

City of Marfa

Report of Independent Auditor and
Comprehensive Annual Financial Report

September 30, 2017



CITY OF MARFA
Annual Financial Report
September 30, 2017

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Report of Independent Auditor

Honorable Mayor and Members of the City Council
City of Marfa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marfa, Texas (the “City”) as of and for the year ended September 30, 2017, 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

The City’s 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.

Auditor’s 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 entity’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 entity’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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marfa, Texas as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, the schedule of funding progress on pages 39 through 41, and the budgetary comparison information on pages 42 through 43, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2018, on our consideration of the City's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marfa, Texas' internal control over financial reporting and compliance.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

October 30, 2018
Houston, Texas

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

In this section of the Annual Financial Report, we, the managers of the City of Marfa (the "City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2017. Please read it in conjunction with the independent auditor's report on page 1 and the City's Basic Financial Statements, which begin on page 11.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These provide information about the activities of the City as a whole and present a longer-term view of the City's property, debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 13) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements reflect how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and describe how goods or services of the City were sold to departments within the City or to external customers and how the sales and tax revenues covered the expenses of the goods or services provided.

The notes to the financial statements (starting on page 20) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the City is better off or worse off financially as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These statements are presented using the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs and revenues provided by the taxpayers or other unrestricted sources (general revenues). All of the City's assets are reported whether they serve the current year or future years. Liabilities are reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in net position. The City's net position (the difference between assets and liabilities) provides one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are indicators of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, one must also consider non-financial factors, such as changes in the City's property tax base and the condition of the City's facilities.

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Reporting the City as a Whole - Continued

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities - Most of the City's basic services are reported here. Property and sales taxes and state and federal grants finance most of these activities.
- Business-type activities – Business-type activities include services provided by the City for water, wastewater, and sanitation. The City charges a fee to “customers” to help it cover all or most of the cost of services it provides for water, wastewater, and sanitation services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the City's most significant funds - not the City as a whole. Laws and contracts require the City to establish some funds, such as grant funds. The City's administration establishes other funds to help it control and manage money for particular purposes. The City's two primary types of funds, governmental and proprietary, are described below.

- Governmental funds - Most of the City's basic services are reported in governmental funds. The governmental fund statements use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds - The City reports the activities for which it charges users (outside customers) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The City's proprietary funds consist of enterprise funds, which are the business-type activities reported in the government-wide statements, but contain more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities decreased by \$120,813, or 4.1%, during 2017, excluding internal transfers. This decrease in net position was primarily due to only budgeting to cover 50% of current year depreciation expense along with approximately \$100,000 of expenses paid using obligated funds in the bank deposited in prior fiscal years. Unrestricted net position of the governmental activities – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased \$694,729 from \$1,012,112 in 2016 to \$317,383 during 2017.

In 2017, the net position of the City's business-type activities increased by \$447,431, or 9.9%, excluding internal transfers. This increase was primarily due to an increase in revenues due to utility rate increases along with a decrease in expenses.

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Table I
Net Position

2017	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 584,598	\$ 4,145,496	\$ 4,730,094
Capital assets	3,235,998	2,545,223	5,781,221
Net prepaid pension	297,164	-	297,164
Total assets	<u>4,117,760</u>	<u>6,690,719</u>	<u>10,808,479</u>
Deferred outflow of resources	36,041	-	36,041
Current liabilities	466,890	324,059	790,949
Noncurrent liabilities	765,000	1,171,229	1,936,229
Total liabilities	<u>1,231,890</u>	<u>1,495,288</u>	<u>2,727,178</u>
Deferred inflow of resources	108,315	144,831	253,146
Net position:			
Net investment in capital assets	2,170,998	1,273,994	3,444,992
Restricted for debt service	325,215	-	325,215
Restricted for capital projects	-	235,990	235,990
Unrestricted	317,383	3,540,616	3,857,999
Total net position	<u>\$ 2,813,596</u>	<u>\$ 5,050,600</u>	<u>\$ 7,864,196</u>

2016	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 1,146,991	\$ 3,646,183	\$ 4,793,174
Capital assets	2,425,058	2,668,557	5,093,615
Net prepaid pension	335,338	-	335,338
Total assets	<u>3,907,387</u>	<u>6,314,740</u>	<u>10,222,127</u>
Deferred outflow of resources	115,832	-	115,832
Current liabilities	382,478	380,384	762,862
Noncurrent liabilities	590,000	1,244,513	1,834,513
Total liabilities	<u>972,478</u>	<u>1,624,897</u>	<u>2,597,375</u>
Deferred inflow of resources	101,833	156,674	258,507
Net position:			
Net investment in capital assets	1,605,058	1,334,044	2,939,102
Restricted for debt service	331,738	-	331,738
Restricted for capital projects	-	235,530	235,530
Unrestricted	1,012,112	2,963,595	3,975,707
Total net position	<u>\$ 2,948,908</u>	<u>\$ 4,533,169</u>	<u>\$ 7,482,077</u>

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Table II
Changes in Net Position

<u>2017</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 426,065	\$ 2,563,897	\$ 2,989,962
General revenues:			
Property taxes	597,636	-	597,636
Sales taxes	460,569	-	460,569
Franchise taxes	590,313	-	590,313
Intergovernmental grants and revenue	423,710	-	423,710
Investment earnings	2,340	-	2,340
Total revenue	<u>2,500,633</u>	<u>2,563,897</u>	<u>5,064,530</u>
Expenses:			
General government	1,166,345	-	1,166,345
Law enforcement	272,100	-	272,100
Fire department	32,160	-	32,160
Municipal court	36,145	-	36,145
EMS	380,843	-	380,843
Library	117,385	-	117,385
Marfa Activity Center	58,391	-	58,391
Parks	9,419	-	9,419
Hotel	318,273	-	318,273
Depreciation	209,490	-	209,490
Interest	20,895	-	20,895
Proprietary expenses	-	2,116,466	2,116,466
Total expenses	<u>2,621,446</u>	<u>2,116,466</u>	<u>4,737,912</u>
Transfers in (out)	<u>(14,499)</u>	<u>70,000</u>	<u>55,501</u>
Change in net position	(135,312)	517,431	382,119
Net position at beginning of year	<u>2,948,908</u>	<u>4,533,169</u>	<u>7,482,077</u>
Net position at end of year	<u>\$ 2,813,596</u>	<u>\$ 5,050,600</u>	<u>\$ 7,864,196</u>

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Table II (Continued)
Changes in Net Position

<u>2016</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 606,440	\$ 2,495,149	\$ 3,101,589
General revenues:			
Property taxes	579,331	-	579,331
Sales taxes	419,609	-	419,609
Franchise taxes	390,639	-	390,639
Intergovernmental grants and revenue	74,817	-	74,817
Investment earnings	3,158	-	3,158
Total revenue	<u>2,073,994</u>	<u>2,495,149</u>	<u>4,569,143</u>
Expenses:			
General government	960,478	-	960,478
Law enforcement	217,480	-	217,480
Fire department	29,105	-	29,105
Municipal court	33,354	-	33,354
EMS	343,129	-	343,129
Library	112,443	-	112,443
Marfa Activity Center	52,122	-	52,122
Parks	14,433	-	14,433
Hotel	324,350	-	324,350
Depreciation	123,089	-	123,089
Interest	26,243	-	26,243
Proprietary expenses	-	2,279,569	2,279,569
Total expenses	<u>2,236,226</u>	<u>2,279,569</u>	<u>4,515,795</u>
Transfers in (out)	<u>(9,309)</u>	<u>65,000</u>	<u>55,691</u>
Change in net position	(171,541)	280,580	109,039
Net position at beginning of year	<u>3,120,449</u>	<u>4,252,589</u>	<u>7,373,038</u>
Net position at end of year	<u>\$ 2,948,908</u>	<u>\$ 4,533,169</u>	<u>\$ 7,482,077</u>

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

THE CITY'S FUNDS

The City reported a combined Governmental fund balance of \$309,393, a decrease of \$583,287 from last year's total of \$892,680. The fund balance of the City's General Fund decreased by \$546,630 from \$700,991 to \$154,361 during fiscal year 2017. This decrease resulted in large part from purchases of capital outlay.

The fund balance of the City's Debt Service Fund decreased by \$6,523 from \$331,738 to \$325,215 during fiscal year 2017, primarily due to a decrease in property tax revenues.

The fund balance for the City's Other Funds decreased by \$30,134 from \$(140,049) to \$(170,183) during 2017. This decrease was primarily due to intergovernmental revenues that did not exceed expenditures.

For the 2017 fiscal year, the City's proprietary funds reported combined total net position increased by \$517,431 from \$4,533,169 to \$5,050,600. This increase was primarily the result of an increase in revenues and non-operating transfers to settle interfund balances with the City's governmental funds and a decrease in operating expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2017, the City had a net amount of \$5,781,221 invested in a broad range of capital assets, including land, infrastructure, buildings, improvements, and machinery and equipment. This activity related to ongoing projects funded by the Revenue bond issuance in the previous fiscal years.

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Table III
Capital Assets

2017	Governmental Activities	Business-Type Activities	Total
Land	\$ 103,105	\$ 90,000	\$ 193,105
Furniture and equipment	1,158,462	1,371,666	2,530,128
Infrastructure	5,674,001	9,902,005	15,576,006
Construction in progress	-	10,340	10,340
	<u>6,935,568</u>	<u>11,374,011</u>	<u>18,309,579</u>
Less accumulated depreciation	(3,699,570)	(8,828,788)	(12,528,358)
Capital assets, net of depreciation	<u>\$ 3,235,998</u>	<u>\$ 2,545,223</u>	<u>\$ 5,781,221</u>
2016			
Land	\$ 103,105	\$ 90,000	\$ 193,105
Furniture and equipment	748,689	1,211,471	1,960,160
Infrastructure	4,792,692	9,903,458	14,696,150
Construction in progress	270,653	10,340	280,993
	<u>5,915,139</u>	<u>11,215,269</u>	<u>17,130,408</u>
Less accumulated depreciation	(3,490,081)	(8,546,712)	(12,036,793)
Capital assets, net of depreciation	<u>\$ 2,425,058</u>	<u>\$ 2,668,557</u>	<u>\$ 5,093,615</u>

Long-Term Debt

At September 30, 2017, the City had \$2,336,229 in debt outstanding in comparison to \$2,154,513 as of September 30, 2016. A detail of outstanding debt as of September 30, 2017 and 2016 is as follows:

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

Table IV
Debt

<u>2017</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Tax notes, and certificates of obligation	\$ 1,065,000	\$ -	\$ 1,065,000
Revenue bonds, net of unamortized discounts of \$158,771	-	591,229	591,229
Combination tax and surplus revenue certificates of obligation	-	680,000	680,000
Total	<u>\$ 1,065,000</u>	<u>\$ 1,271,229</u>	<u>\$ 2,336,229</u>
<u>2016</u>			
Tax notes, and certificates of obligation	\$ 820,000	\$ -	\$ 820,000
Revenue bonds, net of unamortized discounts of \$190,487	-	629,513	629,513
Combination tax and surplus revenue certificates of obligation	-	705,000	705,000
Total	<u>\$ 820,000</u>	<u>\$ 1,334,513</u>	<u>\$ 2,154,513</u>

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2017

THE CITY BUDGET

During the year ending September 30, 2017, the City adjusted the general fund budgeted amounts by a net \$79,730. The City's final revenue budget exceeded actual revenue by \$9,788, and the final expenditure budget was less than actual expenditures by \$558,059 due to different allocations of capital outlay in the budget versus actual.

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final Budget</u>
Revenue	\$ 1,715,202	\$ 1,897,590	\$ 1,887,802	\$ (9,788)
Expenditures	<u>(2,178,715)</u>	<u>(2,281,373)</u>	<u>(2,839,432)</u>	<u>(558,059)</u>
Change before other financing sources and uses	\$ <u>(463,513)</u>	\$ <u>(383,783)</u>	\$ <u>(951,630)</u>	\$ <u>(567,847)</u>

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 show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at the City of Marfa City Hall, P.O. Box 787, Marfa, Texas 79843.

CITY OF MARFA
Statement of Net Position - Government Wide
September 30, 2017

EXHIBIT A-1

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Nonmajor Component Unit</u>
ASSETS				
Cash and cash equivalents	\$ 2,589,992	\$ 1,389,998	\$ 3,979,990	\$ 120,899
Cash - restricted	-	235,990	235,990	-
Taxes receivable	108,315	-	108,315	-
Accounts receivable	37,429	368,370	405,799	-
Internal balances	(2,151,138)	2,151,138	-	-
Capital assets:				
Land and buildings, net	103,105	90,000	193,105	70,370
Furniture and equipment, net	412,386	352,941	765,327	-
Infrastructure, net	2,720,507	2,091,942	4,812,449	627,883
Construction in progress	-	10,340	10,340	-
Net prepaid pension	297,164	-	297,164	-
Other assets	-	-	-	1,567
Total assets	<u>4,117,760</u>	<u>6,690,719</u>	<u>10,808,479</u>	<u>820,719</u>
Deferred outflows of resources	<u>36,041</u>	<u>-</u>	<u>36,041</u>	<u>-</u>
LIABILITIES				
Accounts payable	104,867	110,790	215,657	-
Accrued wages payable	29,595	21,346	50,941	-
Customer deposits	-	91,923	91,923	-
Due to other governments	32,428	-	32,428	-
Noncurrent liabilities:				
Due within one year	300,000	100,000	400,000	-
Due in more than one year	765,000	1,171,229	1,936,229	-
Total liabilities	<u>1,231,890</u>	<u>1,495,288</u>	<u>2,727,178</u>	<u>-</u>
Deferred inflows of resources	<u>108,315</u>	<u>144,831</u>	<u>253,146</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	2,170,998	1,273,994	3,444,992	698,253
Restricted for debt service	325,215	-	325,215	-
Restricted for capital projects	-	235,990	235,990	-
Unrestricted	317,383	3,540,616	3,857,999	122,466
Total net position	<u>\$ 2,813,596</u>	<u>\$ 5,050,600</u>	<u>\$ 7,864,196</u>	<u>\$ 820,719</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA
Statement of Activities - Government Wide
For the Year Ended September 30, 2017

EXHIBIT B-1

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
GOVERNMENTAL ACTIVITIES:								
Administration	\$ 1,166,345	\$ -	-	-	\$ (1,166,345)	-	(1,166,345)	-
Law enforcement	272,100	-	-	-	(272,100)	-	(272,100)	-
Fire department	32,160	-	-	-	(32,160)	-	(32,160)	-
Municipal court	36,145	28,278	-	-	(7,867)	-	(7,867)	-
EMS	380,843	190,867	-	-	(189,976)	-	(189,976)	-
Library	117,385	-	-	-	(117,385)	-	(117,385)	-
Marfa Activity Center	58,391	-	-	-	(58,391)	-	(58,391)	-
Parks	9,419	-	-	-	(9,419)	-	(9,419)	-
Hotel	318,273	206,920	-	-	(111,353)	-	(111,353)	-
Depreciation	209,490	-	-	-	(209,490)	-	(209,490)	-
Interest	20,895	-	-	-	(20,895)	-	(20,895)	-
Total governmental activities	<u>2,621,446</u>	<u>426,065</u>	<u>-</u>	<u>-</u>	<u>(2,195,381)</u>	<u>-</u>	<u>(2,195,381)</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES:								
Enterprise fund	<u>2,116,466</u>	<u>2,563,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447,431</u>	<u>447,431</u>	<u>-</u>
Total Business-Type Activities:	<u>2,116,466</u>	<u>2,563,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447,431</u>	<u>447,431</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT:	<u>\$ 4,737,912</u>	<u>\$ 2,989,962</u>	<u>-</u>	<u>-</u>	<u>\$ (2,195,381)</u>	<u>447,431</u>	<u>(1,747,950)</u>	<u>-</u>
Component Unit:								
Nonmajor component unit	<u>\$ 73,271</u>	<u>\$ 126,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,758</u>
TOTAL COMPONENT UNIT:	<u>\$ 73,271</u>	<u>\$ 126,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,758</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 408,875	-	408,875	-
Property taxes, levied for debt service					188,761	-	188,761	-
Sales taxes					460,569	-	460,569	-
Franchise taxes					590,313	-	590,313	-
Intergovernmental grants and revenue					423,710	-	423,710	-
Investment earnings					2,340	-	2,340	-
Transfers in (out)					(14,499)	70,000	55,501	(50,000)
Total general revenues and transfers					<u>2,060,069</u>	<u>70,000</u>	<u>2,130,069</u>	<u>(50,000)</u>
Change in net position					(135,312)	517,431	382,119	2,758
Net position, beginning of year					<u>2,948,908</u>	<u>4,533,169</u>	<u>7,482,077</u>	<u>817,961</u>
Net position, end of year					<u>\$ 2,813,596</u>	<u>5,050,600</u>	<u>7,864,196</u>	<u>820,719</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA

EXHIBIT C-1

Balance Sheet
September 30, 2017

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,508,981	\$ 81,011	\$ -	\$ 2,589,992
Taxes receivable	67,300	41,015	-	108,315
Accounts receivable	35,532	-	1,897	37,429
Due (to)/from other funds	<u>(2,255,096)</u>	<u>244,204</u>	<u>(140,246)</u>	<u>(2,151,138)</u>
 Total assets	 <u>\$ 356,717</u>	 <u>\$ 366,230</u>	 <u>\$ (138,349)</u>	 <u>\$ 584,598</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 104,867	\$ -	\$ -	\$ 104,867
Accrued wages payable	30,189	-	(594)	29,595
Due to other governments	-	-	32,428	32,428
Total liabilities	<u>135,056</u>	<u>-</u>	<u>31,834</u>	<u>166,890</u>
 Deferred inflows of resources	 <u>67,300</u>	 <u>41,015</u>	 <u>-</u>	 <u>108,315</u>
Fund balances:				
Restricted	-	325,215	-	325,215
Unassigned	<u>154,361</u>	<u>-</u>	<u>(170,183)</u>	<u>(15,822)</u>
Total fund balances	<u>154,361</u>	<u>325,215</u>	<u>(170,183)</u>	<u>309,393</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 356,717</u>	 <u>\$ 366,230</u>	 <u>\$ (138,349)</u>	 <u>\$ 584,598</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA

EXHIBIT C-2

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2017

Total Fund Balances - Governmental Funds	\$ 309,393
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$5,914,010 and the accumulated depreciation was \$3,488,952. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	2,425,058
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of including the 2017 capital outlays is to increase net position.	1,020,430
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(209,490)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The effect of including the beginning balances for long-term debt in the governmental activities is to decrease net position.	(820,000)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The effect of including the balances for long-term debt additions in the governmental activities is to decrease net position.	(475,000)
Long-term liabilities, including net pension liability, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The effect of including the net prepaid pension is to increase net position.	297,164
Long-term debt principal payments are expenditures in the fund financial statements, but they are shown as reductions in long-term debt in the government-wide financial statements. The effect of including the 2017 principal payments is to increase net position.	230,000
Certain assets, including deferred outflows of resources of the internal service funds are included in the governmental activities in the statement of net position.	36,041
Net Postion of Governmental Activities	\$ <u>2,813,596</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA

EXHIBIT C-3

Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2017

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
Property tax	\$ 408,875	\$ 188,761	\$ -	\$ 597,636
Sales tax	460,569	-	-	460,569
Hotel and franchise tax	590,313	-	-	590,313
Court fees	28,278	-	-	28,278
Health services	190,867	-	-	190,867
Interest	2,230	110	-	2,340
Other revenue	206,670	-	250	206,920
Intergovernmental	-	-	423,710	423,710
Total revenues	<u>1,887,802</u>	<u>188,871</u>	<u>423,960</u>	<u>2,500,633</u>
EXPENDITURES:				
Current:				
Administration	753,904	-	294,476	1,048,380
Law enforcement	112,482	-	159,618	272,100
Fire department	32,160	-	-	32,160
Municipal court	36,145	-	-	36,145
EMS	380,843	-	-	380,843
Library	117,385	-	-	117,385
Marfa Activity Center	58,391	-	-	58,391
Parks	9,419	-	-	9,419
Hotel	318,273	-	-	318,273
Debt service:				
Principal	-	230,000	-	230,000
Interest	-	20,895	-	20,895
Capital outlay	1,020,430	-	-	1,020,430
Total expenditures	<u>2,839,432</u>	<u>250,895</u>	<u>454,094</u>	<u>3,544,421</u>
Deficiency of revenues over expenditures	<u>(951,630)</u>	<u>(62,024)</u>	<u>(30,134)</u>	<u>(1,043,788)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of tax note	475,000	-	-	475,000
Transfers in	-	55,501	-	55,501
Transfers out	(70,000)	-	-	(70,000)
Total other financing sources (uses)	<u>405,000</u>	<u>55,501</u>	<u>-</u>	<u>460,501</u>
Net changes in fund balances	(546,630)	(6,523)	(30,134)	(583,287)
Fund Balances - beginning	700,991	331,738	(140,049)	892,680
Fund Balances - ending	<u>\$ 154,361</u>	<u>\$ 325,215</u>	<u>\$ (170,183)</u>	<u>\$ 309,393</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA

EXHIBIT C-4

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ (583,287)
Current year capital outlays are expenditures in the fund financial statements but they are shown as increases in capital assets in the government-wide financial statements. The effect of removing the 2017 capital outlays is to increase the net position.	1,020,430
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(209,490)
Expenses associated with the change in the net pension liability are not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of the current year expense associated with the pension liability is to decrease net position.	(117,965)
The issuance of debt is reflected as an other financing source in the fund financial statements, but is reported as long-term debt in the government-wide financial statements. The effect of removing the proceeds of debt is to decrease net position.	(475,000)
Current year long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 debt principal payments is to increase net position.	230,000
Change in Net Position of Governmental Activities	<u>\$ (135,312)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA
Statement of Net Position
Proprietary Funds
September 30, 2017

EXHIBIT D-1

	Enterprise Funds			Total Enterprise Funds
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	
ASSETS				
Cash and cash equivalents	\$ 792,487	\$ (6,669)	\$ 604,180	\$ 1,389,998
Cash - restricted	235,990	-	-	235,990
Accounts receivable, net	331,288	(23,588)	60,670	368,370
Due (to)/from other funds	2,736,114	(1,402,258)	817,282	2,151,138
Capital assets:				
Land	-	-	90,000	90,000
Furniture and equipment	-	1,102,696	268,970	1,371,666
Infrastructure	8,806,075	961,377	134,553	9,902,005
Construction in progress	10,340	-	-	10,340
Less: accumulated depreciation	(6,905,690)	(1,726,129)	(196,969)	(8,828,788)
Total capital assets, net	<u>1,910,725</u>	<u>337,944</u>	<u>296,554</u>	<u>2,545,223</u>
Total assets	<u>6,006,604</u>	<u>(1,094,571)</u>	<u>1,778,686</u>	<u>6,690,719</u>
LIABILITIES				
Accounts payable	10,589	108,358	(8,157)	110,790
Accrued wages payable	-	5,758	15,588	21,346
Customer deposits	57,345	823	33,755	91,923
Noncurrent liabilities:				
Due within one year	100,000	-	-	100,000
Due in more than one year	1,171,229	-	-	1,171,229
Total liabilities	<u>1,339,163</u>	<u>114,939</u>	<u>41,186</u>	<u>1,495,288</u>
Deferred inflows of resources	-	144,831	-	144,831
NET POSITION				
Net investment in capital assets	639,496	337,944	296,554	1,273,994
Restricted for capital projects	235,990	-	-	235,990
Unrestricted	3,791,955	(1,692,285)	1,440,946	3,540,616
Total net position	<u>\$ 4,667,441</u>	<u>\$ (1,354,341)</u>	<u>\$ 1,737,500</u>	<u>\$ 5,050,600</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA

EXHIBIT D-2

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Proprietary Funds
 For the Year Ended September 30, 2017

	Enterprise Funds			Total Enterprise Funds
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	
OPERATING REVENUES:				
Charges for water services	\$ 527,902	-	\$ -	527,902
Charges for sewer services	415,497	-	-	415,497
Charges for sanitation services	-	661,304	-	661,304
Charges for gas services	-	-	748,942	748,942
Other revenue	50,272	25,222	23,234	98,728
TWDB surcharge	111,524	-	-	111,524
Total operating revenues	<u>1,105,195</u>	<u>686,526</u>	<u>772,176</u>	<u>2,563,897</u>
OPERATING EXPENSES:				
Payroll costs	-	524,439	244,918	769,357
Seminars and training	3,955	-	9,325	13,280
Professional and contracted services	26,347	400,254	22,010	448,611
Utilities	50,982	6,061	13,829	70,872
Maintenance and repairs	20,794	52,786	13,224	86,804
Other operating costs	18,578	75,712	171,582	265,872
Supplies and materials	63,587	11,408	57,273	132,268
Interest expense	44,299	-	-	44,299
Depreciation	185,899	76,179	23,025	285,103
Total operating expenses	<u>414,441</u>	<u>1,146,839</u>	<u>555,186</u>	<u>2,116,466</u>
Operating income (loss)	<u>690,754</u>	<u>(460,313)</u>	<u>216,990</u>	<u>447,431</u>
NON OPERATING REVENUES AND EXPENSES				
Transfers in	70,000	-	-	70,000
Total non operating revenues and expenses	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Increase (decrease) in net position	760,754	(460,313)	216,990	517,431
Total net position - beginning of year	<u>3,906,687</u>	<u>(894,028)</u>	<u>1,520,510</u>	<u>4,533,169</u>
Total net position - end of year	<u>\$ 4,667,441</u>	<u>(1,354,341)</u>	<u>\$ 1,737,500</u>	<u>5,050,600</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA
Statement of Cash Flows
Proprietary Funds

EXHIBIT D-3

For the Year Ended September 30, 2017

	Enterprise Funds			Total Enterprise Funds
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	
	Utilities Fund	Fund	Utilities Fund	
Cash Flows from Operating Activities:				
Cash received from user charges	\$ 916,045	\$ 685,894	\$ 758,312	\$ 2,360,251
Cash payments to employees for services	-	(539,562)	(239,665)	(779,227)
Cash payments to suppliers	(237,021)	(565,236)	(316,207)	(1,118,464)
Other operating income	111,524	-	-	111,524
Net cash provided (used) by operating activities	790,548	(418,904)	202,440	574,084
Cash Flows from Non-Capital Financing Activities:				
Transfers in	70,000	-	-	70,000
Transfers out	(789,766)	502,837	(200,119)	(487,048)
Net cash provided (used) by non-capital financing activities	(719,766)	502,837	(200,119)	(417,048)
Cash Flows from Capital and Related Financing Activities:				
Acquisition of capital assets	(1,575)	(89,619)	(70,575)	(161,769)
Proceeds from debt issued	-	-	-	-
Principal payments	(63,284)	-	-	(63,284)
Net cash provided by (used for) capital and related financing activities	(64,859)	(89,619)	(70,575)	(225,053)
Cash Flows from Investing Activities:				
Proceeds from investments	-	-	-	-
Net cash provided by investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	5,923	(5,686)	(68,254)	(68,017)
Cash and cash equivalents at beginning of the year	786,564	(983)	672,434	1,458,015
Cash and cash equivalents at end of the year	\$ 792,487	\$ (6,669)	\$ 604,180	\$ 1,389,998
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:				
Operating income (loss)	\$ 690,754	\$ (460,313)	\$ 216,990	\$ 447,431
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	185,899	76,179	23,025	285,103
Effect of increases and decreases in current assets and liabilities:				
Accounts receivable	(77,167)	11,210	(13,864)	(79,821)
Decrease in restricted cash	(460)	-	-	(460)
Accounts payable	(9,188)	(17,525)	(30,477)	(57,190)
Accrued wages payable	-	(15,123)	5,253	(9,870)
Deferred outflows	-	(11,843)	-	(11,843)
Customer deposits	710	(1,489)	1,513	734
Net cash provided (used) by operating activities	\$ 790,548	\$ (418,904)	\$ 202,440	\$ 574,084

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Marfa (the “City”) is a municipal corporation incorporated in the State of Texas and operates as a general law type A municipality utilizing a Council-City Administrator form of organization. The Council is composed of a Mayor and five Council members, all of whom are elected at large for two-year terms. The City provides the following services: fire and police protection, streets, sanitation, water service, gas service, health and social services, culture-recreation and general administration services.

The City’s annual financial report includes the accounts of all City operations and the accounts of one discretely presented component unit, the City of Marfa Section 4B Sales Tax funded Parks and Recreational Project. The Parks and Recreational Project is funded by a ½ cent sales tax. The City Council appoints the members of the Parks and Recreational Project Board and the City is responsible for the collection and remission of the sales tax. The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of significant accounting policies.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all governmental and business-type activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Taxes and other items not allocated among program revenues are reported as general revenues.

The accounts of the City are organized on the basis of funds. The fund level statements focus on the governmental and proprietary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by Governmental Accounting Standards Board (“GASB”) Statement 34, as amended. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental or enterprise other fund groupings.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e. both measurable and available). Revenues, other than grants, are considered available when they are collectible within the current period or soon enough thereafter to liquidate liabilities of the current period (defined by the City as collected within 60 days of the end of the fiscal year). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed or when all eligibility requirements of the provider have been met, and they are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is due. However, expenditures related to compensated absences are recorded when payment is due. Debt service expenditures are recognized when payment is due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, sales taxes, franchise taxes, hotel occupancy taxes, emergency medical service charges, municipal court fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the City receives cash.

Governmental Funds: Consist of the general fund, debt service fund, and other funds.

The City reports the following major governmental fund:

General Fund: The primary operating fund of the City. It is used to account for all financial resources that are not required to be accounted for in another fund. It includes the following activities: general government; public safety; transportation, planning and sustainability; public health; public recreation and culture; and urban growth management.

In addition, the City reports the following non-major governmental funds:

Debt Service Funds: Account for the accumulation of resources for, and the payment of, general long-term debt.

Other Funds: Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, including grant funds.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing electric, gas, or water-wastewater services. Other revenues or expenses are nonoperating items.

Proprietary Funds: Consist of enterprise funds.

Enterprise Funds: Account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

D. ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. Investments are carried at fair value, which is based on quoted market prices.
2. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. After one year, all full-time employees earn between 80 to 120 hours of vacation time per year. Employees are permitted to accumulate accrued vacation leave up to a maximum of between 80 to 240 hours each calendar year. Upon retirement or termination, the employee is paid for accumulated, unpaid vacation at their then current rate of pay. All vacation benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirement or termination.
4. Capital assets, which include land, infrastructure, buildings, improvements other than buildings, machinery and equipment, and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life of at least one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

CITY OF MARFA

Notes to the Financial Statements

September 30, 2017

(continued)

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, improvements other than buildings, and machinery and equipment of the City and the component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	25 - 75
Machinery and Equipment	7 - 15

5. In the fund financial statements, the City classifies its fund balance into five categories: nonspendable, restricted, committed, assigned or unassigned. *Nonspendable* fund balances include amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. *Restricted* fund balances have constraints on use of resources by externally imposed creditors or by constitutional provisions or enabling legislation. *Committed* fund balances are used for specific purposes pursuant to constraints imposed by the formal action of the City’s highest level of decision making. *Assigned* fund balances are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed by the City. *Unassigned* fund balance is the residual classification for the general fund.
6. The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.
7. Accounts receivable are recorded at the value of the revenue earned and require payment within 30 days. The City recognizes a provision for doubtful accounts based on an assessment of specific accounts that are no longer estimated to be collectible. Delinquent accounts receivable do not accrue interest. The City’s allowance for doubtful accounts was \$48,341 for municipal court fees and \$355,673 for proprietary activities at September 30, 2017.
8. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

9. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. NEW PRONOUNCEMENTS

GASB Summary of Statement No.86 was issued in May 2017 and addresses accounting and financial reporting issues related to extinguishment of debt. This statement provides guidance for transactions in which cash and other monetary assets, acquired with only existing resources, are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is currently evaluating the effects of that the adoption of this standard will have on its financial position, results of operations, or cash flows.

GASB Summary of Statement No.87 was issued in June 2017 and addresses accounting and financial reporting issues related to leases. Under the new standard, leases are all assumed to be capital financings of the underlying assets with only a narrow range of short-term equipment and motor vehicle leases treated as operating leases. The new standard will require recognition of assets and liabilities for all leases whether or not they previously were accounted for as an operating or capital lease. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City is currently evaluating the effects of that the adoption of this standard will have on its financial position, results of operations, or cash flows.

II. BUDGETARY DATA

A. GENERAL BUDGET POLICIES

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to September 1, the Mayor (as the chief budgetary official) submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to September 30, the budget is legally enacted through Council approval.
- (4) The City Secretary is required by the City Council to present a monthly report to the City Council explaining any variance from the approved budget.
- (5) The budget adopted includes revenues and expenses in connection with the utility and garbage service.
- (6) Appropriations lapse at the end of each fiscal year.
- (7) The City Council may authorize supplemental appropriations during the year.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

B. ENCUMBRANCES

As part of formal budgetary control over governmental funds, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budget basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent-year expenditures for the governmental funds. There were no outstanding encumbrances as of September 30, 2017.

III. NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact the delivery of the City's services. The following is a reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Position for the primary government at September 30, 2017:

Cash and cash equivalents		\$ 3,979,990
Money market mutual fund		<u>235,990</u>
Total		<u>\$ 4,215,980</u>
Cash and cash equivalents -		
unrestricted	\$	3,979,990
Cash – restricted		<u>235,990</u>
Total	\$	<u>4,215,980</u>

The following is a reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Position for the component unit at September 30, 2017:

Deposits with financial institutions		\$ 70,430
Certificate of deposit		<u>50,469</u>
Total		<u>\$ 120,899</u>
Cash and cash equivalents	\$	<u>120,899</u>
Total	\$	<u>120,899</u>

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. The City has a safekeeping clause in its investment policy which notes that collateral pledged to secure City deposits will be held in accordance with a safekeeping agreement which clearly defines the procedures for obtaining access to the collateral. The safekeeping institution is defined as the Federal Reserve Bank, or an institution not affiliated with the firm pledging the collateral. At September 30, 2017, the carrying amount of the City's cash held in demand deposits was \$4,215,980. The bank balance was \$4,404,507 as of September 30, 2016.

There is no limit on the amount the City may deposit in any one institution. At September 30, 2017, bank balances exceeded the FDIC insured limits by \$3,476,683. This excess was fully covered by pledged securities in the City's name in the amount of \$3,585,000 at September 30, 2017.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the City, and are held by the counterparty, its trust or agent, but not in the City's name. The City's investment securities are not exposed to custodial credit risk because all securities are held by the City's custodial banks in the City's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City is authorized to invest funds in accordance with its investment policy, bond indentures, and the Texas Public Funds Investment Act. Authorized investments for the City include, but are not limited to: U.S. government obligations and its agencies, obligations of Texas and its agencies, fully collateralized repurchase agreements, certificates of deposit, government pools, money market funds, common trust funds, and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes). The assets that make up the money market mutual fund are comprised of U.S. Treasury Bills and U.S. Treasury Notes.

The City's investments are insured or registered and are held by the City or its agent in the City's name.

Interest Rate Risk

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. Interest rate risk may be mitigated by investing operating funds primarily in shorter term securities, money market funds or similar investment pools and limiting the average maturity of the portfolio.

The City's investment policy notes that with regard to maximum maturities, the City will attempt to match its investments with its anticipated cash flow requirements. The average maturity of investments of the operating funds is one year. The maximum stated maturity of any investment shall not exceed five years.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

As of September 30, 2017, the City's certificates of deposit had a remaining maturity of less than one year.

Investments

The City adhered to the requirements of the Texas Public Funds Investment Act. The investment practices of the City were in accordance with City policies.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the City. To help mitigate credit risk, credit quality guidelines are incorporated into the investment policy, as follows:

- Limiting investments to the safest types of securities, as listed above under the 'Concentration of Credit Risk' section; and
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business.

B. PROPERTY TAXES AND RECEIVABLES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the City. The assessed value at January 1, 2016, upon which the fiscal year 2016 and 2017 levy was based, was \$127,754,907. This amount is the net taxable value adjusted for frozen taxable value and new improvements. The amount of the levy attributable to frozen taxes and improvements was \$31,652,023 and \$5,229,810, respectively. The total taxable value before the adjustment for frozen taxable value and improvements was \$164,636,740.

The tax assessment of October 1, 2016 set a tax levy at \$0.4438 per \$100 of assessed valuation at 100% of assumed market value. Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property.

Property taxes at the fund level are recorded as receivable at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. At September 30, 2017, delinquent property taxes receivable is \$108,315, net of an allowance for doubtful accounts of \$0.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

C. CAPITAL ASSET ACTIVITY

Capital asset activity for the City's governmental activities for the year ended September 30, 2017, was as follows:

Governmental activities:	Beginning Balance	Acquisitions	Disposals/ Recalsses	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 270,653	\$ -	\$ (270,653)	\$ -
Land	<u>103,105</u>	<u>-</u>	<u>-</u>	<u>103,105</u>
Total capital assets, not being depreciated	<u>373,758</u>	<u>-</u>	<u>(270,653)</u>	<u>103,105</u>
Capital assets, being depreciated:				
Infrastructure	4,792,692	881,309	-	5,674,001
Furniture and equipment	<u>748,689</u>	<u>409,774</u>	<u>-</u>	<u>1,158,463</u>
Total assets being depreciated	<u>5,541,381</u>	<u>1,291,083</u>	<u>-</u>	<u>6,832,464</u>
Less accumulated depreciation for:				
Infrastructure	(2,848,706)	(104,790)	-	(2,953,496)
Furniture and equipment	<u>(641,375)</u>	<u>(104,700)</u>	<u>-</u>	<u>(746,075)</u>
Total accumulated depreciation	<u>(3,490,081)</u>	<u>(209,490)</u>	<u>-</u>	<u>(3,699,571)</u>
Total capital assets, being depreciated, net	<u>2,051,300</u>	<u>1,081,593</u>	<u>-</u>	<u>3,132,893</u>
Governmental activities capital assets, net	<u>\$ 2,425,058</u>	<u>\$ 1,081,593</u>	<u>\$ (270,653)</u>	<u>\$ 3,235,998</u>

Capital asset activity for the City's business-type activities for the year ended September 30, 2017, was as follows:

Business-type activities:	Beginning Balance	Acquisitions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 10,340	\$ -	\$ -	\$ 10,340
Land	<u>90,000</u>	<u>-</u>	<u>-</u>	<u>90,000</u>
Total capital assets, not being depreciated	<u>100,340</u>	<u>-</u>	<u>-</u>	<u>100,340</u>
Capital assets, being depreciated:				
Infrastructure	9,903,458	-	(1,453)	9,902,005
Furniture and equipment	<u>1,211,471</u>	<u>160,195</u>	<u>-</u>	<u>1,371,666</u>
Total assets being depreciated	<u>11,114,929</u>	<u>160,195</u>	<u>(1,453)</u>	<u>11,273,671</u>
Less accumulated depreciation for:				
Infrastructure	(7,608,090)	(211,008)	1,453	(7,817,645)
Furniture and equipment	<u>(937,048)</u>	<u>(74,095)</u>	<u>-</u>	<u>(1,011,143)</u>
Total accumulated depreciation	<u>(8,545,138)</u>	<u>(285,103)</u>	<u>1,453</u>	<u>(8,828,788)</u>
Total capital assets, being depreciated, net	<u>2,569,791</u>	<u>(124,908)</u>	<u>-</u>	<u>2,444,883</u>
Business-type activities capital assets, net	<u>\$ 2,670,131</u>	<u>\$ (124,908)</u>	<u>\$ -</u>	<u>\$ 2,545,223</u>

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Capital asset activity for the City's nonmajor component unit for the year ended September 30, 2017, was as follows:

Component Unit:	Beginning Balance	Acquisitions	Disposals/ Reclasses	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 232,331	\$ -	\$ (232,331)	\$ -
Total capital assets, not being depreciated	<u>232,331</u>	<u>-</u>	<u>(232,331)</u>	<u>-</u>
Capital assets, being depreciated:				
Building	91,654	-	-	91,654
Infrastructure	561,700	238,518	-	800,218
Furniture and equipment	<u>63,761</u>	<u>-</u>	<u>-</u>	<u>63,761</u>
Total assets being depreciated	<u>717,115</u>	<u>238,518</u>	<u>-</u>	<u>955,633</u>
Less accumulated depreciation for:				
Building	(20,704)	(580)	-	(21,284)
Infrastructure	(125,741)	(46,595)	-	(172,336)
Furniture and equipment	<u>(63,761)</u>	<u>-</u>	<u>-</u>	<u>(63,761)</u>
Total accumulated depreciation	<u>(210,206)</u>	<u>(47,175)</u>	<u>-</u>	<u>(257,381)</u>
Total capital assets, being depreciated, net	<u>506,910</u>	<u>191,343</u>	<u>-</u>	<u>698,253</u>
Component unit capital assets, net	<u>\$ 739,241</u>	<u>\$ 191,343</u>	<u>\$ (232,331)</u>	<u>\$ 698,253</u>

D. BONDS AND LONG-TERM NOTES PAYABLE

The following is a summary of the City's governmental long-term debt at September 30, 2017:

Governmental Activities:

\$1,280,000; 2014 Texas Tax Note; due in annual installments through 2021; variable interest rate from 1.8%-3.3%.

Outstanding at September 30, 2017	\$ 590,000
Less: current maturities	<u>(145,000)</u>
Long-term debt at September 30, 2017	<u>\$ 445,000</u>

\$475,000; 2017 Texas Tax Note; due in annual installments through 2020; variable interest rate from 1.8%-3.3%.

Outstanding at September 30, 2017	\$ 475,000
Less: current maturities	<u>(155,000)</u>
Long-term debt at September 30, 2017	<u>\$ 320,000</u>

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

The following is a summary of the City's proprietary long-term debt at September 30, 2017:

Business-Type Activities:

\$1,265,000; 2007; Texas Waterworks and Wastewater System Revenue Bonds; due in annual installments through 2026. This bond bears no interest; therefore the City discounted the bond using the Treasury Constant Maturities rate as of the bond's effective date (5.34% at June 15, 2007). At September 30, 2017, the unamortized discount totaled \$158,771

Outstanding at September 30, 2017, less unamortized discounts	\$ 591,229
Less: current maturities	<u>(70,000)</u>
Long-term debt at September 30, 2017, less unamortized discounts	<u>\$ 521,229</u>

\$705,000; 2015; SWIFT Waterwell Combination Tax and Surplus Revenue Certification of Obligation, Series 2015; due in annual installments through 2036. The certificates bear variable interest through the maturities date (0.380% at September 30, 2017).

Outstanding at September 30, 2017	\$ 680,000
Less: current maturities	<u>(30,000)</u>
Long-term debt at September 30, 2017	<u>\$ 650,000</u>

The 2007 Bond is secured by a pledge of the net revenues of the City's combined water and wastewater system. The 2015 Bond is collateralized by the City's surplus utility revenue and/or property tax debt funds.

A summary of changes in long-term debt for the year ended September 30, 2017 is as follows:

Description	Amounts Outstanding October 1, 2016	Additions	Retirements	Amounts Outstanding September 30, 2017
Governmental activities:				
2014 Tax note	\$ 820,000	\$ -	\$ (230,000)	\$ 590,000
2017 Tax note	<u>-</u>	<u>475,000</u>	<u>-</u>	<u>475,000</u>
	<u>820,000</u>	<u>475,000</u>	<u>(230,000)</u>	<u>1,065,000</u>
Business-type activities:				
Revenue bonds	<u>1,334,513</u>	<u>31,716</u>	<u>(95,000)</u>	<u>1,271,229</u>
	<u>1,334,513</u>	<u>31,716</u>	<u>(95,000)</u>	<u>1,271,229</u>
Totals	<u>\$ 2,154,513</u>	<u>\$ 506,716</u>	<u>\$ (325,000)</u>	<u>\$ 2,336,229</u>

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

E. DEBT SERVICE REQUIREMENTS – BONDS AND NOTES PAYABLE

Debt service requirements for the City’s obligations are as follows:

Governmental Activities			
Tax Notes			
Year Ended September 30,	Principal	Interest	Total Requirements
2018	\$ 300,000	\$ 23,920	\$ 323,920
2019	305,000	14,672	319,672
2020	305,000	8,632	313,632
2021	155,000	2,558	157,558
	<u>\$ 1,065,000</u>	<u>\$ 49,782</u>	<u>\$ 1,114,782</u>

Business-Type Activities			
Revenue Bonds			
Year Ended September 30,	Principal	Interest	Total Requirements
2018	95,328	41,773	137,101
2019	82,482	39,427	121,909
2020	85,284	36,386	121,670
2021	88,237	33,151	121,388
2022	91,346	29,717	121,063
2023 and thereafter	828,552	125,416	953,968
	<u>\$ 1,271,229</u>	<u>\$ 305,870</u>	<u>\$ 1,577,099</u>

F. EMPLOYEE RETIREMENT SYSTEMS

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee’s contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee’s accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee’s accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee’s salary had always been the average of his or her salary in the last three years that

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate in advance for budgetary purposes; there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2013 valuation is effective for rates beginning January 2015).

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	25 Years
	10 Year smoothed market; 15% soft
Asset Valuation Method	corridor
Investment Rate of Return	6.75%
Projected Salary Increases	3.5% to 10.5% including inflation
Includes Inflation At Retirement Age	2.5%
	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustmetn with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Cost-of-Living Adjustments	2.5% CPI
City-specific assumptions:	
Payroll growth assumptions	3.0%
Withdrawal rates for male/female	High/Mid-High

The City of Marfa is one of 872 (869 active) municipalities having the benefit plan administered by TMRS. Each of the 872 active municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2016 valuations are contained in the 2016 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Employees covered by benefit terms

At December 31, 2016 valuation and measurement date, the following employees were covered by the defined benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not receiving benefits	27
Active employees	<u>31</u>
Total	78

CITY OF MARFA

Notes to the Financial Statements

September 30, 2017

(continued)

The long-term expected rate of return on pension plan investments is 6.75%. 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
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100%	

The discount rate used to measure the Total Pension Liability was 6.75%. 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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

1% Decrease	Current Single Rate Assumption	1% Increase
5.75%	6.75%	7.75%
4,380	(297,164)	(548,779)

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Schedule of Pension Expense

Total Service Cost	\$ 108,174
Interest on the Total Pension Liability	158,562
Current Period Benefit Changes	-
Employee Contributions (Reduction of Expense)	(58,790)
Projected Earnings on Plan Investments (Reduction of Expense)	(181,679)
Administrative Expense	2,054
Other Changes in Fiduciary Net Position	111
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	7,319
Recognition of Current Year Outflow (Inflow) of Resources-Assets	12
Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	37,633
Amortization of Prior Year Outflows (Inflows) of Resources-Assets	44,569
Total Pension Expense	<u>\$ 117,965</u>

Schedule of Outflows and Inflows

	Deferred Outflows of Resources
Difference between expected and actual economic experience	\$ 13,028
Changes in actuarial assumptions	-
Difference between projected and actual investment earnings	47
Total	<u>\$ 13,075</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ 68,155
2018	50,289
2019	37,743
2020	11
2021	-
Thereafter	-
Total	<u>\$ 156,198</u>

The schedule of changes in net pension liability and related ratios and schedule of contributions, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Texas Emergency Services Retirement System

Plan Description

The City provides pension, disability and survivor benefits for all persons whom perform services as a volunteer and auxiliary member of the Marfa Volunteer Fire Department through the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer pension system.

No contributions are required by individual members. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. At the date the plan began, the City granted monetary credits for service rendered before the plan began of \$28,539. Monetary credits for service since the plan began are \$45 per active member per month. Contributions made by the City the last three years are as follows:

<u>Year End</u>	<u>Actual Contribution Made</u>
9/30/2015	\$ 7,965
9/30/2016	\$ 8,755
9/30/2017	\$ 7,740

Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service. Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Under the state law governing TESRS, the actuary biennially determines the City's contribution rate to determine if it is adequate to pay the benefits that are promised.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

**Actuarial Assumptions
As of August 31, 2016**

Actuarial Cost Method	Entry Age
Amortization Method	Level dollar, open
Remaining Amortization Period	Determined at each valuation date
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Investment Rate of Return	7.75%
Projected Salary Increases	N/A
Includes Inflation At	3.0%
Cost-of-Living Adjustments	None

The City of Marfa is one of 190 member fire or emergency services departments having the benefit plan administered by TESRS. None of the 190 member fire or emergency services departments has an annual or biennial, individual actuarial valuation performed.

The long-term expected rate of return on pension plan investments is 7.75%. 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 TESRS. 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
Equities		
Large Cap Domestic	32.00%	5.72%
Small Cap Domestic	10.00%	5.96%
Developed International	21.00%	6.21%
Emerging Markets	6.00%	7.18%
Master Limited Partnership	5.00%	7.61%
Fixed Income		
Domestic	21.00%	1.61%
International	5.00%	1.81%
Total	100%	

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.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

1% Decrease	Current Single Rate Assumption	1% Increase
6.75%	7.75%	8.75%
70,817	37,923	17,171

Schedule of Outflows and Inflows

	Deferred Outflows of Resources
Difference between expected and actual economic experience	\$ 40
Changes in actuarial assumptions	554
Difference between projected and actual investment earnings	3,536
Total	<u><u>\$ 4,130</u></u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ 1,784
2018	3,273
2019	(157)
2020	(770)
Total	<u><u>\$ 4,130</u></u>

The schedule of changes in net pension liability and related ratios and schedule of contributions, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

G. INTERFUND BALANCES AND TRANSFERS

During the fiscal year ended September 30, 2017, the Parks Fund transferred \$55,501 to the City Interest and Sinking Fund to utilize toward tax note payments.

H. JOINT VENTURE

The Southwest Texas Municipal Gas Corporation (“STMGC”), a nonprofit Texas corporation, operated the gas distribution system for the cities of Marfa and Alpine in accordance with the inter-local governmental agreement effective February 18, 2009. In February 2012, Southwest Texas Municipal Gas Corporation dissolved and the City of Marfa began operations of a City Gas Department. The assets held by STMGC were divided equally between the cities of Marfa and Alpine. The fair value of assets received by the City in the liquidation as of September 30, 2015 was \$68,431. The City received a royalty payment in regard to this investment during 2017 in the amount of \$4,580.

CITY OF MARFA
Notes to the Financial Statements
September 30, 2017
(continued)

I. SUBSEQUENT EVENTS

The City evaluates events that occur subsequent to the Statement of Net Position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the City's financial statements are issued. For the financial statements as of and for the year ending September 30, 2017, this date was October 30, 2018.

CITY OF MARFA
 Required Supplementary Information-Unaudited
 Schedule of Funding Progress
 For the Year Ended September 30, 2017

EMPLOYEE RETIREMENT PLANS

Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability and Related Ratios

Total Pension	
Service Cost	\$ 108,174
Interest (on TPL)	158,562
Changes of benefit terms	-
Difference between expected and actual experience	20,347
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(122,343)
Net change in total pension liability	164,740
Total pension liability - beginning	<u>2,356,148</u>
Total pension liability - ending	<u>\$ 2,520,888</u>
Plan fiduciary net position	
Contributions - Employer	\$ 10,614
Contributions - Employee	58,790
Net investment income	181,620
Benefit payments, including refunds of employee contributions	(122,343)
Administrative expense	(2,054)
Other	(111)
Net change in plan fiduciary net position	126,516
Plan fiduciary net position - beginning	<u>2,691,536</u>
Plan fiduciary net position - ending	<u>\$ 2,818,052</u>
Net pension liability (prepaid)	<u>\$ (297,164)</u>
Plan fiduciary net positions as a percentage of TPL	111.79%
Covered-employee payroll	\$ 1,175,802
Net pension liability as a percentage of covered employee payroll	-25.27%

CITY OF MARFA
 Required Supplementary Information-Unaudited
 Schedule of Funding Progress
 For the Year Ended September 30, 2017

Schedule of Contributions

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 19,130	\$ 7,238	\$ 7,590	\$ 8,231
Contribution in relation to the actuarilly determined contribution	\$ 17,039	\$ 11,830	\$ 11,438	\$ 16,788
Contribution deficiency (excess)	\$ 2,091	\$ (4,592)	\$ (3,848)	\$ (8,557)
Covered employee payroll	\$ 986,091	\$ 1,033,989	\$ 1,084,282	\$ 1,175,802
Contributions as a percentage of covered employee payroll	1.73%	1.14%	1.05%	1.43%

Notes: Actuarially determined contributions rates are calculated as of December 31 and become effective in January, 13 months later.

Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Investment Rate of Return	6.75%
Projected Salary Increases	3.5% to 10.5% including inflation
Includes Inflation At Retirement Age	2.5%
Mortality	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014. RP2000 Combined Mortality Table with Blue Collar Adjustmetn with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Cost-of-Living Adjustments	2.5% CPI
City-specific assumptions:	
Payroll growth assumptions	3.0%
Withdrawal rates for male/female	High/Mid-High

CITY OF MARFA
 Required Supplementary Information-Unaudited
 Schedule of Funding Progress
 For the Year Ended September 30, 2017

Texas Emergency Services Retirement System

Total Pension

Service Cost	\$ 2,518
Interest (on TPL)	14,960
Changes of benefit terms	-
Difference between expected and actual experience	1,327
Changes of assumptions	(11,139)
Pension plan administrative expenses	291
Benefit payments, including refunds of employee contributions	-
Net change in total pension liability	<u>\$ 7,957</u>
Total pension liability - beginning	<u>197,626</u>
Total pension liability - ending	<u><u>\$ 205,583</u></u>

Plan fiduciary net position

Contributions - Employer	\$ 7,740
Contributions - Employee	1,922
Net investment income	-
Benefit payments, including refunds of employee contributions	-
Administrative expense	(291)
Other	-
Net change in plan fiduciary net position	<u>\$ 9,371</u>
Plan fiduciary net position - beginning	<u>191,435</u>
Plan fiduciary net position - ending	<u><u>\$ 200,806</u></u>

Net pension liability \$ 4,777

Plan fiduciary net positions as a percentage of TPL 97.68%

Number of Active Employees 15

Net pension liability per Active Member \$ 318.47

Notes: No contributions are required by individual members. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. At the date the plan began, the City granted monetary credits for service rendered before the plan began of \$28,539. Monetary credits for service since the plan began are \$45 per active member per month. Contributions made by the City the last four years are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actual Contribution Made	\$ 12,525	\$ 8,055	\$ 7,965	\$ 8,775

CITY OF MARFA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual-General Fund-Unaudited
For the Year Ended September 30, 2017

	(Unaudited)		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Budgeted Amounts			
	Original	Final		
REVENUES:				
Property tax	\$ 379,960	\$ 415,000	\$ 408,875	\$ (6,125)
Sales tax	430,000	461,201	460,569	(632)
Hotel and franchise tax	435,000	591,643	590,313	(1,330)
Court fees	35,000	30,000	28,278	(1,722)
Health services	79,000	92,000	190,867	98,867
Interest	2,700	2,026	2,230	204
Other revenue	353,542	305,720	206,670	(99,050)
Total revenues	<u>1,715,202</u>	<u>1,897,590</u>	<u>1,887,802</u>	<u>(9,788)</u>
EXPENDITURES:				
Current:				
Administration	689,598	838,600	753,904	84,696
Law enforcement	270,604	195,143	112,482	82,661
Fire department	35,000	35,000	32,160	2,840
Municipal court	41,795	37,595	36,145	1,450
EMS	338,225	424,185	380,843	43,342
Library	274,318	169,500	117,385	52,115
Marfa Activity Center	79,675	62,570	58,391	4,179
Parks	5,500	9,400	9,419	(19)
Hotel	444,000	509,380	318,273	191,107
Capital outlay	-	-	1,020,430	(1,020,430)
Total expenditures	<u>2,178,715</u>	<u>2,281,373</u>	<u>2,839,432</u>	<u>(558,059)</u>
Expenditures in excess of revenues	\$ <u>(463,513)</u>	\$ <u>(383,783)</u>	(951,630)	\$ <u>(567,847)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of tax note			475,000	
Transfers in			-	
Transfers out			(70,000)	
Total other financing sources (uses)			<u>405,000</u>	
Net change in fund balances			(546,630)	
Fund Balance - beginning balance			700,991	
Fund Balance - ending balance			<u>\$ 154,361</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MARFA
Notes to Required Supplementary Information-Unaudited
For the Year Ended September 30, 2017

Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Prior to September 1, the Mayor (as the chief budgetary official) submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to September 30, the budget is legally enacted through Council approval.
- 4) The City Secretary is required by the City Council to present a monthly report to the City Council explaining any variance from the approved budget.
- 5) The budget adopted includes revenues and expenses in connection with the utility and garbage service.
- 6) Appropriations lapse at the end of each fiscal year.
- 7) The City Council may authorize supplemental appropriations during the year.

Encumbrances

As part of formal budgetary control over governmental funds, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budget basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent-year expenditures for the governmental funds. There were no outstanding encumbrances as of September 30, 2017.



REPORT OF INDEPENDENT AUDITOR 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

Honorable Mayor and
Members of the City Council
City of Marfa, Texas

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marfa (“the City”) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’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’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’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.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

October 30, 2018
Houston, Texas