

CITY OF MARLIN
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Original

Introductory Section

City of Marlin
Annual Financial Report
For The Year Ended September 30, 2009

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Financial Section

HUDSON ANDERSON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA & CFP
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE

Independent Auditors' Report on Financial Statements

Mayor and City Council
City of Marlin
P. O. Drawer 980
Marlin, Texas 76661

Members of the Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marlin as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Marlin's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marlin as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2010, on our consideration of City of Marlin's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

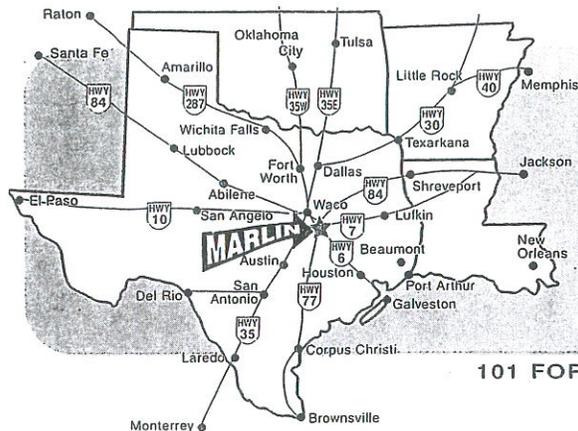
Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Marlin's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic

financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hudson Anderson & Associates, P.C.

Hudson Anderson & Associates, P.C.

June 24, 2010



City of Marlin

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 MARLIN, TEXAS 76661
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Marlin's annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

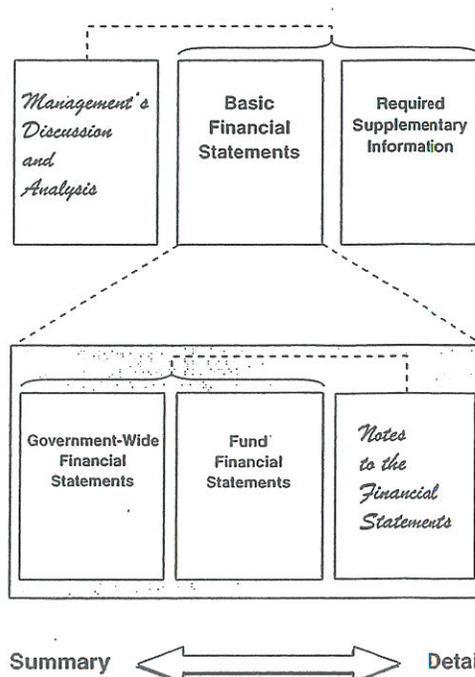
- The City's total combined net assets on financial statement exhibit A-1 were \$7,430,063 at September 30, 2009.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$1,359,906 less than the \$6,405,978 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 decreased \$362,888 from last year. A decrease in public safety of \$193,438 accounted for much of this.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$226,819. The City began the current year with a general fund balance in the amount of \$27,407.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- *Business Activities* statements provide information about for profit activities.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental and Business-type activities*. Most of the City's basic services are included here, such as public safety, sanitation, culture and recreation, street maintenance, water and sewer and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—The City provides water and sewer services to its citizens and charges fees to pay for this service. These activities are accounted for on the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$7.4 million at September 30, 2009. (See Table A-1).

Table A-1
City of Marlin's Net Assets
(In million dollars)

	<u>2009</u>	<u>2008</u>	Total Percentage Change <u>2009-2008</u>
Current assets:			
Cash and cash equivalents	.6	.2	200
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.6	.6	0
Unamortized debt issuance costs	.4	.4	0
Total current assets:	<u>1.6</u>	<u>1.2</u>	33
Noncurrent assets:			
Land, furniture and equipment	32.8	27.2	20
Less accumulated depreciation	(14.8)	(14.3)	-3
Other assets	1.9	2.0	-5
Total noncurrent assets	<u>19.9</u>	<u>14.9</u>	33
Total Assets	<u>21.5</u>	<u>16.1</u>	33
Current liabilities:			
Accounts payable and accrued liabilities	1.6	1.6	0
Consumer deposits	.0	.0	**
Due to other funds	.0	.0	**
Deferred revenue	0	0	**
Total current liabilities	<u>1.6</u>	<u>1.6</u>	0
Long-term liabilities:			
Noncurrent liabilities due in one year	.5	.5	0
Noncurrent liabilities due more than 1 yr	12.0	7.9	51
Total Liabilities	<u>14.1</u>	<u>10.0</u>	41
Net Assets:			
Invested in capital assets, net of debt	4.1	4.0	2
Restricted	.1	.1	0
Unrestricted	3.2	2.0	60
Total Net Assets	<u>7.4</u>	<u>6.1</u>	21

The City has restricted net assets of \$70,362 that represent proceeds to service debt. The \$3,257,201 of unrestricted net assets represent resources to be available to fund the programs of the City next year.

Changes in net assets. The City's total revenues were \$6,405,978. A significant portion, 25 percent, of the City's revenue comes from taxes, while 53 percent relates to charges for services.

The total cost of all programs and services was \$5,046,072; 54 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues decreased by \$68,449 to \$649,244.

Table A-2
Changes in City of Marlin's Net Assets
(In million dollars)

	<u>2009</u>	<u>2008</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	3.4	3.1	9
Operating Grants and Contributions	.0	.0	**
Capital Grants and Contributions	.0	.0	**
General Revenues:			
Taxes	1.6	1.7	-5
Investment Earnings	.0	.0	**
Other	1.4	1.3	7
Total Revenues	<u>6.4</u>	<u>6.1</u>	4
General Government	.5	.5	0
Public Safety	1.4	1.7	-17
Highways and Streets	.2	.3	-33
Culture and Recreation	.1	.1	0
Public Services	.0	.0	**
Sanitation	.5	.5	0
Water and Sewer	2.3	2.3	0
Other	.0	.1	**
Total Expenses	<u>5.0</u>	<u>5.5</u>	-9
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	0	0	**
Transfers In (Out)	0	0	**
Increase (Decrease) in Net Assets	<u>1.4</u>	<u>.6</u>	133

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$2.75 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.649 million.
- Some of the cost was paid by those who directly benefited from the programs \$.982 million.

Table A-3
Net Cost of Selected City Functions
(in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	<u>2009</u>	<u>2008</u>	% Change	<u>2009</u>	<u>2008</u>	% Change
General Government	.5	.5	0	.4	.4	0
Public Safety	1.4	1.7	-17	1.2	1.4	-14
Highways and Streets	.2	.3	-33	.2	.3	-33

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$2.6 million, while the previous year it was \$2.7 million due partly to the decrease in taxes. Revenues from business-type activities totaled \$3.7 million, while the previous year it was \$3.2 million. While intergovernmental revenues increased by some, utility revenue increased by \$320,000.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$284,997 below final budget amounts.

On the other hand, resources available were \$126,448 below the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the City had invested \$32,783,168 in a broad range of capital assets, including land, construction in progress, infrastructure, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$5,604,959 or 20% percent over last year. The increase is a result of interim construction.

Table A-4
City's Capital Assets
(In millions of dollars)

	<u>2009</u>	<u>2008</u>	<u>Total Percentage Change 2009-2008</u>
Land	1.6	1.6	0
Construction in progress	14.3	8.7	64
Infrastructure	.5	.5	0
Buildings and improvements	1.6	1.6	0
Equipment & Water System	14.3	14.3	0
Vehicles	.5	.5	0
Totals at historical cost	<u>32.8</u>	<u>27.2</u>	20
Total accumulated depreciation	<u>(14.8)</u>	<u>(14.3)</u>	-3
Net capital assets	<u>18.0</u>	<u>12.9</u>	39

The City's fiscal year 2010 capital budget projects spending do not reflect any major projects, except the continuation of the water system with the unfunded or escrowed bond portion of \$302,114. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the City had \$12,555,306 in bonds, notes and leases outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City's Long Term Debt
(In millions of dollars)

	<u>2009</u>	<u>2008</u>	Total Percentage Change <u>2008-2009</u>
Leases payable	.3	.4	-25
Bonds payable	12.2	7.9	54
Notes payable	.1	.1	0
Compensated absences	.0	.0	**
Less deferred amount On refundings	(0)	(0)	**
Total bonds & notes payable	<u>12.6</u>	<u>8.4</u>	50

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund fund balance is expected to increase by the close of fiscal year 2010 if proper stringent fiscal restraints remain in place. Otherwise the City's condition could deteriorate. More detailed information about the City's economic status is presented in the notes to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Marlin's Business Services Department at P. O. Drawer 980, Marlin, Texas 7661 or phone number 254-883-1474.

Basic Financial Statements

CITY OF MARLIN
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 220,655	\$ 340,215	\$ 560,870
<i>Receivables (net of allowances for uncollectibles)</i>	339,565	262,302	601,867
<i>Internal Balances</i>	344,165	(344,165)	--
<i>Bond Issuance Costs</i>	--	384,878	384,878
Restricted Assets:			
<i>Cash and Cash Equivalents</i>	--	1,837,773	1,837,773
<i>Investments</i>	--	90,024	90,024
Capital Assets (net of accumulated depreciation):			
<i>Land and Interim Construction</i>	88,541	15,775,370	15,863,911
<i>Buildings and Equipment, net</i>	837,227	1,283,340	2,120,567
Total Assets	1,830,153	19,629,737	21,459,890
LIABILITIES:			
<i>Accounts Payable and Other Current Liabilities</i>	118,084	1,158,707	1,276,791
<i>Notes Payable</i>	--	64,879	64,879
<i>Accrued Interest Payable</i>	7,271	8,853	16,124
<i>Liabilities Payable from Restricted Assets</i>	--	181,606	181,606
Noncurrent Liabilities-			
<i>Due within one year</i>	172,727	319,329	492,056
<i>Due in more than one year</i>	567,462	11,430,909	11,998,371
Total Liabilities	865,544	13,164,283	14,029,827
NET ASSETS			
<i>Invested in Capital Assets, Net of Related Debt</i>	178,308	3,924,192	4,102,500
Restricted For:			
<i>Debt Service</i>	70,362	--	70,362
<i>Unrestricted</i>	715,939	2,541,262	3,257,201
Total Net Assets	\$ 964,609	\$ 6,465,454	\$ 7,430,063

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>
<u>PRIMARY GOVERNMENT:</u>		<u>Charges for Services</u>
Governmental Activities:		
<i>General Government</i>	\$ 460,517	\$ 103,560
<i>Public Safety</i>	1,446,947	264,660
<i>Highways and Streets</i>	235,369	--
<i>Sanitation</i>	502,277	614,721
<i>Culture and Recreation</i>	53,068	--
<i>Interest on Long-term Debt</i>	54,127	--
Total Governmental Activities	<u>2,752,305</u>	<u>982,941</u>
Business-type Activities:		
Utility	<u>2,293,767</u>	<u>2,401,263</u>
Total Business-type Activities	<u>2,293,767</u>	<u>2,401,263</u>
Total Primary Government	<u>\$ 5,046,072</u>	<u>\$ 3,384,204</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Investment Earnings
Unrestricted Investment Earnings
Other
Transfers
 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning
 Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (356,957)		\$ (356,957)
(1,182,287)		(1,182,287)
(235,369)		(235,369)
112,444		112,444
(53,068)		(53,068)
(54,127)		(54,127)
<u>(1,769,364)</u>		<u>(1,769,364)</u>
--	\$ 107,496	107,496
--	<u>107,496</u>	<u>107,496</u>
<u>(1,769,364)</u>	<u>107,496</u>	<u>(1,661,868)</u>
649,244	--	649,244
620,547	--	620,547
342,366	--	342,366
--	41,153	41,153
1,230	--	1,230
--	1,367,234	1,367,234
454,276	(454,276)	--
<u>2,067,663</u>	<u>954,111</u>	<u>3,021,774</u>
<u>298,299</u>	<u>1,061,607</u>	<u>1,359,906</u>
666,310	5,403,847	6,070,157
<u>\$ 964,609</u>	<u>\$ 6,465,454</u>	<u>\$ 7,430,063</u>

CITY OF MARLIN

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 220,655	\$ --	\$ 220,655
<i>Receivables (net of allowances for uncollectibles):</i>	269,203	70,362	339,565
<i>Due from Other Funds</i>	67,349	276,816	344,165
Total Assets	\$ 557,207	\$ 347,178	\$ 904,385
LIABILITIES AND FUND BALANCES:			
Liabilities:			
<i>Accounts Payable</i>	\$ 118,084	\$ --	\$ 118,084
<i>Unearned Revenue</i>	212,304	70,362	282,666
Total Liabilities	330,388	70,362	400,750
Fund Balances:			
Reserved Fund Balances:			
<i>Reserved for Debt Service</i>	--	276,816	276,816
Unreserved	226,819	--	226,819
Total Fund Balance	226,819	276,816	503,635
Total Liabilities and Fund Balance	\$ 557,207	\$ 347,178	\$ 904,385

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2009

Total fund balances - governmental funds balance sheet	\$ 503,635
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	925,768
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	282,666
Payables for bond principal which are not due in the current period are not reported in the funds.	(484,761)
Payables for capital leases which are not due in the current period are not reported in the funds.	(255,428)
Payables for bond interest which are not due in the current period are not reported in the funds.	<u>(7,271)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 964,609</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 510,317	\$ 132,809	\$ 643,126
<i>General Sales and Use Taxes</i>	620,547	--	620,547
<i>Other Taxes - Severance Taxes</i>	42,507	--	42,507
<i>Other Taxes - Franchise Taxes</i>	299,859	--	299,859
<i>License and Permits</i>	27,633	--	27,633
<i>Charges for Services</i>	690,648	--	690,648
<i>Fines</i>	264,660	--	264,660
<i>Investment Earnings</i>	1,230	--	1,230
Total revenues	<u>2,457,401</u>	<u>132,809</u>	<u>2,590,210</u>
Expenditures:			
Current:			
<i>General Government</i>	442,464	--	442,464
<i>Public Safety</i>	1,390,219	--	1,390,219
<i>Highways and Streets</i>	226,141	--	226,141
<i>Sanitation</i>	482,585	--	482,585
<i>Culture and Recreation</i>	50,987	--	50,987
Debt Service:			
<i>Principal</i>	116,156	81,162	197,318
<i>Interest and Fiscal Charges</i>	18,578	36,782	55,360
Total Expenditures	<u>2,727,130</u>	<u>117,944</u>	<u>2,845,074</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(269,729)</u>	<u>14,865</u>	<u>(254,864)</u>
Other Financing Sources (Uses):			
<i>Operating Transfers In</i>	469,141	--	469,141
<i>Operating Transfers Out</i>	--	(14,865)	(14,865)
Total Other Financing Sources (Uses)	<u>469,141</u>	<u>(14,865)</u>	<u>454,276</u>
Net Change in Fund Balances	199,412	--	199,412
Fund Balances - Beginning	27,407	276,816	304,223
Fund Balances - Ending	<u>\$ 226,819</u>	<u>\$ 276,816</u>	<u>\$ 503,635</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

Net change in fund balances - total governmental funds	\$ 199,412
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(105,782)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	6,118
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	81,162
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	116,156
(Increase) decrease in accrued interest from beginning of period to end of period.	<u>1,233</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 298,299</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Enterprise Fund	Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
ASSETS:			
Current Assets:			
<i>Cash and Cash Equivalents</i>	\$ 322,644	\$ 17,571	\$ 340,215
<i>Receivables (net of allowances for uncollectibles):</i>	262,302	--	262,302
<i>Advances to other funds</i>	1,310,548	--	1,310,548
Total Current Assets	<u>1,895,494</u>	<u>17,571</u>	<u>1,913,065</u>
Noncurrent Assets:			
Restricted Cash, Cash Equivalents and Investments-			
<i>Cash</i>	1,837,773	--	1,837,773
<i>Investments</i>	--	90,024	90,024
<i>Bond Issuance Costs</i>	384,878	--	384,878
Capital Assets:			
<i>Land</i>	20,813	1,449,777	1,470,590
<i>Buildings</i>	44,093	--	44,093
<i>Machinery and Equipment</i>	14,072,977	--	14,072,977
<i>Construction in Progress</i>	13,342,659	962,121	14,304,780
<i>Less Accumulated Depreciation</i>	(12,833,730)	--	(12,833,730)
Total Noncurrent Assets	<u>16,869,463</u>	<u>2,501,922</u>	<u>19,371,385</u>
Total Assets	<u>18,764,957</u>	<u>2,519,493</u>	<u>21,284,450</u>
LIABILITIES:			
Current Liabilities:			
<i>Accounts payable</i>	1,158,706	--	1,158,706
<i>Due to other funds</i>	344,166	1,310,548	1,654,714
<i>Accrued interest payable</i>	8,853	--	8,853
<i>Notes payable - current</i>	64,879	--	64,879
<i>Revenue bonds payable</i>	319,329	--	319,329
Total Current Liabilities	<u>1,895,933</u>	<u>1,310,548</u>	<u>3,206,481</u>
Current Liabilities Payable from Restricted Assets-			
<i>Customer Deposits</i>	181,606	--	181,606
Total Current Liabilities Payable From Restricted Assets	<u>181,606</u>	<u>--</u>	<u>181,606</u>
Noncurrent Liabilities:			
<i>General Obligation Bonds Payable</i>	11,430,909	--	11,430,909
Total Noncurrent Liabilities	<u>11,430,909</u>	<u>--</u>	<u>11,430,909</u>
Total Liabilities	<u>13,508,448</u>	<u>1,310,548</u>	<u>14,818,996</u>
NET ASSETS:			
<i>Invested in Capital Assets, Net of Related Debt</i>	2,822,842	1,101,350	3,924,192
<i>Unrestricted Net Assets</i>	2,433,667	107,595	2,541,262
Total Net Assets	<u>\$ 5,256,509</u>	<u>\$ 1,208,945</u>	<u>\$ 6,465,454</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund	Enterprise Fund	Total Enterprise Funds
	Utility Fund	Brushy Creek Project	
OPERATING REVENUES:			
Charges for Sales and Services:			
<i>Water Sales</i>	\$ 1,524,407	\$ --	\$ 1,524,407
<i>Sewer Charges - Pledged as Security</i>	758,361	--	758,361
<i>Tap Fees - Unpledged</i>	54,424	--	54,424
<i>Other</i>	14,426	--	14,426
<i>Penalties</i>	49,645	--	49,645
Total Operating Revenues	<u>2,401,263</u>	<u>--</u>	<u>2,401,263</u>
OPERATING EXPENSES:			
<i>Personal Services - Salaries and Wages</i>	730,698	--	730,698
<i>Purchased Professional and Technical Services</i>	239,115	--	239,115
<i>Supplies</i>	846,685	--	846,685
<i>Depreciation</i>	402,148	--	402,148
Total Operating Expenses	<u>2,218,646</u>	<u>--</u>	<u>2,218,646</u>
Operating Income	<u>182,617</u>	<u>--</u>	<u>182,617</u>
NON-OPERATING REVENUES (EXPENSES):			
<i>Intergovernmental Revenue</i>	819,367	--	819,367
<i>Interest Revenue</i>	17,830	730	18,560
<i>Fees for Water System Rehabilitation</i>	165,454	--	165,454
<i>Debt Service Fees Assessment</i>	382,413	--	382,413
<i>Rents and Royalties</i>	--	22,593	22,593
<i>Interest Expense</i>	(50,935)	--	(50,935)
<i>Bond Issuance Costs</i>	(24,186)	--	(24,186)
Total Non-operating Revenues (Expenses)	<u>1,309,943</u>	<u>23,323</u>	<u>1,333,266</u>
Income before Transfers	<u>1,492,560</u>	<u>23,323</u>	<u>1,515,883</u>
<i>Interfund Operating Transfers In</i>	--	--	--
<i>Interfund Operating Transfers Out</i>	(454,276)	--	(454,276)
Change in Net Assets	<u>1,038,284</u>	<u>23,323</u>	<u>1,061,607</u>
Total Net Assets - Beginning	4,218,225	1,185,622	5,403,847
Total Net Assets - Ending	<u>\$ 5,256,509</u>	<u>\$ 1,208,945</u>	<u>\$ 6,465,454</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Funds		
	Utility Fund	Brushy Creek Project	Totals
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 2,360,150	\$ --	\$ 2,360,150
Cash Payments to Employees for Services	(730,698)	--	(730,698)
Cash Payments to Other Suppliers for Goods and Services	(953,208)	--	(953,208)
Other Operating Cash Receipts (Payments)	--	(729)	(729)
Net Cash Provided (Used) by Operating Activities	<u>676,244</u>	<u>(729)</u>	<u>675,515</u>
Cash Flows from Non-capital Financing Activities:			
Proceeds (Payments) from (for) Borrowings	--	--	--
Operating Grants Received	819,367	--	819,367
Non Operating Fees	547,867	22,593	570,460
Transfers From (To) Other Funds	(454,276)	--	(454,276)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>912,958</u>	<u>22,593</u>	<u>935,551</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	4,644,000	--	4,644,000
Principal and Interest Paid	(400,517)	--	(400,517)
Acquisition or Construction of Capital Assets	(5,589,761)	(15,198)	(5,604,959)
Net Cash Provided (Used) for Capital & Rel. Financing Activities	<u>(1,346,278)</u>	<u>(15,198)</u>	<u>(1,361,476)</u>
Cash Flows from Investing Activities:			
Interest and Dividends on Investments	17,830	730	18,560
Net Cash Provided (Used) for Investing Activities	<u>17,830</u>	<u>730</u>	<u>18,560</u>
Net Increase (Decrease) in Cash and Cash Equivalents	260,754	7,396	268,150
Cash and Cash Equivalents at Beginning of Year	61,890	10,175	72,065
Cash and Cash Equivalents at End of Year	<u>\$ 322,644</u>	<u>\$ 17,571</u>	<u>\$ 340,215</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 182,617	\$ --	\$ 182,617
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	402,148	--	402,148
Change in Assets and Liabilities:			
Decrease (Increase) in Receivables	(41,113)	--	(41,113)
Decrease (Increase) in Restricted Cash	54,872	(729)	54,143
Increase (Decrease) in Accounts Payable	50,533	--	50,533
Increase (Decrease) in Accrued Expenses	(1,437)	--	(1,437)
Increase (Decrease) in Customer Deposits	28,624	--	28,624
Total Adjustments	<u>493,627</u>	<u>(729)</u>	<u>492,898</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 676,244</u>	<u>\$ (729)</u>	<u>\$ 675,515</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. Summary of Significant Accounting Policies

The combined financial statements of City of Marlin (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund accounts for the revenues and expenses associated with providing water and sewer service to the citizens of the City.

Brushy Creek. This fund accounts for the revenue and expenses associated with the Brushy Creek project the City has been involved in for many years.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	25-50
Building Improvements	20
Vehicles	7-15
Office Equipment	5-7
Computer Equipment	5-7

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There is an allowance for uncollectible receivables of \$25,484 included in the total.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide

g. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

h. Compensated Absences

On retirement or death of certain employees, the City pays any accrued vacation leave in a lump sum payment to such employee or his/her estate. Accumulated vacation must be taken within 15 months of the employee's anniversary date on which it is earned. Vacation not taken within this time frame will be automatically canceled and no pay will be given in lieu thereof.

4. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Transfers to the General Fund from the Water & Sewer Fund for expense reimbursement were not substantiated. Bond and loan agreements stipulate that Water & Sewer Revenues can only be spent on Water & Sewer activities.	The City will document the expenses reimbursed.

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect 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.

Cash Deposits:

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,240,490 and the bank balance was \$1,259,830. The City's cash deposits at September 30, 2009 and during the year ended September 30, 2009, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (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, and (10) common trust funds.

The City's investments at September 30, 2009 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 90,024
Bank Trust Account-Bond Proceeds	N/A	1,158,153
Total Investments		<u>\$ 1,248,177</u>

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 88,541	\$ --	\$ --	\$ 88,541
Total capital assets not being depreciated	<u>88,541</u>	<u>--</u>	<u>--</u>	<u>88,541</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	500,000	--	--	500,000
Buildings and improvements	1,590,519	--	--	1,590,519
Equipment	--	--	--	--
Vehicles	--	--	--	--
Leased assets	711,668	--	--	711,668
Total capital assets being depreciated	<u>2,802,187</u>	<u>--</u>	<u>--</u>	<u>2,802,187</u>
Less accumulated depreciation for:				
Infrastructure	(50,001)	(16,667)	--	(66,668)
Buildings and improvements	(1,544,063)	(17,948)	--	(1,562,011)
Equipment	--	--	--	--
Vehicles	--	--	--	--
Leased assets	(265,114)	(71,167)	--	(336,281)
Total accumulated depreciation	<u>(1,859,178)</u>	<u>(105,782)</u>	<u>--</u>	<u>(1,964,960)</u>
Total capital assets being depreciated, net	<u>943,009</u>	<u>(105,782)</u>	<u>--</u>	<u>837,227</u>
Governmental activities capital assets, net	<u>\$ 1,031,550</u>	<u>\$ (105,782)</u>	<u>\$ --</u>	<u>\$ 925,768</u>

CITY OF MARLIN

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,470,590	\$ --	\$ --	\$ 1,470,590
Construction in progress	8,699,821	5,604,959	--	14,304,780
Total capital assets not being depreciated	<u>10,170,411</u>	<u>5,604,959</u>	<u>--</u>	<u>15,775,370</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	44,093	--	--	44,093
Equipment	723,859	--	--	723,859
Vehicles	162,882	--	--	162,882
Water & Sewer System	13,186,236	--	--	13,186,236
Total capital assets being depreciated	<u>14,117,070</u>	<u>--</u>	<u>--</u>	<u>14,117,070</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,093)	--	--	(44,093)
Equipment	(677,790)	(5,119)	--	(682,909)
Vehicles	(162,833)	--	--	(162,833)
Water & Sewer System	(11,546,866)	(397,029)	--	(11,943,895)
Total accumulated depreciation	<u>(12,431,582)</u>	<u>(402,148)</u>	<u>--</u>	<u>(12,833,730)</u>
Total capital assets being depreciated, net	<u>1,685,488</u>	<u>(402,148)</u>	<u>--</u>	<u>1,283,340</u>
Business-type activities capital assets, net	<u>\$ 11,855,899</u>	<u>\$ 5,202,811</u>	<u>\$ --</u>	<u>\$ 17,058,710</u>

Depreciation was charged to functions as follows:

General Government	\$ 18,053
Public Safety	56,728
Highways and Streets	9,228
Sanitation	19,692
Culture and Recreation	2,081
	<u>\$ 105,782</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2009, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Water & Sewer Fund	\$ 67,349	Short-term loans
Water & Sewer Fund	Brushy Creek Fund	1,310,548	Short-term loans
Other Governmental Funds	Water & Sewer Fund	276,816	Short-term loans
	Total	<u>\$ 1,654,713</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2009, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Water & Sewer Fund	General Fund	\$ 454,276	Supplement other funds sources
Other Governmental Funds	General Fund	14,865	Supplement other funds sources
	Total	<u>\$ 469,141</u>	

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

F. Short-Term Debt Activity

The City accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

The City borrowed \$107,025 for working capital purposes at the rate of 3.31% secured by \$175,000 of certificates of deposit during the year and the balance was \$107,025 at September 30, 2008. The loan was repaid in March 2009.

Description	Beginning Balance	Issued	Redeemed	Ending Balance
Bank Loan	\$ 107,025	\$ --	\$ (107,025)	\$ --
	<u>107,025</u>	<u>--</u>	<u>(107,025)</u>	<u>--</u>

G. Long-Term Obligations

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2009, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 565,923	\$ --	\$ (81,162)	\$ 484,761	\$ 85,677
Capital leases	371,584	--	(116,156)	255,428	87,050
Total governmental activities	<u>\$ 937,507</u>	<u>\$ --</u>	<u>\$ (197,318)</u>	<u>\$ 740,189</u>	<u>\$ 172,727</u>

Bonds

Series 1998 General Obligation Refunding Bonds in the original amount of \$1,391,120 at the rate of 7.7% to 6.6% due in annual installments ranging from \$75,000 to \$112,500 through February 15, 2014. The balance at September 30, 2009 is \$484,761.

Leases

Lease in an original amount of \$149,897 to purchase a firetruck in June 2005 at the rate of 4% due in yearly installments of \$18,702 to mature in June of 2012. The balance at September 30, 2009 is \$51,348.

Lease in an original amount of \$158,849 to purchase equipment in February 2005 at the rate of 5% due in yearly installments of \$34,796 to mature in February of 2009. The balance at September 30, 2009 is \$0.

Lease in an original amount of \$57,003 to purchase a chipper truck in April 2006 at the rate of 4.9% due in yearly installments of \$9,826 to mature in April of 2013. The balance at September 30, 2009 is \$34,900.

Lease in an original amount of \$87,131 to purchase four service trucks in June 2006 at the rate of 5.2% due in yearly installments of \$20,214 to mature in June of 2011. The balance at September 30, 2009 is \$37,521.

Lease in an original amount of \$11,083 to purchase a trailer in February 2007 at the rate of 5.28% due in yearly installments of \$2,597 to mature in April 2012. The balance at September 30, 2009 is \$7,034.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Lease in an original amount of \$124,350 to purchase four police cars in November 2006 at the rate of 4.95% due in yearly installments of \$27,817 to mature in March 2011. The balance at September 30, 2009 is \$51,580.

Lease in an original amount of \$123,355 to purchase equipment in October 2006 at the rate of 5.45% due in yearly installments of \$20,804 to mature in January of 2013. The balance at September 30, 2009 is \$73,045.

Business-type activities:

General obligation bonds	\$ 689,076	\$ --	\$ (98,838)	\$ 590,238	\$ 104,329
Certificates of Oblig-Rev Bonds	6,701,000	4,644,000	(185,000)	11,160,000	215,000
Notes	130,623	--	(65,744)	64,879	64,879
Total business-type activities	<u>\$ 7,520,699</u>	<u>\$ 4,644,000</u>	<u>\$ (349,582)</u>	<u>\$ 11,815,117</u>	<u>\$ 384,208</u>

Bonds

Series 1998 General Obligation Refunding Bonds in the original amount of \$1,391,120 at the rate of 7.7% to 6.6% due in annual installments ranging from \$75,000 to \$112,500 through February 15, 2014. The balance at September 30, 2009 is \$590,238.

Series 2005A Certificates of Obligation Bonds (Revenue Bonds) in the original amount of \$2,255,000 at the rate of 0% due in annual installments ranging from \$10,000 to \$180,000 through February 15, 2014. The balance at September 30, 2009 is \$2,225,000.

Series 2005B Certificates of Obligation Bonds (Revenue Bonds) in the original amount of \$10,710,000 at the rate of 0% due in annual installments ranging from \$50,000 to \$520,000 through September 30, 2036. This bond is being drawn as construction progresses. The balance at September 30, 2009 is the amount that has been drawn, less repayment of \$300,000, for a net of \$8,935,000. When the bond has been fully funded, the City is expected to also draw \$1,890,000 or 15% of the bond in the form of grant forgiveness. This forgiveness draw amounted to \$819,367 during the year.

Notes

Note payable to a bank in the original amount of \$190,000 at 6.75% interest secured by land and used for working capital. The note is repayable in quarterly installments of principal in the amounts ranging from \$12,700 to \$6,300 with interest payable monthly until maturity in 2010. The balance at September 30, 2009 is \$35,257.

Note payable to a bank in the original amount of \$143,000 at 6.75% interest secured by land and used for working capital. The note is repayable in quarterly installments of principal in the amounts of \$7,150 with interest payable monthly until maturity in 2010. The balance at September 30, 2009 is \$29,622.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2009, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 85,677	\$ 31,509	\$ 117,186
2011	90,186	25,940	116,126
2012	90,186	20,078	110,264
2013	105,962	14,215	120,177
2014	112,750	7,327	120,077
Totals	<u>\$ 484,761</u>	<u>\$ 99,069</u>	<u>\$ 583,830</u>

CITY OF MARLIN

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2010	\$ 319,329	\$ 38,366	\$ 357,695
2011	369,808	31,585	401,393
2012	384,814	24,447	409,261
2013	378,850	17,310	396,160
2014	387,437	8,923	396,360
2015-2019	2,575,000	--	2,575,000
2020-2024	2,575,000	--	2,575,000
2025-2029	2,595,000	--	2,595,000
2030-2034	2,600,000	--	2,600,000
2035-2039	1,040,000	--	1,040,000
Totals	\$ 13,225,238	\$ 120,631	\$ 13,345,869

** Of this total, \$1,475,000 has yet to be drawn by the City on the 2005B issue which totals \$10,710,000. Only \$9,235,000 has been drawn and this amount less a \$300,000 repayment is reflected as a liability in the Water & Sewer Fund. There is an additional forgiveness portion of this issue in the amount of \$1,890,000 and the City drew \$819,367 of this amount and it is reflected as grant revenue in the Water & Sewer Fund. There remains \$302,114 left to draw in the future.

Leases

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 87,050	\$ 12,904	\$ 99,954
2011	91,243	8,532	99,775
2012	57,370	4,670	62,040
2013	19,765	1,071	20,836
Totals	\$ 255,428	\$ 27,177	\$ 282,605

Notes

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2010	64,879	8,148	\$ 73,027
2011	--	--	--
2012	--	--	--
2013	--	--	--
Totals	\$ 64,879	\$ 8,148	\$ 73,027

3. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Pension Plan

1. Plan Description

The City's pension plan ("Plan") is a non-traditional, joint contributory, defined benefit plan which provides retirement, disability and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tmrs.org>.

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2009, 2008 and 2007 were \$59,809, \$89,510 and \$88,115, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$59,809 for the Plan was equal to the City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City's contribution rate. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 1997 valuation is effective for rates beginning January 1999).

CITY OF MARLIN

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City are based on TMRS as a whole. For the December 31, 1997 valuation date, an 8% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2007	\$ 88,115	100%	\$ --
September 30, 2008	89,510	100%	--
September 30, 2009	59,809	100%	--

J. Health Care Coverage

During the year ended September 30, 2009, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$367 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the third party administrator is renewable October 1, 2009, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the First Care HMO are available for the year ended December 31, 2009, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

L. Subsequent Events

The City paid its Waste Water Violation Fine of approximately \$44,000 in November of 2009.

The City received a federal stimulus grant of \$4,000,000 in December 2009 to rehabilitate its water distribution system.

The City filed suit against the Falls County Water Control and Improvement District #1 on November 12, 2009 seeking recovery of \$80,000 based on advances from the City to the District for a project that the District abandoned. The District filed its answer on November 25, 2009 and the parties are in settlement discussions.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF MARLIN
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
<i>General Property Taxes</i>	\$ 534,659	\$ 574,659	\$ 510,317	\$ (64,342)
<i>General Sales and Use Taxes</i>	595,000	625,000	620,547	(4,453)
<i>Other Taxes - Severance Taxes</i>	71,600	71,600	42,507	(29,093)
<i>Other Taxes - Franchise Taxes</i>	306,800	306,800	299,859	(6,941)
<i>License and Permits</i>	33,650	33,650	27,633	(6,017)
<i>Charges for Services</i>	707,140	707,140	690,648	(16,492)
<i>Fines</i>	265,000	265,000	264,660	(340)
<i>Investment Earnings</i>	--	--	1,230	1,230
Total revenues	<u>2,513,849</u>	<u>2,583,849</u>	<u>2,457,401</u>	<u>(126,448)</u>
Expenditures:				
Current:				
<i>General Government</i>	563,051	522,051	442,464	79,587
<i>Public Safety</i>	1,551,659	1,451,559	1,390,219	61,340
<i>Highways and Streets</i>	294,420	294,420	226,141	68,279
<i>Sanitation</i>	520,500	520,500	482,585	37,915
<i>Culture and Recreation</i>	80,900	80,900	50,987	29,913
Debt Service:				
<i>Principal</i>	123,697	123,697	116,156	7,541
<i>Interest and Fiscal Charges</i>	19,000	19,000	18,578	422
Total Expenditures	<u>3,153,227</u>	<u>3,012,127</u>	<u>2,727,130</u>	<u>284,997</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(639,378)</u>	<u>(428,278)</u>	<u>(269,729)</u>	<u>158,549</u>
Other Financing Sources (Uses):				
<i>Operating Transfers In</i>	325,000	325,000	469,141	144,141
<i>Lease Proceeds</i>	3,350	3,350	--	3,350
Total Other Financing Sources (Uses)	<u>328,350</u>	<u>328,350</u>	<u>469,141</u>	<u>(140,791)</u>
Net Change in Fund Balances	<u>(311,028)</u>	<u>(99,928)</u>	<u>199,412</u>	<u>299,340</u>
Fund Balances - Beginning	27,407	27,407	27,407	--
Fund Balances - Ending	<u>\$ (283,621)</u>	<u>\$ (72,521)</u>	<u>\$ 226,819</u>	<u>\$ 299,340</u>

CITY OF MARLIN
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-2

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 133,000	\$ 132,809	\$ (191)
Total revenues	<u>133,000</u>	<u>132,809</u>	<u>(191)</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	82,000	81,162	838
<i>Interest and Fiscal Charges</i>	37,000	36,782	218
Total Expenditures	<u>119,000</u>	<u>117,944</u>	<u>1,056</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>14,000</u>	<u>14,865</u>	<u>865</u>
Other Financing Sources (Uses):			
<i>Operating Transfers Out</i>	(15,000)	(14,865)	135
Total Other Financing Sources (Uses)	<u>(15,000)</u>	<u>(14,865)</u>	<u>135</u>
Net Change in Fund Balances	(1,000)	--	1,000
Fund Balances - Beginning	276,816	276,816	--
Fund Balances - Ending	<u>\$ 275,816</u>	<u>\$ 276,816</u>	<u>\$ 1,000</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

HUDSON ANDERSON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA & CFP
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE

Independent Auditors' Report

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

Mayor and City Council
City of Marlin
P. O. Drawer 980
Marlin, Texas 76661

Members of the Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marlin as of and for the year ended September 30, 2009, which collectively comprise the City of Marlin's basic financial statements and have issued our report thereon dated June 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the previous paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Marlin's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Marlin's financial statements that is more than inconsequential will not be prevented by the City of Marlin's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 09-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Marlin's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 09-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Marlin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 09-01.

City of Marlin's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Marlin's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hudson Anderson & Associates, P.C.

June 24, 2010

HUDSON ANDERSON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA & CFP
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE

Independent Auditors' Report

Report on Compliance with Requirements Applicable To each Major Program and on Internal Control over Compliance In Accordance With OMB Circular A-133

Mayor and City Council
City of Marlin
P. O. Drawer 980
Marlin, Texas 76661

Members of the Mayor and City Council:

Compliance

We have audited the compliance of City of Marlin with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2009. City of Marlin's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of City of Marlin's management. Our responsibility is to express an opinion on City of Marlin's compliance based on our audit.

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

In our opinion, City of Marlin complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote

likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, others within the entity, the Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hudson Anderson & Associates, P.C.

June 24, 2010

CITY OF MARLIN

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Drinking Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

B. Financial Statement Findings

09-01 Transfer of Resources

Condition: The City transfers resources from the Water & Sewer Fund to the General Fund for reimbursement of expenses but has not substantiated the reimbursable amount.

CITY OF MARLIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

Criteria: Resources generated in the Water & Sewer Fund should only be spent on Water & Sewer Fund activities as required by bond and loan agreements.

Cause: The City does not generate sufficient General Fund resources to fund its expenditures and therefore utilizes Water & Sewer Fund revenues in order to keep the General Fund solvent.

Effect: The General Fund is receiving revenues without substantiation of reimbursable costs, and potentially creating financial hardship for the Water & Sewer Fund.

City's Response: The City will substantiate the amount of reimbursable expenses due from the Water and Sewer Fund.

09-02 Internal Control over Fine Revenue

Condition: The City did not have adequate functioning internal controls in place in regard to fine revenue.

Criteria: The design and operation of various components must reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Cause: The City did not have sufficient knowledgeable accounting personnel or an adequate accounting system to maintain proper internal controls over fine revenue. Additionally, the City did not properly reconcile various fine revenue sub-ledgers with the general ledger.

Effect: The City must change personnel and implement an adequate accounting system to allow the existing internal controls set out in City policy to function as designed in regard to controlling its fine revenue.

City's Response: The City changed personnel and accounting systems to ensure that internal controls can function as designed in regard to fine revenue.

C. Federal Award Findings and Questioned Costs

None Noted

CITY OF MARLIN

*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Budget Overages	Corrected	
Accounting System	Corrected	
Internal Control	Corrected	
Transfer of Resources	Not Corrected	Utility resources required to support General Fund
Federal Award Findings	Corrected	

CITY OF MARLIN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009

- 09-01 The City will substantiate the amount of reimbursable expenses due from the Water & Sewer Fund. William McDonald at phone number 254-883-1474 will be responsible.

- 09-02 The City has changed personnel and accounting systems regarding its fine collection system. William McDonald at phone number 254-883-1474 will be responsible.

CITY OF MARLIN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT C-1

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed Through Texas Water Development Board:			
Drinking Water Revolving Fund-2005B	66.468	61233	\$ 4,644,000
Drinking Water State Revolving Fund-2005B	66.468	61233	819,367
Total Passed Through Texas Water Development Board			<u>5,463,367</u>
Total U. S. Environmental Protection Agency			<u>5,463,367</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 5,463,367</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF MARLIN

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2009

Basis of Presentation

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