

CITY OF MARLIN

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

City of Marlin
Annual Financial Report
For The Year Ended September 30, 2014

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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 the City of Marlin ("the City") as of and for the year ended September 30, 2014, 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 auditor's 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, 2014, 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

Change in Accounting Principle

As described in Note L to the financial statements, in 2014, City of Marlin adopted new accounting guidance, Government Accounting Standards Board Statement No. 65 and No. 66, *Items Previously Reported as Assets and Liabilities* and *Technical Corrections-2012 - An Amendment of GASB Statements No. 10 and No. 62*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for OPEB benefits 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 other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

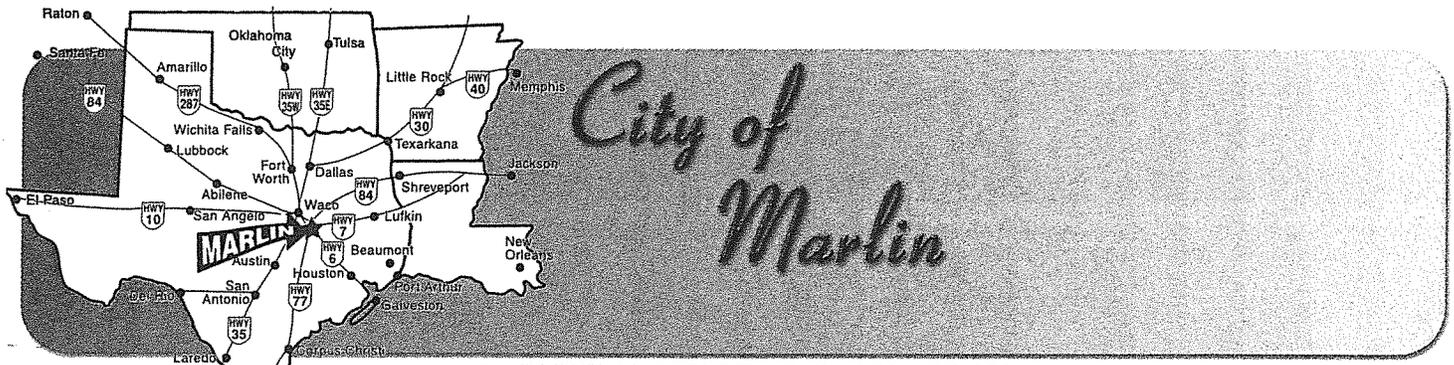
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2015 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
May 13, 2015



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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, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

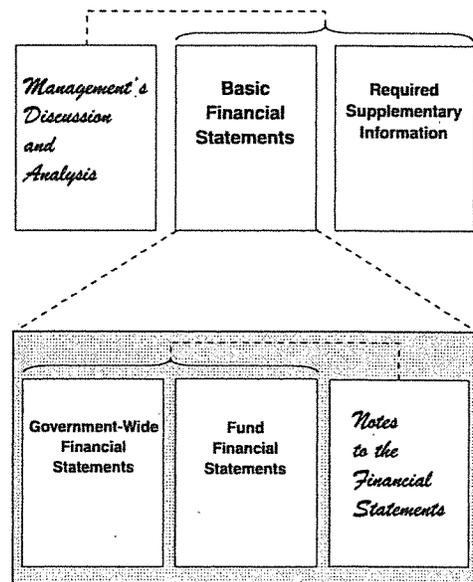
- The City's total combined net position on financial statement exhibit A-1 was \$12,057,354 at September 30, 2014.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$155,845 less than the \$6,086,715 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 increased \$195,869 from last year. An increase in sanitation outlays accounted for much of this.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$311,081. The City began the current year with a general fund balance in the amount of \$213,070.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



Summary ← → Detail

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

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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 \$12.0 million at September 30, 2014. (See Table A-1).

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

	<u>2014</u>	<u>2013</u>	<u>Total Percentage Change 2014-2013</u>
Current assets:			
Cash and cash equivalents	.6	.4	50
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.7	.7	0
Unamortized debt issuance costs	.0	.6	**
Total current assets:	<u>1.3</u>	<u>1.7</u>	-24
Noncurrent assets:			
Land, furniture and equipment	40.1	39.6	1
Less accumulated depreciation	(18.2)	(17.6)	-3
Other assets	5.3	5.8	-9
Total noncurrent assets	<u>27.2</u>	<u>27.8</u>	-2
Total Assets	<u>28.5</u>	<u>29.5</u>	-3
Current liabilities:			
Accounts payable and accrued liabilities	.2	.2	0
Consumer deposits	.0	.0	**
Due to other funds	.0	.0	**
Liabilities payable from restricted assets	.3	.2	50
Total current liabilities	<u>.5</u>	<u>.4</u>	25
Long-term liabilities:			
Noncurrent liabilities due in one year	.6	.6	0
Noncurrent liabilities due more than 1 yr	15.4	16.0	-4
Total Liabilities	<u>16.5</u>	<u>17.0</u>	-3
Net Position:			
Invested in capital assets, net of debt	4.6	4.0	15
Restricted	5.6	6.2	-10
Unrestricted	1.8	2.3	-22
Total Net Position	<u>12.0</u>	<u>12.5</u>	-4

The City has restricted net position of \$378,762 that represents proceeds to service debt and \$5,253,382 that are restricted for capital expenditures. The \$1,841,410 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 \$6,086,715. A significant portion, 30 percent, of the City's revenue comes from taxes, while 59 percent relates to charges for services.

The total cost of all programs and services was \$5,930,870; 55 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues increased by \$5,842 to \$833,838 .

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

	<u>2014</u>	<u>2013</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	3.6	3.7	-3
Operating Grants and Contributions	.3	.0	**
General Revenues:			
Taxes	1.8	1.8	0
Grants	.0	1.5	**
Investment Earnings	.0	.0	**
Other	.4	.3	33
Total Revenues	<u>6.1</u>	<u>7.3</u>	-16
General Government	.4	.4	0
Public Safety	1.4	1.5	-4
Highways and Streets	.3	.3	0
Culture and Recreation	.1	.1	0
Public Services	.0	.0	**
Sanitation	.8	.7	14
Grant Expenditures	.3	.0	**
Water and Sewer	2.6	3.1	-16
Total Expenses	<u>5.9</u>	<u>6.1</u>	-3
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	0	0	**
Transfers In (Out)	0	0	**
Increase (Decrease) in Net Position	<u>.2</u>	<u>1.2</u>	-83

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 \$3.28 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.834 million.
- Some of the cost was paid by those who directly benefited from the programs \$1.387 million.

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

	Total Cost of Services		% Change	Net Cost of Services		% Change
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
General Government	.4	.4	0	.2	.0	**
Public Safety	1.4	1.5	-7	1.0	1.3	-23
Highways and Streets	.3	.3	0	.3	.3	0

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Revenues from governmental fund types totaled \$3.5 million, while the previous year it was \$3.1 million due partly to the increase in miscellaneous income. Revenues from business-type activities totaled \$2.6 million, while the previous year it was \$4.2 million. Intergovernmental revenues decreased by approximately \$1,459,760.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$81,301 below final budget amounts.

On the other hand, resources available were \$23,457 above the final budgeted amount due to reduced miscellaneous revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had invested \$40,163,314 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 \$539,523 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>2014</u>	<u>2013</u>	Total Percentage Change <u>2014-2013</u>
Land	1.6	1.6	0
Construction in progress	.0	.0	**
Infrastructure	.7	.7	0
Buildings and improvements	2.5	2.5	0
Equipment & Water System	35.2	34.7	1
Vehicles	.1	.1	0
Totals at historical cost	<u>40.1</u>	<u>39.6</u>	1
Total accumulated depreciation	<u>(18.2)</u>	<u>(17.6)</u>	-3
Net capital assets	<u>21.9</u>	<u>22.0</u>	0

The City’s fiscal year 2015 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 \$16,053,276 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>2014</u>	<u>2013</u>	Total Percentage Change <u>2013-2014</u>
Leases payable	.0	.0	**
Bonds payable	16.1	16.7	-4
Notes payable	.0	.0	**
Compensated absences	.0	.0	**
Less deferred amount			
On refundings	(0)	(0)	**
Total bonds & notes payable	<u>16.1</u>	<u>16.7</u>	-4

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund fund balance is expected to remain stable by the close of fiscal year 2015 as the City has raised taxes. More detailed information about the City's economic status is presented in the notes to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

CITY OF MARLIN
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and Cash Equivalents</i>	\$ 276,552	\$ 325,543	\$ 602,095
<i>Receivables (net of allowances for uncollectibles):</i>	471,953	252,255	724,208
<i>Internal Balances</i>	344,166	(344,166)	--
Restricted Assets:			
<i>Cash and Cash Equivalents</i>	--	5,162,847	5,162,847
<i>Investments</i>	--	90,535	90,535
Capital Assets (net of accumulated depreciation):			
<i>Land</i>	88,541	1,470,590	1,559,131
<i>Buildings, Equipment and System, net</i>	733,413	19,685,386	20,418,799
Total Assets	1,914,625	26,642,990	28,557,615
LIABILITIES:			
<i>Accounts Payable and Other Current Liabilities</i>	93,992	90,960	184,952
<i>Accrued Interest Payable</i>	2,478	27,828	30,306
<i>Liabilities Payable from Restricted Assets</i>	--	231,727	231,727
Noncurrent Liabilities-			
<i>Due within one year</i>	118,276	525,000	643,276
<i>Due in more than one year</i>	205,000	15,205,000	15,410,000
Total Liabilities	419,746	16,080,515	16,500,261
NET POSITION:			
Net Investment in Capital Assets	496,200	4,087,600	4,583,800
Restricted For:			
Debt Service	378,762	--	378,762
Capital Expenditures	--	5,253,382	5,253,382
Unrestricted	619,917	1,221,493	1,841,410
Total Net Position	\$ 1,494,879	\$ 10,562,475	\$ 12,057,354

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
<i>General Government</i>	\$ 416,745	\$ 236,167	\$ --
<i>Public Safety</i>	1,417,950	418,528	--
<i>Highways and Streets</i>	272,600	--	--
<i>Sanitation</i>	768,303	731,861	--
<i>Culture and Recreation</i>	68,763	--	--
<i>Grant Expenditures</i>	315,000	--	315,000
<i>Interest on Long-term Debt</i>	16,120	--	--
Total Governmental Activities	<u>3,275,481</u>	<u>1,386,556</u>	<u>315,000</u>
Business-type Activities:			
Utility	2,647,445	2,154,383	--
Brushy Creek Project	7,944	28,496	--
Total Business-type Activities	<u>2,655,389</u>	<u>2,182,879</u>	--
Total Primary Government	<u>\$ 5,930,870</u>	<u>\$ 3,569,435</u>	<u>\$ 315,000</u>
General Revenues:			
<i>Property Taxes</i>			
<i>Sales Taxes</i>			
<i>Franchise Taxes</i>			
<i>Grants and Contributions</i>			
<i>Unrestricted Investment Earnings</i>			
<i>Other</i>			
<i>Transfers</i>			
Total General Revenues and Transfers			
Change in Net Assets			
Net Assets - Beginning			
Prior Period Adjustment			
Net Assets - 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>
\$ (180,578)		\$ (180,578)
(999,422)		(999,422)
(272,600)		(272,600)
(36,442)		(36,442)
(68,763)		(68,763)
--		--
(16,120)		(16,120)
<u>(1,573,925)</u>		<u>(1,573,925)</u>
--	\$ (493,062)	(493,062)
--	20,552	20,552
--	<u>(472,510)</u>	<u>(472,510)</u>
<u>(1,573,925)</u>	<u>(472,510)</u>	<u>(2,046,435)</u>
833,838	--	833,838
691,380	--	691,380
302,531	--	302,531
--	29,066	29,066
173	1,924	2,097
--	343,368	343,368
--	--	--
<u>1,827,922</u>	<u>374,358</u>	<u>2,202,280</u>
<u>253,997</u>	<u>(98,152)</u>	<u>155,845</u>
1,262,007	11,220,695	12,482,702
(21,125)	(560,068)	(581,193)
<u>\$ 1,494,879</u>	<u>\$ 10,562,475</u>	<u>\$ 12,057,354</u>

CITY OF MARLIN
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 276,552	\$ --	\$ 276,552
<i>Receivables (net of allowances for uncollectibles)</i>	370,007	101,946	471,953
<i>Due from Other Funds</i>	175,000	276,816	451,816
Total Assets	<u>\$ 821,559</u>	<u>\$ 378,762</u>	<u>\$ 1,200,321</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES			
Liabilities:			
<i>Accounts Payable</i>	\$ 93,992	\$ --	\$ 93,992
<i>Due to Other Funds</i>	107,650	--	107,650
Total Liabilities	<u>201,642</u>	<u>--</u>	<u>201,642</u>
Deferred Inflows of Resources:			
<i>Unavailable Revenue-Property Taxes</i>	308,836	101,946	410,782
Total Deferred Inflows of Resources	<u>308,836</u>	<u>101,946</u>	<u>410,782</u>
Fund Balances:			
Restricted Fund Balances:			
<i>Restricted for Debt Service</i>	--	276,816	276,816
Unassigned	311,081	--	311,081
Total Fund Balance	<u>311,081</u>	<u>276,816</u>	<u>587,897</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 821,559</u>	<u>\$ 378,762</u>	<u>\$ 1,200,321</u>

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, 2014*

Total fund balances - governmental funds balance sheet	\$ 587,897
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.	821,954
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	410,782
Payables for bond principal which are not due in the current period are not reported in the funds.	(305,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(18,276)
Payables for bond interest which are not due in the current period are not reported in the funds.	<u>(2,478)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 1,494,879</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, 2014**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
General Property Taxes	\$ 560,201	\$ 227,003	\$ 787,204
General Sales and Use Taxes	691,380	--	691,380
Other Taxes - Severance Taxes	76,522	--	76,522
Other Taxes - Franchise Taxes	226,009	--	226,009
License and Permits	20,396	--	20,396
Intergovernmental	315,000	--	315,000
Charges for Services	731,861	--	731,861
Fines	418,528	--	418,528
Investment Earnings	173	--	173
Miscellaneous	215,771	--	215,771
Total revenues	<u>3,255,841</u>	<u>227,003</u>	<u>3,482,844</u>
Expenditures:			
Current:			
General Government	401,522	--	401,522
Public Safety	1,362,817	--	1,362,817
Highways and Streets	262,001	--	262,001
Sanitation	738,430	--	738,430
Culture and Recreation	66,089	--	66,089
Cemetery	315,000	--	315,000
Debt Service:			
Principal	17,587	203,680	221,267
Interest and Fiscal Charges	1,425	16,282	17,707
Total Expenditures	<u>3,164,871</u>	<u>219,962</u>	<u>3,384,833</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>90,970</u>	<u>7,041</u>	<u>98,011</u>
Other Financing Sources (Uses):			
Operating Transfers In	7,041	--	7,041
Operating Transfers Out	--	(7,041)	(7,041)
Total Other Financing Sources (Uses)	<u>7,041</u>	<u>(7,041)</u>	<u>--</u>
Net Change in Fund Balances	98,011	--	98,011
Fund Balances - Beginning	213,070	276,816	489,886
Fund Balances - Ending	<u>\$ 311,081</u>	<u>\$ 276,816</u>	<u>\$ 587,897</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, 2014*

Net change in fund balances - total governmental funds	\$ 98,011
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.	46,634
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	203,680
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	17,587
(Increase) decrease in accrued interest from beginning of period to end of period.	<u>1,587</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 253,997</u>

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Enterprise Fund	Nonmajor Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
ASSETS:			
Current Assets:			
<i>Cash and Cash Equivalents</i>	\$ 289,944	\$ 35,599	\$ 325,543
<i>Receivables (net of allowances for uncollectibles)</i>	252,255	--	252,255
<i>Due from funds</i>	1,310,548	--	1,310,548
Total Current Assets	<u>1,852,747</u>	<u>35,599</u>	<u>1,888,346</u>
Noncurrent Assets:			
Restricted Cash, Cash Equivalents and Investments-			
<i>Cash</i>	5,162,847	--	5,162,847
<i>Investments</i>	--	90,535	90,535
Capital Assets:			
<i>Land</i>	20,813	1,449,777	1,470,590
<i>Buildings</i>	44,093	--	44,093
<i>Machinery and Equipment</i>	34,370,424	962,121	35,332,545
<i>Less Accumulated Depreciation</i>	(15,691,252)	--	(15,691,252)
Total Noncurrent Assets	<u>23,906,925</u>	<u>2,502,433</u>	<u>26,409,358</u>
Total Assets	<u>25,759,672</u>	<u>2,538,032</u>	<u>28,297,704</u>
LIABILITIES:			
Current Liabilities:			
<i>Accounts payable</i>	90,960	--	90,960
<i>Due to other funds</i>	344,166	1,310,548	1,654,714
<i>Accrued interest payable</i>	27,828	--	27,828
<i>Revenue bonds payable</i>	525,000	--	525,000
Total Current Liabilities	<u>987,954</u>	<u>1,310,548</u>	<u>2,298,502</u>
Current Liabilities Payable from Restricted Assets-			
<i>Customer Deposits</i>	231,727	--	231,727
Total Current Liabilities Payable From Restricted Assets	<u>231,727</u>	<u>--</u>	<u>231,727</u>
Noncurrent Liabilities:			
<i>General Obligation Bonds Payable</i>	15,205,000	--	15,205,000
Total Noncurrent Liabilities	<u>15,205,000</u>	<u>--</u>	<u>15,205,000</u>
Total Liabilities	<u>16,424,681</u>	<u>1,310,548</u>	<u>17,735,229</u>
NET POSITION:			
Net Investment in Capital Assets	2,986,250	1,101,350	4,087,600
Restricted For:			
Capital Expenditures	5,162,847	90,535	5,253,382
<i>Unrestricted Net Position</i>	1,185,894	35,599	1,221,493
Total Net Position	<u>\$ 9,334,991</u>	<u>\$ 1,227,484</u>	<u>\$ 10,562,475</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, 2014**

	Enterprise Fund	Nonmajor Enterprise Fund	
	Utility Fund	Brushy Creek Project	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Sales and Services:			
<i>Water Sales</i>	\$ 1,268,560	\$ --	\$ 1,268,560
<i>Sewer Charges - Pledged as Security</i>	749,709	--	749,709
<i>Tap Fees - Unpledged</i>	10,008	--	10,008
<i>Other</i>	70,172	28,496	98,668
<i>Penalties</i>	55,934	--	55,934
Total Operating Revenues	2,154,383	28,496	2,182,879
OPERATING EXPENSES:			
<i>Personal Services - Salaries and Wages</i>	745,347	--	745,347
<i>Purchased Professional and Technical Services</i>	877,360	7,944	885,304
<i>Supplies</i>	459,137	--	459,137
<i>Depreciation</i>	444,745	--	444,745
Total Operating Expenses	2,526,589	7,944	2,534,533
Operating Income	(372,206)	20,552	(351,654)
NON-OPERATING REVENUES (EXPENSES):			
<i>Intergovernmental Revenue</i>	29,066	--	29,066
<i>Interest Revenue</i>	1,893	31	1,924
<i>Fees for Water System Rehabilitation</i>	155,087	--	155,087
<i>Debt Service Fees Assessment</i>	188,281	--	188,281
<i>Interest Expense</i>	(120,856)	--	(120,856)
Total Non-operating Revenues (Expenses)	253,471	31	253,502
Income before Transfers	(118,735)	20,583	(98,152)
<i>Interfund Operating Transfers In</i>	--	--	--
<i>Interfund Operating Transfers Out</i>	--	--	--
Change in Net Position	(118,735)	20,583	(98,152)
Total Net Position - Beginning	10,013,794	1,206,901	11,220,695
Prior Period Adjustment	(560,068)	--	(560,068)
Total Net Position - Ending	\$ 9,334,991	\$ 1,227,484	\$ 10,562,475

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, 2014

	Enterprise Fund	Nonmajor Enterprise Fund	Total Enterprise Funds
	Utility Fund	Brushy Creek Project	
Cash Flows from Operating Activities:			
<i>Cash Received from Customers</i>	\$ 2,165,528	\$ 20,552	\$ 2,186,080
<i>Cash Payments to Employees for Services</i>	(877,360)	--	(877,360)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,196,525)	--	(1,196,525)
Net Cash Provided (Used) by Operating Activities	<u>91,643</u>	<u>20,552</u>	<u>112,195</u>
Cash Flows from Non-capital Financing Activities:			
<i>Non Operating Fees</i>	343,368	--	343,368
Net Cash Provided (Used) by Non-capital Financing Activities	<u>343,368</u>	<u>--</u>	<u>343,368</u>
Cash Flows from Capital and Related Financing Activities:			
<i>Interest Paid</i>	(120,856)	--	(120,856)
<i>Principal Paid</i>	(391,320)	--	(391,320)
<i>Acquisition or Construction of Capital Assets</i>	(539,523)	--	(539,523)
<i>Proceeds from Capital Grants</i>	29,066	--	29,066
<i>Decrease in Restricted Cash</i>	608,463	--	608,463
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(414,170)</u>	<u>--</u>	<u>(414,170)</u>
Cash Flows from Investing Activities:			
<i>Interest and Dividends on Investments</i>	1,893	--	1,893
Net Cash Provided (Used) for Investing Activities	<u>1,893</u>	<u>--</u>	<u>1,893</u>
Net Increase (Decrease) in Cash and Cash Equivalents	22,734	20,552	43,286
Cash and Cash Equivalents at Beginning of Year	267,210	15,047	282,257
Cash and Cash Equivalents at End of Year	<u>\$ 289,944</u>	<u>\$ 35,599</u>	<u>\$ 325,543</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (372,206)	\$ 20,552	\$ (351,654)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
<i>Depreciation</i>	444,745	--	444,745
Change in Assets and Liabilities:			
<i>Decrease (Increase) in Receivables</i>	11,145	--	11,145
<i>Increase (Decrease) in Accounts Payable</i>	(11,269)	--	(11,269)
<i>Increase (Decrease) in Accrued Interest Payable</i>	(2,379)	--	(2,379)
<i>Increase (Decrease) in Consumer Deposits</i>	21,607	--	21,607
Total Adjustments	<u>463,849</u>	<u>--</u>	<u>463,849</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 91,643</u>	<u>\$ 20,552</u>	<u>\$ 112,195</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, 2014

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 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 and there is fiscal dependency by the organization on the City.
- the exclusion of the organization would result in misleading or incomplete financial statements

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.

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:

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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.

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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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 \$23,441.

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

f. Compensated Absences

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

g. Interfund Activity

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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.

i. Use of Estimates

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

4. Budgetary Data

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

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

- 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.

Cash Deposits:

At September 30, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$602,095 and the bank balance was \$703,613. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014, 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 \$5,162,847 from bond proceeds held in trust.

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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool	N/A	\$ 90,535
Total Investments		<u>\$ 90,535</u>

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2014, 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	--	(743,568)	2,462,188
Leased assets	815,368	--	743,568	71,800
Total capital assets being depreciated	<u>3,227,545</u>	<u>--</u>	<u>--</u>	<u>3,227,545</u>
Less accumulated depreciation for:				
Infrastructure	(146,240)	(23,119)	--	(169,359)
Buildings and improvements	(1,591,581)	(83,203)	614,089	(2,288,873)
Leased assets	(642,809)	(7,180)	(614,089)	(35,900)
Total accumulated depreciation	<u>(2,380,630)</u>	<u>(113,502)</u>	<u>--</u>	<u>(2,494,132)</u>
Total capital assets being depreciated, net	<u>846,915</u>	<u>(113,502)</u>	<u>--</u>	<u>733,413</u>
Governmental activities capital assets, net	<u>\$ 935,456</u>	<u>\$ (113,502)</u>	<u>\$ --</u>	<u>\$ 821,954</u>

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,470,590	\$ --	\$ --	\$ 1,470,590
Construction in progress	--	--	--	--
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	33,905,012	539,523	--	34,444,535
Total capital assets being depreciated	<u>34,837,115</u>	<u>539,523</u>	<u>--</u>	<u>35,376,638</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,093)	--	--	(44,093)
Equipment	(703,385)	(5,119)	--	(708,504)
Vehicles	(164,151)	--	--	(164,151)
Water & Sewer System	(14,334,878)	(439,626)	--	(14,774,504)
Total accumulated depreciation	<u>(15,246,507)</u>	<u>(444,745)</u>	<u>--</u>	<u>(15,691,252)</u>
Total capital assets being depreciated, net	19,590,608	94,778	--	19,685,386
Business-type activities capital assets, net	<u>\$ 21,061,198</u>	<u>\$ 94,778</u>	<u>\$ --</u>	<u>\$ 21,155,976</u>

Depreciation was charged to functions as follows:

General Government	\$ 15,223
Public Safety	55,133
Highways and Streets	10,599
Sanitation	29,873
Culture and Recreation	2,674
	<u>\$ 113,502</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Utility Fund	\$ 175,000	Short-term loans
Utility Fund	Brushy Creek Fund	1,310,548	Short-term loans
Other Governmental Funds	General Fund	107,650	Short-term loans
Other Governmental Funds	Utility Fund	169,166	Short-term loans
	Total	<u>\$ 1,762,364</u>	

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2014, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Other Governmental Funds	General Fund	\$ 7,061	Supplement other funds sources
	Total	\$ 7,061	

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, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 508,680	\$ --	\$ (203,680)	\$ 305,000	\$ 100,000
Capital leases	35,863	--	(17,587)	18,276	18,276
Total governmental activities	\$ 544,543	\$ --	\$ (221,267)	\$ 323,276	\$ 118,276

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, 2014 is \$0.

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, 2014 is \$305,000.

Leases

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, 2014 is \$18,276.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Revenue bonds-Cert of Oblg	\$ 136,320	\$ --	\$ (136,320)	\$ --	\$ --
Revenue Bonds	15,985,000	--	(255,000)	15,730,000	525,000
Total business-type activities	\$ 16,121,320	\$ --	\$ (391,320)	\$ 15,730,000	\$ 525,000

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, 2014 is \$0.

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, 2014 is \$2,150,000.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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. The balance at September 30, 2014 is the amount that has been drawn, less repayment of \$1,211,000, for a net of \$8,905,000.

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, 2014 is \$2,995,000. Of these proceeds, \$2,514,344 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, 2014 is \$1,680,000. In conjunction with this loan from the Texas Water Development Board there was an additional amount of \$1,227,908 received in a prior year in funds classified as loan forgiveness. Of these proceeds, \$2,557,541 is in restricted cash for future construction.

Utility revenues are pledged to pay for these bond issues.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2014, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities-Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 100,000	\$ 9,913	\$ 109,913
2016	100,000	6,663	106,663
2017	105,000	3,413	108,413
Totals	\$ 305,000	\$ 19,989	\$ 324,989

<u>Year Ending September 30,</u>	<u>Governmental Activities-Leases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 18,276	\$ 736	\$ 19,012
Totals	\$ 18,276	\$ 736	\$ 19,012

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	655,000	115,270	770,270
2020-2024	3,330,000	542,499	3,872,499
2025-2029	3,430,000	458,861	3,888,861
2030-2034	3,550,000	348,428	3,898,428
2035-2039	2,125,000	208,992	2,333,992
2040-2044	395,000	44,704	439,704
Totals	\$ 15,730,000	\$ 2,185,400	\$ 17,915,400

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 \$1,475,000 repayment is reflected as a liability in the Utility Fund.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

Bond Issue

1998 Refunding Series- This issue was retired during the year.

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 2014, 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 provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

Deposit Rate	7%
Matching Ratio (City to Employee)	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city (expressed as years of service/age) are: 5 yrs/age 60; 25 yrs/any age. The Updated Service Credit is 100% repeating and the Annuity Increase (to retirees) is 70% of CPI.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

2. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 113,346
Interest on Net Pension Obligation	--
Adjustment to the ARC	--
Annual Pension Cost (APC)	<u>113,346</u>
Contributions Made	<u>(113,346)</u>
Increase (Decrease) in Net Pension Obligation	--
Net Pension Obligation/(Asset), Beginning of Year	--
Net Pension Obligation/(Asset), End of Year	<u>\$ --</u>

3. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Active Plan Members Cont Rate
September 30, 2012	\$ 114,968	100.0%	\$ --	5.00%
September 30, 2013	120,837	100.0%	--	5.00%
September 30, 2014	113,346	100.0%	--	5.00%

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	2011 Unit Credit	2012 Unit Credit	2013 Unit Credit
Actuarial Method	Unit Credit	Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25.1 years; closed period	25.0 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Assumptions:			
Investment Return	7.5%	7.0%	7.0%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.0%	3.0%	3.0%
Cost of Living adjustments	2.1%	2.1%	2.1%

For funded status as of December 31, 2013, please reference the Schedule of Funding Progress in the Required Supplementary Information section.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

4. Supplemental Death Benefits Fund

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

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to the TMRS SDBF for the years 2014, 2013 and 2012 were \$5,244, \$4,441 and \$3,827 based on an actual contribution rate of 0.29, 0.24% and 0.23%, respectively.

I. Health Care Coverage

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$280 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, 2014, 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, 2014, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014.

K. Prior Period Adjustment

Due to the adoption of GASB No. 65, the City has removed prior deferred bond issuance costs of \$560,068 by reducing the beginning net position in the Water and Sewer Fund by the same amount.

Due to the adoption of GASB No. 65, the City has removed prior deferred bond issuance costs of \$21,125 by reducing the beginning net assets in the Governmental Activities section of the Government Wide Statement of Activities.

L. New Pronouncements

During 2014 the City also adopted the provisions of GASB Statement No. 65 and 66. "*Items Previously Reported as Assets and Liabilities*" and "*Technical Corrections-2012-An Amendment of GASB Statements No. 10 and No. 62.*" These provisions recognize certain items previously reported as assets or liabilities as deferred outflows or resources (expenses or expenditures) or deferred inflows of resources (revenues) and resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.

M. Reimbursements

The Utility Fund reimbursed the General Fund \$170,000 for administrative services rendered.

N. Budget Overages

The City exceeded its budget in General Government by \$1,478 or 1% and Culture and Recreation by \$8,289 or 14%.

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, 2014

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
General Property Taxes	\$ 565,699	\$ 565,699	\$ 560,201	\$ (5,498)
General Sales and Use Taxes	652,854	652,854	691,380	38,526
Other Taxes - Severance Taxes	67,435	67,435	76,522	9,087
Other Taxes - Franchise Taxes	216,807	216,807	226,009	9,202
License and Permits	28,791	28,791	20,396	(8,395)
Intergovernmental	--	315,000	315,000	--
Charges for Services	729,300	729,300	731,861	2,561
Fines	239,642	239,642	418,528	178,886
Investment Earnings	198	198	173	(25)
Miscellaneous	416,658	416,658	215,771	(200,887)
Total revenues	<u>2,917,384</u>	<u>3,232,384</u>	<u>3,255,841</u>	<u>23,457</u>
Expenditures:				
Current:				
General Government	400,044	400,044	401,522	(1,478)
Public Safety	1,396,076	1,396,076	1,362,817	33,259
Highways and Streets	318,202	318,202	262,001	56,201
Sanitation	740,000	740,000	738,430	1,570
Culture and Recreation	57,800	57,800	66,089	(8,289)
Cemetery	--	315,000	315,000	--
Debt Service:				
Principal	17,600	17,600	17,587	13
Interest and Fiscal Charges	1,450	1,450	1,425	25
Total Expenditures	<u>2,931,172</u>	<u>3,246,172</u>	<u>3,164,871</u>	<u>81,301</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(13,788)</u>	<u>(13,788)</u>	<u>90,970</u>	<u>104,758</u>
Other Financing Sources (Uses):				
Operating Transfers In	7,041	7,041	7,041	--
Total Other Financing Sources (Uses)	<u>7,041</u>	<u>7,041</u>	<u>7,041</u>	<u>--</u>
Net Change in Fund Balances	(6,747)	(6,747)	98,011	104,758
Fund Balances - Beginning	213,070	213,070	213,070	--
Fund Balances - Ending	<u>\$ 206,323</u>	<u>\$ 206,323</u>	<u>\$ 311,081</u>	<u>\$ 104,758</u>

CITY OF MARLIN*REQUIRED SUPPLEMENTARY INFORMATION**SCHEDULE OF FUNDING PROGRESS**TEXAS MUNICIPAL RETIREMENT PLAN**YEAR ENDED SEPTEMBER 30, 2014*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2013	\$ 3,996,300	\$ 4,816,710	\$ 820,410	83.0%	\$ 1,808,291	45.4%
12/31/2012	3,840,731	4,573,243	732,512	84.0%	1,850,245	39.6%
12/31/2011	3,709,089	4,499,703	790,614	82.4%	1,663,765	47.5%

CITY OF MARLIN
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-2

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 227,500	\$ 227,003	\$ (497)
Total revenues	<u>227,500</u>	<u>227,003</u>	<u>(497)</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	204,000	203,680	320
<i>Interest and Fiscal Charges</i>	16,300	16,282	18
Total Expenditures	<u>220,300</u>	<u>219,962</u>	<u>338</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,200</u>	<u>7,041</u>	<u>(159)</u>
Other Financing Sources (Uses):			
<i>Operating Transfers Out</i>	(7,041)	(7,041)	--
Total Other Financing Sources (Uses)	<u>(7,041)</u>	<u>(7,041)</u>	<u>--</u>
Net Change in Fund Balances	159	--	(159)
Fund Balances - Beginning	276,816	276,816	--
Fund Balances - Ending	<u>\$ 276,975</u>	<u>\$ 276,816</u>	<u>\$ (159)</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, 2014, 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 May 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Marlin's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 2014-1 to be a material weakness.

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

May 13, 2015

CITY OF MARLIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

A. Summary of Auditors' Results

1. Financial Statements

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

B. Financial Statement Findings

2014-1 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.

CITY OF MARLIN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Some Bank reconciliations do not tie to the general ledger	Not Corrected	City made changes after fiscal year end.

CITY OF MARLIN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

The City will seek professional assistance during the 2015 fiscal year to make the bank reconciliation process function properly. Sandra Herring at 254-883-1474 will be responsible.