

CITY OF MARLIN

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

City of Marlin
Annual Financial Report
For The Year Ended September 30, 2012

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Financial Section

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA

FRANK MARX, III, CPA

DORI BOHL, CPA& CFE

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, 2012, 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, 2012, 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 July 15, 2013, 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.

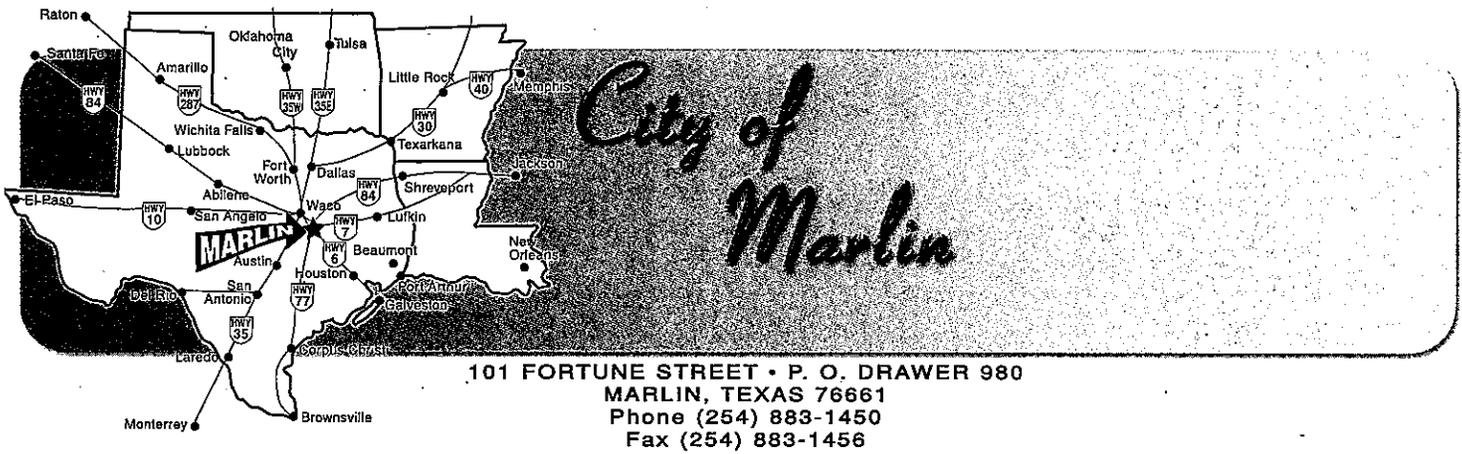
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such 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 other supplementary information is the responsibility of management and was derived from and relates 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.

July 15, 2013



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, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

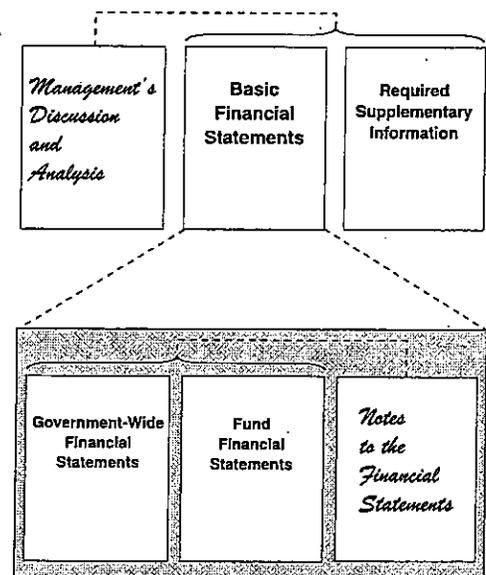
- The City's total combined net assets on financial statement exhibit A-1 were \$11,270,239 at September 30, 2012.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$170,052 more than the \$6,007,881 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 increased \$64,679 from last year. An increase in capital outlays accounted for much of this.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$258,539. The City began the current year with a general fund balance in the amount of \$548,503.

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 \$11.3 million at September 30, 2012. (See Table A-1).

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

	<u>2012</u>	<u>2011</u>	<u>Total Percentage Change 2012-2011</u>
Current assets:			
Cash and cash equivalents	.4	.9	-56
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.7	.6	17
Unamortized debt issuance costs	.4	.4	0
Total current assets:	<u>1.5</u>	<u>1.9</u>	-21
Noncurrent assets:			
Land, furniture and equipment	39.2	38.5	2
Less accumulated depreciation	(17.1)	(16.2)	-6
Other assets	.8	1.0	-20
Total noncurrent assets	<u>22.9</u>	<u>23.3</u>	-2
Total Assets	<u>24.4</u>	<u>25.2</u>	-3
Current liabilities:			
Accounts payable and accrued liabilities	.3	.6	-50
Consumer deposits	.0	.0	**
Due to other funds	.0	.0	**
Liabilities payable from restricted assets	.2	0	**
Total current liabilities	<u>.5</u>	<u>.6</u>	-17
Long-term liabilities:			
Noncurrent liabilities due in one year	.6	.6	0
Noncurrent liabilities due more than 1 yr	12.0	12.6	-5
Total Liabilities	<u>13.1</u>	<u>13.8</u>	-5
Net Assets:			
Invested in capital assets, net of debt	8.1	8.3	-2
Restricted	1.2	1.4	-14
Unrestricted	2.0	1.7	18
Total Net Assets	<u>11.3</u>	<u>11.4</u>	-1

The City has restricted net assets of \$354,716 that represent proceeds to service debt and \$814,945 that are restricted for capital expenditures. The \$1,948,308 of unrestricted net assets represent resources to be available to fund the programs of the City next year.

Changes in net assets. The City's total revenues were \$6,007,881. A significant portion, 29 percent, of the City's revenue comes from taxes, while 60 percent relates to charges for services.

The total cost of all programs and services was \$6,177,933; 55 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues increased by \$56,286 to \$795,414.

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

	<u>2012</u>	<u>2011</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	3.6	3.5	3
Operating Grants and Contributions	.0	.0	**
General Revenues:			
Taxes	1.7	1.7	0
Grants	.3	2.4	-88
Investment Earnings	.0	.0	**
Other	.4	.4	0
Total Revenues	<u>6.0</u>	<u>8.0</u>	-25
General Government	.5	.6	-17
Public Safety	1.7	1.8	-6
Highways and Streets	.4	.4	0
Culture and Recreation	.1	.1	0
Public Services	.0	.0	**
Sanitation	.6	.6	0
Water and Sewer	2.9	2.8	4
Other	.0	.0	**
Total Expenses	<u>6.2</u>	<u>6.3</u>	-2
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	0	0	**
Transfers In (Out)	0	0	**
Increase (Decrease) in Net Assets	<u>-2</u>	<u>1.7</u>	-112

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 \$3.27 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.795 million.
- Some of the cost was paid by those who directly benefited from the programs \$1.219 million.

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

	Total Cost of Services			Net Cost of Services		
	<u>2012</u>	<u>2011</u>	% Change	<u>2012</u>	<u>2011</u>	% Change
General Government	.5	.6	-17	.3	.4	-25
Public Safety	1.7	1.8	-6	1.3	1.4	-7
Highways and Streets	.4	.4	0	.4	.4	0

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$3.0 million, while the previous year it was \$2.9 million due partly to the increase in taxes. Revenues from business-type activities totaled \$2.9 million, while the previous year it was \$5.1 million. Intergovernmental revenues decreased by approximately \$2,100,000.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$25,259 above final budget amounts.

On the other hand, resources available were \$198,741 below the final budgeted amount due to reduced fine revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had invested \$39,172,654 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 \$715,766 or 2% percent over last year. The increase is a result of interim construction.

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

	<u>2012</u>	<u>2011</u>	<u>Total Percentage Change 2012-2011</u>
Land	1.6	1.6	0
Construction in progress	.0	1.2	**
Infrastructure	.7	.5	40
Buildings and Improvements	1.7	1.6	6
Equipment & Water System	34.7	33.1	5
Vehicles	.5	.5	0
Totals at historical cost	<u>39.2</u>	<u>38.5</u>	2
Total accumulated depreciation	<u>(17.1)</u>	<u>(16.2)</u>	-6
Net capital assets	<u>22.1</u>	<u>22.3</u>	-1

The City's fiscal year 2013 capital budget projects spending do not reflect any major projects, except the continuation of the water system with the unfunded grants, restricted cash and new bonds. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the City had \$12,632,526 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>2012</u>	<u>2011</u>	Total Percentage Change <u>2011-2012</u>
Leases payable	.1	.1	0
Bonds payable	12.5	13.1	-5
Notes payable	.0	.0	**
Compensated absences	.0	.0	**
Less deferred amount			
On refundings	(0)	(0)	**
Total bonds & notes payable	<u>12.6</u>	<u>13.2</u>	-5

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 2013 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, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 286,064	\$ 122,383	\$ 408,447
<i>Receivables (net of allowances for uncollectibles)</i>	389,899	264,018	653,917
<i>Internal Balances</i>	344,166	(344,166)	--
<i>Bond Issuance Costs</i>	26,406	335,120	361,526
Restricted Assets:			
<i>Cash and Cash Equivalents</i>	--	724,527	724,527
<i>Investments</i>	--	90,418	90,418
Capital Assets (net of accumulated depreciation):			
<i>Land</i>	88,541	1,470,590	1,559,131
<i>Buildings, Equipment and System, net</i>	960,417	19,583,453	20,543,870
Total Assets	2,095,493	22,246,243	24,341,836
LIABILITIES:			
<i>Accounts Payable and Other Current Liabilities</i>	156,812	62,732	219,544
<i>Accrued Interest Payable</i>	5,627	2,030	7,657
<i>Liabilities Payable from Restricted Assets</i>	--	211,870	211,870
Noncurrent Liabilities-			
<i>Due within one year</i>	263,114	384,400	647,514
<i>Due in more than one year</i>	543,692	11,441,320	11,985,012
Total Liabilities	969,245	12,102,352	13,071,597
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	236,525	7,915,745	8,152,270
Restricted For:			
Debt Service	354,716	--	354,716
Capital Expenditures	--	814,945	814,945
Unrestricted	535,007	1,413,301	1,948,308
Total Net Assets	\$ 1,126,248	\$ 10,143,991	\$ 11,270,239

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
<i>General Government</i>	\$ 464,534	\$ 106,360	\$ 79,085
<i>Public Safety</i>	1,659,528	405,722	--
<i>Highways and Streets</i>	389,411	--	--
<i>Sanitation</i>	653,084	707,853	--
<i>Culture and Recreation</i>	68,578	--	--
<i>Interest on Long-term Debt</i>	36,711	--	--
Total Governmental Activities	<u>3,271,846</u>	<u>1,219,935</u>	<u>79,085</u>
Business-type Activities:			
Utility	<u>2,906,087</u>	<u>2,364,035</u>	<u>--</u>
Total Business-type Activities	<u>2,906,087</u>	<u>2,364,035</u>	<u>--</u>
Total Primary Government	<u>\$ 6,177,933</u>	<u>\$ 3,583,970</u>	<u>\$ 79,085</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Grants and Contributions
Unrestricted Investment Earnings
Gain on Sale of Capital Assets
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>
\$ (279,089)		\$ (279,089)
(1,253,806)		(1,253,806)
(389,411)		(389,411)
54,769		54,769
(68,578)		(68,578)
(36,711)		(36,711)
<u>(1,972,826)</u>		<u>(1,972,826)</u>
--	\$ (542,052)	(542,052)
--	(542,052)	(542,052)
<u>(1,972,826)</u>	<u>(542,052)</u>	<u>(2,514,878)</u>
795,414	--	795,414
643,585	--	643,585
306,011	--	306,011
--	220,067	220,067
835	501	1,336
4,653	--	4,653
--	373,760	373,760
375,000	(375,000)	--
<u>2,125,498</u>	<u>219,328</u>	<u>2,344,826</u>
<u>152,672</u>	<u>(322,724)</u>	<u>(170,052)</u>
973,576	10,466,715	11,440,291
<u>\$ 1,126,248</u>	<u>\$ 10,143,991</u>	<u>\$ 11,270,239</u>

CITY OF MARLIN
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 286,064	\$ --	\$ 286,064
<i>Receivables (net of allowances for uncollectibles)</i>	311,999	77,900	389,899
<i>Due from Other Funds</i>	67,350	276,816	344,166
Total Assets	\$ 665,413	\$ 354,716	\$ 1,020,129
LIABILITIES AND FUND BALANCES:			
Liabilities:			
<i>Accounts Payable</i>	\$ 156,812	\$ --	\$ 156,812
<i>Unearned Revenue</i>	250,062	77,900	327,962
Total Liabilities	406,874	77,900	484,774
Fund Balances:			
Restricted Fund Balances:			
<i>Restricted for Debt Service</i>	--	276,816	276,816
Unassigned	258,539	--	258,539
Total Fund Balance	258,539	276,816	535,355
Total Liabilities and Fund Balance	\$ 665,413	\$ 354,716	\$ 1,020,129

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, 2012*

Total fund balances - governmental funds balance sheet	\$ 535,355
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.	1,048,958
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	327,962
Payables for bond principal which are not due in the current period are not reported in the funds.	(709,280)
Payables for capital leases which are not due in the current period are not reported in the funds.	(97,526)
Payables for bond interest which are not due in the current period are not reported in the funds.	(5,627)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	<u>26,406</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 1,126,248</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, 2012**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
General Property Taxes	\$ 563,513	\$ 228,215	\$ 791,728
General Sales and Use Taxes	643,585	--	643,585
Other Taxes - Severance Taxes	56,339	--	56,339
Other Taxes - Franchise Taxes	249,672	--	249,672
License and Permits	18,646	--	18,646
Intergovernmental	79,085	--	79,085
Charges for Services	795,567	--	795,567
Fines	405,722	--	405,722
Investment Earnings	835	--	835
Total revenues	<u>2,812,964</u>	<u>228,215</u>	<u>3,041,179</u>
Expenditures:			
Current:			
General Government	448,248	--	448,248
Public Safety	1,601,298	--	1,601,298
Highways and Streets	375,747	--	375,747
Sanitation	630,168	--	630,168
Culture and Recreation	66,172	--	66,172
Debt Service:			
Principal	77,458	182,400	259,858
Interest and Fiscal Charges	4,544	28,103	32,647
Capital Outlay:			
Highways, Streets and Equipment	368,458	--	368,458
Total Expenditures	<u>3,572,093</u>	<u>210,503</u>	<u>3,782,596</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(759,129)</u>	<u>17,712</u>	<u>(741,417)</u>
Other Financing Sources (Uses):			
Operating Transfers In	392,712	--	392,712
Operating Transfers Out	--	(17,712)	(17,712)
Lease Proceeds	71,800	--	71,800
Sale of Assets	4,653	--	4,653
Total Other Financing Sources (Uses)	<u>469,165</u>	<u>(17,712)</u>	<u>451,453</u>
Net Change in Fund Balances	(289,964)	--	(289,964)
Fund Balances - Beginning	548,503	276,816	825,319
Fund Balances - Ending	<u>\$ 258,539</u>	<u>\$ 276,816</u>	<u>\$ 535,355</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, 2012*

Net change in fund balances - total governmental funds	\$ (289,964)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	368,458
The depreciation of capital assets used in governmental activities is not reported in the funds.	(113,502)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	3,686
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(71,800)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(5,281)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	182,400
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	77,458
(Increase) decrease in accrued interest from beginning of period to end of period.	<u>1,217</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 152,672</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Enterprise Fund	Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
ASSETS:			
Current Assets:			
<i>Cash and Cash Equivalents</i>	\$ 107,351	\$ 15,032	\$ 122,383
<i>Receivables (net of allowances for uncollectibles):</i>	264,018	--	264,018
<i>Due from other funds</i>	1,310,548	--	1,310,548
Total Current Assets	<u>1,681,917</u>	<u>15,032</u>	<u>1,696,949</u>
Noncurrent Assets:			
Restricted Cash, Cash Equivalents and Investments-			
<i>Cash</i>	724,527	--	724,527
<i>Investments</i>	--	90,418	90,418
<i>Bond Issuance Costs</i>	335,120	--	335,120
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>	33,379,764	--	33,379,764
<i>Construction in Progress</i>	--	962,121	962,121
<i>Less Accumulated Depreciation</i>	(14,802,525)	--	(14,802,525)
Total Noncurrent Assets	<u>19,701,792</u>	<u>2,502,316</u>	<u>22,204,108</u>
Total Assets	<u>21,383,709</u>	<u>2,517,348</u>	<u>23,901,057</u>
LIABILITIES:			
Current Liabilities:			
<i>Accounts payable</i>	62,732	--	62,732
<i>Due to other funds</i>	344,166	1,310,548	1,654,714
<i>Accrued interest payable</i>	2,030	--	2,030
<i>General Obligation and Revenue Bonds Payable</i>	384,400	--	384,400
Total Current Liabilities	<u>793,328</u>	<u>1,310,548</u>	<u>2,103,876</u>
Current Liabilities Payable from Restricted Assets-			
<i>Customer Deposits</i>	211,870	--	211,870
Total Current Liabilities Payable From Restricted Assets	<u>211,870</u>	<u>--</u>	<u>211,870</u>
Noncurrent Liabilities:			
<i>General Obligation and Revenue Bonds Payable</i>	11,441,320	--	11,441,320
Total Noncurrent Liabilities	<u>11,441,320</u>	<u>--</u>	<u>11,441,320</u>
Total Liabilities	<u>12,446,518</u>	<u>1,310,548</u>	<u>13,757,066</u>
NET ASSETS:LIABILITIES:			
<i>Invested in Capital Assets, Net of Related Debt</i>	6,814,395	1,101,350	7,915,745
<i>Restricted for Capital Expenditures</i>	724,527	90,418	814,945
<i>Unrestricted Net Assets</i>	1,398,269	15,032	1,413,301
Total Net Assets	<u>\$ 8,937,191</u>	<u>\$ 1,206,800</u>	<u>\$ 10,143,991</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, 2012**

	Enterprise Fund	Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Sales and Services:			
<i>Water Sales</i>	\$ 1,421,024	\$ --	\$ 1,421,024
<i>Sewer Charges - Pledged as Security</i>	805,951	--	805,951
<i>Tap Fees - Unpledged</i>	43,676	--	43,676
<i>Other</i>	38,599	--	38,599
<i>Penalties</i>	54,785	--	54,785
Total Operating Revenues	2,364,035	--	2,364,035
OPERATING EXPENSES:			
<i>Personal Services - Salaries and Wages</i>	903,285	--	903,285
<i>Purchased Professional and Technical Services</i>	284,182	--	284,182
<i>Supplies</i>	890,123	--	890,123
<i>Depreciation</i>	789,576	--	789,576
Total Operating Expenses	2,867,166	--	2,867,166
Operating Income	(503,131)	--	(503,131)
NON-OPERATING REVENUES (EXPENSES):			
<i>Intergovernmental Revenue</i>	220,067	--	220,067
<i>Interest Revenue</i>	387	114	501
<i>Fees for Water System Rehabilitation</i>	157,570	--	157,570
<i>Debt Service Fees Assessment</i>	216,190	--	216,190
<i>Interest Expense</i>	(38,921)	--	(38,921)
Total Non-operating Revenues (Expenses)	555,293	114	555,407
Income before Transfers	52,162	114	52,276
<i>Interfund Operating Transfers In</i>	--	--	--
<i>Interfund Operating Transfers Out</i>	(375,000)	--	(375,000)
Change in Net Assets	(322,838)	114	(322,724)
Total Net Assets - Beginning	9,260,029	1,206,686	10,466,715
Total Net Assets - Ending	\$ 8,937,191	\$ 1,206,800	\$ 10,143,991

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, 2012

	Enterprise Funds		
	Utility Fund	Brushy Creek Project	Totals
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 2,333,890	\$ --	\$ 2,333,890
Cash Payments to Employees for Services	(903,285)	--	(903,285)
Cash Payments to Other Suppliers for Goods and Services	(1,092,090)	(109)	(1,092,199)
Other Operating Cash Receipts (Payments)	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>338,515</u>	<u>(109)</u>	<u>338,406</u>
Cash Flows from Non-capital Financing Activities:			
Non Operating Fees	373,760	--	373,760
Transfers From (To) Other Funds	(375,000)	--	(375,000)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,240)</u>	<u>--</u>	<u>(1,240)</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid	(392,600)	--	(392,600)
Interest Paid	(23,019)	--	(23,019)
Acquisition or Construction of Capital Assets	(347,308)	--	(347,308)
Capital Grants Received	220,067	--	220,067
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(542,860)</u>	<u>--</u>	<u>(542,860)</u>
Cash Flows from Investing Activities:			
Interest and Dividends on Investments	387	114	501
Net Cash Provided (Used) for Investing Activities	<u>387</u>	<u>114</u>	<u>501</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(205,198)	5	(205,193)
Cash and Cash Equivalents at Beginning of Year	312,549	15,027	327,576
Cash and Cash Equivalents at End of Year	<u>\$ 107,351</u>	<u>\$ 15,032</u>	<u>\$ 122,383</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (503,131)	\$ --	\$ (503,131)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	789,576	--	789,576
Change in Assets and Liabilities:			
Decrease (Increase) in Receivables	(30,145)	--	(30,145)
Decrease (Increase) in Restricted Cash	201,504	(109)	201,395
Increase (Decrease) in Accounts Payable	(121,410)	--	(121,410)
Increase (Decrease) in Consumer Deposits	2,121	--	2,121
Total Adjustments	<u>841,646</u>	<u>(109)</u>	<u>841,537</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 338,515</u>	<u>\$ (109)</u>	<u>\$ 338,406</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, 2012

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, 2012

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, 2012

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 and Prepaid Items

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 and 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, 2012

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 \$24,536.

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 case 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. 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 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.

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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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.

i. 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.

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:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,132,974 and the bank balance was \$1,344,261. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012, 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, 2012 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 90,418
Total Investments		<u>\$ 90,418</u>

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

At September 30, 2012, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, have no credit risk.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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.

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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

D. Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<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	193,557	--	693,557
Buildings and improvements	1,615,519	103,101	--	1,718,620
Leased Assets	743,568	71,800	--	815,368
Total capital assets being depreciated	<u>2,859,087</u>	<u>368,458</u>	<u>--</u>	<u>3,227,545</u>
Less accumulated depreciation for:				
Infrastructure	(100,002)	(23,119)	--	(123,121)
Buildings and improvements	(1,572,509)	(9,536)	--	(1,582,045)
Leased Assets	(481,115)	(80,847)	--	(561,962)
Total accumulated depreciation	<u>(2,153,626)</u>	<u>(113,502)</u>	<u>--</u>	<u>(2,267,128)</u>
Total capital assets being depreciated, net	<u>705,461</u>	<u>254,956</u>	<u>--</u>	<u>960,417</u>
Governmental activities capital assets, net	<u>\$ 794,002</u>	<u>\$ 254,956</u>	<u>\$ --</u>	<u>\$ 1,048,958</u>

	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	1,174,172	--	1,174,172	--
Total capital assets not being depreciated	<u>2,644,762</u>	<u>--</u>	<u>1,174,172</u>	<u>1,470,590</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	31,932,395	1,521,480	--	33,453,875
Total capital assets being depreciated	<u>32,864,498</u>	<u>1,521,480</u>	<u>--</u>	<u>34,385,978</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,093)	--	--	(44,093)
Equipment	(693,147)	(5,119)	--	(698,266)
Vehicles	(162,833)	(1,318)	--	(164,151)
Water & Sewer System	(13,112,876)	(783,139)	--	(13,896,015)
Total accumulated depreciation	<u>(14,012,949)</u>	<u>(789,576)</u>	<u>--</u>	<u>(14,802,525)</u>
Total capital assets being depreciated, net	<u>18,851,549</u>	<u>731,904</u>	<u>--</u>	<u>19,583,453</u>
Business-type activities capital assets, net	<u>\$ 21,496,311</u>	<u>\$ 731,904</u>	<u>\$ 1,174,172</u>	<u>\$ 21,054,043</u>

Depreciation was charged to functions as follows:

General Government	\$ 16,286
Public Safety	58,230
Highways and Streets	13,664
Sanitation	22,916
Culture and Recreation	2,406
	<u>\$ 113,502</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2012, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
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, 2012, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water & Sewer Fund	General Fund	\$ 375,000	Supplement other funds sources
Other Governmental Funds	General Fund	17,712	Supplement other funds sources
	Total	<u>\$ 392,712</u>	

F. 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, 2012, 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	\$ 891,680	\$ --	\$ (182,400)	\$ 709,280	\$ 200,600
Capital leases	103,184	71,800	(77,458)	97,526	62,514
Total governmental activities	<u>\$ 994,864</u>	<u>\$ 71,800</u>	<u>\$ (259,858)</u>	<u>\$ 806,806</u>	<u>\$ 263,114</u>

Bonds

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, 2012 is \$214,820.

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, 2012 is \$495,000.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012 is \$0.

Lease in an original amount of \$57,003 to purchase a chipper truck in April 2006 at the rate of 4.9% due in yearly installments of \$9,826 to mature in April of 2013. The balance at September 30, 2012 is \$8,504.

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, 2012 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, 2012 is \$19,734.

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, 2012 is \$16,500.

Lease in an original amount of \$71,800 to purchase equipment in March 2012 at the rate of 4% due in yearly installments of \$19,012 to mature in March of 2015. The balance at September 30, 2012 is \$52,788.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Business-type activities:</u>					
General obligation bonds	\$ 388,320	\$ --	\$ (117,600)	\$ 270,720	\$ 134,400
Certificates of Ob-Rev Bonds	11,830,000	--	(275,000)	11,555,000	250,000
Total business-type activities	<u>\$ 12,218,320</u>	<u>\$ --</u>	<u>\$ (392,600)</u>	<u>\$ 11,825,720</u>	<u>\$ 384,400</u>

Bonds

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, 2012 is \$270,720.

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, 2012 is \$2,180,000.

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, 2012 is the amount that has been drawn, less repayment of \$976,000, for a net of \$9,375,000. 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 \$0 during the year.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2012, are as follows:

<u>Year Ending September 30,</u>	Governmental Activities		
	Principal	Interest	Total
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	105,000	3,413	108,413
Totals	<u>\$ 709,280</u>	<u>\$ 58,713</u>	<u>\$ 767,993</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
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	515,000	--	515,000
2018-2022	2,575,000	--	2,575,000
2023-2027	2,585,000	--	2,585,000
2028-2032	2,600,000	--	2,600,000
2033-2037	2,080,000	--	2,080,000
Totals	<u>\$ 12,155,720</u>	<u>\$ 12,264</u>	<u>\$ 12,167,984</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 \$1,005,000 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 there remains \$98,333 left to draw in the future.

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2012, as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2013	\$ 62,514	\$ 4,290	\$ 66,804
2014	17,587	1,425	19,012
2015	17,425	726	18,151
Totals	<u>\$ 97,526</u>	<u>\$ 6,441</u>	<u>\$ 103,967</u>

Lease expenditures in 2012 \$ 82,002

4. 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, 2012, 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.

Bond Issue	Amount
1998 Refunding Series	\$ 475,000
Total	<u>\$ 475,000</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

G. 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 2012, 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.

H. Pension Plan

1. Plan Description

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

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2012, 2011 and 2010 were \$114,968, \$111,320 and \$93,292, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$114,968 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, 2012

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, 2010	\$ 93,292	100%	\$ --
September 30, 2011	111,320	100%	--
September 30, 2012	114,968	100%	--

I. Health Care Coverage

During the year ended September 30, 2012, 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, 2012, 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, 2012, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

J. 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, 2012.

K. Subsequent Events

On November 9, 2012, the City issued \$3,000,000 of Combination Tax and Surplus Revenue Bonds Series 2012 to be used for water distribution. These bonds carry an average rate of 2.691% and are repayable over 29 years. At the same time the City issued \$2,907,000 of Combination Tax and Surplus Revenue Bonds Series 2012A to be used for water distribution. The amount of \$1,227,908 of these bonds is to be forgiven and \$1,680,000 is repayable over 29 years at the average rate of 2.740%.

CITY OF MARLIN

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012*

L. Water Distribution Loss Ratio

The City of Marlin water distribution system in the past year was only able to charge revenue on 44% of the water it produced. After accounting for the portion used by the fire department, the major loss was due to a system that has deteriorated with age and leaks that are too extensive to be economically repaired. As discussed in the previous note, the City has obtained the financing to substantially replace the system.

M. Budget Overages

The City exceeded its budget in Highways and Streets by \$40,553 or 12%.

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, 2012

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
General Property Taxes	\$ 615,412	\$ 615,412	\$ 563,513	\$ (51,899)
General Sales and Use Taxes	630,000	630,000	643,585	13,585
Other Taxes - Severance Taxes	42,000	42,000	56,339	14,339
Other Taxes - Franchise Taxes	252,500	252,500	249,672	(2,828)
License and Permits	22,800	22,800	18,646	(4,154)
Intergovernmental	79,085	79,085	79,085	--
Charges for Services	772,808	772,808	795,567	22,759
Fines	595,500	595,500	405,722	(189,778)
Investment Earnings	1,600	1,600	835	(765)
Total revenues	<u>3,011,705</u>	<u>3,011,705</u>	<u>2,812,964</u>	<u>(198,741)</u>
Expenditures:				
Current:				
General Government	591,879	450,000	448,248	1,752
Public Safety	1,763,058	1,603,058	1,601,298	1,760
Highways and Streets	212,194	335,194	375,747	(40,553)
Sanitation	679,150	639,150	630,168	8,982
Culture and Recreation	46,200	66,200	66,172	28
Debt Service:				
Principal	77,458	77,458	77,458	--
Interest and Fiscal Charges	4,544	4,544	4,544	--
Capital Outlay:				
Highways and Streets	76,229	371,230	368,458	2,772
Total Expenditures	<u>3,450,712</u>	<u>3,546,834</u>	<u>3,572,093</u>	<u>(25,259)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(439,007)</u>	<u>(535,129)</u>	<u>(759,129)</u>	<u>(224,000)</u>
Other Financing Sources (Uses):				
Operating Transfers In	392,712	392,712	392,712	--
Lease Proceeds	71,800	71,800	71,800	--
Sale of Assets	1,600	1,600	4,653	(3,053)
Total Other Financing Sources (Uses)	<u>466,112</u>	<u>466,112</u>	<u>469,165</u>	<u>(3,053)</u>
Net Change in Fund Balances	27,105	(69,017)	(289,964)	(220,947)
Fund Balances - Beginning	548,503	548,503	548,503	--
Fund Balances - Ending	<u>\$ 575,608</u>	<u>\$ 479,486</u>	<u>\$ 258,539</u>	<u>\$ (220,947)</u>

CITY OF MARLIN
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT B-2

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 230,000	\$ 228,215	\$ (1,785)
Total revenues	<u>230,000</u>	<u>228,215</u>	<u>(1,785)</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	182,400	182,400	--
<i>Interest and Fiscal Charges</i>	28,103	28,103	--
Total Expenditures	<u>210,503</u>	<u>210,503</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>19,497</u>	<u>17,712</u>	<u>(1,785)</u>
Other Financing Sources (Uses):			
<i>Operating Transfers Out</i>	(17,712)	(17,712)	--
Total Other Financing Sources (Uses)	<u>(17,712)</u>	<u>(17,712)</u>	<u>--</u>
Net Change in Fund Balances	1,785	--	(1,785)
Fund Balances - Beginning	276,816	276,816	--
Fund Balances - Ending	<u>\$ 278,601</u>	<u>\$ 276,816</u>	<u>\$ (1,785)</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.

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditors' Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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, 2012, which collectively comprise the City of Marlin's basic financial statements and have issued our report thereon dated July 15, 2013. 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

Management of City of Marlin is responsible for establishing and maintaining effective 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 12-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Marlin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 12-01.

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

July 15, 2013

CITY OF MARLIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u> X </u> Yes	<u> </u> No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported	
Noncompliance material to financial statements noted?	<u> X </u> Yes	<u> </u> No	

B. Financial Statement Findings

12-1 Budget Overages

Condition: The City overspent its Highways and Streets budget by \$40,553 or 12%.

Criteria: The City is required to monitor its spending against its budget before approving expenditures not in the original budget.

Effect: The City spent in excess of its approved budget.

Cause: The City failed to properly amend its budget before approving expenditures not in its original budget.

Recommendation: The City needs to amend its budget or restrict spending in categories that are fully spent.

City's response: The City will monitor its anticipated spending and amend its budget accordingly.

12-2 Bank Reconciliations

Condition: Some bank reconciliations do not tie to the general ledger.

Criteria: Internal control procedures should be in place to assure that bank reconciliations tie to the general ledger.

Effect: Without a monthly reconciliation being tied to the general ledger, cash balance controls are not functioning as designed.

Cause: The year end bank reconciliations of the operating accounts outstanding checks list was not correct and this produced the wrong ending reconciled cash balance.

Recommendation: The City needs to tie its reconciled bank statement balances to the balances that are present in the general ledger, investigate any differences and make proper adjustments.

CITY OF MARLIN

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012*

City's response: The city secretary needs to seek part time professional assistance in the coming fiscal year to assist in the reconciliation process.

CITY OF MARLIN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Unsupported reimbursement of expenses from Water & Sewer Fund to the General Fund	Corrected	

CITY OF MARLIN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The City will monitor its spending and amend its budget as required. Sandra Herring at 254-883-1474 will be responsible.

The City will seek professional assistance during the 2013 fiscal year to make the bank reconciliation process function properly. Sandra Herring at 254-883-1474 will be responsible.