

CITY OF MARLIN

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

City of Marlin  
Annual Financial Report  
For The Year Ended September 30, 2013

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Annual Financial Report  
For The Year Ended September 30, 2013

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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**

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

### **Report on the Financial Statements**

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 ("the City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marlin as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As described in Note L to the financial statements, in 2013, City of Marlin adopted new accounting guidance, Government Accounting Standards Board Statements No. 62 and 63, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*" and "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marlin's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

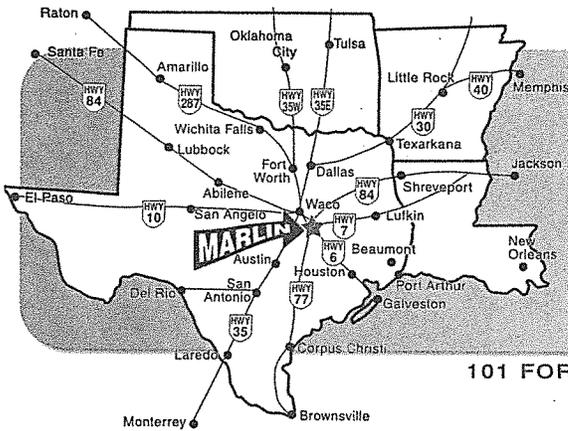
### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2014 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* in considering City of Marlin's internal control over financial reporting and compliance.

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

Anderson, Marx & Bohl, P.C.

Corsicana, Texas  
June 16, 2014



# 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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

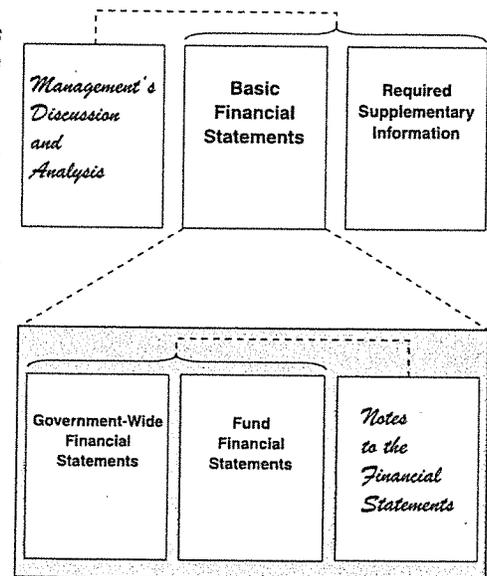
- The City's total combined net position on financial statement exhibit A-1 was \$12,482,702 at September 30, 2013.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$1,212,463 less than the \$7,340,504 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 decreased \$593,632 from last year. A decrease 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 \$213,070. The City began the current year with a general fund balance in the amount of \$258,539.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position 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 position and how it has changed. Net position—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 position 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 position. The City's combined net position was \$12.5 million at September 30, 2013. (See Table A-1).

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

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change 2013-2012</u>
<b>Current assets:</b>			
Cash and cash equivalents	.4	.4	0
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.7	.7	0
Unamortized debt issuance costs	.6	.4	50
<b>Total current assets:</b>	<u>1.7</u>	<u>1.5</u>	13
<b>Noncurrent assets:</b>			
Land, furniture and equipment	39.6	39.2	1
Less accumulated depreciation	(17.6)	(17.1)	-3
Other assets	5.8	.8	625
<b>Total noncurrent assets</b>	<u>27.8</u>	<u>22.9</u>	21
<b>Total Assets</b>	<u>29.5</u>	<u>24.4</u>	21
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	.2	.3	-33
Consumer deposits	.0	.0	**
Due to other funds	.0	.0	**
Liabilities payable from restricted assets	.2	.2	0
<b>Total current liabilities</b>	<u>.4</u>	<u>.5</u>	-20
<b>Long-term liabilities:</b>			
Noncurrent liabilities due in one year	.6	.6	0
Noncurrent liabilities due more than 1 yr	16.0	12.0	33
<b>Total Liabilities</b>	<u>17.0</u>	<u>13.1</u>	30
<b>Net Position:</b>			
Invested in capital assets, net of debt	4.0	8.1	-51
Restricted	6.2	1.2	333
Unrestricted	2.3	2.0	15
<b>Total Net Position</b>	<u>12.5</u>	<u>11.3</u>	11

The City has restricted net position of \$363,806 that represents proceeds to service debt and \$5,861,814 that are restricted for capital expenditures. The \$2,271,111 of unrestricted net position represents resources to be available to fund the programs of the City next year.

**Changes in net position.** The City's total revenues were \$7,340,504. A significant portion, 24 percent, of the City's revenue comes from taxes, while 51 percent relates to charges for services.

The total cost of all programs and services was \$6,128,041; 50 percent of these costs are for governmental activities.

**Governmental Activities**

- Property tax revenues increased by \$32,582 to \$827,996.

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

	<u>2013</u>	<u>2012</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	3.7	3.6	3
Operating Grants and Contributions	.0	.0	**
General Revenues:			
Taxes	1.8	1.7	6
Grants	1.5	.3	400
Investment Earnings	.0	.0	**
Other	.3	.4	-25
Total Revenues	<u>7.3</u>	<u>6.0</u>	22
General Government	.4	.5	-20
Public Safety	1.5	1.7	-12
Highways and Streets	.3	.4	-25
Culture and Recreation	.1	.1	0
Public Services	.0	.0	**
Sanitation	.7	.6	17
Water and Sewer	3.1	2.9	7
Other	.0	.0	**
Total Expenses	<u>6.1</u>	<u>6.2</u>	-2
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	0	0	**
Transfers In (Out)	0	0	**
Increase (Decrease) in Net Position	<u>1.2</u>	<u>-.2</u>	**

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 \$3.04 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.828 million.
- Some of the cost was paid by those who directly benefited from the programs \$1.414 million.

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

	Total Cost of Services			% Change	Net Cost of Services		
	<u>2013</u>	<u>2012</u>			<u>2013</u>	<u>2012</u>	
General Government	.4	.5	-20		.0	.3	**
Public Safety	1.5	1.7	-12		1.3	1.3	0
Highways and Streets	.3	.4	-25		.3	.4	-25

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$3.1 million, while the previous year it was \$3.0 million due partly to the increase in taxes. Revenues from business-type activities totaled \$4.2 million, while the previous year it was \$2.9 million. Intergovernmental revenues increased by approximately \$1,268,000.

### General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$73,470 below final budget amounts.

On the other hand, resources available were \$172,047 below the final budgeted amount due to reduced other revenue.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2013, the City had invested \$39,623,791 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 \$451,137 or 1% percent over last year. The increase is a result of water system construction.

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

	<u>2013</u>	<u>2012</u>	Total Percentage Change <u>2013-2012</u>
Land	1.6	1.6	0
Construction in progress	.0	.0	**
Infrastructure	.7	.7	0
Buildings and improvements	1.7	1.7	0
Equipment & Water System	35.1	34.7	1
Vehicles	.5	.5	0
Totals at historical cost	<u>39.6</u>	<u>39.2</u>	1
Total accumulated depreciation	<u>(17.6)</u>	<u>(17.1)</u>	-3
Net capital assets	<u>22.0</u>	<u>22.1</u>	0

The City's fiscal year 2014 capital budget projects spending do not reflect any major projects, except the continuation of the water system with 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 \$16,665,863 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>2013</u>	<u>2012</u>	Total Percentage Change <u>2012-2013</u>
Leases payable	.0	.1	**
Bonds payable	16.7	12.5	33
Notes payable	.0	.0	**
Compensated absences	.0	.0	**
Less deferred amount			
On refundings	(0)	(0)	**
Total bonds & notes payable	<u>16.7</u>	<u>12.6</u>	33

**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 2014 unless the City undertakes stringent fiscal restraints, as economic declines are still evident. 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.

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*Basic Financial Statements*

**CITY OF MARLIN**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2013**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
<i>Cash and Cash Equivalents</i>	\$ 130,289	\$ 282,257	\$ 412,546
<i>Receivables ( net of allowances for uncollectibles)</i>	425,934	263,400	689,334
<i>Internal Balances</i>	344,166	(344,166)	--
<i>Bond Issuance Costs</i>	21,125	560,068	581,193
<b>Restricted Assets:</b>			
<i>Cash and Cash Equivalents</i>	--	5,771,310	5,771,310
<i>Investments</i>	--	90,504	90,504
<b>Capital Assets ( net of accumulated depreciation):</b>			
<i>Land</i>	88,541	1,470,590	1,559,131
<i>Buildings, Equipment and System, net</i>	846,915	19,590,608	20,437,523
<b>Total Assets</b>	<b>1,856,970</b>	<b>27,684,571</b>	<b>29,541,541</b>
<b>LIABILITIES:</b>			
<i>Accounts Payable and Other Current Liabilities</i>	46,355	102,229	148,584
<i>Accrued Interest Payable</i>	4,065	30,207	34,272
<i>Liabilities Payable from Restricted Assets</i>	--	210,120	210,120
<b>Noncurrent Liabilities-</b>			
<i>Due within one year</i>	221,267	391,320	612,587
<i>Due in more than one year</i>	323,276	15,730,000	16,053,276
<b>Total Liabilities</b>	<b>594,963</b>	<b>16,463,876</b>	<b>17,058,839</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	386,848	3,599,123	3,985,971
<b>Restricted For:</b>			
Debt Service	363,806	--	363,806
Capital Expenditures	--	5,861,814	5,861,814
Unrestricted	511,353	1,759,758	2,271,111
<b>Total Net Position</b>	<b>\$ 1,262,007</b>	<b>\$ 11,220,695</b>	<b>\$ 12,482,702</b>

The accompanying notes are an integral part of this statement.

**CITY OF MARLIN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Expenses	Program Revenues
PRIMARY GOVERNMENT:		Charges for Services
Governmental Activities:		
<i>General Government</i>	\$ 413,317	\$ 445,449
<i>Public Safety</i>	1,550,735	239,642
<i>Highways and Streets</i>	333,025	--
<i>Sanitation</i>	649,290	729,300
<i>Culture and Recreation</i>	66,205	--
<i>Interest on Long-term Debt</i>	31,350	--
Total Governmental Activities	3,043,922	1,414,391
Business-type Activities:		
Utility	3,084,119	2,309,299
Total Business-type Activities	3,084,119	2,309,299
Total Primary Government	\$ 6,128,041	\$ 3,723,690

General Revenues:

*Property Taxes*  
*Sales Taxes*  
*Franchise Taxes*  
*Grants and Contributions*  
*Unrestricted Investment Earnings*  
*Other*

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 32,132		\$ 32,132
(1,311,093)		(1,311,093)
(333,025)		(333,025)
80,010		80,010
(66,205)		(66,205)
(31,350)		(31,350)
<u>(1,629,531)</u>		<u>(1,629,531)</u>
	\$ (774,820)	(774,820)
	<u>(774,820)</u>	<u>(774,820)</u>
<u>(1,629,531)</u>	<u>(774,820)</u>	<u>(2,404,351)</u>
827,996	--	827,996
652,854	--	652,854
284,242	--	284,242
--	1,488,826	1,488,826
198	5,852	6,050
--	356,846	356,846
--	--	--
<u>1,765,290</u>	<u>1,851,524</u>	<u>3,616,814</u>
<u>135,759</u>	<u>1,076,704</u>	<u>1,212,463</u>
<u>1,126,248</u>	<u>10,143,991</u>	<u>11,270,239</u>
<u>\$ 1,262,007</u>	<u>\$ 11,220,695</u>	<u>\$ 12,482,702</u>

## CITY OF MARLIN

## BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 130,289	\$ --	\$ 130,289
<i>Receivables ( net of allowances for uncollectibles)</i>	338,947	86,987	425,934
<i>Due from Other Funds</i>	175,000	276,816	451,816
<b>Total Assets</b>	<b>\$ 644,236</b>	<b>\$ 363,803</b>	<b>\$ 1,008,039</b>
<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
<i>Accounts Payable</i>	\$ 46,355	\$ --	\$ 46,355
<i>Due to Other Funds</i>	107,650	--	107,650
<b>Total Liabilities</b>	<b>154,005</b>	<b>--</b>	<b>154,005</b>
Deferred Inflows of Resources:			
<i>Unavailable Revenue-Property Taxes</i>	277,161	86,987	364,148
<b>Total Deferred Inflows of Resources</b>	<b>277,161</b>	<b>86,987</b>	<b>364,148</b>
Fund Balances:			
Restricted Fund Balances:			
<i>Restricted for Debt Service</i>	--	276,816	276,816
Unassigned	213,070	--	213,070
<b>Total Fund Balance</b>	<b>213,070</b>	<b>276,816</b>	<b>489,886</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 536,586</b>	<b>\$ 363,803</b>	<b>\$ 900,389</b>

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 POSITION  
 SEPTEMBER 30, 2013

Total fund balances - governmental funds balance sheet	\$ 489,886
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	935,456
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	364,148
Payables for bond principal which are not due in the current period are not reported in the funds.	(508,680)
Payables for capital leases which are not due in the current period are not reported in the funds.	(35,863)
Payables for bond interest which are not due in the current period are not reported in the funds.	(4,065)
Bond Issuance Costs are not available to pay for current period expenditures and are deferred in the funds.	<u>21,125</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 1,262,007</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, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
General Property Taxes	\$ 565,699	\$ 226,111	\$ 791,810
General Sales and Use Taxes	652,854	--	652,854
Other Taxes - Severance Taxes	67,435	--	67,435
Other Taxes - Franchise Taxes	216,807	--	216,807
License and Permits	28,791	--	28,791
Charges for Services	729,300	--	729,300
Fines	239,642	--	239,642
Investment Earnings	198	--	198
Miscellaneous	416,658	--	416,658
Total revenues	<u>2,917,384</u>	<u>226,111</u>	<u>3,143,495</u>
Expenditures:			
Current:			
General Government	402,449	--	402,449
Public Safety	1,489,503	--	1,489,503
Highways and Streets	319,875	--	319,875
Sanitation	623,652	--	623,652
Culture and Recreation	63,591	--	63,591
Debt Service:			
Principal	61,663	200,600	262,263
Interest and Fiscal Charges	5,141	22,490	27,631
Total Expenditures	<u>2,965,874</u>	<u>223,090</u>	<u>3,188,964</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(48,490)</u>	<u>3,021</u>	<u>(45,469)</u>
Other Financing Sources (Uses):			
Operating Transfers In	3,021	--	3,021
Operating Transfers Out	--	(3,021)	(3,021)
Total Other Financing Sources (Uses)	<u>3,021</u>	<u>(3,021)</u>	<u>--</u>
Net Change in Fund Balances	(45,469)	--	(45,469)
Fund Balances - Beginning	258,539	276,816	535,355
Fund Balances - Ending	<u>\$ 213,070</u>	<u>\$ 276,816</u>	<u>\$ 489,886</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, 2013*

Net change in fund balances - total governmental funds	\$ (45,469)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(113,502)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	36,186
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.	200,600
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	61,663
(Increase) decrease in accrued interest from beginning of period to end of period.	<u>1,562</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 135,759</u>

The accompanying notes are an integral part of this statement.

**CITY OF MARLIN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2013**

	Enterprise Fund	Nonmajor Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
<b>ASSETS:</b>			
<b>Current Assets:</b>			
<i>Cash and Cash Equivalents</i>	\$ 267,210	\$ 15,047	\$ 282,257
<i>Receivables ( net of allowances for uncollectibles)</i>	263,400	--	263,400
<i>Due from other funds</i>	1,310,548	--	1,310,548
Total Current Assets	<u>1,841,158</u>	<u>15,047</u>	<u>1,856,205</u>
<b>Noncurrent Assets:</b>			
<b>Restricted Cash, Cash Equivalents and Investments-</b>			
<i>Cash</i>	5,771,310	--	5,771,310
<i>Investments</i>	--	90,504	90,504
<i>Bond Issuance Costs</i>	560,068	--	560,068
<b>Capital Assets:</b>			
<i>Land</i>	20,813	1,449,777	1,470,590
<i>Buildings</i>	44,093	--	44,093
<i>Machinery and Equipment</i>	33,830,901	--	33,830,901
<i>Construction in Progress</i>	--	962,121	962,121
<i>Less Accumulated Depreciation</i>	<u>(15,246,507)</u>	<u>--</u>	<u>(15,246,507)</u>
Total Noncurrent Assets	<u>24,980,678</u>	<u>2,502,402</u>	<u>27,483,080</u>
Total Assets	<u>26,821,836</u>	<u>2,517,449</u>	<u>29,339,285</u>
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
<i>Accounts payable</i>	102,229	--	102,229
<i>Due to other funds</i>	344,166	1,310,548	1,654,714
<i>Accrued interest payable</i>	30,207	--	30,207
<i>Revenue bonds payable</i>	391,320	--	391,320
Total Current Liabilities	<u>867,922</u>	<u>1,310,548</u>	<u>2,178,470</u>
<b>Current Liabilities Payable from Restricted Assets-</b>			
<i>Customer Deposits</i>	210,120	--	210,120
Total Current Liabilities Payable From Restricted Assets	<u>210,120</u>	<u>--</u>	<u>210,120</u>
<b>Noncurrent Liabilities:</b>			
<i>Revenue Bonds Payable</i>	15,730,000	--	15,730,000
Total Noncurrent Liabilities	<u>15,730,000</u>	<u>--</u>	<u>15,730,000</u>
Total Liabilities	<u>16,808,042</u>	<u>1,310,548</u>	<u>18,118,590</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	2,497,773	1,101,350	3,599,123
<b>Restricted For:</b>			
Capital Expenditures	5,771,310	90,504	5,861,814
Unrestricted	1,744,711	15,047	1,759,758
Total Net Position	<u>\$ 10,013,794</u>	<u>\$ 1,206,901</u>	<u>\$ 11,220,695</u>

The accompanying notes are an integral part of this statement.

## CITY OF MARLIN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Enterprise Fund	Nonmajor Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
<b>Charges for Sales and Services:</b>			
<i>Water Sales</i>	\$ 1,313,574	\$ --	\$ 1,313,574
<i>Sewer Charges - Pledged as Security</i>	788,516	--	788,516
<i>Tap Fees - Unpledged</i>	33,617	--	33,617
<i>Other</i>	116,768	--	116,768
<i>Penalties</i>	56,824	--	56,824
<b>Total Operating Revenues</b>	<b>2,309,299</b>	<b>--</b>	<b>2,309,299</b>
<b>OPERATING EXPENSES:</b>			
<i>Personal Services - Salaries and Wages</i>	931,702	--	931,702
<i>Purchased Professional and Technical Services</i>	981,897	--	981,897
<i>Supplies</i>	591,816	--	591,816
<i>Depreciation</i>	443,982	--	443,982
<b>Total Operating Expenses</b>	<b>2,949,397</b>	<b>--</b>	<b>2,949,397</b>
<b>Operating Income</b>	<b>(640,098)</b>	<b>--</b>	<b>(640,098)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
<i>Intergovernmental Revenue</i>	1,488,826	--	1,488,826
<i>Interest Revenue</i>	5,751	101	5,852
<i>Fees for Water System Rehabilitation</i>	158,432	--	158,432
<i>Debt Service Fees Assessment</i>	198,414	--	198,414
<i>Interest Expense</i>	(134,722)	--	(134,722)
<b>Total Non-operating Revenues (Expenses)</b>	<b>1,716,701</b>	<b>101</b>	<b>1,716,802</b>
<b>Income before Transfers</b>	<b>1,076,603</b>	<b>101</b>	<b>1,076,704</b>
<i>Interfund Operating Transfers In</i>	--	--	--
<i>Interfund Operating Transfers Out</i>	--	--	--
<b>Change in Net Position</b>	<b>1,076,603</b>	<b>101</b>	<b>1,076,704</b>
<b>Total Net Position - Beginning</b>	<b>8,937,191</b>	<b>1,206,800</b>	<b>10,143,991</b>
<b>Total Net Position - Ending</b>	<b>\$ 10,013,794</b>	<b>\$ 1,206,901</b>	<b>\$ 11,220,695</b>

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, 2013

	Enterprise Funds		
	Utility Fund	Non-Major Brushy Creek Project	Totals
<b>Cash Flows from Operating Activities:</b>			
<i>Cash Received from Customers</i>	\$ 2,231,712	\$ --	\$ 2,231,712
<i>Cash Receipts (Payments) for Quasi-external</i>			
<i>Cash Payments to Employees for Services</i>	(931,702)	--	(931,702)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,429,584)	--	(1,429,584)
<i>Other Operating Cash Receipts (Payments)</i>	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>(129,574)</u>	<u>--</u>	<u>(129,574)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>			
<i>Non Operating Fees</i>	356,846	--	356,846
<i>Transfers From (To) Other Funds</i>	--	--	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>356,846</u>	<u>--</u>	<u>356,846</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
<i>Proceeds from Issuance of Long-term Debt</i>	4,680,000	--	4,680,000
<i>Principal Paid</i>	(384,400)	--	(384,400)
<i>Interest Paid</i>	(134,722)	--	(134,722)
<i>Acquisition or Construction of Capital Assets</i>	(451,137)	--	(451,137)
<i>Decrease (Increase) in Restricted Cash</i>	(5,046,783)	--	(5,046,783)
<i>Decrease (Increase) in Bond Issuance Costs</i>	(224,948)	--	(224,948)
<i>Proceeds from Capital Grants</i>	1,488,826	--	1,488,826
<i>Contributed Capital</i>	--	--	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(73,164)</u>	<u>--</u>	<u>(73,164)</u>
<b>Cash Flows from Investing Activities:</b>			
<i>Purchase of Investment Securities</i>	--	(86)	(86)
<i>Proceeds from Sale and Maturities of Securities</i>	--	--	--
<i>Interest and Dividends on Investments</i>	5,751	101	5,852
Net Cash Provided (Used) for Investing Activities	<u>5,751</u>	<u>15</u>	<u>5,766</u>
Net Increase (Decrease) in Cash and Cash Equivalents	159,859	15	159,874
Cash and Cash Equivalents at Beginning of Year	107,351	15,032	122,383
Cash and Cash Equivalents at End of Year	<u>\$ 267,210</u>	<u>\$ 15,047</u>	<u>\$ 282,257</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ (640,098)	\$ --	\$ (640,098)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
<i>Depreciation</i>	443,982	--	443,982
Change in Assets and Liabilities:			
<i>Decrease (Increase) in Receivables</i>	618	--	618
<i>Increase (Decrease) in Accounts Payable</i>	39,497	--	39,497
<i>Increase (Decrease) in Accrued Interest Payable</i>	28,177	--	28,177
<i>Increase (Decrease) in Interfund Payables</i>	--	--	--
<i>Increase (Decrease) in Customer Deposits</i>	(1,750)	--	(1,750)
Total Adjustments	<u>510,524</u>	<u>--</u>	<u>510,524</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (129,574)</u>	<u>\$ --</u>	<u>\$ (129,574)</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, 2013**

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 position 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, 2013*

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:

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

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, 2013**

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

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 \$24,476.

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

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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 position.

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 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.

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.

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

j. 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 Position of Individual Funds

Following are funds having deficit fund balances or fund net position 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.

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Cash Deposits:

At September 30, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$868,928 and the bank balance was \$1,041,334. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. There is also \$5,314,928 from bond proceeds held in a trust account.

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, 2013 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 90,504
Total Investments		<u>\$ 90,504</u>

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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, 2013**

**D. Capital Assets**

Capital asset activity for the year ended September 30, 2013, 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	693,557	--	--	693,557
Buildings and improvements	1,718,620	--	--	1,718,620
Leased assets	815,368	--	--	815,368
Total capital assets being depreciated	<u>3,227,545</u>	<u>--</u>	<u>--</u>	<u>3,227,545</u>
Less accumulated depreciation for:				
Infrastructure	(123,121)	(23,119)	--	(146,240)
Buildings and improvements	(1,582,045)	(9,536)	--	(1,591,581)
Leased assets	(561,962)	(80,847)	--	(642,809)
Total accumulated depreciation	<u>(2,267,128)</u>	<u>(113,502)</u>	<u>--</u>	<u>(2,380,630)</u>
Total capital assets being depreciated, net	960,417	(113,502)	--	846,915
Governmental activities capital assets, net	<u>\$ 1,048,958</u>	<u>\$ (113,502)</u>	<u>\$ --</u>	<u>\$ 935,456</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,470,590	\$ --	\$ --	\$ 1,470,590
Total capital assets not being depreciated	<u>1,470,590</u>	<u>--</u>	<u>--</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	33,453,875	451,137	--	33,905,012
Total capital assets being depreciated	<u>34,385,978</u>	<u>451,137</u>	<u>--</u>	<u>34,837,115</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,093)	--	--	(44,093)
Equipment	(698,266)	(5,119)	--	(703,385)
Vehicles	(164,151)	--	--	(164,151)
Water & Sewer System	(13,896,015)	(438,863)	--	(14,334,878)
Total accumulated depreciation	<u>(14,802,525)</u>	<u>(443,982)</u>	<u>--</u>	<u>(15,246,507)</u>
Total capital assets being depreciated, net	19,583,453	7,155	--	19,590,608
Business-type activities capital assets, net	<u>\$ 21,054,043</u>	<u>\$ 7,155</u>	<u>\$ --</u>	<u>\$ 21,061,198</u>

Depreciation was charged to functions as follows:

General Government	\$ 10,868
Public Safety	61,232
Highways and Streets	13,150
Sanitation	25,638
Culture and Recreation	2,614
	<u>\$ 113,502</u>

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**E. Interfund Balances and Activity**

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2013, 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	\$ 175,000	Short-term loans
Water & Sewer Fund	Brushy Creek Fund	1,310,548	Short-term loans
Other Governmental Funds	General Fund	107,650	Short-term loans
Other Governmental Funds	Water & Sewer Fund	169,166	Short-term loans
	Total	<u>\$ 1,762,364</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, 2013, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Other Governmental Funds	General Fund	\$ 3,021	Supplement other funds sources
	Total	<u>\$ 3,021</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, 2013, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b><u>Governmental activities:</u></b>					
General obligation bonds	\$ 709,280	\$ --	\$ (200,600)	\$ 508,680	\$ 203,680
Capital leases	97,526	--	(61,663)	35,863	17,587
Total governmental activities	<u>\$ 806,806</u>	<u>\$ --</u>	<u>\$ (262,263)</u>	<u>\$ 544,543</u>	<u>\$ 221,267</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, 2013 is \$108,680.

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, 2013 is \$400,000.

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Leases

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, 2013 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, 2013 is \$0.

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, 2013 is \$0.

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, 2013 is \$35,863.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Business-type activities:</u>					
Revenue bonds-Cert of Oblg	\$ 270,720	\$ --	\$ (134,400)	\$ 136,320	\$ 136,320
Revenue Bonds	11,555,000	4,680,000	(250,000)	15,985,000	255,000
Total business-type activities	<u>\$ 11,825,720</u>	<u>\$ 4,680,000</u>	<u>\$ (384,400)</u>	<u>\$ 16,121,320</u>	<u>\$ 391,320</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, 2013 is \$136,320.

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, 2013 is \$2,165,000.

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, 2013 is the amount that has been drawn, less repayment of \$976,000, for a net of \$9,140,000. 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.

Series 2012 Certificates of Obligation Bonds (Revenue Bonds) in the original amount of \$3,000,000 at the rate of approximately 2.3% due in annual installments ranging from \$5,000 to \$260,000 through July 2042. The balance at September 30, 2013 is \$3,000,000. Of these proceeds, \$2,605,786 is in restricted cash for future construction.

Series 2012A Certificates of Obligation Bonds (Revenue Bonds) in the original amount of \$1,680,000 at the rate of approximately 2.3% due in annual installments ranging from \$5,000 to \$90,000 through July 2042. The balance at September 30, 2013 is \$1,680,000. In conjunction with this loan from the Texas Water Development Board there is an additional amount of \$1,227,908 in funds classified as loan forgiveness that is recorded this year as a grant. Of these proceeds, \$2,709,142 is in restricted cash for future construction.

Utility revenues are pledged to pay for these bond issues.

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2013, are as follows:

<u>Year Ending September 30.</u>	<u>Governmental Activities-Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 508,680</u>	<u>\$ 36,223</u>	<u>\$ 544,903</u>

<u>Year Ending September 30.</u>	<u>Governmental Activities-Leases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 17,587	\$	\$ 17,587
2015	18,276		18,276
Totals	<u>\$ 35,863</u>	<u>\$ --</u>	<u>\$ 35,863</u>

<u>Year Ending September 30.</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 391,320	\$ 120,856	\$ 512,176
2015	525,000	116,740	641,740
2016	530,000	116,723	646,723
2017	535,000	116,656	651,656
2018	655,000	116,527	771,527
2019-2023	3,315,000	555,021	3,870,021
2024-2028	3,405,000	477,764	3,882,764
2029-2033	3,525,000	327,731	3,852,731
2034-2038	2,620,000	239,623	2,859,623
2039-2043	620,000	73,615	693,615
Totals	<u>\$ 16,121,320</u>	<u>\$ 2,261,256</u>	<u>\$ 18,382,576</u>

On the 2005B issue of \$10,710,000, \$330,000 was never funded by the City. Only the \$10,380,000 that was drawn less a \$1,240,000 repayment is reflected as a liability in the Utility Fund.

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, 2013, 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	\$ 245,000
Total	<u>\$ 245,000</u>

**CITY OF MARLIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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 2013, 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, 2013, 2012 and 2011 were \$120,837, \$114,968 and \$111,320, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$120,837 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, 2013**

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, 2011	\$ 111,320	100%	\$ --
September 30, 2012	114,968	100%	--
September 30, 2013	120,837	100%	--

I. Health Care Coverage

During the year ended September 30, 2013, 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, 2013, 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, 2013, 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, 2013.

K. Reimbursements

The Utility Fund reimbursed the General Fund \$350,000 for administrative services rendered.

L. New Pronouncements

During 2013 the City adopted the provisions of GASB Statements No. 62 and 63. "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" incorporate deferred outflows of resources and deferred inflows of resources into the financial reporting model.

**CITY OF MARLIN**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

M. Water Distribution Loss Ratio

The City of Marlin water distribution system in the past year was only able to charge revenue on 38% 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.

N. Budget Overages

The City exceeded its budget in General Government by \$53,685 or 13% and Sanitation by \$12,837 or 2%.

## *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, 2013

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
General Property Taxes	\$ 580,000	\$ 580,000	\$ 565,699	\$ (14,301)
General Sales and Use Taxes	656,383	656,383	652,854	(3,529)
Other Taxes - Severance Taxes	45,000	45,000	67,435	22,435
Other Taxes - Franchise Taxes	247,804	247,804	216,807	(30,997)
License and Permits	40,150	40,150	28,791	(11,359)
Charges for Services	754,592	754,592	729,300	(25,292)
Fines	207,000	207,000	239,642	32,642
Investment Earnings	285	285	198	(87)
Miscellaneous	558,217	558,217	416,658	(141,559)
Total revenues	<u>3,089,431</u>	<u>3,089,431</u>	<u>2,917,364</u>	<u>(172,047)</u>
Expenditures:				
Current:				
General Government	415,964	348,764	402,449	(53,685)
Public Safety	1,565,493	1,565,493	1,489,503	75,990
Highways and Streets	363,791	363,791	319,875	43,916
Sanitation	611,122	611,122	623,652	(12,530)
Culture and Recreation	82,974	82,974	63,591	19,383
Debt Service:				
Principal	--	62,000	61,663	337
Interest and Fiscal Charges	--	5,200	5,141	59
Total Expenditures	<u>3,039,344</u>	<u>3,039,344</u>	<u>2,965,874</u>	<u>73,470</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>50,087</u>	<u>50,087</u>	<u>(48,490)</u>	<u>(98,577)</u>
Other Financing Sources (Uses):				
Operating Transfers In	--	--	3,021	3,021
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>3,021</u>	<u>(3,021)</u>
Net Change in Fund Balances	50,087	50,087	(45,469)	(95,556)
Fund Balances - Beginning	258,539	258,539	258,539	--
Fund Balances - Ending	<u>\$ 308,626</u>	<u>\$ 308,626</u>	<u>\$ 213,070</u>	<u>\$ (95,556)</u>

**CITY OF MARLIN**  
**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**EXHIBIT B-2**

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 266,500	\$ 226,111	\$ (40,389)
Total revenues	<u>266,500</u>	<u>226,111</u>	<u>(40,389)</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	200,600	200,600	--
<i>Interest and Fiscal Charges</i>	22,490	22,490	--
Total Expenditures	<u>223,090</u>	<u>223,090</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>43,410</u>	<u>3,021</u>	<u>(40,389)</u>
Other Financing Sources (Uses):			
<i>Operating Transfers Out</i>	(3,021)	(3,021)	--
Total Other Financing Sources (Uses)	<u>(3,021)</u>	<u>(3,021)</u>	<u>--</u>
Net Change in Fund Balances	40,389	--	(40,389)
Fund Balances - Beginning	276,816	276,816	--
Fund Balances - Ending	<u>\$ 317,205</u>	<u>\$ 276,816</u>	<u>\$ (40,389)</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 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marlin, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Marlin's basic financial statements, and have issued our report thereon dated June 16, 2014.

## **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control 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 2013-1 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

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

Anderson, Marx & Bohl, P.C.

Corsicana, Texas  
June 16, 2014

# **ANDERSON, MARX & BOHL, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA

FRANK MARX, III, CPA

DORI BOHL, CPA & CFE

## Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Members of the City Council:

### **Report on Compliance for Each Major Federal Program**

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 each of City of Marlin's major federal programs for the year ended September 30, 2013. City of Marlin's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Marlin's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Marlin's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, City of Marlin complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.

#### **Report on Internal Control Over Compliance**

Management of City of Marlin is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our

audit of compliance, we considered City of Marlin's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Anderson, Marx & Bohl, P.C.

Corsicana, Texas  
June 16, 2014

**CITY OF MARLIN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**A. Summary of Auditors' Results**

**1. Financial Statements**

Type of auditors' report issued: Unmodified

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?   Yes  X  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: Unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Drinking Water Revolving Fund-2012
66.468	Drinking Water Revolving Fund-2012A
66.468	Drinking Water Revolving Fund-2012A Forgiveness

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, 2013*

B. Financial Statement Findings

2013-1 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's response: The city secretary will seek part time professional assistance in the coming fiscal year to assist in the reconciliation process.

C. Federal Award Findings and Questioned Costs

None Noted

**CITY OF MARLIN**

*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Bank Reconciliations	Not corrected	Need additional assistance

**CITY OF MARLIN**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2013*

The City will seek professional assistance during the 2014 fiscal year to make the bank reconciliation process function properly. Sandra Herring at 254-883-1474 will be responsible.

**CITY OF MARLIN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**EXHIBIT C-1**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
Passed Through Texas Water Development Board:			
Drinking Water Revolving Fund-2012	66.468	61233	\$ 3,000,000
Drinking Water Revolving Fund-2012A	66.468	61233	1,680,000
Drinking Water Revolving 2012A Forgiveness	66.468	61233	1,227,908
Total Passed Through Texas Water Development Board			<u>5,907,908</u>
Total U. S. Environmental Protection Agency			<u>5,907,908</u>
<b><u>U. S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
Passed Through Texas Department of Rural Affairs:			
CBDG #711329 *	14.228	71329	260,918
Total U. S. Department of Housing & Urban Development			<u>260,918</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 6,168,826</u></b>

\* 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, 2013**

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.