pension Liability	18,669,078
Plan Fiduciary Net Position	<u>7,712,228</u>
Net Pension Liability	<u>10,956,850</u>

NOTE 9: HEALTH INSURANCE COVERAGE:

The City provides health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. Employees who retire and wish to continue on the City's health plan must pay the difference between the retiree blended rate of \$782 and \$477, which is the amount the City currently pays for active employee coverage. Currently, the City contributes \$477 per employee and retirees per month, and the employee, at their option, may authorize payroll withholdings to pay dependent premiums if applicable.

NOTE 10: POST-RETIREMENT HEALTH BENEFITS:

Plan Description and Funding Policy:

City Policy allows the City to provide health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. The current rate for active employees is \$503 and retirees is \$584 per month. Employees who have retired, completed 20 years of service, and have reached age 60 and wish to continue on the City's health plan must pay the difference between the retiree blended rate and the amount the City currently pays for active employee coverage. The current rate for these retirees is \$782 per month, which is intended to be the blended rate that does not create an implicit subsidy. Retiree medical and dental coverage ends at age 65. Retirees pay for any dependent coverage and for dental coverage. Employees hired after August 1, 2005 will not be eligible to remain on the health plan upon retirement.

Annual OPEB Cost and Net OPEB Obligation:

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The last valuation performed was at January 1, 2015. 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 24 year period, using a 4% discount rate. Medical inflation was taken at 10% for pre-Medicare grading down to 5% in the ultimate. Post Medicare benefits were not considered since the plan provides for no post-Medicare coverage or subsidy. The Unfunded Actuarial Liability and the Annual Cost at January 1, 2015 was as follows:

<u>Category</u>	<u>Liability (Actuarial Present Value)</u>			<u>Annual Cost</u>			<u>12/31/2015</u>
	<u>Past Service</u>	<u>Future</u>	<u>Total</u>	<u>Past Service</u>	<u>(Normal Cost)</u>	<u>Total</u>	
Active	427,931	344,605	772,536	26,987	23,940	50,927	
Retirees	312,818	-	312,818	19,728	-	19,728	
Total	740,749	344,605	1,085,354	46,715	23,940	70,655	0%
(1) Normal Cost for 2016					23,940		
(2) Accrued Actuarial Liability						740,749	
(3) Beginning Assets						-	
(4) Unfunded Accrued Liability (UAL)						740,749	
(5) Net OPEB Obligation as of 1/1/16						363,016	
(6) Amortization Period						24	
(7) Amortization of UAL					46,715		
(8) Annual Required Contribution (ARC) (1 + 7)						70,655	
(9) Interest on Prior Year OPEB Obligation						13,277	
(10) Amortization of Prior Year OPEB Obligation						13,830	
(11) Annual OPEB Cost (8 + 9 - 10)						70,102	
(12) Employer Pay-As-You-Go Cost						56,359	
(13) Employer Contributions to Trust (Prefunding)						-	
(14) Total Employer Contributions (12 + 13)						56,359	
(15) Change in Net OPEB Obligation/(Asset) During Year (11 - 14)						13,743	
(16) Net OPEB Obligation (Asset) as of 12/31/16 (5 + 15)						376,759	

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Trend Information for Annual OPEB Cost:

Year Ended Dec. 31	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligations
2012	83,938	-	244,950
2013	83,938	-	286,996
2014	83,938	-	331,924
2015	70,102	-	363,016
2016	70,102	-	376,759

Schedule of Funding Progress:

Actuarial Valuation	Actuarial Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded	Funded	Annual Covered Payroll	UAAL as a % of Covered Payroll
2008	-	3,331,546	3,331,546	3,331,546	0%	8,160,194	40.82%
2010	-	2,727,686	2,727,686	2,727,686	0%	8,171,728	33.38%
2013	-	1,459,483	1,459,483	1,459,483	0%	7,904,818	18.46%
2015	-	1,085,354	1,085,354	1,085,354	0%	7,842,091	13.84%

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 reinsurance through commercial companies. The limits of liability and deductibles are:

	<u>Limit</u>	<u>Deductible</u>
General Liability	2,000,000 4,000,000	Each Occurrence Annual Aggregate
Auto Liability	1,000,000	Each Occurrence
Law Enforcement Liability	2,000,000 4,000,000	Each Occurrence Annual Aggregate
Errors and Omissions Liability	1,000,000 2,000,000	Each Wrongful Act Annual Aggregate
Real & Personal Property	78,887,404	1,000
Mobile Equipment	2,349,442	500
Boiler & Machinery	5,531,392	5,000

NOTE 12: SOLID WASTE COLLECTION CONTRACT:

The City has contracted for solid waste collection with a third party. The contract began January 1, 2014, and terminates December 31, 2018. The term of the service shall be five (5) years from the start date of the contract, with one (1) five-year renewal option pending agreement of both parties. Should either the City or Contractor elect not to renew and extend the contract for an additional five (5) year period, notice must be given, by certified mail, return receipt requested, to the other party in writing not less than thirty (30) days prior to the expiration of the Contract. Under the terms of the agreement the City bills customers and collects payments and retains a percentage of the charges.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

NOTE 14: LITIGATION:

The City is not a defendant in any significant litigation as of December 31, 2016.

NOTE 15: CONTINGENT LIABILITIES:

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

NOTE 16: COMMITMENTS:

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

NOTE 17: SUBSEQUENT EVENTS:

The City has evaluated subsequent events through October 5, 2017, the date which the financial statements were available for issue.

NOTE 18: TAX ABATEMENTS:

The City enters into property tax abatement agreements on an individual basis with local businesses and individuals under two incentive programs. One is the Empowerment Zone that covers part of the City. Incentives are offered to residents and businesses located in the Neighborhood Empowerment Zone for development incentives as authorized by Local Government Code, Chapter 378. The other incentive is the Reinvestment Zone, in accordance with the requirements of Chapter 312 of the Tax Code, known as the "Property Redevelopment and Tax Abatement Act" that is offered to qualified businesses.

For the year ended December 31, 2016, the City abated property taxes totaling \$14,495 under the two programs. There were four individuals/entities that were granted a 75% property tax abatement under the Neighborhood Empowerment Zone that totaled \$5,911. There were two businesses that were granted a 100% property tax abatement under the Reinvestment Zone that totaled \$8,584.

NOTE 19: COMPONENT UNIT DISCLOSURES – MARSHALL ECONOMIC DEVELOPMENT CORPORATION:

Deposits And Investments:

Legal and Contractual Provisions Governing Deposits and Investments:

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

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Policies Governing Deposits and Investments:

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

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

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

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

At December 31, 2016, the carrying amount of MEDCO's deposits (including \$200 petty cash) was \$396,402, and the respective bank balance was \$423,813. MEDCO's cash deposits at December 31, 2016, were entirely covered by FDIC insurance and pledged securities.

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

At December 31, 2016, MEDCO was not exposed to custodial credit risk. MEDCO only had investments in TexPool, a state investment pool, which is not subject to custodial credit risk.

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

4. Credit Risk and Concentration Risk - MEDCO's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. MEDCO's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

<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%

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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, 2016 are:

	<u>Rating</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Public Funds Investment Pools (TexPool)	AAAm (S&P)	<u>4,472,360</u>	<u>4,472,360</u>

At December 31, 2016, the public funds investment pools consisted of investments in TexPool. TexPool is duly chartered and administered by the Texas Comptroller's Office and the portfolio normally consists of U.S. T-Bills, T-Notes, collateralized certificates of deposit, and repurchase agreements. Oversight by the Texas Comptroller's Office over TexPool includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. These investments are classified as temporary investments in MEDCO's financial statements because these investments are not subject to any restrictions for withdrawal purposes.

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

Receivables:

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

	<u>Business Development Center</u>	<u>Center For Applied Technology</u>	<u>Total</u>
Receivables:			
Accounts	<u>15,059</u>	<u>27,142</u>	<u>42,201</u>
Gross	<u>15,059</u>	<u>27,142</u>	<u>42,201</u>
Receivables Less:			
Allowance for Uncollectibles	<u>(6,248)</u>	<u>(9,833)</u>	<u>(16,081)</u>
Net Total Receivables	<u>8,811</u>	<u>17,309</u>	<u>26,120</u>

Due From Other Governments:

The City is required to contribute to MEDCO, \$.00375 of the \$.0825 sales tax levied on taxable sales. Monthly, the City receives sales tax remittances from the State of Texas for taxes collected by the State on behalf of the City. Because of the time allowed by the State for merchants to file Sales Tax Returns, a lag exists between when the tax is earned by the City and when it is received. At December 31, 2016, the amount due to MEDCO from the City for its portion of sales tax revenue was \$288,490, including \$5,339 due from the City from previous years.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Capital Assets:

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

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

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

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>Component Unit Activities:</u>		<u>December 31,</u>	<u>December 31,</u>	
	<u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>2016</u>
Capital Assets Not Being Depreciated:				
Land	4,235,720	-	-	4,235,720
Construction In Progress	<u>2,545,783</u>	<u>175,000</u>	<u>-</u>	<u>2,720,783</u>
Total Capital Assets Not Being Depreciated	<u>6,781,503</u>	<u>175,000</u>	<u>-</u>	<u>6,956,503</u>
Capital Assets Being Depreciated:				
Buildings	10,347,337	-	-	10,347,337
Improvements	299,943	24,430	-	324,373
Machinery, Tools, and Equipment	<u>182,896</u>	<u>9,855</u>	<u>-</u>	<u>192,751</u>
Total Capital Assets Being Depreciated	<u>10,830,176</u>	<u>34,285</u>	<u>-</u>	<u>10,864,461</u>
Less Accumulated Depreciation For:				
Buildings	317,751	258,683	-	576,434
Improvements	183,364	17,135	-	200,499
Machinery, Tools, and Equipment	<u>151,947</u>	<u>10,749</u>	<u>-</u>	<u>162,696</u>
Total Accumulated Depreciation	<u>653,062</u>	<u>286,567</u>	<u>-</u>	<u>939,629</u>
Total Capital Assets, Being Depreciated, Net	<u>10,177,114</u>	<u>(252,282)</u>	<u>-</u>	<u>9,924,832</u>
Component Unit Activities Capital Assets, Net	<u>17,133,617</u>	<u>(77,282)</u>	<u>-</u>	<u>16,881,335</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 19: 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%. On June 3, 2014, the balance of the loan was \$616,270 plus interest of \$8,662 for a total of \$624,932 that was rolled into a new loan with Texas Bank and Trust as explained below.

On May 22, 2014, MEDCO entered into a loan agreement for \$6,540,000 with Texas Bank & Trust. The interest rate of the loan is 3.25% and the payment terms are: accrued interest shall be payable monthly starting June 1, 2014, and continuing each month until and including December 31, 2014. Principal and interest shall be payable in monthly installments of \$46,100 including interest, starting February 1, 2015, and continuing each month until the entire principal balance is due on January 1, 2025. The entire unpaid interest and principal shall be due and payable in full with a balloon payment on January 1, 2025, the scheduled maturity date. The purposes of the loan are to provide funds to pay for a project relating to a Performance Agreement and lease between MEDCO and Rio Ammunition, Inc. to the extent of \$5,900,000 and to the extent of \$624,932 the loan represents a refinance and renewal of an existing loan. MEDCO pledges and grants a security interest and a first lien on pledged revenues (sales tax). Interest paid on this loan for the year ending December 31, 2016, was \$196,456.

On December 31, 2014, MEDCO entered into a loan agreement for \$967,965 with Bancorp South Bank. The interest rate of the loan is 3.950% and the payment terms are: principal and interest shall be payable in monthly installments of \$9,814 including interest, starting February 10, 2015, and continuing each month for 120 months. The purpose of the loan is to provide additional funding for the construction of Rio Ammunition, Inc. This loan is secured by real estate. Interest paid on this loan for the year ending December 31, 2016, was \$34,067.

Debt service requirements are as follows:

<u>Year Ended December 31,</u>	Governmental Activities			Total Requirements
	<u>Principal</u>	<u>Interest</u>		
2017	455,246	215,723		670,969
2018	470,895	200,074		670,969
2019	487,086	183,882		670,968
2020	503,838	167,131		670,969
2021	521,170	149,798		670,968
2022 - 2025	<u>4,204,220</u>	<u>326,778</u>		<u>4,530,998</u>
TOTAL	<u>6,642,455</u>	<u>1,243,386</u>		<u>7,885,841</u>

Long-term debt activity for the year ended December 31, 2016, 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>
Other Liabilities:					
Notes Payable	7,082,901	-	(440,446)	6,642,455	455,246
Total Other Liabilities	<u>7,082,901</u>	<u>-</u>	<u>(440,446)</u>	<u>6,642,455</u>	<u>455,246</u>
Total Governmental Activities					
Long-Term Liabilities	<u>7,082,901</u>	<u>-</u>	<u>(440,446)</u>	<u>6,642,455</u>	<u>455,246</u>

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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.

NOTE 20: 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, 2016, the carrying amount of MDDC's deposits was \$184,255 and the respective bank balances were \$139,319. 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, 2016, were entirely covered by FDIC insurance.

CITY OF MARSHALL, TEXAS

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 20: COMPONENT UNIT DISCLOSURES – MARSHALL DOWNTOWN DEVELOPMENT CORPORATION: **(Continued)**

Capital Assets:

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>Component Unit Activities:</u>	December 31,		
	2015	Additions	Deletions
Capital Assets Being Depreciated:			
Building	50,217	-	-
Total Capital Assets Being Depreciated	<u>50,217</u>	<u>-</u>	<u>-</u>
Less Accumulated Depreciation For:			
Building	5,021	1,004	-
Total Accumulated Depreciation	<u>5,021</u>	<u>1,004</u>	<u>-</u>
Total Capital Assets Being Depreciated, Net	<u>45,196</u>	<u>1,004</u>	<u>-</u>
Component Unit Activities Capital Assets, Net	<u>45,196</u>	<u>1,004</u>	<u>-</u>

Required Supplementary Information

CITY OF MARSHALL, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED DECEMBER 31, 2016

	Plan Year Ended December 31,	
	<u>2015</u>	<u>2014</u>
<u>Total Pension Liability:</u>		
Service Cost	1,317,472	1,305,622
Interest (on the Total Pension Liability)	3,556,882	3,496,478
Changes in Benefit Terms	-	-
Difference Between Expected and Actual Results	(575,781)	(852,294)
Change of Assumptions	695,565	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(3,162,757)</u>	<u>(3,022,865)</u>
Net Change in Total Pension Liability	1,831,381	926,941
Total Pension Liability - Beginning	<u>51,735,245</u>	<u>50,808,304</u>
Total Pension Liability - Ending (a)	<u>53,566,626</u>	<u>51,735,245</u>
<u>Plan Fiduciary Net Position:</u>		
Contributions - Employer	1,311,982	1,334,649
Contributions - Employee	548,947	541,924
Net Investment Income	67,466	2,537,589
Benefit Payments, Including Refunds of Employee Contributions	(3,162,757)	(3,022,865)
Administrative Expense	(41,095)	(26,495)
Other	<u>(2,030)</u>	<u>(2,178)</u>
Net Change in Plan Fiduciary Net Position	(1,277,487)	1,362,624
Plan Fiduciary Net Position - Beginning	<u>45,724,371</u>	<u>44,361,747</u>
Plan Fiduciary Net Position - Ending (b)	<u>44,446,884</u>	<u>45,724,371</u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u>9,119,742</u>	<u>6,010,874</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.97%	88.38%
Covered Employee Payroll	7,842,093	7,719,153
Net Pension Liability as a Percentage of Covered Employee Payroll	116.29%	77.87%

CITY OF MARSHALL, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	1,280,192	1,311,982
Contribution in Relation to the Actuarially Determined Contributions	<u>(1,280,192)</u>	<u>(1,311,982)</u>
Contribution Deficiency	_____ -	_____ -
Covered Employee Payroll	7,907,289	7,842,091
Contributions as a Percentage of Covered Employee Payroll	16.19%	16.73%

NOTES TO SCHEDULE OF CONTRIBUTIONS:

Valuation Date: Actuarially determined contribution rates as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed marked; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

Combining and Individual Fund Financial Statements

CITY OF MARSHALL, TEXAS

Exhibit F-1

GENERAL FUND BALANCE SHEET DECEMBER 31, 2016

	<i>General Fund</i>
ASSETS	
Cash and Temporary Investments	908,757
Certificates of Deposit	3,878,687
Receivables (Net of Allowance for Uncollectible)	
Current Taxes	2,446,237
Delinquent Taxes	598,263
Customer:	
Sanitation	254,283
Ambulance	<u>676,746</u>
Franchise Taxes	235,004
Other	589,289
Accrued Interest	<u>5,800</u>
Total Receivables	4,805,622
Prepaid Expenditures	265,116
Inventory	54,469
Due from Other Funds	329,950
Due from Other Governments	<u>1,556,358</u>
TOTAL ASSETS	<u><u>11,798,959</u></u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	
Liabilities	
Accounts Payable	995,405
Accrued Liabilities	394,585
Due to Other Funds	94,384
Unearned Revenues	<u>764,542</u>
Total Liabilities	<u><u>2,248,916</u></u>
Deferred Inflows of Resources	
Unavailable Revenue-Property Taxes	<u>3,012,758</u>
Total Inflows of Resources	<u><u>3,012,758</u></u>
Fund Balances:	
Nonspendable:	
Prepaid Expenditures	265,116
Restricted:	
Other Post-Employment Benefits	74,976
Unassigned	
Total Fund Balance	<u><u>6,537,285</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	<u><u>11,798,959</u></u>

CITY OF MARSHALL, TEXAS

Exhibit F-2
Page 1 of 2

GENERAL FUND STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>General Fund</i>
REVENUE:	
Ad Valorem Taxes	4,468,162
Sales Taxes	6,151,273
Franchise Tax	958,184
Permits and Fees:	
Refuse Collections	2,362,091
Ambulance Fees	932,385
Other Fees and Permits	<u>759,937</u>
Total Permits and Fees	4,054,413
Municipal Court Fines	701,440
Interest	39,766
Intergovernmental	539,902
Miscellaneous	<u>397,086</u>
Total Revenue	<u>17,310,226</u>
EXPENDITURES:	
Current:	
General Government:	
Legislative	28,978
Legal	64,280
Administrative	146,684
Human Resources	<u>124,480</u>
Total General Government	364,422
Finance:	
Finance	176,608
City Secretary	73,977
Purchasing	2,971
Municipal Court	<u>250,233</u>
Total Finance	503,789
Public Safety:	
Police Department	4,279,588
Fire Department	<u>3,783,839</u>
Total Public Safety	8,063,427
Public Works	2,584,107
Non-Departmental	1,821,296
Tax Collection	95,163
Parks and Recreation	685,236
Planning and Development	435,283
Support Services	1,789,050
Community Facilities	523,640
Debt Service	101,703
Capital Outlay	<u>3,386,317</u>
Total Expenditures	<u>20,353,433</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, 2016

	<i>General Fund</i>
<u>CONTINUED:</u>	
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources	<u>(3,043,207)</u>
Other Financing Sources	
Lease Proceeds	48,083
Loan Proceeds	880,349
Transfers In	1,330,324
Transfers (Out)	(480,814)
Total Other Financing Sources	<u>1,777,942</u>
Net Change in Fund Balance	<u>(1,265,265)</u>
Fund Balance at Beginning of Year	<u>7,802,550</u>
Fund Balance at End of Year	<u>6,537,285</u>

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET DECEMBER 31, 2016

										Special Revenue					
										Police Fund	Special Projects Fund	EMS ESD Fund	Special Projects Fund		
										State Grant Fund	Main Street Fund	Disaster Relief Fund	Timber Sales Fund		
	Motel Occupancy Tax Fund	Community Development Fund	Municipal Court Tech Fund	Street Maintenance Fund	Litter Control Fund	D.A.R.E. Donations Fund	Controlled Substance Fund	Art Center Projects Fund	Park Trails Fund						
ASSETS															
Cash and Temporary Investments	(76,708)	(88,599)	18,218	(75,227)	4,350	32,072	128,882	3,266	4,533	60,731	2,646	1,472	143	-	31,097
Certificates of Deposit															295,354
Receivable- Current Taxes	64,762	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable- Delinquent Taxes	-														-
Other Receivables	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	14,000
Accrued Interest	-														-
Inventory	32,368	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	94,288	-	-	94,384	-	-	-	-	-	-	-	-	-	-
Due from Other Governments	168,966	-	-	-	-	-	-	11,777	-	-	-	-	-	-	-
TOTAL ASSETS	190,888	5,689	18,218	19,157	4,350	32,072	140,659	3,266	4,533	60,731	2,646	1,472	143	-	45,097
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES															295,354
Liabilities															
Accounts Payable	85,858	5,689	-	-	-	4,350	-	-	12,328	-	-	-	-	-	-
Accrued Liabilities	3,377	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	329,915	-	-	-	-	-	-	-	35	-	-	-	-	-	-
Unearned Revenues	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	419,158	5,689	-	-	-	4,350	-	-	12,363	-	-	-	-	-	-
Deferred Inflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unavailable Revenue-Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Inflows of Resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Balances (Deficit)															
Restricted:															
Promotion and Tourism	-	-	18,218	-	19,157	-	32,072	128,296	-	-	16,735	-	-	-	45,097
Public Safety	-	-	-	-	-	-	-	-	3,266	4,533	-	2,646	-	-	295,354
Street Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purpose of Grantors and Donors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned (Deficit)	(228,270)	-	-	18,218	-	19,157	-	32,072	128,296	-	3,266	4,533	16,735	2,646	1,472
Total Fund Balances (Deficit)	(228,270)	-	18,218	-	19,157	-	32,072	128,296	-	3,266	4,533	16,735	2,646	1,472	143
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	190,888	5,689	18,218	19,157	4,350	32,072	140,659	3,266	4,533	60,731	2,646	1,472	143	-	45,097
															295,354

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

	<i>Debt Service</i>		<i>Capital Projects</i>			<i>Permanent</i>		<i>Total Nonmajor Governmental Funds</i>
	<i>2001 & 2007 Debt Service Funds</i>	<i>1995 Capital Imp. Fund</i>	<i>2007 Capital Imp. Fund</i>	<i>2010 Utility Conserv. Fund</i>	<i>2010 Memorial City Hall Fund</i>	<i>Capital Improvement Fund</i>	<i>Library Fund</i>	
ASSETS								
Cash and Temporary Investments	339,842	13,957	1,608	24,548	558,245	248,624	331,393	1,860,447
Certificates of Deposit	-	-	-	-	532,897	-	30,649	563,546
Receivable- Current Taxes	419,708	-	-	-	-	-	-	484,470
Receivable- Delinquent Taxes	89,151	-	-	-	-	-	-	89,151
Other Receivables	-	-	-	-	-	-	-	15,500
Accrued Interest	-	-	-	-	569	-	63	632
Inventory	-	-	-	-	-	-	-	32,368
Due from Other Funds	-	-	-	-	-	-	-	94,384
Due from Other Governments	-	-	-	-	-	-	-	275,031
TOTAL ASSETS	848,701	13,957	1,608	24,548	1,091,711	248,624	362,105	3,415,529
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES								
Liabilities								
Accounts Payable	-	-	-	-	24,737	-	-	176,958
Accrued Liabilities	-	-	-	-	-	-	-	3,377
Due to Other Funds	-	-	-	-	-	-	-	329,950
Unearned Revenues	-	-	-	-	-	-	-	8
Total Liabilities	-	-	-	-	24,737	-	-	510,293
Deferred Inflows of Resources								
Unavailable Revenue-Property Taxes	503,931	-	-	-	-	-	-	503,931
Total Inflows of Resources	503,931	-	-	-	-	-	-	503,931
Fund Balances (Deficit)								
Restricted:	-	-	-	-	-	-	-	1,472
Promotion and Tourism	-	-	-	-	-	-	-	53,772
Public Safety	-	-	-	-	-	-	-	19,157
Street Maintenance	-	-	-	-	-	-	-	10,588
Purpose of Grantors and Donors	-	-	-	-	-	-	-	344,770
Debt Service	344,770	-	-	-	-	-	-	362,105
Library	-	13,957	1,608	24,548	1,066,974	248,624	-	1,355,711
Capital Projects	-	-	-	-	-	-	-	(228,270)
Unassigned (Deficit)	344,770	13,957	1,608	24,548	1,066,974	248,624	362,105	2,401,305
Total Fund Balances (Deficit)	344,770	13,957	1,608	24,548	1,091,711	248,624	362,105	3,415,529
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	848,701	13,957	1,608	24,548	1,091,711	248,624	362,105	3,415,529

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2016

											Special Revenue						
		Motel Occupancy Tax Fund	Community Development Fund	Municipal Court Tech Fund	Street Maintenance Fund	Litter Control Fund	D.A.R.E. Donations Fund	Controlled Substance Fund	Art Center Projects Fund	Park Trails Fund	Timber Sales Fund	Disaster Relief Fund	Main Street Fund	State Grant Fund	Special Projects Fund	EMS ESD Fund	Police Special Projects Fund
REVENUE:																	
Ad Valorem Taxes	-	-	-	-	509,959	-	-	-	-	-	-	-	-	-	-	-	-
Sales Taxes	-	500,000	-	-	-	-	-	-	-	-	11,777	-	-	-	-	-	-
Intergovernmental																	
Motel Occupancy Tax	768,657	-	13,443	-	-	-	-	-	-	-	-	-	-	-	-	126,000	-
Municipal Court Fines	-	-	-	-	576	-	-	-	-	-	75	431	-	-	-	-	-
Interest	124	-	-	-	-	-	6,550	1,313	5,655	-	-	-	-	-	-	-	-
Donations	-	59	-	-	-	-	45,350	-	23,365	-	-	-	1,645	-	50	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	768,840	500,000	13,443	510,535	51,900	1,388	41,228	-	-	-	-	-	1,645	-	50	126,000	-
EXPENDITURES:																	
Current																	
General Government	-	122,925	13,554	-	-	-	4,133	45,033	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	51,900	-	-	-	-	-	-	8,243	-	-	-	-
Public Works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tourist and Convention Development	395,475	-	61,380	-	-	-	-	-	-	-	-	-	-	-	-	64	-
Planning and Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Support Services-Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service- Principal Retirement	140,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service- Interest and Fees	5,536	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	23,809	315,695	-	-	629,729	-	-	-	-	-	214,648	-	-	-	-	-	-
Total Expenditures	564,820	500,000	13,554	629,729	51,900	4,133	45,033	-	-	222,891	-	6,833	-	334	64	224,284	7,486
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	204,020	-	(111)	(119,194)	-	(2,745)	(3,805)	-	-	(222,891)	-	(5,188)	(334)	(14)	(98,284)	(7,486)	
Other Financing Sources (Uses)																	
Transfers In	-	(176,463)	-	-	-	-	-	-	-	-	-	-	-	-	-	3,414	-
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	231,181
Proceeds from Issuance of Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Premium on Issuance of Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payment to Bond Escrow Agent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	(176,463)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,414	-
Net Change in Fund Balances	27,557	-	(111)	(119,194)	-	(2,745)	(3,805)	-	-	(222,891)	-	(5,188)	(334)	(14)	(98,284)	231,181	
Fund Balances (Deficit) at Beginning of Year	(255,827)	-	18,329	138,351	-	34,817	132,101	3,266	4,533	239,626	2,646	6,660	477	(3,400)	3,400	3,400	223,695
Fund Balances (Deficit) at End of Year	(228,270)	-	18,218	19,157	-	32,072	128,296	3,266	4,533	16,735	2,646	1,472	143	-	45,097	45,097	71,659

CITY OF MARSHALL, TEXAS

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>Debt Service</i>	<i>Capital Projects</i>					<i>Permanent</i>	<i>Total Nonmajor Governmental Funds</i>
		<i>1995 Capital Imp. Fund</i>	<i>2007 Capital Imp. Fund</i>	<i>2010 Utility Conserv. Fund</i>	<i>2010 Memorial City Hall Fund</i>	<i>Capital Improvement Fund</i>		
CONTINUEd:								
REVENUE:								
Ad Valorem Taxes	723,255	-	-	-	-	-	-	723,255
Sales Taxes	-	-	-	-	-	-	-	509,959
Intergovernmental	-	-	-	-	-	-	-	637,777
Motel Occupancy Tax	-	-	-	-	-	-	-	768,657
Municipal Court Fines	-	-	-	-	-	-	-	13,443
Interest	1,185	-	-	-	4,925	-	1,027	8,343
Donations	-	-	-	-	-	2,041	-	17,254
Miscellaneous	-	-	-	-	-	-	2,027	70,801
Total Revenue	724,440	-	-	-	4,925	-	5,095	2,749,489
EXPENDITURES:								
Current:								
General Government	-	-	-	-	-	35,176	-	171,655
Public Safety	-	-	-	-	-	-	-	57,409
Public Works	-	-	-	-	-	-	-	51,900
Tourist and Convention Development	-	-	-	-	-	-	-	402,372
Planning and Development	-	-	-	-	-	-	-	61,380
Support Services-Library	-	-	-	-	-	-	836	1,170
Support Services-Principal Retirement	570,000	-	-	-	-	-	-	750,619
Debt Service-Principal Retirement	240,261	-	-	-	-	-	-	245,797
Debt Service-Interest and Fees	-	-	4,885	-	464,359	-	-	1,917,290
Capital Outlay	-	-	-	-	-	73,014	-	
Total Expenditures	810,261	-	4,885	-	464,359	35,176	73,850	3,659,592
Excess (Deficiency) of Revenue Over Expenditures								
Before Other Financing Sources (Uses)	(85,821)	-	(4,885)	-	(459,434)	(35,176)	(68,755)	(910,103)
Other Financing Sources (Uses)								
Transfers In	-	-	-	-	-	200,000	-	434,595
Transfers Out	-	-	-	-	-	-	-	(176,463)
Proceeds from Issuance of Bonds	3,845,000	-	-	-	-	-	-	3,845,000
Premium on Issuance of Bonds	320,704	-	-	-	-	-	-	320,704
Payment to Bond Escrow Agent	(4,096,451)	-	-	-	-	-	-	(4,096,451)
Total Other Financing Sources (Uses)	69,253	-	-	-	(459,434)	164,824	(68,755)	327,385
Net Change in Fund Balances	(16,568)	-	(4,885)	-	-	200,000	-	
Fund Balances (Deficit) at Beginning of Year	361,338	13,957	6,493	24,548	1,526,408	83,800	430,860	2,984,023
Fund Balances (Deficit) at End of Year	344,770	13,957	1,608	24,548	1,066,974	248,624	362,105	2,401,305

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, 2016

	<i>Motel Occupancy Tax Fund</i>				<i>Street Maintenance Fund</i>			
	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>			<i>Original</i>	<i>Final</i>		
REVENUE:								
Motel Occupancy Tax	720,000	720,000	768,657	48,657	-	-	509,959	(7,541)
Sales Taxes	-	-	-	-	-	-	576	576
Interest	-	-	124	124	-	-	-	-
Donations	-	-	-	-	-	-	-	-
Miscellaneous	-	-	59	59	-	-	-	-
Total Revenue	720,000	720,000	768,840	48,840	517,500	517,500	510,535	(6,965)
EXPENDITURES:								
Current:								
Public Safety	-	-	-	-	-	-	-	-
Public Works	-	-	-	-	-	-	-	-
Tourist and Convention Development	398,000	398,000	395,475	2,525	-	-	-	-
Debt Service- Principal Retirement	140,000	140,000	140,000	-	-	-	-	-
Debt Service- Interest and Fees	5,536	5,536	5,536	-	-	-	-	-
Capital Outlay	-	-	23,809	(23,809)	517,500	641,100	629,729	11,371
Total Expenditures	543,536	543,536	564,820	(21,284)	517,500	641,100	629,729	11,371
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	176,464	176,464	204,020	27,556	-	(123,600)	(119,194)	4,406
Other Financing Sources (Uses)								
Transfers In	-	-	-	-	-	-	-	-
Transfers Out	(176,463)	(176,463)	(176,463)	-	-	-	-	-
Total Other Financing Sources (Uses)	(176,463)	(176,463)	(176,463)	-	-	-	-	-
Net Change in Fund Balances	1	1	27,557	27,556	-	(123,600)	(119,194)	4,406
Fund Balances (Deficit), Beginning of Year	(255,827)	(255,827)	(255,827)	-	138,351	138,351	138,351	-
Fund Balances (Deficit), End of Year	(255,826)	(255,826)	(228,270)	27,556	138,351	14,751	19,157	4,406

Litter Control Fund				D.A.R.E. Donations Fund				Total			
Budgeted Amounts		Actual GAAP Basis	Positive (Negative) Variance with Final Budget	Budgeted Amounts		Actual GAAP Basis	Positive (Negative) Variance with Final Budget	Budgeted Amounts		Actual GAAP Basis	Positive (Negative) Variance with Final Budget
Original	Final			Original	Final			Original	Final		
-	-	-	-	-	-	-	-	720,000	720,000	768,657	48,657
-	-	-	-	-	-	-	-	517,500	517,500	509,959	(7,541)
6,800	6,800	6,550	(250)	2,800	2,800	1,313	(1,487)	75	75	775	775
61,200	61,200	45,350	(15,850)	-	-	-	-	9,600	9,600	7,863	(1,737)
68,000	68,000	51,900	(16,100)	2,800	2,800	1,388	(1,412)	61,200	61,200	45,409	(15,791)
								1,308,300	1,308,300	1,332,663	24,363
68,000	68,000	51,900	16,100	7,500	7,500	4,133	3,367	7,500	7,500	4,133	3,367
-	-	-	-	-	-	-	-	68,000	68,000	51,900	16,100
-	-	-	-	-	-	-	-	398,000	398,000	395,475	2,525
-	-	-	-	-	-	-	-	140,000	140,000	140,000	-
-	-	-	-	-	-	-	-	5,536	5,536	5,536	-
-	-	-	-	-	-	-	-	517,500	641,100	653,538	(12,438)
68,000	68,000	51,900	16,100	7,500	7,500	4,133	3,367	1,136,536	1,260,136	1,250,582	9,554
-	-	-	-	(4,700)	(4,700)	(2,745)	1,955	171,764	48,164	82,081	33,917
-	-	-	-	-	-	-	-	(176,463)	(176,463)	(176,463)	-
-	-	-	-	-	-	-	-	(176,463)	(176,463)	(176,463)	-
-	-	-	-	(4,700)	(4,700)	(2,745)	1,955	(4,699)	(128,299)	(94,382)	33,917
-	-	-	-	34,817	34,817	34,817	-	(82,659)	(82,659)	(82,659)	-
-	-	-	-	30,117	30,117	32,072	1,955	(87,358)	(210,958)	(177,041)	33,917

CITY OF MARSHALL, TEXAS

Exhibit F-6

**2001 COMBINATION TAX AND REVENUE AND 2007 GENERAL
OBLIGATION DEBT SERVICE FUNDS - STATEMENT OF
REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<i>Budgeted Amounts</i>	<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	
REVENUE:			
Ad Valorem Taxes	743,027	743,027	723,255
Interest	500	500	1,185
Total Revenue	743,527	743,527	724,440
EXPENDITURES:			
Principal Retirement	495,000	495,000	570,000
Interest and Fees	252,962	252,962	240,261
Total Expenditures	747,962	747,962	810,261
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	(4,435)	(4,435)	(85,821)
Other Financing Sources (Uses)			
Proceeds from Issuance of Bonds	-	-	3,845,000
Premium on Issuance of Bonds	-	-	320,704
Payment to Bond Escrow Agent	-	-	(4,096,451)
Total Other Financing Sources (Uses)	-	-	69,253
Net Change in Fund Balance	(4,435)	(4,435)	(16,568)
Fund Balance, Beginning of Year	361,338	361,338	361,338
Fund Balance, End of Year	356,903	356,903	344,770
			(12,133)

CITY OF MARSHALL, TEXAS

Exhibit G-1

WATER AND SEWER ENTERPRISE FUND STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>Budgeted Amounts</i>		<i>Actual GAAP Basis</i>	<i>Positive (Negative) Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>		
<u>OPERATING REVENUE:</u>				
Charges for Services	9,928,990	9,928,990	9,898,589	(30,401)
Miscellaneous	3,000	3,000	27,708	24,708
Total Operating Revenue	9,931,990	9,931,990	9,926,297	(5,693)
<u>OPERATING EXPENSES:</u>				
Administrative	346,695	346,695	349,589	(2,894)
Water Production	1,267,879	1,267,879	1,222,067	45,812
Water Distribution/ Collection	1,145,236	1,145,236	1,251,435	(106,199)
Wastewater Treatment	1,299,661	1,299,661	1,295,063	4,598
Water Billing	515,565	515,565	485,879	29,686
Engineering	57,627	64,127	62,261	1,866
Non-Departmental	786,879	801,879	880,540	(78,661)
Depreciation and Amortization	-	-	1,507,703	(1,507,703)
Bad Debt Expense	-	-	26,680	(26,680)
Total Operating Expenses	5,419,542	5,441,042	7,081,217	(1,640,175)
Operating Income (Loss)	4,512,448	4,490,948	2,845,080	(1,645,868)
<u>NONOPERATING REVENUE (EXPENSES):</u>				
Interest Income	3,000	3,000	17,512	14,512
Interest Expense and Fees	-	-	(425,680)	(425,680)
Total Nonoperating Revenues (Expenses)	3,000	3,000	(408,168)	(411,168)
Income (Loss) Before Transfers	4,515,448	4,493,948	2,436,912	(2,057,036)
Transfers (Out)	(1,247,706)	(1,247,706)	(1,247,706)	-
Change in Net Position	3,267,742	3,246,242	1,189,206	(2,057,036)
<u>ADDITIONAL BUDGETED AMOUNTS:</u>				
Capital Outlay	684,200	684,200	700,038	(15,838)
Principal Retirement	2,583,532	2,583,532	1,980,000	603,532
	3,267,732	3,267,732	2,680,038	587,694

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

CITY OF MARSHALL, TEXAS

Exhibit H-1

INTERNAL SERVICE FUNDS STATEMENT OF NET POSITION DECEMBER 31, 2016

	<i>Equipment Replacement Fund - W&S</i>	<i>Equipment Replacement Fund - GF</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<u>ASSETS</u>				
<i>Current Assets:</i>				
Cash and Temporary Investments	348,314	180,852	(51,013)	478,153
Accounts Receivable	-	-	19,766	19,766
Inventory	-	-	17,546	17,546
Total Current Assets	348,314	180,852	(13,701)	515,465
<i>Noncurrent Assets:</i>				
Capital Assets:				
Buildings	18,524	-	122,596	141,120
Machinery and Equipment	546,727	239,799	20,660	807,186
Less: Accumulated Depreciation	(100,623)	(53,153)	(143,256)	(297,032)
Total Capital Assets (Net of Accumulated Depreciation)	464,628	186,646	-	651,274
Total Noncurrent Assets	464,628	186,646	-	651,274
TOTAL ASSETS	812,942	367,498	(13,701)	1,166,739
<u>LIABILITIES</u>				
<i>Current Liabilities:</i>				
Accounts Payable	-	-	9,760	9,760
TOTAL CURRENT LIABILITIES	-	-	9,760	9,760
<u>NET POSITION (DEFICIT)</u>				
Invested in Capital Assets, Net of Related Debt	464,628	186,646	-	651,274
Unrestricted (Deficit)	348,314	180,852	(23,461)	505,705
TOTAL NET POSITION (DEFICIT)	812,942	367,498	(23,461)	1,156,979

CITY OF MARSHALL, TEXAS

Exhibit H-2

INTERNAL SERVICE FUNDS

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>Equipment Replacement Fund - W&S</i>	<i>Equipment Replacement Fund - GF</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<u>OPERATING REVENUE:</u>				
Charges for Services	<u>-</u>	<u>-</u>	<u>253,513</u>	<u>253,513</u>
Total Operating Revenue	<u>-</u>	<u>-</u>	<u>253,513</u>	<u>253,513</u>
<u>OPERATING EXPENSES:</u>				
Materials and Supplies	<u>7,019</u>	<u>-</u>	<u>255,745</u>	<u>262,764</u>
Depreciation	<u>45,126</u>	<u>29,205</u>	<u>-</u>	<u>74,331</u>
Total Operating Expenses	<u>52,145</u>	<u>29,205</u>	<u>255,745</u>	<u>337,095</u>
Operating (Loss)	<u>(52,145)</u>	<u>(29,205)</u>	<u>(2,232)</u>	<u>(83,582)</u>
<u>NONOPERATING REVENUE:</u>				
Interest Income	<u>692</u>	<u>401</u>	<u>-</u>	<u>1,093</u>
Total Nonoperating Revenue	<u>692</u>	<u>401</u>	<u>-</u>	<u>1,093</u>
Income (Loss) Before Transfers	<u>(51,453)</u>	<u>(28,804)</u>	<u>(2,232)</u>	<u>(82,489)</u>
Transfers In	<u>93,845</u>	<u>46,219</u>	<u>-</u>	<u>140,064</u>
Change in Net Position	<u>42,392</u>	<u>17,415</u>	<u>(2,232)</u>	<u>57,575</u>
Total Net Position (Deficit), Beginning of Year	<u>770,550</u>	<u>350,083</u>	<u>(21,229)</u>	<u>1,099,404</u>
Total Net Position (Deficit), End of Year	<u>812,942</u>	<u>367,498</u>	<u>(23,461)</u>	<u>1,156,979</u>

CITY OF MARSHALL, TEXAS

Exhibit H-3

INTERNAL SERVICE FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>Equipment Replacement Fund - W&S</i>	<i>Equipment Replacement Fund - GF</i>	<i>Stores Inventory Fund</i>	<i>Total</i>
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	-	-	252,397	252,397
Cash Payments to Suppliers for Goods and Services	(7,019)	-	(265,461)	(272,480)
Net Cash Provided (Used) by Operating Activities	<u>(7,019)</u>	<u>-</u>	<u>(13,064)</u>	<u>(20,083)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Transfers In (Out)	93,845	46,219	-	140,064
Net Cash Provided by Noncapital Financing Activities	<u>93,845</u>	<u>46,219</u>	<u>-</u>	<u>140,064</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition of Capital Assets	(174,314)	(123,716)	-	(298,030)
Net Cash (Used) by Capital and Related Financing Activities	<u>(174,314)</u>	<u>(123,716)</u>	<u>-</u>	<u>(298,030)</u>
<u>Cash Flows from Investing Activities:</u>				
Interest on Investments	692	401	-	1,093
Net Cash Provided (Used) by Investing Activities	<u>692</u>	<u>401</u>	<u>-</u>	<u>1,093</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(86,796)	(77,096)	(13,064)	(176,956)
Cash and Cash Equivalents (Deficit), Beginning of Year	435,110	257,948	(37,949)	655,109
Cash and Cash Equivalents (Deficit), End of Year	<u>348,314</u>	<u>180,852</u>	<u>(51,013)</u>	<u>478,153</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Operating (Loss)	(52,145)	(29,205)	(2,232)	(83,582)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>				
Depreciation	45,126	29,205	-	74,331
(Increase) Decrease in Assets:				
Accounts Receivable	-	-	(1,116)	(1,116)
Inventory	-	-	(1,430)	(1,430)
Increase (Decrease) in Liabilities:				
Accounts Payable	-	-	(8,286)	(8,286)
Total Adjustments	<u>45,126</u>	<u>29,205</u>	<u>(10,832)</u>	<u>63,499</u>
Net Cash Provided (Used) by Operating Activities	<u>(7,019)</u>	<u>-</u>	<u>(13,064)</u>	<u>(20,083)</u>

CITY OF MARSHALL, TEXAS

Exhibit I-1

AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES DECEMBER 31, 2016

	<i>Balance December 31, 2015</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance December 31, 2016</i>
<u>POLICE LOCAL RELIEF FUND:</u>				
<u>ASSETS</u>				
Cash and Temporary Investments	69,283	2,907	2,625	69,565
TOTAL ASSETS	<u>69,283</u>	<u>2,907</u>	<u>2,625</u>	<u>69,565</u>
<u>LIABILITIES</u>				
Accounts Payable	-	330	-	330
Due to Employees	69,283	2,577	2,625	69,235
TOTAL LIABILITIES	<u>69,283</u>	<u>2,907</u>	<u>2,625</u>	<u>69,565</u>
<u>FIREMEN'S EMERGENCY RELIEF FUND:</u>				
<u>ASSETS</u>				
Cash and Temporary Investments	50,951	10,917	10,468	51,400
TOTAL ASSETS	<u>50,951</u>	<u>10,917</u>	<u>10,468</u>	<u>51,400</u>
<u>LIABILITIES</u>				
Accounts Payable	883	1,159	883	1,159
Due to Employees	50,068	9,758	9,585	50,241
TOTAL LIABILITIES	<u>50,951</u>	<u>10,917</u>	<u>10,468</u>	<u>51,400</u>
<u>TOTAL AGENCY FUNDS:</u>				
<u>ASSETS</u>				
Cash and Temporary Investments	120,234	13,824	13,093	120,965
TOTAL ASSETS	<u>120,234</u>	<u>13,824</u>	<u>13,093</u>	<u>120,965</u>
<u>LIABILITIES</u>				
Accounts Payable	883	1,489	883	1,489
Due to Employees	119,351	12,335	12,210	119,476
TOTAL LIABILITIES	<u>120,234</u>	<u>13,824</u>	<u>13,093</u>	<u>120,965</u>

Supplemental Schedules

CITY OF MARSHALL, TEXAS

Exhibit SS-1

SCHEDULE OF GENERAL OBLIGATION DEBT

DECEMBER 31, 2016

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	<u>Balance January 1, 2016</u>	<u>Issued 2016</u>	<u>Refunded/Retired 2016</u>		<u>Requirements December 31, 2016</u>		<u>Calendar Year 2017 Interest Principal</u>
					<u>2016</u>	<u>2016</u>	<u>2016</u>	<u>2016</u>	
General Obligation Bonds March 28, 2007 Rate 3.85% - 5.00%	2007	6,230,000	4,480,000	-	(4,180,000)		300,000	6,000	300,000
Tax and Surplus Revenue Refunding Bonds, Series 2010 July 8, 2010 Rate 2.00%, 2.50%, 3.00%	2010	660,000	140,000	-	(140,000)		-	-	-
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010 January 28, 2010 Rate 2.75% - 4.5%	2010	1,140,000	770,000	-	(85,000)		685,000	21,975	85,000
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010A May 13, 2010 Rate 2.00% - 4.00%	2010	2,100,000	1,530,000	-	(125,000)		1,405,000	47,638	130,000
General Obligation Bonds April 15, 2016 Rate 2.00% - 4.00%	2016	<u>3,845,000</u>	-	<u>3,845,000</u>	<u>(75,000)</u>		<u>3,770,000</u>	<u>111,850</u>	-
TOTAL GENERAL OBLIGATION DEBT		<u>13,975,000</u>	<u>6,920,000</u>	<u>3,845,000</u>	<u>(4,605,000)</u>		<u>6,160,000</u>	<u>187,463</u>	<u>515,000</u>

CITY OF MARSHALL, TEXAS

Exhibit SS-2

SCHEDULE OF WATER AND SEWER REVENUE BONDS DECEMBER 31, 2016

<u>Description</u>	<u>Issue Year</u>	<u>Original Amount Issued</u>	Balance			<u>Dec. 31, 2016</u>	<u>Requirements</u>	
			<u>January 1, 2016</u>	<u>Issued 2016</u>	<u>Retired 2016</u>		<u>Calendar Year 2017</u>	<u>Interest</u>
Water and Sewer Revenue Refunding Bonds December 1, 2006 Rate 4.25%, 5.50%, 4.00%	2006	9,235,000	6,470,000	-	(985,000)	5,485,000	232,363	1,195,000
Tax and Surplus Revenue Refunding Bonds July 8, 2010 Rate 2.0%, 2.5%, 3.0%	2010	3,490,000	1,065,000	-	(530,000)	535,000	8,025	535,000
Tax and Surplus Revenue Refunding Bonds April 1, 2012 Rate 3.6%, 4.5%, 4.6%, 4.75%	2012	5,065,000	3,775,000	-	(545,000)	3,230,000	100,375	415,000
TOTAL WATER AND SEWER REVENUE BONDS		17,790,000	11,310,000	-	(2,060,000)	9,250,000	340,763	2,145,000

CITY OF MARSHALL, TEXAS

Exhibit SS-3

SCHEDULE OF DELINQUENT TAXES RECEIVABLE DECEMBER 31, 2016

<u>Year</u>	<u>Amount</u>
1993	302
1994	759
1995	1,565
1996	6,348
1997	6,648
1998	6,850
1999	6,812
2000	6,630
2001	8,167
2002	(45)
2003	(130)
2004	14,589
2005	18,641
2006	22,208
2007	24,130
2008	30,436
2009	35,788
2010	41,868
2011	48,171
2012	60,081
2013	77,530
2014	112,353
2015	<u>193,892</u>
 Total Delinquent Taxes Receivable	 723,593
 Less: Allowance for Uncollectibles	 <u>(36,179)</u>
 NET DELINQUENT TAXES RECEIVABLE	 <u>687,414</u>

CITY OF MARSHALL, TEXAS

Exhibit SS-4

COMPARISON OF ASSESSED VALUATIONS FROM 1987 THROUGH 2016

<u>Tax Levy Year</u>	<u>Tax Rate</u>	<u>Assessed Value</u>
1987	.7025	397,763,392
1988	.7025	404,037,616
1989	.7025	402,380,021
1990	.7025	395,425,308
1991	.7025	404,487,140
1992	.5100	391,811,409
1993	.5100	390,340,453
1994	.5100	394,297,185
1995	.50766	412,191,439
1996	.50604	451,539,855
1997	.50256	463,076,601
1998	.49955	487,240,124
1999	.49455	521,508,117
2000	.49455	523,921,037
2001	.49455	533,820,564
2002	.49455	573,043,522
2003	.49455	594,090,057
2004	.49455	598,079,884
2005	.49455	653,807,222
2006	.49455	715,900,782
2007	.49455	772,503,458
2008	.47604	901,805,181
2009	.47604	941,928,201
2010	.47604	1,003,101,961
2011	.47604	1,009,699,851
2012	.47604	1,048,205,882
2013	.47604	1,049,190,644
2014	.47604	983,273,367
2015	.47604	974,498,318
2016	.54216	967,774,068