

CITY OF MARLIN

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

City of Marlin
Annual Financial Report
For The Year Ended September 30, 2015

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Financial Section

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, 2015, 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, 2015, 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 A to the financial statements, in 2015, City of Marlin adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for contributions made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68*. 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, budgetary comparison information, schedule of the City's proportionate share of the net pension liability and schedule of City pension contributions 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*

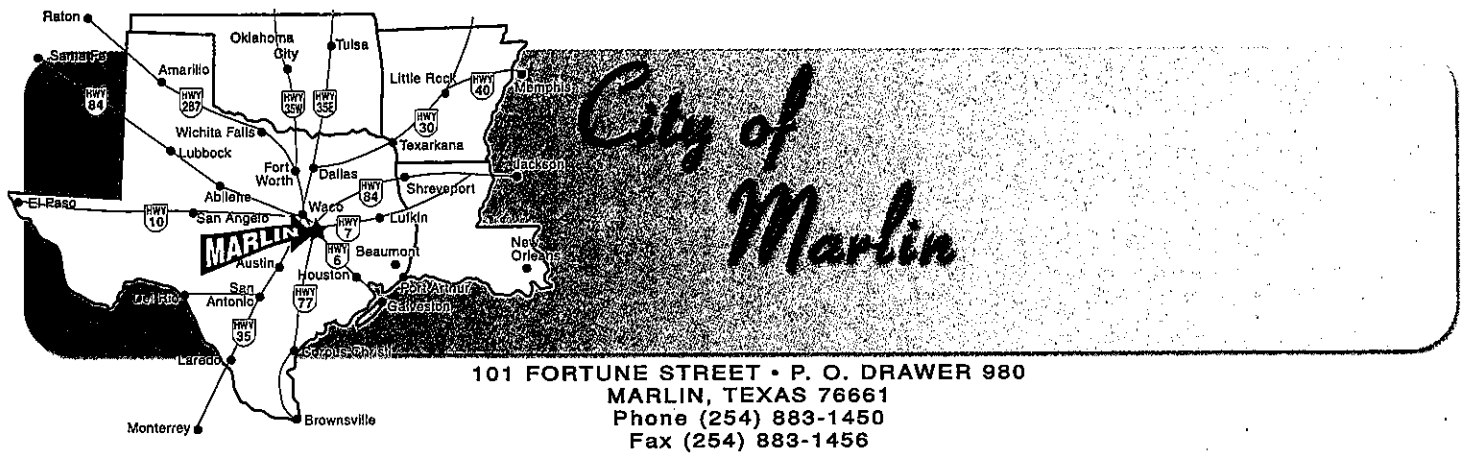
In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2016 on our consideration of City of Marlin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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 15, 2016



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, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

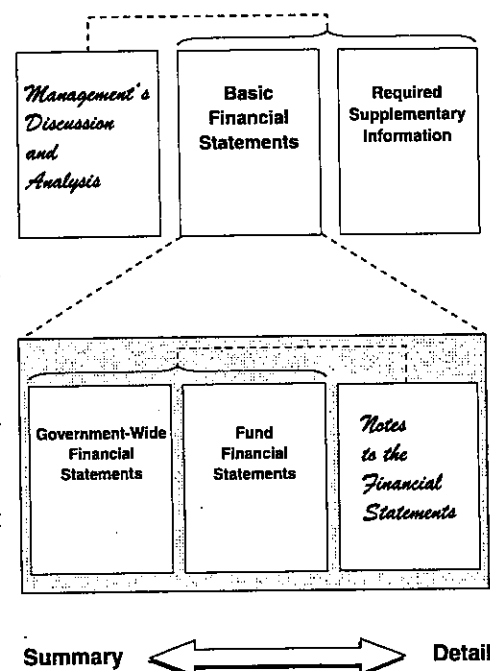
- The City's total combined net position on financial statement exhibit A-1 was \$11,961,558 at September 30, 2015.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$351,576 less than the \$6,049,704 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 increased \$107,309 from last year. An increase in general government outlays accounted for much of this.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$366,539. The City began the current year with a general fund balance in the amount of \$311,081.

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 \$12.0 million at September 30, 2015. (See Table A-1).

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

| | <u>2015</u> | <u>2014</u> | <u>Total Percentage Change 2015-2014</u> |
|--|-------------|-------------|--|
| Current assets: | | | |
| Cash and cash equivalents | .6 | .6 | 0 |
| Investments | .0 | .0 | ** |
| Due from other governments | .0 | .0 | ** |
| Due from other funds | .0 | .0 | ** |
| Other receivables | .8 | .7 | 14 |
| Unamortized debt issuance costs | .0 | .0 | ** |
| Total current assets: | <u>1.4</u> | <u>1.3</u> | 7 |
| Noncurrent assets: | | | |
| Land, furniture and equipment | 42.5 | 40.1 | 6 |
| Less accumulated depreciation | (18.7) | (18.2) | -3 |
| Other assets | 3.1 | 5.3 | -42 |
| Total noncurrent assets | <u>26.9</u> | <u>27.2</u> | -1 |
| Total Assets | <u>28.3</u> | <u>28.5</u> | -1 |
| Deferred Outflows | <u>.2</u> | <u>.0</u> | ** |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | .1 | .2 | -50 |
| Consumer deposits | .0 | .0 | ** |
| Net Pension Liability | .6 | .0 | ** |
| Due to other funds | .0 | .0 | ** |
| Liabilities payable from restricted assets | .2 | .3 | -33 |
| Total current liabilities | <u>.9</u> | <u>.5</u> | 80 |
| Long-term liabilities: | | | |
| Noncurrent liabilities due in one year | .7 | .6 | 17 |
| Noncurrent liabilities due more than 1 yr | 14.9 | 15.4 | -3 |
| Total Liabilities | <u>16.5</u> | <u>16.5</u> | 0 |
| Deferred Inflows | <u>.0</u> | <u>.0</u> | ** |
| Net Position: | | | |
| Invested in capital assets, net of debt | 7.0 | 4.6 | 52 |
| Restricted | 3.5 | 5.6 | -38 |
| Unrestricted | 1.5 | 1.8 | -17 |
| Total Net Position | <u>12.0</u> | <u>12.0</u> | 0 |

The City has restricted net position of \$372,225 that represents proceeds to service debt and \$3,148,782 that are restricted for capital expenditures. The \$1,444,409 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 \$6,049,704. A significant portion, 33 percent, of the City's revenue comes from taxes, while 52 percent relates to charges for services.

The total cost of all programs and services was \$5,698,128; 58 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues increased by \$134,267 to \$968,105.

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

| | <u>2015</u> | <u>2014</u> | <u>% Ch</u> |
|--|-------------|-------------|-----------------|
| Program Revenues: | | | |
| Charges for Services | 3.1 | 3.6 | -14 |
| Operating Grants and Contributions | .3 | .3 | 0 |
| General Revenues: | | | |
| Taxes | 2.0 | 1.8 | 11 |
| Grants | .0 | .0 | ** |
| Investment Earnings | .0 | .0 | ** |
| Other | .7 | .4 | 75 |
| Total Revenues | <u>6.1</u> | <u>6.1</u> | 0 |
| General Government | .7 | .4 | 75 |
| Public Safety | 1.4 | 1.4 | 0 |
| Highways and Streets | .3 | .3 | 0 |
| Culture and Recreation | .0 | .1 | ** |
| Public Services | .0 | .0 | ** |
| Sanitation | .6 | .8 | -25 |
| Grant Expenditures | .3 | .3 | 0 |
| Water and Sewer | <u>2.4</u> | <u>2.6</u> | -8 |
| Total Expenses | <u>5.7</u> | <u>5.9</u> | -3 |
| Excess (Deficiency) Before Other Resources, Uses and Transfers: | | | |
| Other Resources (Uses) | 0 | 0 | ** |
| Transfers In (Out) | <u>0</u> | <u>0</u> | ** |
| Increase (Decrease) in Net Position | <u>.4</u> | <u>.2</u> | 100 |

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 \$3.33 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.968 million.
- Some of the cost was paid by those who directly benefited from the programs \$1.162 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>2015</u> | <u>2014</u> | | <u>2015</u> | <u>2014</u> | |
| General Government | .7 | .4 | 75 | .5 | .2 | 150 |
| Public Safety | 1.4 | 1.4 | 0 | 1.1 | 1.0 | 10 |
| Highways and Streets | .3 | .3 | 0 | .3 | .3 | 0 |

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$3.4 million, while the previous year it was \$3.5 million due partly to the decrease in fine revenues. Revenues from business-type activities totaled \$2.6 million, while the previous year it was \$2.6 million. Intergovernmental revenues decreased by approximately \$29,066.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$156,884 below final budget amounts.

On the other hand, resources available were \$172,844 below the final budgeted amount due to reduced miscellaneous revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the City had invested \$42,547,131 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 \$2,383,817 or 6% 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>2015</u> | <u>2014</u> | Total Percentage Change <u>2015-2014</u> |
|--------------------------------|-------------|-------------|---|
| Land | 1.6 | 1.6 | 0 |
| Construction in progress | 2.2 | .0 | ** |
| Infrastructure | .7 | .7 | 0 |
| Buildings and improvements | 2.5 | 2.5 | 0 |
| Equipment & Water System | 35.2 | 35.2 | 0 |
| Vehicles | .3 | .1 | 200 |
| Totals at historical cost | 42.5 | 40.1 | 6 |
| Total accumulated depreciation | (18.7) | (18.2) | -3 |
| Net capital assets | <u>23.8</u> | <u>21.9</u> | 9 |

The City's fiscal year 2016 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 \$15,551,100 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>2015</u> | <u>2014</u> | <u>Total Percentage Change 2014-2015</u> |
|---------------------------------------|-------------|-------------|--|
| Leases payable | .1 | .0 | ** |
| Bonds payable | 15.5 | 16.1 | -4 |
| Notes payable | .0 | .0 | ** |
| Compensated absences | .0 | .0 | ** |
| Less deferred amount On refundings | (0) | (0) | ** |
| Total bonds & notes payable | <u>15.6</u> | <u>16.1</u> | -3 |

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 2016 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 76661 or phone number 254-883-1474.

Basic Financial Statements

CITY OF MARLIN
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS: | | | |
| <i>Cash and Cash Equivalents</i> | \$ 281,857 | \$ 283,338 | \$ 565,195 |
| <i>Receivables (net of allowances for uncollectibles)</i> | 502,702 | 253,073 | 755,775 |
| <i>Internal Balances</i> | 344,166 | (344,166) | -- |
| Restricted Assets: | | | |
| <i>Cash and Cash Equivalents</i> | -- | 3,058,201 | 3,058,201 |
| <i>Investments</i> | -- | 90,581 | 90,581 |
| Capital Assets (net of accumulated depreciation): | | | |
| <i>Land</i> | 88,541 | 1,470,590 | 1,559,131 |
| <i>Construction in Progress</i> | -- | 2,202,717 | 2,202,717 |
| <i>Buildings, Equipment and System, net</i> | 790,081 | 19,336,708 | 20,126,789 |
| Total Assets | 2,007,347 | 28,351,042 | 28,358,389 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| <i>Deferred Outflows Related to Pensions</i> | 159,206 | -- | 159,206 |
| Total Deferred Outflows of Resources | 159,206 | -- | 159,206 |
| LIABILITIES | | | |
| <i>Accounts Payable and Other Current Liabilities</i> | 72,031 | 57,399 | 129,430 |
| <i>Accrued Interest Payable</i> | 1,666 | 29,181 | 30,847 |
| <i>Net Pension Liability</i> | 572,957 | -- | 572,957 |
| <i>Liabilities Payable from Restricted Assets</i> | -- | 229,062 | 229,062 |
| Noncurrent Liabilities- | | | |
| <i>Due within one year</i> | 134,578 | 530,000 | 664,578 |
| <i>Due in more than one year</i> | 211,522 | 14,675,000 | 14,886,522 |
| Total Liabilities | 992,754 | 15,520,642 | 16,513,396 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| <i>Deferred Inflow Related to Pensions</i> | 42,641 | -- | 42,641 |
| Total Deferred Inflows of Resources | 42,641 | -- | 42,641 |
| NET POSITION: | | | |
| <i>Net Investment in Capital Assets</i> | 530,856 | 6,465,286 | 6,996,142 |
| Restricted For: | | | |
| <i>Debt Service</i> | 372,225 | -- | 372,225 |
| <i>Capital Expenditures</i> | -- | 3,148,782 | 3,148,782 |
| <i>Unrestricted</i> | 228,077 | 1,216,332 | 1,444,409 |
| Total Net Position | \$ 1,131,158 | \$ 10,830,400 | \$ 11,961,558 |

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| Functions/Programs | Expenses | Program Revenues | |
|--------------------------------|---------------------|----------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| PRIMARY GOVERNMENT: | | | |
| Governmental Activities: | | | |
| General Government | \$ 667,881 | \$ 170,029 | \$ -- |
| Public Safety | 1,395,927 | 292,913 | -- |
| Highways and Streets | 311,580 | -- | -- |
| Sanitation | 614,107 | 698,670 | -- |
| Culture and Recreation | 39,765 | -- | -- |
| Grant Expenditures | 260,157 | -- | 259,043 |
| Cemetery | 26,162 | -- | -- |
| Interest on Long-term Debt | 9,827 | -- | -- |
| Total Governmental Activities | <u>3,325,406</u> | <u>1,161,612</u> | <u>259,043</u> |
| Business-type Activities: | | | |
| Utility | 2,355,830 | 1,935,853 | -- |
| Brushy Creek Project | 16,892 | 23,186 | -- |
| Total Business-type Activities | <u>2,372,722</u> | <u>1,959,039</u> | <u>--</u> |
| Total Primary Government | <u>\$ 5,698,128</u> | <u>\$ 3,120,651</u> | <u>\$ 259,043</u> |

General Revenues:

Property Taxes
Sales Taxes
Franchise Taxes
Unrestricted Investment Earnings
Other

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

| <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Total</u> |
|--|---|----------------------|
| \$ (497,852) | | \$ (497,852) |
| (1,103,014) | | (1,103,014) |
| (311,580) | | (311,580) |
| 84,563 | | 84,563 |
| (39,765) | | (39,765) |
| (1,114) | | (1,114) |
| (26,162) | | (26,162) |
| (9,827) | | (9,827) |
| <u>(1,904,751)</u> | | <u>(1,904,751)</u> |
| -- | \$ (419,977) | (419,977) |
| -- | 6,294 | 6,294 |
| -- | <u>(413,683)</u> | <u>(413,683)</u> |
| <u>(1,904,751)</u> | <u>(413,683)</u> | <u>(2,318,434)</u> |
| 968,105 | -- | 968,105 |
| 725,429 | -- | 725,429 |
| 294,508 | -- | 294,508 |
| 360 | 953 | 1,313 |
| -- | 680,655 | 680,655 |
| -- | -- | -- |
| <u>1,988,402</u> | <u>681,608</u> | <u>2,670,010</u> |
| <u>83,651</u> | <u>267,925</u> | <u>351,576</u> |
| 1,494,879 | 10,562,475 | 12,057,354 |
| (447,372) | -- | (447,372) |
| <u>\$ 1,131,158</u> | <u>\$ 10,830,400</u> | <u>\$ 11,961,558</u> |

CITY OF MARLIN**BALANCE SHEET - GOVERNMENTAL FUNDS**
SEPTEMBER 30, 2015

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Assets: | | | |
| <i>Cash and Cash Equivalents</i> | \$ 281,857 | \$ -- | \$ 281,857 |
| <i>Receivables (net of allowances for uncollectibles)</i> | 407,293 | 95,409 | 502,702 |
| <i>Due from Other Funds</i> | 175,000 | 276,816 | 451,816 |
| Total Assets | \$ 864,150 | \$ 372,225 | \$ 1,236,375 |
| LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES | | | |
| Liabilities: | | | |
| <i>Accounts Payable</i> | \$ 72,031 | \$ -- | \$ 72,031 |
| <i>Due to Other Funds</i> | 107,650 | -- | 107,650 |
| Total Liabilities | 179,681 | -- | 179,681 |
| Deferred Inflows of Resources: | | | |
| <i>Unavailable Revenue-Property Taxes</i> | 347,930 | 95,409 | 443,339 |
| Total Deferred Inflows of Resources | 347,930 | 95,409 | 443,339 |
| Fund Balances: | | | |
| Restricted Fund Balances: | | | |
| <i>Restricted for Debt Service</i> | -- | 276,816 | 276,816 |
| Unassigned | - 336,539 | -- | 336,539 |
| Total Fund Balance | 336,539 | 276,816 | 613,355 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | \$ 864,150 | \$ 372,225 | \$ 1,236,375 |

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, 2015**

| | | |
|--|----|---------|
| Total fund balances - governmental funds balance sheet | \$ | 613,355 |
|--|----|---------|

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. | 878,622 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. | 443,339 |
| Payables for bond principal which are not due in the current period are not reported in the funds. | (205,000) |
| Payables for capital leases which are not due in the current period are not reported in the funds. | (141,100) |
| Payables for bond interest which are not due in the current period are not reported in the funds. | (1,666) |
| Recognition of the City's proportionate share of the net pension liability is not reported in the funds. | (572,957) |
| Deferred Resource Inflows related to the pension plan are not reported in the funds. | (42,641) |
| Deferred Resource Outflows related to the pension plan are not reported in the funds. | 159,206 |

| | | |
|---|----|------------------|
| Net position of governmental activities - Statement of Net Position | \$ | <u>1,131,158</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, 2015**

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------------------|--------------------------------|
| Revenue: | | | |
| Taxes: | | | |
| General Property Taxes | \$ 824,215 | \$ 111,333 | \$ 935,548 |
| General Sales and Use Taxes | 725,429 | -- | 725,429 |
| Other Taxes - Severance Taxes | 70,146 | -- | 70,146 |
| Other Taxes - Franchise Taxes | 224,362 | -- | 224,362 |
| License and Permits | 16,494 | -- | 16,494 |
| Intergovernmental | 259,043 | -- | 259,043 |
| Charges for Services | 698,670 | -- | 698,670 |
| Fines | 292,913 | -- | 292,913 |
| Investment Earnings | 360 | -- | 360 |
| Miscellaneous | 153,535 | -- | 153,535 |
| Total revenues | <u>3,265,167</u> | <u>111,333</u> | <u>3,376,500</u> |
| Expenditures: | | | |
| Current: | | | |
| General Government | 636,095 | -- | 636,095 |
| Public Safety | 1,336,192 | -- | 1,336,192 |
| Highways and Streets | 297,461 | -- | 297,461 |
| Sanitation | 589,033 | -- | 589,033 |
| Culture and Recreation | 38,141 | -- | 38,141 |
| Grant Expenditures | 259,043 | -- | 259,043 |
| Cemetery | 26,162 | -- | 26,162 |
| Debt Service: | | | |
| Principal | 18,276 | 100,000 | 118,276 |
| Interest and Fiscal Charges | 726 | 9,913 | 10,639 |
| Capital Outlay: | | | |
| Equipment | 181,100 | -- | 181,100 |
| Total Expenditures | <u>3,382,229</u> | <u>109,913</u> | <u>3,492,142</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(117,062)</u> | <u>1,420</u> | <u>(115,642)</u> |
| Other Financing Sources (Uses): | | | |
| Operating Transfers In | 1,420 | -- | 1,420 |
| Operating Transfers Out | -- | (1,420) | (1,420) |
| Lease Proceeds | 141,100 | -- | 141,100 |
| Total Other Financing Sources (Uses) | <u>142,520</u> | <u>(1,420)</u> | <u>141,100</u> |
| Net Change in Fund Balances | 25,458 | -- | 25,458 |
| Fund Balances - Beginning | 311,081 | 276,816 | 587,897 |
| Fund Balances - Ending | <u>\$ 336,539</u> | <u>\$ 276,816</u> | <u>\$ 613,355</u> |

The accompanying notes are an integral part of this statement.

CITY OF MARLIN

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015*

| | | |
|--|----|---------------|
| Net change in fund balances - total governmental funds | \$ | 25,458 |
| Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because: | | |
| Capital outlays are not reported as expenses in the SOA. | | 181,100 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | | (124,432) |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. | | 32,557 |
| Revenues in the SOA not providing current financial resources are not reported as revenues in the funds. | | (141,100) |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | | 100,000 |
| Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA. | | 18,276 |
| (Increase) decrease in accrued interest from beginning of period to end of period. | | 812 |
| Pension contributions made after the measurement date but in current FY were de-expended and reduced Net Pension Liability | | (9,020) |
| Change in net position of governmental activities - Statement of Activities | \$ | <u>83,651</u> |

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

| | Enterprise Fund | Nonmajor Enterprise Fund | Total Enterprise Funds |
|--|---------------------|--------------------------------|------------------------------|
| | Utility Fund | Brushy Creek Project | |
| ASSETS: | | | |
| Current Assets: | | | |
| <i>Cash and Cash Equivalents</i> | \$ 241,491 | \$ 41,847 | \$ 283,338 |
| <i>Receivables (net of allowances for uncollectibles)</i> | 253,073 | -- | 253,073 |
| <i>Due from other funds</i> | 1,310,548 | -- | 1,310,548 |
| Total Current Assets | 1,805,112 | 41,847 | 1,846,959 |
| Noncurrent Assets: | | | |
| Restricted Cash, Cash Equivalents and Investments- | | | |
| <i>Cash</i> | 3,058,201 | -- | 3,058,201 |
| <i>Investments</i> | -- | 90,581 | 90,581 |
| 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> | 29,828,131 | 962,121 | 30,790,252 |
| <i>Construction in Progress</i> | 6,745,010 | -- | 6,745,010 |
| <i>Less Accumulated Depreciation</i> | (16,039,930) | -- | (16,039,930) |
| Total Noncurrent Assets | 23,656,318 | 2,502,479 | 26,158,797 |
| Total Assets | 25,461,430 | 2,544,326 | 28,005,756 |
| LIABILITIES: | | | |
| Current Liabilities: | | | |
| <i>Accounts payable</i> | 57,399 | -- | 57,399 |
| <i>Due to other funds</i> | 344,166 | 1,310,548 | 1,654,714 |
| <i>Accrued interest payable</i> | 29,181 | -- | 29,181 |
| <i>Revenue bonds payable</i> | 530,000 | -- | 530,000 |
| Total Current Liabilities | 960,746 | 1,310,548 | 2,271,294 |
| Current Liabilities Payable from Restricted Assets- | | | |
| <i>Customer Deposits</i> | 229,062 | -- | 229,062 |
| Total Current Liabilities Payable | 229,062 | -- | 229,062 |
| Noncurrent Liabilities: | | | |
| <i>Revenue Bonds Payable</i> | 14,675,000 | -- | 14,675,000 |
| Total Noncurrent Liabilities | 14,675,000 | -- | 14,675,000 |
| Total Liabilities | 15,864,808 | 1,310,548 | 17,175,356 |
| NET POSITION: | | | |
| Net Investment in Capital Assets | 5,363,936 | 1,101,350 | 6,465,286 |
| Restricted For: | | | |
| <i>Capital Expenditures</i> | 3,058,201 | 90,581 | 3,148,782 |
| <i>Unrestricted Net Position</i> | 1,174,485 | 41,847 | 1,216,332 |
| Total Net Position | \$ 9,596,622 | \$ 1,233,778 | \$ 10,830,400 |

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, 2015**

| | Enterprise Fund | Nonmajor Enterprise Fund | Total Enterprise Funds |
|--|---------------------|--------------------------------|------------------------------|
| | Utility Fund | Brushy Creek Project | |
| OPERATING REVENUES: | | | |
| Charges for Sales and Services: | | | |
| <i>Water Sales</i> | \$ 1,129,778 | \$ -- | \$ 1,129,778 |
| <i>Sewer Charges - Pledged as Security</i> | 645,545 | -- | 645,545 |
| <i>Tap Fees - Unpledged</i> | 8,043 | -- | 8,043 |
| <i>Other</i> | 84,586 | 23,186 | 107,772 |
| <i>Penalties</i> | 67,901 | -- | 67,901 |
| Total Operating Revenues | <u>1,935,853</u> | <u>23,186</u> | <u>1,959,039</u> |
| OPERATING EXPENSES: | | | |
| <i>Personal Services - Salaries and Wages</i> | 747,515 | -- | 747,515 |
| <i>Purchased Professional and Technical Services</i> | 861,314 | 16,892 | 878,206 |
| <i>Supplies</i> | 280,230 | -- | 280,230 |
| <i>Depreciation</i> | 348,678 | -- | 348,678 |
| Total Operating Expenses | <u>2,237,737</u> | <u>16,892</u> | <u>2,254,629</u> |
| Operating Income | <u>(301,884)</u> | <u>6,294</u> | <u>(295,590)</u> |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| <i>Interest Revenue</i> | 953 | -- | 953 |
| <i>Fees for Water System Rehabilitation</i> | 145,612 | -- | 145,612 |
| <i>Debt Service Fees Assessment</i> | 535,043 | -- | 535,043 |
| <i>Interest Expense</i> | (118,093) | -- | (118,093) |
| Total Non-operating Revenues (Expenses) | <u>563,515</u> | <u>--</u> | <u>563,515</u> |
| Income before Transfers | <u>261,631</u> | <u>6,294</u> | <u>267,925</u> |
| <i>Interfund Operating Transfers In</i> | -- | -- | -- |
| <i>Interfund Operating Transfers Out</i> | -- | -- | -- |
| Change in Net Position | <u>261,631</u> | <u>6,294</u> | <u>267,925</u> |
| Total Net Position - Beginning | <u>9,334,991</u> | <u>1,227,484</u> | <u>10,562,475</u> |
| Total Net Position - Ending | <u>\$ 9,596,622</u> | <u>\$ 1,233,778</u> | <u>\$ 10,830,400</u> |

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Enterprise Fund | Nonmajor Enterprise Fund | |
|---|--------------------|--------------------------------|------------------------------|
| | Utility Fund | Brushy Creek Project | Total Enterprise Funds |
| Cash Flows from Operating Activities: | | | |
| <i>Cash Received from Customers</i> | \$ 1,935,035 | \$ 23,186 | \$ 1,958,221 |
| <i>Cash Payments to Employees for Services</i> | (747,515) | -- | (747,515) |
| <i>Cash Payments to Other Suppliers for Goods and Services</i> | (1,176,417) | (16,892) | (1,193,309) |
| Net Cash Provided (Used) by Operating Activities | 11,103 | 6,294 | 17,397 |
| Cash Flows from Non-capital Financing Activities: | | | |
| <i>Non Operating Fees</i> | 680,655 | -- | 680,655 |
| Net Cash Provided (Used) by Non-capital Financing Activities | 680,655 | -- | 680,655 |
| Cash Flows from Capital and Related Financing Activities: | | | |
| <i>Interest Paid</i> | (118,093) | | (118,093) |
| <i>Principal Paid</i> | (525,000) | -- | (525,000) |
| <i>Acquisition or Construction of Capital Assets</i> | (2,202,717) | -- | (2,202,717) |
| <i>Decrease (Increase) in Restricted Cash</i> | 2,104,646 | (46) | 2,104,600 |
| Net Cash Provided (Used) for Capital & Related Financing Activities | (741,164) | (46) | (741,210) |
| Cash Flows from Investing Activities: | | | |
| <i>Interest and Dividends on Investments</i> | 953 | -- | 953 |
| Net Cash Provided (Used) for Investing Activities | 953 | -- | 953 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (48,453) | 6,248 | (42,205) |
| Cash and Cash Equivalents at Beginning of Year | 289,944 | 35,599 | 325,543 |
| Cash and Cash Equivalents at End of Year | \$ 241,491 | \$ 41,847 | \$ 283,338 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | |
| Operating Income (Loss) | \$ (301,884) | \$ 6,294 | \$ (295,590) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | | |
| <i>Depreciation</i> | 348,678 | -- | 348,678 |
| Change in Assets and Liabilities: | | | |
| <i>Decrease (Increase) in Receivables</i> | (818) | -- | (818) |
| <i>Increase (Decrease) in Accounts Payable</i> | (33,561) | -- | (33,561) |
| <i>Increase (Decrease) in Accrued Expenses</i> | 1,353 | -- | 1,353 |
| <i>Increase (Decrease) in Consumer Deposits</i> | (2,665) | -- | (2,665) |
| Total Adjustments | 312,987 | -- | 312,987 |
| Net Cash Provided (Used) by Operating Activities | \$ 11,103 | \$ 6,294 | \$ 17,397 |

The accompanying notes are an integral part of this statement.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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, 2015

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, 2015

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 \$23,517.

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

f. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to or deductions from TMRS' Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2015

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. 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.

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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

k. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

4. Change in Accounting Policies

In June, 2012 the Governmental Accounting Standards Board (GASB) issued Statement No. 68, "Accounting and Financial Reporting for Pensions," which is effective for fiscal years beginning after June 15, 2014. The City has implemented the provisions of this Statement for the year ended September 30, 2015.

The Statement requires numerous new pension disclosures in the notes to the financial statements and new 10-year, pension-related charts as required supplementary information. Also, for the first time the City is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its proportionate shares of the collective (TMRS) pension expense, collective (TMRS) deferred outflows of resources and deferred inflows of resources related to pensions and collective (TMRS) net pension liability.

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, 2015

Cash Deposits:

At September 30, 2015, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$841,861 and the bank balance was \$1,342,040. The City's cash deposits at September 30, 2015 and during the year ended September 30, 2015, 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 \$2,781,534 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.

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 investment's at September 30, 2015 are shown below.

| <u>Investment or Investment Type</u> | <u>Maturity</u> | <u>Fair Value</u> |
|--------------------------------------|-----------------|-------------------|
| Texpool | N/A | \$ 90,581 |
| Total Investments | | <u>\$ 90,581</u> |

Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

At September 30, 2015, the City's investments, other than those which are obligations of or guaranteed by the U. S. Government, have no credit risk.

b. Custodial Credit Risk

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

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

D. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|--------------|-----------|--------------------|
| Governmental activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 88,541 | \$ -- | \$ -- | \$ 88,541 |
| Total capital assets not being depreciated | 88,541 | -- | -- | 88,541 |
| <i>Capital assets being depreciated:</i> | | | | |
| Infrastructure | 693,557 | -- | -- | 693,557 |
| Buildings and improvements | 2,462,188 | -- | (71,800) | 2,533,988 |
| Leased Assets | 71,800 | 181,100 | 71,800 | 181,100 |
| Total capital assets being depreciated | 3,227,545 | 181,100 | -- | 3,408,645 |
| Less accumulated depreciation for: | | | | |
| Road Network | | | | |
| Buildings and improvements | (169,359) | (23,119) | -- | (192,478) |
| Equipment | (2,288,873) | (83,203) | 35,900 | (2,407,976) |
| Leased Assets | (35,900) | (18,110) | (35,900) | (18,110) |
| Total accumulated depreciation | (2,494,132) | (124,432) | -- | (2,618,564) |
| Total capital assets being depreciated, net | 733,413 | 56,668 | -- | 790,081 |
| Governmental activities capital assets, net | \$ 821,954 | \$ 56,668 | \$ -- | \$ 878,622 |
| Business-type activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 1,470,590 | \$ -- | \$ -- | \$ 1,470,590 |
| Construction in progress | -- | 2,202,717 | -- | 2,202,717 |
| Total capital assets not being depreciated | 1,470,590 | 2,202,717 | -- | 3,673,307 |
| <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 | 34,444,535 | -- | -- | 34,444,535 |
| Total capital assets being depreciated | 35,376,638 | -- | -- | 35,376,638 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (44,093) | -- | -- | (44,093) |
| Equipment | (708,504) | (5,119) | -- | (713,623) |
| Vehicles | (164,151) | -- | -- | (164,151) |
| Water & Sewer System | (14,774,504) | (343,559) | -- | (15,118,063) |
| Total accumulated depreciation | (15,691,252) | (348,678) | -- | (16,039,930) |
| Total capital assets being depreciated, net | 19,685,386 | (348,678) | -- | 19,336,708 |
| Business-type activities capital assets, net | \$ 21,155,976 | \$ 1,854,039 | \$ -- | \$ 23,010,015 |

CITY OF MARLIN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Depreciation was charged to functions as follows:

| | | |
|------------------------|----|----------------|
| General Government | \$ | 27,078 |
| Public Safety | | 56,880 |
| Highways & Streets | | 12,662 |
| Sanitation | | 25,074 |
| Culture and Recreation | | 1,624 |
| Cemetery | | 1,114 |
| | \$ | <u>124,432</u> |

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2015, consisted of the following:

| Due To Fund | Due From Fund | Amount | Purpose |
|--------------------------|---------------------------|---------------------|------------------|
| General Fund | Utility Fund | \$ 175,000 | Short-term Loans |
| Utility Fund | Nonmajor Enterprise Funds | 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.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2015, consisted of the following:

| Transfers From | Transfers To | Amount | Reason |
|--------------------------|--------------|-----------------|--------------------------------|
| Other Governmental Funds | General Fund | \$ 1,420 | Supplement other funds sources |
| | Total | <u>\$ 1,420</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, 2015, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|----------------------|-------------------|---------------------|-------------------|-----------------------------------|
| <u>Governmental activities:</u> | | | | | |
| General obligation bonds | \$ 305,000 | \$ -- | \$ (100,000) | \$ 205,000 | \$ 100,000 |
| Capital leases | 18,276 | 141,100 | (18,276) | 141,100 | 34,578 |
| Total governmental activities | <u>\$ 323,276</u> | <u>\$ 141,100</u> | <u>\$ (118,276)</u> | <u>\$ 346,100</u> | <u>\$ 134,578</u> |

Bonds

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, 2015 is \$205,000.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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, 2015 is \$0.

Lease in an original amount of \$141,100 to purchase equipment in June 2015 at the rate of 3.1% in yearly installments of \$37,730 to mature in June of 2019. The balance at September 30, 2015 is \$141,100.

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|----------------------------------|----------------------|--------------|---------------------|----------------------|-----------------------------------|
| <u>Business-type activities:</u> | | | | | |
| Revenue bonds | \$ 15,730,000 | \$ -- | \$ (525,000) | \$ 15,205,000 | \$ 530,000 |
| Total business-type activities | <u>\$ 15,730,000</u> | <u>\$ --</u> | <u>\$ (525,000)</u> | <u>\$ 15,205,000</u> | <u>\$ 530,000</u> |

Bonds

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, 2026. The balance at September 30, 2015 is \$1,970,000.

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. The balance at September 30, 2015 is the amount that has been drawn, less repayment of \$1,546,000, for a net of \$8,570,000.

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, 2015 is \$2,990,000. Of these proceeds, \$1,405,164 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, 2015 is \$1,675,000. 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, \$1,376,371 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, 2015

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2015, are as follows:

| <u>Year Ending September 30,</u> | Governmental Activities-Bonds | | |
|----------------------------------|-------------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2016 | \$ 100,000 | \$ 6,663 | \$ 106,663 |
| 2017 | 105,000 | 3,413 | 108,413 |
| Totals | <u>\$ 205,000</u> | <u>\$ 10,076</u> | <u>\$ 215,076</u> |

| <u>Year Ending September 30,</u> | Governmental Activities-Leases | | |
|----------------------------------|--------------------------------|-----------------|-------------------|
| | Principal | Interest | Total |
| 2016 | \$ 34,578 | \$ 3,152 | \$ 37,730 |
| 2017 | 34,427 | 3,303 | 37,730 |
| 2018 | 35,496 | 2,234 | 37,730 |
| 2019 | 36,599 | 1,131 | 37,730 |
| Totals | <u>\$ 141,100</u> | <u>\$ 9,820</u> | <u>\$ 150,920</u> |

| <u>Year Ending September 30,</u> | Business-type Activities | | |
|----------------------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 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 | 660,000 | 113,607 | 773,607 |
| 2021-2025 | 3,345,000 | 528,265 | 3,873,265 |
| 2026-2030 | 3,455,000 | 438,866 | 3,893,866 |
| 2031-2035 | 3,575,000 | 323,057 | 3,898,057 |
| 2036-2040 | 1,635,000 | 177,085 | 1,812,085 |
| 2041-2045 | 490,000 | 22,604 | 512,604 |
| Totals | <u>\$ 15,535,000</u> | <u>\$ 2,068,660</u> | <u>\$ 17,603,660</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 \$1,810,000 repayment is reflected as a liability in the Utility Fund.

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 2015, 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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

H. Pension Plan

1. **Plan Description** The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

2. **Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms:

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 43 |
| Inactive employees entitled to but not yet receiving benefits | 75 |
| Active employees | 47 |
| Total covered employees | <u>165</u> |

3. **Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.20% and 7.83% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$115,584, and were equal to the required contributions.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Inflation | 3.0% per year |
| Overall payroll growth | 3.0% per year |
| Investment Rate of Return | 7.0%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Domestic Equity | 17.5% | 4.80% |
| International Equity | 17.5% | 6.05% |
| Core Fixed Income | 30.0% | 1.50% |
| Non-Core Fixed Income | 10.0% | 3.50% |
| Real Return | 5.0% | 1.75% |
| Real Estate | 10.0% | 5.25% |
| Absolute Return | 5.0% | 4.25% |
| Private Equity | 5.0% | 8.50% |
| Total | 100.0% | |

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

| | Increase (Decrease) | | |
|---|-------------------------|-----------------------------|-----------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a) - (b) |
| Balance at 12/31/2013 | \$ 4,816,710 | \$ 4,258,429 | \$ 558,281 |
| Changes for the year | | | |
| Service cost | 186,363 | -- | 186,363 |
| Interest | 331,456 | -- | 331,456 |
| Change of benefit terms | -- | -- | -- |
| Difference between expected and actual experience | (72,316) | -- | (72,316) |
| Changes of assumptions | -- | -- | -- |
| Contributions - employer | -- | 110,909 | (110,909) |
| Contributions - employee | -- | 79,108 | (79,108) |
| Net investment income | -- | 243,562 | (243,562) |
| Benefit payments, including refunds of employee contributions | (349,604) | (349,604) | -- |
| Administrative expense | -- | (2,543) | 2,543 |
| Other changes | -- | (209) | 209 |
| Net changes | 95,899 | 81,223 | 14,676 |
| Balance at 12/31/2014 | \$ 4,912,609 | \$ 4,339,652 | \$ 572,957 |

Sensitivity of the net pension liability to changes in the discount rate is reflected below.

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|------------------------------|------------------------------|---------------|------------------------------|
| City's net pension liability | \$ 1,255,975 | \$ 572,957 | \$ 22,707 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$124,604.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ -- | \$ (42,641) |
| Changes in actuarial assumptions | -- | -- |
| Difference between projected and actual investment earnings | 43,622 | -- |
| Contributions subsequent to the measurement date | 115,584 | |
| Total | <u>\$ 159,206</u> | <u>\$ (42,641)</u> |

\$115,584 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|---------------------|-------------|
| Year ended Dec. 31: | |
| 2016 | \$ (18,769) |
| 2017 | \$ (2,060) |
| 2018 | \$ 10,906 |
| 2019 | \$ 10,904 |
| 2020 | \$ -- |
| Thereafter | \$ -- |

I. Health Care Coverage

During the year ended September 30, 2015, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$130 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 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 licensed insurer is renewable October 1, 2015, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the First Care HNO are available for the year ended December 31, 2015, 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.

CITY OF MARLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

2. Litigation

No reportable litigation was pending against the City at September 30, 2015.

K. Subsequent Events

The City issued a capital lease for \$76,474 in October 2015 for computer equipment and software.

L. Prior Period Adjustment

The City recorded the beginning Net Pension Liability of \$447,372 in accordance with GASB 68 as required by implementation of the pronouncement. This change is reflected in the Government Wide Exhibit A-2.

M. New Pronouncements

In fiscal year 2015, the City adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

-- Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*

-- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - amendment of GASB No. 68.*

- a. Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed in Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirement of Statement No. 50, *Pensions Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TMRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the City's beginning net position for the fiscal year 2015 government-wide financial statements to reflect the reporting of net pension asset/liability and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement.

- b. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the City's final year-end, the effects from the City's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position.

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, 2015

EXHIBIT B-1

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenue: | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 839,563 | \$ 839,563 | \$ 824,215 | \$ (15,348) |
| General Sales and Use Taxes | 689,000 | 689,000 | 725,429 | 36,429 |
| Other Taxes - Severance Taxes | 72,000 | 72,000 | 70,146 | (1,854) |
| Other Taxes - Franchise Taxes | 233,750 | 233,750 | 224,362 | (9,388) |
| License and Permits | 29,950 | 29,950 | 16,494 | (13,456) |
| Intergovernmental | 259,043 | 259,043 | 259,043 | -- |
| Charges for Services | 621,813 | 621,813 | 698,870 | 76,857 |
| Fines | 388,231 | 388,231 | 292,913 | (95,318) |
| Investment Earnings | 300 | 300 | 360 | 60 |
| Miscellaneous | 304,361 | 304,361 | 153,535 | (150,826) |
| Total revenues | <u>3,438,011</u> | <u>3,438,011</u> | <u>3,265,167</u> | <u>(172,844)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 640,258 | 640,258 | 636,095 | 4,163 |
| Public Safety | 1,402,355 | 1,402,355 | 1,336,192 | 66,163 |
| Highways and Streets | 312,012 | 312,012 | 297,461 | 14,551 |
| Sanitation | 640,793 | 640,793 | 589,039 | 51,760 |
| Culture and Recreation | 53,050 | 53,050 | 38,141 | 14,909 |
| Grant Expenditures | 259,043 | 259,043 | 259,043 | -- |
| Cemetery | 31,500 | 31,500 | 26,162 | 5,338 |
| Debt Service: | | | | |
| Principal | 18,276 | 18,276 | 18,276 | -- |
| Interest and Fiscal Charges | 726 | 726 | 726 | -- |
| Capital Outlay: | | | | |
| Equipment | -- | 181,100 | 181,100 | -- |
| Total Expenditures | <u>3,358,013</u> | <u>3,539,113</u> | <u>3,382,229</u> | <u>156,884</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | <u>79,998</u> | <u>(101,102)</u> | <u>(117,062)</u> | <u>(15,960)</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | -- | 1,420 | 1,420 | -- |
| Lease Proceeds | -- | 141,100 | 141,100 | -- |
| Total Other Financing Sources (Uses) | <u>--</u> | <u>142,520</u> | <u>142,520</u> | <u>--</u> |
| Net Change in Fund Balances | <u>79,998</u> | <u>41,418</u> | <u>25,458</u> | <u>(15,960)</u> |
| Fund Balances - Beginning | 311,081 | 311,081 | 311,081 | -- |
| Fund Balances - Ending | <u>\$ 391,079</u> | <u>\$ 352,499</u> | <u>\$ 336,539</u> | <u>\$ (15,960)</u> |

CITY OF MARLIN
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|---|--------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| City's proportion of the net pension liability (asset) | -- | 100.000% | -- | -- | -- | -- | -- | -- | -- | -- |
| City's proportionate share of the net pension liability (asset) | \$ -- | \$ 572,957 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| State's proportionate share of the net pension liability (asset) associated with the City | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Total | \$ -- | \$ 572,957 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| City's covered-employee payroll | \$ -- | \$ 1,582,155 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -- | 36.21% | -- | -- | -- | -- | -- | -- | -- | -- |
| Plan fiduciary net position as a percentage of the total pension liability | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF MARLIN
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|--|--------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| Contractually required contribution | \$ 115,584 | \$ 110,909 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Contributions in relation to the contractually required contribution | (115,584) | (110,909) | -- | -- | -- | -- | -- | -- | -- | -- |
| Contribution deficiency (excess) | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| City's covered-employee payroll | \$ 1,470,456 | \$ 1,582,155 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Contributions as a percentage of covered-employee payroll | 7.86% | 7.01% | -- | -- | -- | -- | -- | -- | -- | -- |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

CITY OF MARLIN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2015

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data:

- a. Prior to September 30 of the proceeding 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 Council is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Council.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Council. Amendments are presented to the Board at its regular meetings.

Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

CITY OF MARLIN
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT B-4

| | Budget | Actual | Variance Positive (Negative) |
|--|------------|------------|------------------------------------|
| Revenue: | | | |
| Taxes: | | | |
| General Property Taxes | \$ 111,333 | \$ 111,333 | \$ -- |
| Total revenues | 111,333 | 111,333 | -- |
| Expenditures: | | | |
| Debt Service: | | | |
| Principal | 100,000 | 100,000 | -- |
| Interest and Fiscal Charges | 9,913 | 9,913 | -- |
| Total Expenditures | 109,913 | 109,913 | -- |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,420 | 1,420 | -- |
| Other Financing Sources (Uses): | | | |
| Operating Transfers Out | (1,420) | (1,420) | -- |
| Total Other Financing Sources (Uses) | (1,420) | (1,420) | -- |
| Net Change in Fund Balances | -- | -- | -- |
| Fund Balances - Beginning | 276,816 | 276,816 | -- |
| Fund Balances - Ending | \$ 276,816 | \$ 276,816 | \$ -- |

Other Supplementary Information

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

Independent Auditors' Report 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, 2015, 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 15, 2016.

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 2015-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 15, 2016

CITY OF MARLIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

B. Financial Statement Findings

2015-1 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 reconciliation of the operating accounts' outstanding checks and deposits 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, 2015**

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|---|-----------------------|--|
| Bank reconciliations do not tie to general ledger | Partially corrected | City made improvements during the year and will continue working on this for the future. |

CITY OF MARLIN
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

The City will seek professional assistance during the 2016 fiscal year to make the bank reconciliation process function properly. Sandra Herring at 254-883-1474 will be responsible.