City of Marfa

Report of Independent Auditor and
Comprehensive Annual Financial Report

September 30, 2018

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CITY OF MARFA
Annual Financial Report
September 30, 2018

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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, 2018, 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, 2018, 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.

PMB Helin Donovan, LLP
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Sugar Land, TX 77478

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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 40 through 42, and the budgetary comparison information on pages 43 through 44, 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 July 12, 2019, 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's internal control over financial reporting and compliance.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

July 12, 2019
Houston, Texas

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, 2018. 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.

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, sanitation, and natural gas. The City charges a fee to "customers" to help it cover all or most of the cost of services it provides for water, wastewater, sanitation and natural gas 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 $144,745, or 5.1%, during 2018, excluding internal transfers. This decrease in net position was primarily due to EMS and tourist information and convention center expenses exceeding revenue. 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 $335,912 from $317,383 in 2017 to ($18,529) during 2018.

In 2018, the net position of the City's business-type activities increased by $506,818, or 10.0%, excluding internal transfers. This increase was primarily due to an increase in revenues due to increased demand for utility services.

Table I
Net Position

2018	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 245,454	$ 4,729,584	$ 4,975,038
Capital assets	3,194,686	2,339,129	5,533,815
Net prepaid pension	443,050	-	443,050
Total assets	3,883,190	7,068,713	10,951,903
Deferred outflow of resources	90,824	-	90,824
Current liabilities	506,978	244,878	751,856
Noncurrent liabilities	460,000	1,090,901	1,550,901
Total liabilities	966,978	1,335,779	2,302,757
Deferred inflow of resources	284,109	175,516	459,625
Net position:			
Net investment in capital assets	2,429,686	1,138,228	3,567,914
Restricted for debt service	311,770	-	311,770
Restricted for capital projects	-	238,093	238,093
Unrestricted	(18,529)	4,181,097	4,162,568
Total net position	$ 2,722,927	$ 5,557,418	$ 8,280,345

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	4,117,760	6,690,719	10,808,479
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	1,231,890	1,495,288	2,727,178
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	$ 2,813,596	$ 5,050,600	$ 7,864,196

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2018

Table II
Changes in Net Position

2018	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 566,549	$ 2,700,770	$ 3,267,319
General revenues:			
Property taxes	704,239	-	704,239
Sales taxes	532,541	-	532,541
Franchise taxes	36,209	-	36,209
Hotel occupancy taxes	538,599	-	538,599
Intergovernmental grants and revenue	572,018	-	572,018
Investment earnings	3,410	-	3,410
Total revenue	2,953,565	2,700,770	5,654,335
Expenses:			
General government	977,516	-	977,516
Law enforcement	774,822	-	774,822
Fire department	17,070	-	17,070
Municipal court	41,992	-	41,992
EMS	370,660	-	370,660
Library	135,781	-	135,781
Marfa Activity Center	36,205	-	36,205
Parks	4,396	-	4,396
Hotel	425,952	-	425,952
Depreciation	266,822	-	266,822
Interest	22,421	-	22,421
Disposal of equipment	24,673	-	24,673
Proprietary expenses	-	2,193,952	2,193,952
Total expenses	3,098,310	2,193,952	5,292,262
Transfers in (out)	54,076	-	54,076
Change in net position	(90,669)	506,818	416,149
Net position at beginning of year	2,813,596	5,050,600	7,864,196
Net position at end of year	$ 2,722,927	$ 5,557,418	$ 8,280,345

CITY OF MARFA
Management's Discussion and Analysis (Unaudited)
September 30, 2018

Table II (Continued)
Changes in Net Position

2017	Governmental Activities	Business-Type Activities	Total
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	36,643	-	36,643
Hotel occupancy taxes	553,670	-	553,670
Intergovernmental grants and revenue	423,710	-	423,710
Investment earnings	2,340	-	2,340
Total revenue	2,500,633	2,563,897	5,064,530
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	2,621,446	2,116,466	4,737,912
Transfers in (out)	(14,499)	70,000	55,501
Change in net position	(135,312)	517,431	382,119
Net position at beginning of year	2,948,908	4,533,169	7,482,077
Net position at end of year	$ 2,813,596	$ 5,050,600	$ 7,864,196

THE CITY'S FUNDS

The City reported a combined Governmental fund balance of ($78,436), a decrease of $387,829 from last year's total of $309,393. The fund balance of the City's General Fund decreased by $324,651 from $154,361 to ($170,290) during fiscal year 2018. This decrease resulted in large part from purchases of capital outlay.

The fund balance of the City's Debt Service Fund decreased by $13,445 from $325,215 to $311,770 during fiscal year 2018, primarily due to routine debt service payments.

The fund balance for the City's Other Funds decreased by $49,733 from $(170,183) to $(219,916) during 2018. This decrease was primarily due to expenditures related to street improvements.

For the 2018 fiscal year, the City's proprietary funds reported combined total net position increased by $506,818 from $5,050,600 to $5,557,418. This increase was primarily the result of an increase in revenues related to increased demand for utility services.

For the 2018 fiscal year, the City's non major component unit reported total net position decreased by $2,888 from $820,719 to $817,831. This decrease was primarily the result of a transfer to the City's Debt Service Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the City had a net amount of $5,533,815 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.

Table III
Capital Assets

2018	Governmental Activities	Business-Type Activities	Total
Land	$ 103,105	$ 90,000	$ 193,105
Furniture and equipment	1,298,129	1,413,805	2,711,934
Infrastructure	5,759,845	9,942,000	15,701,845
Construction in progress	-	24,119	24,119
	7,161,079	11,469,924	18,631,003
Less accumulated depreciation	(3,966,393)	(9,130,795)	(13,097,188)
Capital assets, net of depreciation	$ 3,194,686	$ 2,339,129	$ 5,533,815
2017			
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
	6,935,568	11,374,011	18,309,579
Less accumulated depreciation	(3,699,570)	(8,828,788)	(12,528,358)
Capital assets, net of depreciation	$ 3,235,998	$ 2,545,223	$ 5,781,221

Long-Term Debt

At September 30, 2018, the City had $1,965,901 in debt outstanding in comparison to $2,336,229 as of September 30, 2017. A detail of outstanding debt as of September 30, 2018 and 2017 is as follows:

Table IV
Debt

2018	Governmental Activities	Business-Type Activities	Total
Tax notes, and certificates of obligation	$ 765,000	$ -	$ 765,000
Revenue bonds, net of unamortized discounts of $129,099	-	550,901	550,901
Combination tax and surplus revenue certificates of obligation	-	650,000	650,000
Total	$ 765,000	$ 1,200,901	$ 1,965,901
2017			
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	$ 1,065,000	$ 1,271,229	$ 2,336,229

THE CITY BUDGET

During the year ended September 30, 2018, the City adjusted the general fund budgeted amounts by a net $67,641. The City's final revenue budget exceeded actual revenue by $1,283, and the final expenditure budget was more than actual expenditures by $336,869 due to more than expected law enforcement, hotel, and library expenditures in the budget versus actual.

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget
	Original	Final		
Revenue	$ 2,027,476	$ 2,125,814	$ 2,124,531	$ (1,283)
Expenditures	(2,755,354)	(2,786,051)	(2,449,182)	336,869
Change before other financing sources and uses	$ (727,878)	$ (660,237)	$ (324,651)	$ 335,586

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.

EXHIBIT A-1

CITY OF MARFA
Statement of Net Position - Government Wide
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and cash equivalents	$ 2,552,644	$ 1,432,553	$ 3,985,197	$ 163,832
Cash - restricted	-	238,093	238,093	-
Taxes receivable, net	121,912	-	121,912	-
Accounts receivable, net	212,015	417,821	629,836	-
Internal balances	(2,641,117)	2,641,117	-	-
Capital assets:				
Land and buildings, net	103,105	90,000	193,105	69,790
Furniture and equipment, net	422,289	305,248	727,537	-
Infrastructure, net	2,669,292	1,919,762	4,589,054	597,917
Construction in progress	-	24,119	24,119	-
Net prepaid pension	443,050	-	443,050	-
Other assets	-	-	-	1,567
Total assets	3,883,190	7,068,713	10,951,903	833,106
Deferred outflows of resources	90,824	-	90,824	-
LIABILITIES				
Accounts payable	170,010	106,265	276,275	15,275
Accrued wages payable	(460)	28,613	28,153	-
Customer deposits	-	-	-	-
Due to other governments	32,428	-	32,428	-
Noncurrent liabilities:				
Due within one year	305,000	110,000	415,000	-
Due in more than one year	460,000	1,090,901	1,550,901	-
Total liabilities	966,978	1,335,779	2,302,757	15,275
Deferred inflows of resources	284,109	175,516	459,625	-
NET POSITION				
Net investment in capital assets	2,429,686	1,138,228	3,567,914	667,707
Restricted for debt service	311,770	-	311,770	-
Restricted for capital projects	-	238,093	238,093	-
Unrestricted	(18,529)	4,181,097	4,162,568	150,124
Total net position	$ 2,722,927	$ 5,557,418	$ 8,280,345	$ 817,831

See accompanying notes and report of independent auditor.

CITY OF MARFA
Statement of Activities - Government Wide
For the Year Ended September 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
			Operating	Capital	Primary Government			Component Unit
	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Primary Government:								
GOVERNMENTAL ACTIVITIES:								
Administration	$ 977,516	$ 126,805	-	-	$ (850,711)	-	(850,711)	-
Law enforcement	774,822	47,768	-	-	(727,054)	-	(727,054)	-
Fire department	17,070	-	-	-	(17,070)	-	(17,070)	-
Municipal court	41,992	150,860	-	-	108,868	-	108,868	-
EMS	370,660	219,176	-	-	(151,484)	-	(151,484)	-
Library	135,781	21,940	-	-	(113,841)	-	(113,841)	-
Marfa Activity Center	36,205	-	-	-	(36,205)	-	(36,205)	-
Parks	4,396	-	-	-	(4,396)	-	(4,396)	-
Hotel	425,952	-	-	-	(425,952)	-	(425,952)	-
Depreciation	266,822	-	-	-	(266,822)	-	(266,822)	-
Interest	22,421	-	-	-	(22,421)	-	(22,421)	-
Disposal of equipment	24,673	-	-	-	(24,673)	-	(24,673)	
Total governmental activities	3,098,310	566,549	-	-	(2,531,761)	-	(2,531,761)	-
BUSINESS-TYPE ACTIVITIES:								
Enterprise fund	2,193,952	2,700,770	-	-	-	506,818	506,818	-
Total Business-Type Activities:	2,193,952	2,700,770	-	-	-	506,818	506,818	-
TOTAL PRIMARY GOVERNMENT:	$ 5,292,262	$ 3,267,319	-	-	$ (2,531,761)	506,818	(2,024,943)	-
Component Unit:								
Nonmajor component unit	$ 102,831	$ 149,943	-	-	$ -	-	-	47,112
TOTAL COMPONENT UNIT:	$ 102,831	$ 149,943	-	-	$ -	-	-	47,112

	Governmental Activities	Business-Type Activities	Total	Component Unit
General revenues:				
Taxes:				
Property taxes, levied for general purposes	$ 449,431	-	449,431	-
Property taxes, levied for debt service	254,808	-	254,808	-
Sales taxes	532,541	-	532,541	-
Franchise taxes	36,209	-	36,209	-
Hotel occupancy tax	538,599	-	538,599	-
Intergovernmental grants and revenue	572,018	-	572,018	-
Investment earnings	7,486	-	7,486	-
Transfers in (out)	50,000	-	50,000	(50,000)
Total general revenues and transfers	2,441,092	-	2,441,092	(50,000)
Change in net position	(90,669)	506,818	416,149	(2,888)
Net position, beginning of year	2,813,596	5,050,600	7,864,196	820,719
Net position, end of year	$ 2,722,927	5,557,418	8,280,345	817,831

See accompanying notes and report of independent auditor.

CITY OF MARFA
Balance Sheet - Governmental Funds
September 30, 2018

EXHIBIT C-1

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 2,485,078	$ 67,566	$ -	$ 2,552,644
Taxes receivable, net	75,749	46,163	-	121,912
Accounts receivable, net	61,525	-	150,490	212,015
Due (to)/from other funds	(2,693,796)	244,204	(191,525)	(2,641,117)
Total assets	$ (71,444)	$ 357,933	$ (41,035)	$ 245,454
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 19,364	$ -	$ 150,646	$ 170,010
Accrued wages payable	3,733	-	(4,193)	(460)
Due to other governments	-	-	32,428	32,428
Total liabilities	23,097	-	178,881	201,978
Deferred inflows of resources	75,749	46,163	-	121,912
Fund balances:				
Restricted	-	311,770	-	311,770
Unassigned	(170,290)	-	(219,916)	(390,206)
Total fund balances	(170,290)	311,770	(219,916)	(78,436)
Total liabilities, deferred inflows of resources, and fund balances	$ (71,444)	$ 357,933	$ (41,035)	$ 245,454

See accompanying notes and report of independent auditor.

CITY OF MARFA

EXHIBIT C-2

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

September 30, 2018

Total Fund Balances - Governmental Funds	$	(78,436)
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 $6,935,568 and the accumulated depreciation was $3,699,570. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		3,235,998
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 2018 capital outlays is to increase net position.		250,183
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(266,822)
Current year disposals of equipment are not included in the fund financial statements, but they are shown as decreases in capital assets in the government-wide financial statements. The effect of including the 2018 disposals is to decrease net position.		(24,673)
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.		(1,065,000)
Long-term assets, including net prepaid pension, are not receivable in the current period, and, therefore are not reported as assets in the funds. The effect of including the net prepaid pension is to increase net position.		443,050
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 2018 principal payments is to increase net position.		300,000
Certain assets, including deferred outflows of resources of the internal service funds are included in the governmental activities in the statement of net position.		90,824
Deferred inflows of resources related to 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 deferred inflow is to decrease net position.		(162,197)
Net Position of Governmental Activities	$	2,722,927

See accompanying notes and report of independent auditor.

EXHIBIT C-3

CITY OF MARFA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2018

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
Property tax	$ 449,431	$ 254,808	$ -	$ 704,239
Sales tax	532,541	-	-	532,541
Franchise tax	36,209	-	-	36,209
Hotel occupancy tax	538,599	-	-	538,599
Court fees	150,860	-	-	150,860
Health services	219,176	-	-	219,176
Interest	3,318	4,168	-	7,486
Other revenue	194,397	-	2,116	196,513
Intergovernmental	-	-	572,018	572,018
Total revenues	2,124,531	258,976	574,134	2,957,641
EXPENDITURES:				
Current:				
Administration	738,935	-	277,053	1,015,988
Law enforcement	428,008	-	346,814	774,822
Fire department	17,070	-	-	17,070
Municipal court	41,992	-	-	41,992
EMS	370,660	-	-	370,660
Library	135,781	-	-	135,781
Marfa Activity Center	36,205	-	-	36,205
Parks	4,396	-	-	4,396
Hotel	425,952	-	-	425,952
Debt service:				
Principal	-	300,000	-	300,000
Interest	-	22,421	-	22,421
Capital outlay	250,183	-	-	250,183
Total expenditures	2,449,182	322,421	623,867	3,395,470
Deficiency of revenues over expenditures	(324,651)	(63,445)	(49,733)	(437,829)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	50,000	-	50,000
Transfers out	-	-	-	-
Total other financing sources (uses)	-	50,000	-	50,000
Net changes in fund balances	(324,651)	(13,445)	(49,733)	(387,829)
Fund Balances - beginning	154,361	325,215	(170,183)	309,393
Fund Balances - ending	$ (170,290)	$ 311,770	$ (219,916)	$ (78,436)

See accompanying notes and report of independent auditor.

CITY OF MARFA

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, 2018

Total Net Change in Fund Balances - Governmental Funds	$	(387,829)
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 2018 capital outlays is to increase the net position.		250,183
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.		(266,822)
Losses on disposals of equipment are not recognized in governmental funds since they do not require the use of current financial resources. The net effect of the current year's loss is to decrease net position.		(24,673)
The changes associated with the net prepaid pension are not recognized in governmental funds since it does not require the use of current financial resources The effect of the current year change associated with the net prepaid pension is to increase net position.		38,472
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 2018 debt principal payments is to increase net position.		300,000
Change in Net Position of Governmental Activities	$	(90,669)

See accompanying notes and report of independent auditor.

CITY OF MARFA

EXHIBIT D-1

Statement of Net Position
Proprietary Funds
September 30, 2018

	Enterprise Funds			
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 824,340	$ 820	$ 607,393	$ 1,432,553
Cash - restricted	238,093	-	-	238,093
Accounts receivable, net	379,840	(36,926)	74,907	417,821
Due (to)/from other funds	3,496,822	(1,789,935)	934,230	2,641,117
Total current assets	4,939,095	(1,826,041)	1,616,530	4,729,584
Capital assets:				
Land	-	-	90,000	90,000
Furniture and equipment	-	1,102,696	311,109	1,413,805
Infrastructure	8,846,070	961,377	134,553	9,942,000
Construction in progress	24,119	-	-	24,119
Less: accumulated depreciation	(7,091,588)	(1,809,158)	(230,049)	(9,130,795)
Total capital assets, net	1,778,601	254,915	305,613	2,339,129
Total assets	6,717,696	(1,571,126)	1,922,143	7,068,713
LIABILITIES				
Current liabilities:				
Accounts payable	1,456	25,942	(12,710)	14,688
Accrued wages payable	-	2,148	26,465	28,613
Customer deposits	57,522	-	34,055	91,577
Total current liabilities	58,978	28,090	47,810	134,878
Noncurrent liabilities:				
Due within one year	110,000	-	-	110,000
Due in more than one year	1,090,901	-	-	1,090,901
Total liabilities	1,259,879	28,090	47,810	1,335,779
Deferred inflows of resources	-	175,516	-	175,516
NET POSITION				
Net investment in capital assets	577,700	254,915	305,613	1,138,228
Restricted for capital projects	238,093	-	-	238,093
Unrestricted	4,642,024	(2,029,647)	1,568,720	4,181,097
Total net position	$ 5,457,817	$ (1,774,732)	$ 1,874,333	$ 5,557,418

See accompanying notes and report of independent auditor.

CITY OF MARFA

EXHIBIT D-2

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Year Ended September 30, 2018

	Enterprise Funds			
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for water services	$ 566,833	$ -	$ -	$ 566,833
Charges for sewer services	453,936	-	-	453,936
Charges for sanitation services	-	680,764	-	680,764
Charges for gas services	-	-	808,608	808,608
Other revenue	60,214	3,552	10,355	74,121
TWDB surcharge	116,508	-	-	116,508
Total operating revenues	1,197,491	684,316	818,963	2,700,770
OPERATING EXPENSES:				
Payroll costs	-	473,486	313,857	787,343
Seminars and training	8,562	-	24,393	32,955
Professional and contracted services	19,358	412,943	16,479	448,780
Utilities	44,845	7,913	11,906	64,664
Maintenance and repairs	27,324	17,107	7,677	52,108
Other operating costs	18,616	106,295	220,628	345,539
Supplies and materials	60,564	3,934	54,110	118,608
Interest expense	41,948	-	-	41,948
Depreciation	185,898	83,029	33,080	302,007
Total operating expenses	407,115	1,104,707	682,130	2,193,952
Operating income (loss)	790,376	(420,391)	136,833	506,818
NON OPERATING REVENUES AND EXPENSES				
Transfers in	-	-	-	-
Total non operating revenues and expenses	-	-	-	-
Increase (decrease) in net position	790,376	(420,391)	136,833	506,818
Total net position - beginning of year	4,667,441	(1,354,341)	1,737,500	5,050,600
Total net position - end of year	$ 5,457,817	$ (1,774,732)	$ 1,874,333	$ 5,557,418

See accompanying notes and report of independent auditor.

CITY OF MARFA
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

EXHIBIT D-3

	Enterprise Funds			
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash received from user charges	$ 1,030,328	$ 728,339	$ 804,726	$ 2,563,393
Cash payments to employees for services	-	(472,160)	(321,147)	(793,307)
Cash payments to suppliers	(230,173)	(636,367)	(321,280)	(1,187,820)
Other operating income	116,508	-	-	116,508
Net cash provided (used) by operating activities	916,663	(380,188)	162,299	698,774
Cash Flows from Non-Capital Financing Activities:				
Transfers in	-	-	-	-
Transfers out	(760,708)	387,677	(116,947)	(489,978)
Net cash provided (used) by non-capital financing activities	(760,708)	387,677	(116,947)	(489,978)
Cash Flows from Capital and Related Financing Activities:				
Acquisition of capital assets	(53,774)	-	(42,139)	(95,913)
Proceeds from debt issued	-	-	-	-
Principal payments	(70,328)	-	-	(70,328)
Net cash provided by (used for) capital and related financing activities	(124,102)	-	(42,139)	(166,241)
Cash Flows from Investing Activities:				
Proceeds from investments	-	-	-	-
Net cash provided by investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	31,853	7,489	3,213	42,555
Cash and cash equivalents at beginning of the year	792,487	(6,669)	604,180	1,389,998
Cash and cash equivalents at end of the year	$ 824,340	$ 820	$ 607,393	$ 1,432,553
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:				
Operating income (loss)	$ 790,376	$ (420,391)	$ 136,833	$ 506,818
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	185,898	83,029	33,080	302,007
Effect of increases and decreases in current assets and liabilities:				
Accounts receivable	(48,552)	13,338	(14,237)	(49,451)
Decrease in restricted cash	(2,103)	-	-	(2,103)
Accounts payable	(9,133)	(82,416)	(4,554)	(96,103)
Accrued wages payable	-	1,325	(7,290)	(5,965)
Deferred outflows	-	30,685	-	30,685
Customer deposits	177	(5,758)	18,467	12,886
Net cash provided (used) by operating activities	$ 916,663	$ (380,188)	$ 162,299	$ 698,774

See accompanying notes and report of independent auditor.

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.

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.

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. 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.

2. After one year, all full-time employees earn between 80 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 a rate of 1/2 or 50% of the hours accrued at the 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.

3. 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.

   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:

Assets	Years
Infrastructure	25 - 75
Machinery and Equipment	7 - 15

4. 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 $91,709 for municipal court fees and $399,877 for proprietary activities at September 30, 2018.

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. The unassigned fund balance is applied last.

7. 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."

8. 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. During the year ended September 30, 2018, the City transferred $50,000 in funds related to debt payments from the nonmajor component unit into the Debt Service Fund.

9. 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.

E. NEW PRONOUNCEMENTS

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 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 Manager 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.

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, 2018.

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, 2018:

Cash and cash equivalents	$	3,985,197
Money market mutual fund		238,093
Total	$	4,223,290

Cash and cash equivalents - unrestricted	$	3,985,197
Cash – restricted		238,093
Total	$	4,223,290

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, 2018:

Deposits with financial institutions	$	113,337
Certificate of deposit		50,495
Total	$	163,832

Cash and cash equivalents	$	163,832
Total	$	163,832

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, 2018, the carrying amount of the City's cash held in demand deposits net of outstanding checks and deposits in transit was $4,223,290. The bank balance was $4,657,869 as of September 30, 2018.

There is no limit on the amount the City may deposit in any one institution. At September 30, 2018, bank balances exceeded the FDIC insured limits by $3,409,291. This excess was fully covered by pledged securities in the City's name in the amount of $3,915,000 at September 30, 2018.

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.

As of September 30, 2018, 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, 2018, upon which the fiscal year 2018 levy was based, was $168,808,712. 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 $12,056,485 and $17,627,289, respectively. The total taxable value before the adjustment for frozen taxable value and improvements was $198,492,486.

The tax assessment of October 1, 2017 set a tax levy at $0.4555 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, 2018, delinquent property taxes receivable is $121,912, net of an allowance for doubtful accounts of $0.

C. CAPITAL ASSET ACTIVITY

Capital asset activity for the City's governmental activities for the year ended September 30, 2018, was as follows:

Governmental activities:	**Beginning Balance**	**Acquisitions**	**Disposals/ Recalsses**	**Ending Balance**
Capital assets, not being depreciated:				
Land	$ 103,105	$ -	$ -	$ 103,105
Total capital assets, not being depreciated	103,105	-	-	103,105
Capital assets, being depreciated:				
Infrastructure	5,674,001	85,844	-	5,759,845
Furniture and equipment	1,158,463	164,339	(24,673)	1,298,129
Total assets being depreciated	6,832,464	250,183	(24,673)	7,057,974
Less accumulated depreciation for:				
Infrastructure	(2,953,496)	(137,057)	-	(3,090,553)
Furniture and equipment	(746,075)	(129,765)	-	(875,840)
Total accumulated depreciation	(3,699,571)	(266,822)	-	(3,966,393)
Total capital assets, being depreciated, net	3,132,893	(16,639)	(24,673)	3,091,581
Governmental activities capital assets, net	$ 3,235,998	$ (16,639)	$ (24,673)	$ 3,194,686

Capital asset activity for the City's business-type activities for the year ended September 30, 2018, was as follows:

Business-type activities:	**Beginning Balance**	**Acquisitions**	**Disposals**	**Ending Balance**
Capital assets, not being depreciated:				
Construction in progress	$ 10,340	$ 13,779	$ -	$ 24,119
Land	90,000	-	-	90,000
Total capital assets, not being depreciated	100,340	13,779	-	114,119
Capital assets, being depreciated:				
Infrastructure	9,902,005	39,995	-	9,942,000
Furniture and equipment	1,371,666	42,139	-	1,413,805
Total assets being depreciated	11,273,671	82,134	-	11,355,805
Less accumulated depreciation for:				
Infrastructure	(7,817,645)	(212,675)	-	(8,030,320)
Furniture and equipment	(1,011,143)	(89,332)	-	(1,100,475)
Total accumulated depreciation	(8,828,788)	(302,007)	-	(9,130,795)
Total capital assets, being depreciated, net	2,444,883	(219,873)	-	2,225,010
Business-type activities capital assets, net	$ 2,545,223	$ (206,094)	$ -	$ 2,339,129

Capital asset activity for the City's nonmajor component unit for the year ended September 30, 2018, was as follows:

Component Unit:		Beginning Balance		Acquisitions		Disposals/ Reclasses		Ending Balance
Capital assets, being depreciated:								
Building	$	91,654	$	-	$	-	$	91,654
Infrastructure		800,219		26,550		-		826,769
Furniture and equipment		63,761		-		-		63,761
Total assets being depreciated		955,634		26,550		-		982,184
Less accumulated depreciation for:								
Building		(21,284)		(580)		-		(21,864)
Infrastructure		(172,336)		(56,516)		-		(228,852)
Furniture and equipment		(63,761)		-		-		(63,761)
Total accumulated depreciation		(257,381)		(57,096)		-		(314,477)
Total capital assets, being depreciated, net		698,253		(30,546)		-		667,707
Component unit capital assets, net	$	698,253	$	(30,546)	$	-	$	667,707

D. BONDS AND LONG-TERM NOTES PAYABLE

The following is a summary of the City's governmental long-term debt at September 30, 2018:

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, 2018	$	445,000
Less: current maturities		(145,000)
Long-term portion at September 30, 2018	$	300,000

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

Outstanding at September 30, 2018	$	320,000
Less: current maturities		(160,000)
Long-term portion at September 30, 2018	$	160,000
Total short-term debt at September 30, 2018	$	305,000
Total long-term debt at September 30, 2018	$	460,000

The following is a summary of the City's proprietary long-term debt at September 30, 2018:

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, 2018, the unamortized discount totaled $147,832

Outstanding at September 30, 2018, less unamortized discounts	$	550,901
Less: current maturities		(80,000)
Long-term portion at September 30, 2018, less unamortized discounts	$	470,901

$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, 2018).

Outstanding at September 30, 2018	$	650,000
Less: current maturities		(30,000)
Long-term portion at September 30, 2018	$	620,000
Total short-term debt at September 30, 2018	$	110,000
Total long-term debt at September 30, 2018	$	1,090,901

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, 2018 is as follows:

Description	Amounts Outstanding October 1, 2017	Additions	Retirements	Amounts Outstanding September 30, 2018
Governmental activities:				
2014 Tax note	$ 590,000	$ -	$ (145,000)	$ 445,000
2017 Tax note	475,000	-	(155,000)	320,000
	1,065,000	-	(300,000)	765,000
Business-type activities:				
Revenue bonds	1,271,229	-	(70,328)	1,200,901
	1,271,229	-	(70,328)	1,200,901
Totals	$ 2,336,229	$ -	$ (370,328)	$ 1,965,901

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
2019	$ 305,000	14,672	319,672
2020	305,000	8,632	313,632
2021	155,000	2,558	157,558
	$ 765,000	$ 25,862	$ 790,862

Business-Type Activities
Revenue Bonds

Year Ended September 30,	Principal	Interest	Total Requirements
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	104,622	26,072	130,694
2024 and thereafter	748,930	99,344	848,274
	$ 1,200,901	$ 264,097	$ 1,464,998

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 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).

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	2.5%
Retirement Age	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 Adjustment 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 883 (875 active) municipalities having the benefit plan administered by TMRS. Each of the 875 active municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2017 valuations are contained in the 2017 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

As of December 31, 2017 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	31
Active employees	38
Total	89

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%**
(165,998)	(483,536)	(748,724)

Schedule of Pension Expense

Total Service Cost	$	127,239
Interest on the Total Pension Liability		169,802
Current Period Benefit Changes		-
Employee Contributions (Reduction of Expense)		(71,214)
Projected Earnings on Plan Investments (Reduction of Expense)		(190,219)
Administrative Expense		2,024
Other Changes in Fiduciary Net Position		103
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities		1,472
Recognition of Current Year Outflow (Inflow) of Resources-Assets		(39,961)
Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities		23,574
Amortization of Prior Year Outflows (Inflows) of Resources-Assets		44,581
Total Pension Expense	$	67,401

Schedule of Outflows and Inflows

	Deferred Outflows of Resources	
Difference between expected and actual economic experience	$	2,619
Changes in actuarial assumptions		-
Difference between projected and actual investment earnings		(159,843)
Total	$	(157,224)

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

2019	$	11,800
2020		(1,071)
2021		(39,950)
2022		(39,960)
Total	$	(69,181)

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.

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:

Year End	Actual Contribution Made
9/30/16	$ 8,755
9/30/17	$ 7,740
9/30/18	$ 10,903

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.

Actuarial Assumptions
As of August 31, 2018

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 approximately 200-member fire or emergency services departments having the benefit plan administered by TESRS. None of the 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	30.00%	35.06%
Small Cap Domestic	15.00%	16.55%
Developed International	15.00%	14.84%
Emerging Markets	5.00%	4.81%
Master Limited Partnership	5.00%	4.10%
Fixed Income		
Domestic	20.00%	22.19%
Real estate	5.00%	2.21%
Multi asset	5.00%	0.24%
Total	100%	

The discount rate used to measure the Total Pension Liability was 7.75%. 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 to Changes in the Discount Rate

1% Decrease	Current Single Rate Assumption	1% Increase
6.75%	**7.75%**	**8.75%**
75,601	40,485	18,331

Schedule of Outflows and Inflows

	Deferred Outflows of Resources	
Difference between expected and actual economic experience	$	11
Changes in actuarial assumptions		151
Difference between projected and actual investment earnings		-
Total	$	161

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

2019	$	2,609
2020		(1,451)
2021		(2,136)
2022		(1,213)
Total	$	(2,192)

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, 2018, the Parks Fund transferred $50,000 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 2018 in the amount of $5,281.

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 ended September 30, 2018, this date was July 12, 2019.

CITY OF MARFA
Required Supplementary Information-Unaudited
Schedule of Funding Progress
For the Year Ended September 30, 2018

EMPLOYEE RETIREMENT PLANS

Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability and Related Ratios

Total Pension		
Service Cost	$	127,239
Interest (on TPL)		169,802
Changes of benefit terms		-
Difference between expected and actual experience		4,091
Changes of assumptions		-
Benefit payments, including refunds of employee contributions		(137,837)
Net change in total pension liability		163,295
Total pension liability - beginning		2,520,888
Total pension liability - ending	$	2,684,183
Plan fiduciary net position		
Contributions - Employer	$	28,394
Contributions - Employee		71,214
Net investment income		390,022
Benefit payments, including refunds of employee contributions		(137,837)
Administrative expense		(2,024)
Other		(103)
Net change in plan fiduciary net position		349,666
Plan fiduciary net position - beginning		2,818,052
Plan fiduciary net position - ending	$	3,167,718
Net pension liability (prepaid)	$	(483,535)
Plan fiduciary net positions as a percentage of TPL		118.01%
Covered-employee payroll	$	1,409,070
Net pension liability as a percentage of covered employee payroll		-34.32%

CITY OF MARFA
Required Supplementary Information-Unaudited
Schedule of Funding Progress
For the Year Ended September 30, 2018

Schedule of Contributions

	2013	2014	2015	2016
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	2.5%
Retirement Age	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 multipled 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, 2018

Texas Emergency Services Retirement System

Total Pension		
Service Cost	$	2,980
Interest (on TPL)		55,086
Changes of benefit terms		5,283
Difference between expected and actual experience		(16)
Changes of assumptions		504
Pension plan administrative expenses		296
Projected earnings on pension plan investments		(15,092)
Net change in total pension liability	$	49,041
Total pension liability - beginning		205,583
Total pension liability - ending	$	254,624
Plan fiduciary net position		
Contributions - Employer	$	10,903
Contributions - Employee		2,726
Net investment income		-
Benefit payments, including refunds of employee contributions		-
Administrative expense		(296)
Other		-
Net change in plan fiduciary net position	$	13,333
Plan fiduciary net position - beginning		200,806
Plan fiduciary net position - ending	$	214,139
Net pension liability	$	40,485
Plan fiduciary net positions as a percentage of TPL		84.10%
Number of Active Employees		15
Net pension liability per Active Member	$	2,699.00

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:

	2015	2016	2017	2018
Actual Contribution Made	$ 7,965	$ 8,775	$ 7,740	$10,903

CITY OF MARFA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual-General Fund-Unaudited

For the Year Ended September 30, 2018

	(Unaudited) Budgeted Amounts			
	Original	Final	Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
REVENUES:				
Property tax	$ 431,286	$ 445,000	$ 449,431	$ 4,431
Sales tax	485,000	512,990	532,541	19,551
Hotel and franchise tax	694,000	656,300	574,808	(81,492)
Court fees	56,375	136,918	150,860	13,942
Health services	202,400	222,400	219,176	(3,224)
Interest	2,700	2,700	3,318	618
Other revenue	155,715	149,506	194,397	44,891
Total revenues	2,027,476	2,125,814	2,124,531	(1,283)
EXPENDITURES:				
Current:				
Administration	745,992	768,774	738,935	29,839
Law enforcement	472,981	485,716	428,008	57,708
Fire department	30,156	29,756	17,070	12,686
Municipal court	39,142	45,261	41,992	3,269
EMS	411,891	404,440	370,660	33,780
Library	186,158	195,988	135,781	60,207
Marfa Activity Center	61,896	54,896	36,205	18,691
Parks	10,000	6,800	4,396	2,404
Hotel	702,138	629,168	425,952	203,216
Capital outlay	95,000	165,252	250,183	(84,931)
Total expenditures	2,755,354	2,786,051	2,449,182	336,869
Expenditures in excess of revenues	$ (727,878)	$ (660,237)	(324,651)	$ 335,586
OTHER FINANCING SOURCES (USES)				
Proceeds of tax note			-	
Transfers in			-	
Transfers out			-	
Total other financing sources (uses)			-	
Net change in fund balances			(324,651)	
Fund Balance - beginning balance			154,361	
Fund Balance - ending balance			$ (170,290)	

See accompanying notes and report of independent auditor.

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 Manager 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, 2018.

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 12, 2019.

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. We did identify certain deficiencies in internal control, described below as item 2018-01, that we consider to be significant deficiencies:

- **Finding 2018-01** - Certain transactions processed near year end were not evaluated for accrual in accordance with US GAAP.

In response to these findings, management will review transactions at year-end as well as transactions made subsequent to year-end that may have an effect on year-end balances and classification of transactions in the financial statements.

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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*.

The City's Response to Findings

The City's response to the findings identified in our audit is described previously. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

July 12, 2019
Houston, Texas