

CITY OF MARLIN

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

City of Marlin
Annual Financial Report
For The Year Ended September 30, 2011

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Financial Section

Independent Auditors' Report on Financial Statements

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

Members of the 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, 2011, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marlin as of September 30, 2011, 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.

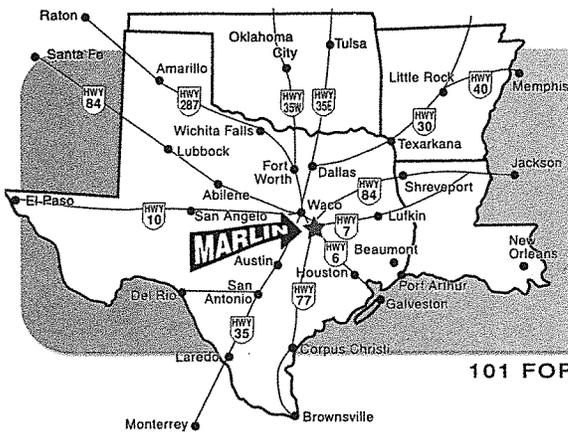
In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2012, on our consideration of City of Marlin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Anderson, Marx & Bohl, P.C.
Anderson, Marx & Bohl, P.C.

May 31, 2012



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, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

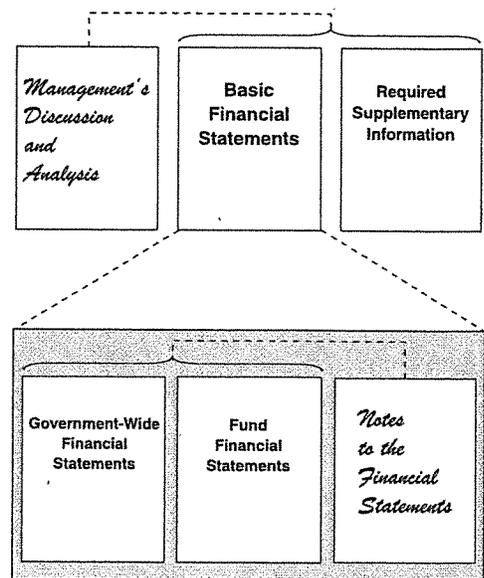
- The City's total combined net assets on financial statement exhibit A-1 were \$11,440,291 at September 30, 2011.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$1,724,074 less than the \$8,046,557 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 increased \$675,872 from last year. An increase in public safety and general government accounted for much of this.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$548,503. The City began the current year with a general fund balance in the amount of \$249,471.

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



Summary ↔ Detail

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 \$11.4 million at September 30, 2011. (See Table A-1).

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

	<u>2011</u>	<u>2010</u>	<u>Total Percentage Change 2011-2010</u>
Current assets:			
Cash and cash equivalents	.9	.5	80
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.6	.7	-14
Unamortized debt issuance costs	.4	.4	0
Total current assets:	<u>1.9</u>	<u>1.6</u>	19
Noncurrent assets:			
Land, furniture and equipment	38.5	36.7	5
Less accumulated depreciation	(16.2)	(15.3)	-6
Other assets	1.0	1.3	-23
Total noncurrent assets	<u>23.3</u>	<u>22.7</u>	3
Total Assets	<u>25.2</u>	<u>24.3</u>	4
Current liabilities:			
Accounts payable and accrued liabilities	.6	1.7	-65
Consumer deposits	.0	.0	**
Due to other funds	.0	.0	**
Deferred revenue	0	0	**
Total current liabilities	<u>.6</u>	<u>1.7</u>	-65
Long-term liabilities:			
Noncurrent liabilities due in one year	.6	.5	20
Noncurrent liabilities due more than 1 yr	12.6	12.4	2
Total Liabilities	<u>13.8</u>	<u>14.6</u>	-5
Net Assets:			
Invested in capital assets, net of debt	8.3	7.2	15
Restricted	1.4	1.4	0
Unrestricted	1.7	1.1	55
Total Net Assets	<u>11.4</u>	<u>9.7</u>	18

The City has restricted net assets of \$348,730 that represent proceeds to service debt and \$1,016,340 that are restricted for capital expenditures. The \$1,726,354 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 \$8,046,557. A significant portion, 21 percent, of the City's revenue comes from taxes, while 45 percent relates to charges for services.

The total cost of all programs and services was \$6,322,483; 55 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues increased by \$43,914 to \$739,128.

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

	<u>2011</u>	<u>2010</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	3.5	3.4	3
Operating Grants and Contributions	.0	.0	**
General Revenues:			
Taxes	1.7	1.6	6
Grants	2.4	1.8	33
Investment Earnings	.0	.0	**
Other	.4	.6	-33
Total Revenues	<u>8.0</u>	<u>7.4</u>	8
General Government	.6	.6	0
Public Safety	1.8	1.5	20
Highways and Streets	.4	.2	100
Culture and Recreation	.1	.1	0
Public Services	.0	.0	**
Sanitation	.6	.6	0
Water and Sewer	2.8	2.1	33
Other	.0	.0	**
Total Expenses	<u>6.3</u>	<u>5.1</u>	24
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	0	0	**
Transfers In (Out)	0	0	**
Increase (Decrease) in Net Assets	<u>1.7</u>	<u>2.3</u>	-26

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 \$3.49 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.739 million.
- Some of the cost was paid by those who directly benefited from the programs \$1.250 million.

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

	Total Cost of Services			% Change	Net Cost of Services		
	<u>2011</u>	<u>2010</u>			<u>2011</u>	<u>2010</u>	
General Government	.6	.6	0	.4	.4	0	
Public Safety	1.8	1.5	20	1.4	1.2	17	
Highways and Streets	.4	.2	100	.4	.2	100	

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$2.9 million, while the previous year it was \$2.7 million due partly to the increase in fines. Revenues from business-type activities totaled \$5.1 million, while the previous year it was \$4.7 million. Intergovernmental revenues increased by approximately \$500,000.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$12,387 below final budget amounts.

On the other hand, resources available were \$49,325 below the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had invested \$38,456,888 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 \$1,751,691 or 5% percent over last year. The increase is a result of interim construction.

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

	<u>2011</u>	<u>2010</u>	<u>Total Percentage Change 2011-2010</u>
Land	1.6	1.6	0
Construction in progress	1.2	18.2	-93
Infrastructure	.5	.5	0
Buildings and improvements	1.6	1.6	0
Equipment & Water System	33.1	14.3	131
Vehicles	.5	.5	0
Totals at historical cost	<u>38.5</u>	<u>36.7</u>	5
Total accumulated depreciation	<u>(16.2)</u>	<u>(15.3)</u>	-6
Net capital assets	<u>22.3</u>	<u>21.4</u>	4

The City's fiscal year 2012 capital budget projects spending do not reflect any major projects, except the continuation of the water system with the unfunded grants and restricted cash. 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 \$13,213,184 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>2011</u>	<u>2010</u>	Total Percentage Change <u>2010-2011</u>
Leases payable	.1	.2	-50
Bonds payable	13.1	12.8	2
Notes payable	.0	.0	**
Compensated absences	.0	.0	**
Less deferred amount			
On refundings	(0)	(0)	**
Total bonds & notes payable	<u>13.2</u>	<u>13.0</u>	2

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund fund balance is expected to decline by the close of fiscal year 2012 unless the City undertakes stringent fiscal restraints, as wages and expenses are rising. 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, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 599,954	\$ 327,576	\$ 927,530
<i>Receivables (net of allowances for uncollectibles)</i>	380,210	233,873	614,083
<i>Internal Balances</i>	344,166	(344,166)	--
<i>Bond Issuance Costs</i>	31,687	351,706	383,393
Restricted Assets:			
<i>Cash and Cash Equivalents</i>	--	926,031	926,031
<i>Investments</i>	--	90,309	90,309
Capital Assets (net of accumulated depreciation):			
<i>Land and interim construction</i>	88,541	2,644,762	2,733,303
<i>Buildings, Equipment and System, net</i>	705,461	18,851,549	19,557,010
Total Assets	2,150,019	23,081,640	25,231,659
LIABILITIES:			
<i>Accounts Payable and Other Current Liabilities</i>	174,735	184,142	358,877
<i>Accrued Interest Payable</i>	6,844	2,714	9,558
<i>Liabilities Payable from Restricted Assets</i>	--	209,749	209,749
Noncurrent Liabilities-			
<i>Due within one year</i>	240,846	392,600	633,446
<i>Due in more than one year</i>	754,018	11,825,720	12,579,738
Total Liabilities	1,176,443	12,614,925	13,791,368
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	384,138	7,964,729	8,348,867
Restricted For:			
Debt Service	348,730	--	348,730
Capital Expenditures	--	1,016,340	1,016,340
Unrestricted	240,708	1,485,646	1,726,354
Total Net Assets	\$ 973,576	\$ 10,466,715	\$ 11,440,291

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>
<u>PRIMARY GOVERNMENT:</u>		<u>Charges for Services</u>
Governmental Activities:		
<i>General Government</i>	\$ 573,277	\$ 142,628
<i>Public Safety</i>	1,770,331	416,197
<i>Highways and Streets</i>	373,696	--
<i>Sanitation</i>	658,041	691,304
<i>Culture and Recreation</i>	73,394	--
<i>Interest on Long-term Debt</i>	32,706	--
Total Governmental Activities	<u>3,481,445</u>	<u>1,250,129</u>
Business-type Activities:		
Utility	<u>2,841,038</u>	<u>2,337,859</u>
Total Business-type Activities	<u>2,841,038</u>	<u>2,337,859</u>
Total Primary Government	<u>\$ 6,322,483</u>	<u>\$ 3,587,988</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Grants and Contributions
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>
\$ (430,649)		\$ (430,649)
(1,354,134)		(1,354,134)
(373,696)		(373,696)
33,263		33,263
(73,394)		(73,394)
(32,706)		(32,706)
<u>(2,231,316)</u>		<u>(2,231,316)</u>
--	\$ (503,179)	(503,179)
--	(503,179)	(503,179)
<u>(2,231,316)</u>	<u>(503,179)</u>	<u>(2,734,495)</u>
739,128	--	739,128
632,148	--	632,148
282,284	--	282,284
--	2,338,489	2,338,489
2,067	349	2,416
--	464,104	464,104
450,254	(450,254)	--
<u>2,105,881</u>	<u>2,352,688</u>	<u>4,458,569</u>
(125,435)	1,849,509	1,724,074
<u>1,099,011</u>	<u>8,617,206</u>	<u>9,716,217</u>
<u>\$ 973,576</u>	<u>\$ 10,466,715</u>	<u>\$ 11,440,291</u>

CITY OF MARLINBALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 599,954	\$ --	\$ 599,954
<i>Receivables (net of allowances for uncollectibles)</i>	308,296	71,914	380,210
<i>Due from Other Funds</i>	67,350	276,816	344,166
Total Assets	\$ 975,600	\$ 348,730	\$ 1,324,330
LIABILITIES AND FUND BALANCES:			
Liabilities:			
<i>Accounts Payable</i>	\$ 174,735	\$ --	\$ 174,735
<i>Unearned Revenue</i>	252,362	71,914	324,276
Total Liabilities	427,097	71,914	499,011
Fund Balances:			
Restricted Fund Balances:			
<i>Restricted for Debt Service</i>	--	276,816	276,816
Unassigned	548,503	--	548,503
Total Fund Balance	548,503	276,816	825,319
Total Liabilities and Fund Balance	\$ 975,600	\$ 348,730	\$ 1,324,330

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, 2011

Total fund balances - governmental funds balance sheet	\$ 825,319
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.	794,002
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	324,276
Payables for bond principal which are not due in the current period are not reported in the funds.	(891,680)
Payables for capital leases which are not due in the current period are not reported in the funds.	(103,184)
Payables for bond interest which are not due in the current period are not reported in the funds.	(6,844)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	<u>31,687</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 973,576</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, 2011**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 571,578	\$ 155,166	\$ 726,744
<i>General Sales and Use Taxes</i>	632,148	--	632,148
<i>Other Taxes - Severance Taxes</i>	38,869	--	38,869
<i>Other Taxes - Franchise Taxes</i>	243,415	--	243,415
<i>License and Permits</i>	18,353	--	18,353
<i>Charges for Services</i>	815,579	--	815,579
<i>Fines</i>	416,197	--	416,197
<i>Investment Earnings</i>	2,067	--	2,067
Total revenues	<u>2,738,206</u>	<u>155,166</u>	<u>2,893,372</u>
Expenditures:			
Current:			
<i>General Government</i>	557,123	--	557,123
<i>Public Safety</i>	1,720,447	--	1,720,447
<i>Highways and Streets</i>	363,166	--	363,166
<i>Sanitation</i>	639,499	--	639,499
<i>Culture and Recreation</i>	71,326	--	71,326
Debt Service:			
<i>Principal</i>	91,688	185,920	277,608
<i>Interest and Fiscal Charges</i>	8,113	23,735	31,848
Capital Outlay:			
<i>Highways and Streets</i>	56,900	--	56,900
Total Expenditures	<u>3,508,262</u>	<u>209,655</u>	<u>3,717,917</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(770,056)</u>	<u>(54,489)</u>	<u>(824,545)</u>
Other Financing Sources (Uses):			
<i>Operating Transfers In</i>	450,254	54,489	504,743
<i>Operating Transfers Out</i>	(54,489)	--	(54,489)
<i>Lease Proceeds</i>	26,500	--	26,500
<i>Other Bonds Issued</i>	646,823	--	646,823
Total Other Financing Sources (Uses)	<u>1,069,088</u>	<u>54,489</u>	<u>1,123,577</u>
Net Change in Fund Balances	299,032	--	299,032
Fund Balances - Beginning	249,471	276,816	526,287
Fund Balances - Ending	<u>\$ 548,503</u>	<u>\$ 276,816</u>	<u>\$ 825,319</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, 2011*

Net change in fund balances - total governmental funds	\$ 299,032
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	56,900
The depreciation of capital assets used in governmental activities is not reported in the funds.	(97,178)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	12,384
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(673,323)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	185,920
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	91,688
(Increase) decrease in accrued interest from beginning of period to end of period.	<u>(858)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ (125,435)</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Enterprise Fund	Enterprise Fund	Total Enterprise Funds
	Utility Fund	Brushy Creek Project	
ASSETS:			
Current Assets:			
<i>Cash and Cash Equivalents</i>	\$ 312,549	\$ 15,027	\$ 327,576
<i>Receivables (net of allowances for uncollectibles)</i>	233,873	--	233,873
<i>Advances to other funds</i>	1,310,548	--	1,310,548
Total Current Assets	<u>1,856,970</u>	<u>15,027</u>	<u>1,871,997</u>
Noncurrent Assets:			
Restricted Cash, Cash Equivalents and Investments-			
<i>Cash</i>	926,031	--	926,031
<i>Investments</i>	--	90,309	90,309
<i>Bond Issuance Costs</i>	351,706	--	351,706
Capital Assets:			
<i>Land</i>	20,813	1,449,777	1,470,590
<i>Buildings</i>	44,093	--	44,093
<i>Machinery, Equipment and System</i>	32,820,405	--	32,820,405
<i>Construction in Progress</i>	212,051	962,121	1,174,172
<i>Less Accumulated Depreciation</i>	(14,012,949)	--	(14,012,949)
Total Noncurrent Assets	<u>20,362,150</u>	<u>2,502,207</u>	<u>22,864,357</u>
Total Assets	<u>\$ 22,219,120</u>	<u>\$ 2,517,234</u>	<u>\$ 24,736,354</u>
LIABILITIES:			
Current Liabilities:			
<i>Accounts payable</i>	\$ 184,142	\$ --	\$ 184,142
<i>Due to other funds</i>	344,166	1,310,548	1,654,714
<i>Accrued interest payable</i>	2,714	--	2,714
<i>Revenue bonds payable</i>	392,600	--	392,600
Total Current Liabilities	<u>923,622</u>	<u>1,310,548</u>	<u>2,234,170</u>
Current Liabilities Payable from Restricted Assets-			
<i>Customer Deposits</i>	209,749	--	209,749
Total Current Liabilities Payable From Restricted Assets	<u>209,749</u>	<u>--</u>	<u>209,749</u>
Noncurrent Liabilities:			
<i>General Obligation Bonds Payable</i>	11,825,720	--	11,825,720
Total Noncurrent Liabilities	<u>11,825,720</u>	<u>--</u>	<u>11,825,720</u>
Total Liabilities	<u>12,959,091</u>	<u>1,310,548</u>	<u>14,269,639</u>
NET ASSETS:			
<i>Invested in Capital Assets, Net of Related Debt</i>	6,863,379	1,101,350	7,964,729
<i>Restricted for Capital Expenditures</i>	926,031	90,309	1,016,340
<i>Retained Earnings</i>	1,470,619	15,027	1,485,646
Total Net Assets	<u>\$ 9,260,029</u>	<u>\$ 1,206,686</u>	<u>\$ 10,466,715</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, 2011

	Enterprise Fund	Enterprise Fund	Total Enterprise Funds
	Utility Fund	Brushy Creek Project	
OPERATING REVENUES:			
Charges for Sales and Services:			
<i>Water Sales</i>	\$ 1,440,469	\$ --	\$ 1,440,469
<i>Sewer Charges - Pledged as Security</i>	766,773	--	766,773
<i>Tap Fees - Unpledged</i>	43,907	--	43,907
<i>Other</i>	33,403	--	33,403
<i>Penalties</i>	53,307	--	53,307
Total Operating Revenues	<u>2,337,859</u>	<u>--</u>	<u>2,337,859</u>
OPERATING EXPENSES:			
<i>Personal Services - Salaries and Wages</i>	764,949	--	764,949
<i>Purchased Professional and Technical Services</i>	336,236	--	336,236
<i>Supplies</i>	934,447	--	934,447
<i>Depreciation</i>	777,071	--	777,071
Total Operating Expenses	<u>2,812,703</u>	<u>--</u>	<u>2,812,703</u>
Operating Income	<u>(474,844)</u>	<u>--</u>	<u>(474,844)</u>
NON-OPERATING REVENUES (EXPENSES):			
<i>Intergovernmental Revenue</i>	2,338,489	--	2,338,489
<i>Interest Revenue</i>	239	110	349
<i>Fees for Water System Rehabilitation</i>	161,053	--	161,053
<i>Debt Service Fees Assessment</i>	303,051	--	303,051
<i>Interest Expense</i>	(11,749)	--	(11,749)
<i>Bond Issuance Costs</i>	(16,586)	--	(16,586)
Total Non-operating Revenues (Expenses)	<u>2,774,497</u>	<u>110</u>	<u>2,774,607</u>
Income before Transfers	<u>2,299,653</u>	<u>110</u>	<u>2,299,763</u>
<i>Interfund Operating Transfers In</i>	--	--	--
<i>Interfund Operating Transfers Out</i>	(450,254)	--	(450,254)
Change in Net Assets	<u>1,849,399</u>	<u>110</u>	<u>1,849,509</u>
Total Net Assets - Beginning	7,410,630	1,206,576	8,617,206
Total Net Assets - Ending	<u>\$ 9,260,029</u>	<u>\$ 1,206,686</u>	<u>\$ 10,466,715</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, 2011

	Enterprise Funds		
	Utility Fund	Brushy Creek Project	Totals
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 2,393,017	\$ --	\$ 2,393,017
Cash Payments to Employees for Services	(764,949)	--	(764,949)
Cash Payments to Other Suppliers for Goods and Services	(843,792)	--	(843,792)
Other Operating Cash Receipts (Payments)	--	(109)	(109)
Net Cash Provided (Used) by Operating Activities	<u>784,276</u>	<u>(109)</u>	<u>784,167</u>
Cash Flows from Non-capital Financing Activities:			
Non Operating Fees	464,104	--	464,104
Transfers From (To) Other Funds	(450,254)	--	(450,254)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>13,850</u>	<u>--</u>	<u>13,850</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	728,400	--	728,400
Principal Paid	(876,197)	--	(876,197)
Interest Paid	(11,749)	--	(11,749)
Acquisition or Construction of Capital Assets	(1,694,791)	--	(1,694,791)
Reduction in Construction Payables	(1,297,159)	--	(1,297,159)
Capital Grants Received	2,338,489	--	2,338,489
Net Cash Provided (Used) for Capital & Related Financing Activ.	<u>(813,007)</u>	<u>--</u>	<u>(813,007)</u>
Cash Flows from Investing Activities:			
Interest and Dividends on Investments	239	110	349
Net Cash Provided (Used) for Investing Activities	<u>239</u>	<u>110</u>	<u>349</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14,642)	1	(14,641)
Cash and Cash Equivalents at Beginning of Year	327,191	15,026	342,217
Cash and Cash Equivalents at End of Year	<u>\$ 312,549</u>	<u>\$ 15,027</u>	<u>\$ 327,576</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (474,844)	\$ --	\$ (474,844)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	777,071	--	777,071
Change in Assets and Liabilities:			
Decrease (Increase) in Receivables	55,158	--	55,158
Decrease (Increase) in Restrictive Cash	302,505	(109)	302,396
Increase (Decrease) in Accounts Payable	131,082	--	131,082
Increase (Decrease) in Accrued Expenses	(4,575)	--	(4,575)
Increase (Decrease) in Customer Deposits	(2,121)	--	(2,121)
Total Adjustments	<u>1,259,120</u>	<u>(109)</u>	<u>1,259,011</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 784,276</u>	<u>\$ (109)</u>	<u>\$ 784,167</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, 2011

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, 2011

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, 2011*

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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 & Systems	25-50
Building Improvements	20
Vehicles	7-15
Office Equipment	5-15
Computer Equipment	5-7

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 \$21,813.

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

f. 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.

g. 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 statement of net assets.

h. 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.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

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.

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:

Violation

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.

Action Taken

The City will document the expenses reimbursed.

CITY OF MARLIN

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011*

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, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,853,561 and the bank balance was \$1,884,739. The City's cash deposits at September 30, 2011 and during the year ended September 30, 2011, 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.

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, 2011 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 90,309
Total Investments		<u>\$ 90,309</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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.

At September 30, 2011, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, have no 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.

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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 2011, 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	25,000	--	1,615,519
Leased assets	711,668	31,900	--	743,568
Total capital assets being depreciated	<u>2,802,187</u>	<u>56,900</u>	<u>--</u>	<u>2,859,087</u>
Less accumulated depreciation for:				
Infrastructure				
Buildings and improvements	(83,335)	(16,667)	--	(100,002)
Equipment	(1,565,665)	(6,844)	--	(1,572,509)
Leased assets	(407,448)	(73,667)	--	(481,115)
Total accumulated depreciation	<u>(2,056,448)</u>	<u>(97,178)</u>	<u>--</u>	<u>(2,153,626)</u>
Total capital assets being depreciated, net	<u>745,739</u>	<u>(40,278)</u>	<u>--</u>	<u>705,461</u>
Governmental activities capital assets, net	<u>\$ 834,280</u>	<u>\$ (40,278)</u>	<u>\$ --</u>	<u>\$ 794,002</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,470,590	\$ --	\$ --	\$ 1,470,590
Construction in progress	18,225,541	1,516,415	18,567,784	1,174,172
Total capital assets not being depreciated	<u>19,696,131</u>	<u>1,516,415</u>	<u>18,567,784</u>	<u>2,644,762</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	44,093	--	--	44,093
Equipment	723,859	--	--	723,859
Vehicles	164,151	--	--	164,151
Water & Sewer System	13,186,235	18,746,160	--	31,932,395
Total capital assets being depreciated	<u>14,118,338</u>	<u>18,746,160</u>	<u>--</u>	<u>32,864,498</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,093)	--	--	(44,093)
Equipment	(688,028)	(5,119)	--	(693,147)
Vehicles	(162,833)	--	--	(162,833)
Water & Sewer System	(12,340,924)	(771,952)	--	(13,112,876)
Total accumulated depreciation	<u>(13,235,878)</u>	<u>(777,071)</u>	<u>--</u>	<u>(14,012,949)</u>
Total capital assets being depreciated, net	882,460	17,969,089	--	18,851,549
Business-type activities capital assets, net	<u>\$ 20,578,591</u>	<u>\$ 19,485,504</u>	<u>\$ 18,567,784</u>	<u>\$ 21,496,311</u>

Depreciation was charged to functions as follows:

General Government	\$ 16,154
Public Safety	49,884
Highways and Streets	10,530
Sanitation	18,542
Culture and Recreation	2,068
	<u>\$ 97,178</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2011, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Water & Sewer Fund	\$ 67,350	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>\$ 1,654,714</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, 2011, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Water & Sewer Fund	General Fund	\$ 450,254	Supplement other funds sources
General fund	Other Governmental Funds	54,489	Supplement other funds sources
	Total	<u>\$ 504,743</u>	

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 \$40,300 for working capital purposes at the rate of 1.65% in 2010 with a maturity date of December 11, 2010. The loan was repaid during the year ended September 30, 2011.

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Bank Loan	\$ 40,300	\$ --	\$ (40,300)	\$ --
	<u>\$ 40,300</u>	<u>\$ --</u>	<u>\$ (40,300)</u>	<u>\$ --</u>

G. Long-Term Obligations

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, 2011, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 399,090	\$ 678,510	\$ (185,920)	\$ 891,680	\$ 182,400
Capital leases	168,372	26,500	(91,688)	103,184	58,446
Total governmental activities	<u>\$ 567,462</u>	<u>\$ 705,010</u>	<u>\$ (277,608)</u>	<u>\$ 994,864</u>	<u>\$ 240,846</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, 2011 is \$0 as the bonds were refunded with the Series 2010 refunding issue.

Series 2010 General Obligation Refunding Bonds in the original amount of \$402,600 at the rate of 3% due in annual installments ranging from \$91,560 to \$107,800 through 2014. The balance at September 30, 2011 is \$306,680.

Series 2010 General Obligation Improvement Bonds in the original amount of \$675,000 at the rate of 3.25% due in annual installments ranging from \$90,000 to \$105,000 through 2017. The balance at September 30, 2011 is \$585,000.

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, 2011 is \$17,898.

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, 2011 is \$17,869.

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, 2011 is \$0.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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, 2011 is \$2,466.

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, 2011 is \$0.

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, 2011 is \$38,451.

Lease in an original amount of \$26,500 to purchase equipment in November 2010 at the rate of 4% due in yearly installments of \$11,060 to \$17,160 to mature in November of 2012. The balance at September 30, 2011 is \$26,500.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Business-type activities:</u>					
General obligation bonds	\$ 485,909	\$ --	\$ (97,589)	\$ 388,320	117,600
Certificates of Oblig-Rev Bonds	11,874,000	216,000	(260,000)	11,830,000	275,000
Notes	6,208	--	(6,208)	--	--
Total business-type activities	<u>\$ 12,366,117</u>	<u>\$ 216,000</u>	<u>\$ (363,797)</u>	<u>\$ 12,218,320</u>	<u>\$ 392,600</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, 2011 is \$0 as the bonds were refunded with the Series 2010 refunding issue.

Series 2010 General Obligation Refunding Bonds in the original amount of \$512,400 at the rate of 3% due in annual installments ranging from \$118,440 to \$123,200 through 2014. The balance at September 30, 2011 is \$388,320.

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, 2011 is \$2,195,000.

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, 2011 is the amount that has been drawn, less repayment of \$716,000, for a net of \$9,635,000. 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 \$39,705 during the year.

Notes

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 2011. The balance at September 30, 2011 is \$0.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2011, are as follows:

<u>Year Ending September 30,</u>	Governmental Activities		
	Principal	Interest	Total
2012	\$ 182,400	\$ 28,103	\$ 210,503
2013	200,600	22,490	223,090
2014	203,680	16,234	219,914
2015	100,000	9,913	109,913
2016	100,000	6,663	106,663
2017-2021	105,000	3,413	108,413
Totals	<u>\$ 891,680</u>	<u>\$ 86,816</u>	<u>\$ 978,496</u>

<u>Year Ending September 30,</u>	Business-type Activities		
	Principal	Interest	Total
2012	\$ 392,600	\$ 10,760	\$ 403,360
2013	384,400	8,148	392,548
2014	386,320	4,116	390,436
2015	515,000	--	515,000
2016	515,000	--	515,000
2017-2021	2,575,000	--	2,575,000
2022-2026	2,580,000	--	2,580,000
2027-2031	2,600,000	--	2,600,000
2032-2036	2,600,000	--	2,600,000
Totals	<u>\$ 12,548,320</u>	<u>\$ 23,024</u>	<u>\$ 12,571,344</u>

** Of this total, \$330,000 has yet to be drawn by the City on the 2005B issue which totals \$10,710,000. Only \$10,380,000 has been drawn and this amount less a \$745,000 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 \$39,705 of this amount during the year and it is reflected as grant revenue in the Water & Sewer Fund. There remains \$98,333 left to draw in the future.

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2011, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

<u>Bond Issue</u>	<u>Amount</u>
1998 Refunding Series	\$ 685,000
Total	<u>\$ 685,000</u>

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2011, as follows:

<u>Year Ending September 30,</u>	Capital Leases-Governmental Activities		
	Principal	Interest	Total
2012	\$ 58,446	\$ 4,998	\$ 63,444
2013	44,738	2,193	46,931
Totals	<u>\$ 103,184</u>	<u>\$ 7,191</u>	<u>\$ 110,375</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 2011, 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 and disability benefits to Plan members 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.tmr.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, 2011, 2010 and 2009 were \$111,320, \$93,292 and \$59,809, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$111,320 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, 2011

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, 2009	\$ 59,809	100%	\$ --
September 30, 2010	93,292	100%	--
September 30, 2011	111,320	100%	--

J. Health Care Coverage

During the year ended September 30, 2011, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$397 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, 2011, 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, 2011, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. 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.

2. Litigation

No reportable litigation was pending against the City at September 30, 2011.

L. Subsequent Events

The City has applied for \$3.0 million in additional funding from the Texas Water Board to upgrade its water & sewer system. This funding will be a loan for 70% and 30% will be in the form of a grant.

M. Budget Overages

The City exceeded its budget in Sanitation by \$11,007 or 2% and Culture and Recreation by \$31,506 or 79%.

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, 2011

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
General Property Taxes	\$ 591,834	\$ 591,834	\$ 571,578	\$ (20,256)
General Sales and Use Taxes	633,000	633,000	632,148	(852)
Other Taxes - Severance Taxes	42,000	42,000	38,869	(3,131)
Other Taxes - Franchise Taxes	243,172	243,172	243,415	243
License and Permits	19,245	19,245	18,353	(892)
Charges for Services	797,604	797,604	815,579	17,975
Fines	460,660	460,660	416,197	(44,463)
Investment Earnings	16	16	2,067	2,051
Total revenues	<u>2,787,531</u>	<u>2,787,531</u>	<u>2,738,206</u>	<u>(49,325)</u>
Expenditures:				
Current:				
General Government	591,976	591,976	557,123	34,853
Public Safety	1,786,327	1,786,327	1,720,447	65,880
Highways and Streets	366,678	366,678	363,166	3,512
Sanitation	628,492	628,492	639,499	(11,007)
Culture and Recreation	39,800	39,800	71,326	(31,526)
Debt Service:				
Principal	91,688	91,688	91,688	--
Interest and Fiscal Charges	8,113	8,113	8,113	--
Capital Outlay:				
Highways and Streets	--	56,900	56,900	--
Total Expenditures	<u>3,513,074</u>	<u>3,569,974</u>	<u>3,508,262</u>	<u>61,712</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(725,543)</u>	<u>(782,443)</u>	<u>(770,056)</u>	<u>12,387</u>
Other Financing Sources (Uses):				
Operating Transfers In	430,000	430,000	450,254	20,254
Operating Transfers Out	(54,489)	(54,489)	(54,489)	--
Lease Proceeds	--	26,500	26,500	--
Other Bonds Issued	646,823	646,823	646,823	--
Total Other Financing Sources (Uses)	<u>1,022,334</u>	<u>1,048,834</u>	<u>1,069,088</u>	<u>(20,254)</u>
Net Change in Fund Balances	296,791	266,391	299,032	32,641
Fund Balances - Beginning	249,471	249,471	249,471	--
Fund Balances - Ending	<u>\$ 546,262</u>	<u>\$ 515,862</u>	<u>\$ 548,503</u>	<u>\$ 32,641</u>

CITY OF MARLIN
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT B-2

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 155,166	\$ 155,166	\$ --
Total revenues	<u>155,166</u>	<u>155,166</u>	<u>--</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	185,920	185,920	--
<i>Interest and Fiscal Charges</i>	23,735	23,735	--
Total Expenditures	<u>209,655</u>	<u>209,655</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(54,489)</u>	<u>(54,489)</u>	<u>--</u>
Other Financing Sources (Uses):			
<i>Operating Transfers In</i>	54,489	54,489	--
Total Other Financing Sources (Uses)	<u>54,489</u>	<u>54,489</u>	<u>--</u>
Net Change in Fund Balances	--	--	--
Fund Balances - Beginning	276,816	276,816	--
Fund Balances - Ending	<u>\$ 276,816</u>	<u>\$ 276,816</u>	<u>\$ --</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.

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

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

Members of the 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, 2011, which collectively comprise the City of Marlin's basic financial statements and have issued our report thereon dated May 31, 2012. 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 11-1 and 11-2 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* and which are described in the accompanying schedule of findings and questioned costs as item 11-1.

This report is intended solely for the information and use of management, others within the entity, the 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.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

May 31, 2012

Independent Auditors' Report

Report on Compliance with Requirements That Could Have a Direct and
Material Effect on each Major Program and on Internal Control Over Compliance
In Accordance With OMB Circular A-133

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

Members of the City Council:

Compliance

We have audited City of Marlin's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on City of Marlin's major federal program for the year ended September 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Marlin's internal control over compliance.

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

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

This report is intended solely for the information and use of management, others within the entity, the City Council, 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.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

May 31, 2012

CITY OF MARLIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	ARRA-Drinking Water Revolving Fund-Special Cap Fund
66.468	Drinking Water Revolving Fund-2005B
66.468	Drinking Water 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

CITY OF MARLIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

B. Financial Statement Findings

11-1 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.

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.

11-2 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 separate cash collection from fine processing.

Effect: This lack of control allowed City resources to be improperly removed from the fund.

City's Response: The City has changed personnel and separated functions.

C. Federal Award Findings and Questioned Costs

None Noted

CITY OF MARLIN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Transfer of Resources	Not Corrected	General Fund revenue not adequate to pay its expenses

CITY OF MARLIN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2011

- 11-1 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.

- 11-2 The City has changed personnel and separated cash collection function from the fine recording function. 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, 2011*

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	\$ 216,000
Drinking Water Revolving Fund	66.468	61233	39,705
ARRA-Drinking Water Revolving Fund-Special Cap Grant	66.468	61233	2,129,444
Total Passed Through Texas Water Development Board			<u>2,385,149</u>
Total U. S. Environmental Protection Agency			<u>2,385,149</u>
<u>U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
Passed Through Texas Department of Rural Affairs:			
CDBG #729511 *	14.228	729511	169,340
Total U. S. Department of Housing & Urban Development			<u>169,340</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,554,489</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

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, 2011**

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.