

CITY OF MARFA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

As of and for the Fiscal Year Ended September 30, 2019

And Report of Independent Auditor

CITY OF MARFA
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FINANCIAL SECTION

Report of Independent Auditor

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

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 from material misstatement.

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

We believe 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 as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 iii through xi, the schedule of funding progress on pages 33 through 35, and the budgetary comparison information on pages 36 and 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Sugar Land, Texas
October 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MARFA

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

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, 2019. Please read it in conjunction with the independent auditor's report on pages i through ii and the City's Basic Financial Statements, which begin on page 1.

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 1 and 2). 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 3) 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 11) 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 1. Its primary purpose is to show whether the City is better off or worse off financially as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These statements are presented using the accrual basis of accounting which is the basis used by private sector companies.

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

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

CITY OF MARFA

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

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 3 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 increased by \$321,837, or 11.8%, during 2019, excluding internal transfers. This increase in net position was primarily due to the reduction in general government expenses in the current year caused by the allocation of administrative expenses across the City's funds. 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 – increased \$80,535 from (\$18,529) in 2018 to \$70,006 during 2019.

In 2019, the net position of the City's business-type activities decreased by \$64,873, or 1.2%, excluding internal transfers. This decrease was primarily due to an increase in administrative expenses resulting from the allocation of administrative expenses across the City's funds.

CITY OF MARFA
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

Table I
Net Position

2019	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 1,325,012	\$ 4,523,097	\$ 5,848,109
Capital assets	2,134,434	2,946,365	5,080,799
Net prepaid pension	86,800	-	86,800
Total assets	3,546,246	7,469,462	11,015,708
Deferred outflow of resources	311,384	-	311,384
Current liabilities	415,839	305,304	721,143
Noncurrent liabilities	625,000	1,008,419	1,633,419
Total liabilities	1,040,839	1,313,723	2,354,562
Deferred inflow of resources	241,859	140,772	382,631
Net position:			
Net investment in capital assets	1,674,434	1,827,946	3,502,380
Restricted for debt service	830,492	-	830,492
Restricted for capital projects	-	241,838	241,838
Unrestricted	70,006	3,945,183	4,015,189
Total net position	\$ 2,574,932	\$ 6,014,967	\$ 8,589,899

CITY OF MARFA
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

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

CITY OF MARFA
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

Table II
Changes in Net Position

2019	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 590,982	\$ 2,964,324	\$ 3,555,306
General revenues:			
Property taxes	775,650	-	775,650
Sales taxes	378,755	-	378,755
Franchise taxes	35,932	-	35,932
Hotel occupancy taxes	757,289	-	757,289
Intergovernmental grants and revenue	151,948	-	151,948
Investment earnings	38,284	-	38,284
Other	121,834	-	121,834
Total revenues	2,850,674	2,964,324	5,814,998
Expenses:			
General government	23,545	-	23,545
Law enforcement	683,087	-	683,087
Fire department	18,618	-	18,618
Municipal court	89,482	-	89,482
EMS	500,557	-	500,557
Library	170,593	-	170,593
Senior citizen	100,473	-	100,473
Marfa Activity Center	47,152	-	47,152
Hotel	541,676	-	541,676
Depreciation	241,313	-	241,313
Interest	9,648	-	9,648
Disposal of equipment	102,693	-	102,693
Proprietary expenses	-	3,029,197	3,029,197
Total expenses	2,528,837	3,029,197	5,558,034
Transfers in (out)	(469,832)	522,422	52,590
Change in net position	(147,995)	457,549	309,554
Net position at beginning of year	2,722,927	5,557,418	8,280,345
Net position at end of year	\$ 2,574,932	\$ 6,014,967	\$ 8,589,899

CITY OF MARFA
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

Table II (continued)
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 revenues	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

SEPTEMBER 30, 2019

THE CITY'S FUNDS

The Health and EMS Services Fund was created by the City in 2019 for the purpose of increased visibility into health and EMS services financial activity. The Hotel Fund was created by the City in 2019 for the purpose of increased visibility into hotel tax revenue and related expenditures.

The City reported a combined Governmental Fund balance of \$1,326,185, an increase of \$1,200,697 from last year's total of (\$78,436). The fund balance of the City's General Fund increased by \$958,839 from (\$170,290) to \$788,549 during fiscal year 2019. This increase resulted in large part to transfers from proprietary funds.

The fund balance of the City's Debt Service Fund increased by \$518,722 from \$311,770 to \$830,492 during fiscal year 2019, primarily due to proceeds from the 2019 tax note issued.

The fund balance of the City's Health and EMS Services Fund decreased by \$295,625 from \$-0- to (\$295,625) during fiscal year 2019, primarily due to EMS service expenditures.

The fund balance of the City's Hotel Fund increased by \$209,270 from \$-0- to \$209,270 during fiscal year 2019, primarily due to revenues from hotel occupancy tax.

The fund balance for the City's Other Funds decreased by \$190,509 from (\$219,916) to (\$410,425) during 2019. This decrease was primarily due to expenditures related to law enforcement and a decrease in intergovernmental revenue during 2019 when compared to 2018.

For the 2019 fiscal year, the City's proprietary funds reported combined total net position increased by \$457,549 from \$5,557,418 to \$6,014,967. This increase was primarily the result of an increase in transfers related to the transfer of capital assets from the governmental funds.

For the 2019 fiscal year, the City's nonmajor component unit reported total net position increased by \$19,097 from \$817,831 to \$836,928. This increase was primarily the result of tax revenue allocated to parks and recreation activities by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2019, the City had a net amount of \$5,080,799 invested in a broad range of capital assets, including land, infrastructure, buildings, improvements, and machinery and equipment. This activity related to ongoing projects funded by the Revenue bond issuance in the previous fiscal years.

CITY OF MARFA
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

Table III
Capital Assets

2019	Governmental Activities	Business-Type Activities	Total
Land	\$ 103,105	\$ 169,106	\$ 272,211
Furniture and equipment	835,807	1,529,062	2,364,869
Infrastructure	4,677,175	9,886,746	14,563,921
Construction in progress	16,171	52,019	68,190
	5,632,258	11,636,933	17,269,191
Less accumulated depreciation	(3,497,824)	(8,690,568)	(12,188,392)
Capital assets, net of depreciation	\$ 2,134,434	\$ 2,946,365	\$ 5,080,799

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

Long-Term Debt

At September 30, 2019, the City had \$2,078,419 in debt outstanding in comparison to \$1,965,901 as of September 30, 2018. The City's outstanding debt increased in 2019 due to the issuance of a \$500,000 tax note. A detail of outstanding debt as of September 30, 2019 and 2018 is as follows:

Table IV
Debt

2019	Governmental Activities	Business-Type Activities	Total
Tax notes and certificates of obligation	\$ 960,000	\$ -	\$ 960,000
Revenue bonds, net of unamortized discounts of \$101,581	-	498,419	498,419
Combination tax and surplus revenue certificates of obligation	-	620,000	620,000
	\$ 960,000	\$ 1,118,419	\$ 2,078,419

CITY OF MARFA
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2019

Long-Term Debt (continued)

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
	\$ 765,000	\$ 1,200,901	\$ 1,965,901

THE CITY BUDGET

The City's actual revenue exceeded the final revenue budget by \$37,520, and the final expenditure budget was more than actual expenditures by \$243,094 due to less than expected actual administration law enforcement and fire department expenditures versus budget.

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(GAAP Basis)	Final Budget
Revenue	\$ 1,375,181	\$ 1,375,181	\$ 1,412,701	\$ 37,520
Expenditures	1,267,188	1,267,188	1,024,094	243,094
Change before other financing sources and uses	\$ 2,642,369	\$ 2,642,369	\$ 2,436,795	\$ 280,614

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.

BASIC FINANCIAL STATEMENTS

CITY OF MARFA
STATEMENT OF NET POSITION – GOVERNMENT-WIDE

EXHIBIT 1

SEPTEMBER 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and cash equivalents	\$ 3,310,681	\$ 1,401,909	\$ 4,712,590	\$ 148,470
Cash - restricted	-	241,838	241,838	-
Taxes receivable, net	121,912	-	121,912	-
Accounts receivable, net	273,485	498,284	771,769	-
Internal balances	(2,381,066)	2,381,066	-	-
Capital Assets:				
Land and buildings, net	103,105	169,106	272,211	69,210
Furniture and equipment, net	141,460	386,241	527,701	-
Infrastructure, net	1,873,698	2,338,999	4,212,697	621,807
Construction in progress	16,171	52,019	68,190	-
Net prepaid pension	86,800	-	86,800	-
Other assets	-	-	-	1,567
Total Assets	<u>3,546,246</u>	<u>7,469,462</u>	<u>11,015,708</u>	<u>841,054</u>
Deferred outflows of resources	<u>311,384</u>	<u>-</u>	<u>311,384</u>	<u>-</u>
LIABILITIES				
Accounts payable	20,322	66,164	86,486	4,126
Accrued wages payable	28,089	36,713	64,802	-
Customer deposits	-	92,427	92,427	-
Due to other governments	32,428	-	32,428	-
Noncurrent Liabilities:				
Due within one year	335,000	110,000	445,000	-
Due in more than one year	<u>625,000</u>	<u>1,008,419</u>	<u>1,633,419</u>	<u>-</u>
Total Liabilities	<u>1,040,839</u>	<u>1,313,723</u>	<u>2,354,562</u>	<u>4,126</u>
Deferred inflows of resources	<u>241,859</u>	<u>140,772</u>	<u>382,631</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	1,674,434	1,827,946	3,502,380	691,017
Restricted for debt service	830,492	-	830,492	-
Restricted for capital projects	-	241,838	241,838	-
Unrestricted	<u>70,006</u>	<u>3,945,183</u>	<u>4,015,189</u>	<u>145,911</u>
Total Net Position	<u>\$ 2,574,932</u>	<u>\$ 6,014,967</u>	<u>\$ 8,589,899</u>	<u>\$ 836,928</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARFA
STATEMENT OF ACTIVITIES – GOVERNMENT-WIDE

EXHIBIT 2

YEAR ENDED SEPTEMBER 30, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
Administration	\$ 23,545	\$ -	\$ -	\$ -	\$ (23,545)	\$ -	\$ (23,545)	\$ -
Law enforcement	683,087	46,831	-	-	(636,256)	-	(636,256)	-
Fire department	18,618	18,357	-	-	(261)	-	(261)	-
Municipal court	89,482	163,284	-	-	73,802	-	73,802	-
EM S	500,557	220,878	-	-	(279,679)	-	(279,679)	-
Library	170,593	15,809	-	-	(154,784)	-	(154,784)	-
Senior citizen	100,473	125,823	-	-	25,350	-	25,350	-
Marfa Activity Center	47,152	-	-	-	(47,152)	-	(47,152)	-
Hotel	541,676	-	-	-	(541,676)	-	(541,676)	-
Depreciation	241,313	-	-	-	(241,313)	-	(241,313)	-
Interest	9,648	-	-	-	(9,648)	-	(9,648)	-
Disposal of equipment	102,693	-	-	-	(102,693)	-	(102,693)	-
Total Governmental Activities	2,528,837	590,982	-	-	(1,937,855)	-	(1,937,855)	-
Business-Type Activities:								
Enterprise fund	3,029,197	2,964,324	-	-	-	(64,873)	(64,873)	-
Total Business-Type Activities	3,029,197	2,964,324	-	-	-	(64,873)	(64,873)	-
Total Primary Government	\$ 5,558,034	\$ 3,555,306	\$ -	\$ -	\$ (1,937,855)	\$ (64,873)	\$ (2,002,728)	\$ -
Component Unit:								
Nonmajor component unit	\$ 94,357	\$ 166,044	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,687
Total Component Unit:	\$ 94,357	\$ 166,044	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,687
General Revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 469,920	\$ -	\$ 469,920	\$ -
Property taxes, levied for debt service					305,730	-	305,730	-
Sales taxes					378,755	-	378,755	-
Franchise taxes					35,932	-	35,932	-
Hotel occupancy tax					757,289	-	757,289	-
Intergovernmental grants and revenue					15,948	-	15,948	-
Investment earnings					38,284	-	38,284	-
Other					12,834	-	12,834	-
Transfers in (out)					(469,832)	522,422	52,590	(52,590)
Total General Revenues and Transfers					1,789,860	522,422	2,312,282	(52,590)
Change in net position					(147,995)	457,549	309,554	19,097
Net position, beginning of year					2,722,927	5,557,418	8,280,345	817,831
Net position, end of year					\$ 2,574,932	\$ 6,014,967	\$ 8,589,899	\$ 836,928

The notes to the financial statements are an integral part of this statement.

CITY OF MARFA
BALANCE SHEET – GOVERNMENTAL FUNDS

EXHIBIT 3

SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Health and EMS Services Fund</u>	<u>Hotel Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 3,084,763	\$ 146,295	\$ 23,685	\$ 55,938	\$ -	\$ 3,310,681
Taxes receivable, net	75,749	46,163	-	-	-	121,912
Accounts receivable, net	92,932	-	-	180,644	1,082	274,658
Due (to)/from other funds	(2,393,181)	684,197	(299,437)	6,434	(379,079)	(2,381,066)
Total Assets	<u>\$ 860,263</u>	<u>\$ 876,655</u>	<u>\$ (275,752)</u>	<u>\$ 243,016</u>	<u>\$ (377,997)</u>	<u>\$ 1,326,185</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ (11,069)	\$ -	\$ 4,645	\$ 27,919	\$ -	\$ 21,495
Accrued wages payable	7,034	-	15,228	5,827	-	28,089
Due to other governments	-	-	-	-	32,428	32,428
Total Liabilities	<u>(4,035)</u>	<u>-</u>	<u>19,873</u>	<u>33,746</u>	<u>32,428</u>	<u>82,012</u>
Deferred inflows of resources	<u>75,749</u>	<u>46,163</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,912</u>
Fund balances:						
Restricted	-	830,492	-	-	-	830,492
Unassigned	788,549	-	(295,625)	209,270	(410,425)	291,769
Total Fund Balances	<u>788,549</u>	<u>830,492</u>	<u>(295,625)</u>	<u>209,270</u>	<u>(410,425)</u>	<u>1,122,261</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 860,263</u>	<u>\$ 876,655</u>	<u>\$ (275,752)</u>	<u>\$ 243,016</u>	<u>\$ (377,997)</u>	<u>\$ 1,326,185</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARFA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

EXHIBIT 3

SEPTEMBER 30, 2019

Total Fund Balances - Governmental Funds	\$ 1,122,261
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 \$7,161,079 and the accumulated depreciation was \$3,966,393. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	3,194,686
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 2019 capital outlays is to increase net position.	79,348
The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(241,313)
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 2019 disposals is to decrease net position.	(102,693)
Current year transfers of equipment from governmental activities to business-type activities 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 2019 transfers is to decrease net position.	(795,594)
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.	86,800
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.	(765,000)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The effect of including the balances for long-term debt additions in the governmental activities is to decrease net position.	(500,000)
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 2019 principal payments is to increase net position.	305,000
Certain assets, including deferred outflows of resources of the internal service funds are included in the governmental activities in the statement of net position.	311,384
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.	(119,947)
Net Position of Governmental Activities	<u><u>\$ 2,574,932</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARFA

EXHIBIT 4

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS**

YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Health and EMS Services Fund	Hotel Fund	Other Funds	Total Governmental Funds
Revenues:						
Law enforcement	\$ 46,831	\$ -	\$ -	\$ -	\$ -	\$ 46,831
Fire department	18,357	-	-	-	-	18,357
Municipal court fees	163,284	-	-	-	-	163,284
Library	15,809	-	-	-	-	15,809
Senior citizen	125,823	-	-	-	-	125,823
Property tax	469,920	305,730	-	-	-	775,650
Sales tax	378,755	-	-	-	-	378,755
Franchise tax	35,932	-	-	-	-	35,932
Hotel occupancy tax	-	-	-	757,289	-	757,289
Health services	-	-	220,878	-	-	220,878
Interest	36,156	-	-	2,128	-	38,284
Other revenue	121,834	-	-	-	-	121,834
Intergovernmental	-	-	-	-	151,948	151,948
Total Revenues	1,412,701	305,730	220,878	759,417	151,948	2,850,674
Expenditures:						
Current:						
Administration	111,020	24,950	-	-	85,462	221,432
Law enforcement	431,825	-	-	-	251,262	683,087
Fire department	18,618	-	-	-	-	18,618
Municipal court	89,482	-	-	-	-	89,482
EMS	-	-	500,557	-	-	500,557
Library	170,593	-	-	-	-	170,593
Senior citizen	100,473	-	-	-	-	100,473
Marfa Activity Center	47,152	-	-	-	-	47,152
Hotel	-	-	-	541,676	-	541,676
Debt Service:						
Principal	-	305,000	-	-	-	305,000
Interest	-	9,648	-	-	-	9,648
Capital outlay	54,931	-	15,946	8,471	-	79,348
Total Expenditures	1,024,094	339,598	516,503	550,147	336,724	2,767,066

The notes to the financial statements are an integral part of this statement.

CITY OF MARFA**EXHIBIT 4****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS (CONTINUED)***YEAR ENDED SEPTEMBER 30, 2019*

	General Fund	Debt Service Fund	Health and EMS Services Fund	Hotel Fund	Other Funds	Total Governmental Funds
Deficiency of revenues over expenditures	\$ 388,607	\$ (33,868)	\$ (295,625)	\$ 209,270	\$ (184,776)	\$ 83,608
Other Financing Sources (Uses):						
Proceeds of tax note	-	500,000	-	-	-	500,000
Transfers in	570,232	52,590	-	-	-	622,822
Transfers out	-	-	-	-	(5,733)	(5,733)
Total Other Financing Sources (Uses)	570,232	552,590	-	-	(5,733)	1,117,089
Net changes in fund balances	958,839	518,722	(295,625)	209,270	(190,509)	1,200,697
Fund balances, beginning of year	(170,290)	311,770	-	-	(219,916)	(78,436)
Fund balances, ending of year	\$ 788,549	\$ 830,492	\$ (295,625)	\$ 209,270	\$ (410,425)	\$ 1,122,261

The notes to the financial statements are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2019

Total Net Change in Fund Balances - Governmental Funds	\$ 1,200,697
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 2019 capital outlays is to increase the net position.	79,348
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.	(241,313)
Current year transfers of equipment from governmental activities to business-type activities 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 2019 transfers is to decrease net position.	(795,594)
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.	(102,693)
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 decrease net position.	(93,440)
The issuance of debt is reflected as an other financing source in the fund financial statements, but is reported as long-term debt in the government-wide financial statements. The effect of removing the proceeds of debt is to decrease net position.	(500,000)
Current year long-term debt principal payments are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements. The net effect of including the 2019 debt principal payments is to increase net position.	305,000
Change in Net Position of Governmental Activities	<u>\$ (147,995)</u>

CITY OF MARFA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS

EXHIBIT 5

SEPTEMBER 30, 2019

	Enterprise Funds				Total Enterprise Funds
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	Development and Environmental Services Fund	
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 822,526	\$ 383	\$ 578,174	\$ 826	\$ 1,401,909
Cash - restricted	241,838	-	-	-	241,838
Accounts receivable, net	434,095	(52,328)	81,420	35,097	498,284
Due (to)/from other funds	3,423,893	(2,068,714)	1,065,571	(39,684)	2,381,066
Total Current Assets	4,922,352	(2,120,659)	1,725,165	(3,761)	4,523,097
Capital Assets:					
Land	-	-	90,000	-	90,000
Furniture and equipment	87,205	1,048,364	308,912	84,581	1,529,062
Infrastructure	8,899,529	931,770	134,553	-	9,965,852
Construction in progress	52,019	-	-	-	52,019
Less accumulated depreciation	(7,300,752)	(1,095,143)	(285,584)	(9,089)	(8,690,568)
Total Capital Assets, Net	1,738,001	884,991	247,881	75,492	2,946,365
Total Assets	6,660,353	(1,235,668)	1,973,046	71,731	7,469,462
LIABILITIES					
Current Liabilities:					
Accounts payable	465	20,738	-	44,961	66,164
Accrued wages payable	-	5,748	23,945	7,020	36,713
Customer deposits	57,672	-	34,755	-	92,427
Total Current Liabilities	58,137	26,486	58,700	51,981	195,304
Noncurrent Liabilities:					
Due within one year	110,000	-	-	-	110,000
Due in more than one year	1,008,419	-	-	-	1,008,419
Total Liabilities	1,176,556	26,486	58,700	51,981	1,313,723
Deferred inflows of resources	-	140,772	-	-	140,772
NET POSITION					
Net investment in capital assets	619,582	884,991	247,881	75,492	1,827,946
Restricted for capital projects	241,838	-	-	-	241,838
Unrestricted	4,622,377	(2,287,917)	1,666,465	(55,742)	3,945,183
Total Net Position	\$ 5,483,797	\$ (1,402,926)	\$ 1,914,346	\$ 19,750	\$ 6,014,967

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2019

	Enterprise Funds				Total Enterprise Funds
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	Development and Environmental Services Fund	
Operating Revenues:					
Charges for water services	\$ 546,379	\$ -	\$ -	\$ -	\$ 546,379
Charges for sewer services	400,972	-	-	-	400,972
Charges for sanitation services	-	-	-	755,387	755,387
Charges for gas services	-	-	937,838	-	937,838
Other revenue	76,993	82,991	12,075	25,742	197,801
TWDB surcharge	125,947	-	-	-	125,947
Total Operating Revenues	1,150,291	82,991	949,913	781,129	2,964,324
Operating Expenses:					
Payroll costs	346,151	128,920	322,178	148,916	946,165
Seminars and training	-	13,341	19,595	1,342	34,278
Professional and contracted services	9,627	-	32,783	524,331	566,741
Utilities	50,314	7,303	12,593	5,428	75,638
Maintenance and repairs	31,595	54,389	13,095	3,302	102,381
Other operating costs	190,804	51,574	340,906	93,998	677,282
Supplies and materials	70,397	7,980	67,668	7,195	153,240
Interest expense	39,602	-	-	-	39,602
Depreciation	228,925	149,205	52,457	3,283	433,870
Total Operating Expenses	967,415	412,712	861,275	787,795	3,029,197
Operating Income (Loss)	182,876	(329,721)	88,638	(6,666)	(64,873)
Non-Operating Revenues and Expenses:					
Transfers in	9,285	773,145	-	26,416	808,846
Transfers out	(166,181)	(71,618)	(48,625)	-	(286,424)
Total Non-Operating Revenues and Expenses	(156,896)	701,527	(48,625)	26,416	522,422
Increase (decrease) in net position	25,980	371,806	40,013	19,750	457,549
Total net position, beginning of year	5,457,817	(1,774,732)	1,874,333	-	5,557,418
Total Net Position, End of Year	\$ 5,483,797	\$ (1,402,926)	\$ 1,914,346	\$ 19,750	\$ 6,014,967

CITY OF MARFA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

EXHIBIT 7

YEAR ENDED SEPTEMBER 30, 2019

	Enterprise Funds				Total Enterprise Funds
	Water & Sewer Utilities Fund	Public Works Fund	Natural Gas Utilities Fund	Development and Environmental Services Fund	
				Development and Environmental Services Fund	
Cash Flows from Operating Activities:					
Cash received from user charges	\$ 966,344	\$ 63,649	\$ 943,400	\$ 746,032	\$ 2,719,425
Cash payments to employees for services	(346,151)	(125,319)	(324,698)	(141,896)	(938,064)
Cash payments to suppliers	(369,265)	127,238	(614,745)	(628,228)	(1,485,000)
Other operating income	125,947	-	-	-	125,947
Net cash flows from operating activities	<u>376,875</u>	<u>65,568</u>	<u>3,957</u>	<u>(24,092)</u>	<u>422,308</u>
Cash Flows from Non-Capital Financing Activities:					
Transfers in	13,251	5,613	15,449	24,918	59,231
Transfers out	(212,161)	(716,161)	(48,625)	-	(332,404)
Net cash flows from non-capital financing activities	<u>(198,910)</u>	<u>(66,005)</u>	<u>(33,176)</u>	<u>24,918</u>	<u>(273,173)</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition of capital assets	(97,297)	-	-	-	(97,297)
Proceeds from debt issued	-	-	-	-	-
Principal payments	(82,482)	-	-	-	(82,482)
Net cash flows from capital and related financing activities	<u>(179,779)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(179,779)</u>
Cash Flows from Investing Activities:					
Proceeds from investments	-	-	-	-	-
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	(1,814)	(437)	(29,219)	826	(30,644)
Cash and cash equivalents, beginning of year	824,340	820	607,393	-	1,432,553
Cash and cash equivalents, end of year	<u>\$ 822,526</u>	<u>\$ 383</u>	<u>\$ 578,174</u>	<u>\$ 826</u>	<u>\$ 1,401,909</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:					
Operating income (loss)	\$ 182,876	\$ (329,721)	\$ 88,638	\$ (6,666)	\$ (64,873)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation	228,925	149,205	52,457	3,283	433,870
Effect of increases and decreases in current assets and liabilities:					
Accounts receivable	(54,255)	15,402	(6,513)	(35,097)	(80,463)
Decrease in restricted cash	(3,745)	-	-	-	(3,745)
Due (to)/from other funds	23,915	267,030	(141,515)	(37,593)	111,837
Accounts payable	(991)	(5,204)	12,710	44,961	51,476
Accrued wages payable	-	3,600	(2,520)	7,020	8,100
Deferred outflows	-	(34,744)	-	-	(34,744)
Customer deposits	150	-	700	-	850
Net cash flows from operating activities	<u>\$ 376,875</u>	<u>\$ 65,568</u>	<u>\$ 3,957</u>	<u>\$ (24,092)</u>	<u>\$ 422,308</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARFA

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 1—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 (“U.S. GAAP”). 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 fund groupings.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 1—Organization and summary of significant accounting policies (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

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

The City reports the following major governmental fund:

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

In addition, the City reports the following nonmajor governmental funds:

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

Health and EMS Services Fund: Account for the accumulation of resources for, and the payment of, health and emergency medical services.

Hotel Fund: Account for the accumulation of resources for, and the payment of, hotel tax revenue and hotel support expenditures.

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

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 1—Organization and summary of significant accounting policies (continued)

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating 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 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.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 1—Organization and summary of significant accounting policies (continued)

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

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

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

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 \$158,446 for municipal court fees and \$399,877 for proprietary activities at September 30, 2019.
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 balances). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances 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."

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 1—Organization and summary of significant accounting policies (continued)

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, 2019, the City transferred \$52,590 in funds related to debt payments from the nonmajor component unit into the Debt Service Fund and \$522,422 of capital assets from the government funds to the proprietary funds.
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 June 15, 2021. 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.

Note 2—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.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 2—Budgetary data (continued)

B. Encumbrances

As part of formal budgetary control over governmental funds, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-U.S. GAAP budget basis in order to reserve that portion of the applicable appropriation. On the U.S. 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, 2019.

Note 3—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, 2019:

Cash and cash equivalents	\$ 4,712,590
Money market mutual fund	241,838
	<u>\$ 4,954,428</u>
Cash and cash equivalents - unrestricted	\$ 4,712,590
Cash – restricted	241,838
	<u>\$ 4,954,428</u>

The following is a reconciliation of cash and cash equivalents and investments as shown on the statement of net position for the component unit at September 30, 2019:

Deposits with financial institutions	\$ 96,316
Certificate of deposit	52,154
	<u>\$ 148,470</u>
Cash and cash equivalents	\$ 148,470
	<u>\$ 148,470</u>

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. The City has a safekeeping clause in its investment policy which notes that collateral pledged to secure City deposits will be held in accordance with a safekeeping agreement which clearly defines the procedures for obtaining access to the collateral. The safekeeping institution is defined as the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. At September 30, 2019, the carrying amount of the City's cash held in demand deposits, net of outstanding checks and deposits in transit, was \$4,954,428. The bank balance was \$5,268,919 as of September 30, 2019.

There is no limit on the amount the City may deposit in any one institution. At September 30, 2019, bank balances exceeded the Federal Deposit Insurance Corporation (FDIC) insured limits by \$1,307,690. This excess was fully covered by pledged securities in the City's name in the amount of \$1,880,000 at September 30, 2019.

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, 2019, the City's certificates of deposit had a remaining maturity of less than one year.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

Investments

Management of the City believes 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 for the year ended September 30, 2019.

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, 2019, upon which the fiscal year 2019 levy was based, was \$162,984,944. 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 \$9,071,756 and \$24,428,060, respectively. The total taxable value before the adjustment for frozen taxable value and improvements was \$196,484,760.

The tax assessment of October 1, 2018 set a tax levy at \$0.444 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 U.S. GAAP have been recognized as revenue. At September 30, 2019, delinquent property taxes receivable is \$121,912, net of an allowance for doubtful accounts of \$-0-.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

C. Capital asset activity

Capital asset activity for the City's governmental activities for the year ended September 30, 2019, was as follows:

Governmental activities:	Beginning Balance	Acquisitions	Disposals/ Reclasses	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 16,171	\$ -	\$ 16,171
Land	103,105	-	-	103,105
Total capital assets, not being depreciated	103,105	16,171	-	119,276
Capital assets, being depreciated:				
Infrastructure	5,759,845	41,312	(1,123,982)	4,677,175
Furniture and equipment	1,298,129	25,276	(487,598)	835,807
Total assets being depreciated	7,057,974	66,588	(1,611,580)	5,512,982
Less accumulated depreciation for:				
Infrastructure	(3,090,553)	(176,006)	463,082	(2,803,477)
Furniture and equipment	(875,840)	(65,307)	246,800	(694,347)
Total accumulated depreciation	(3,966,393)	(241,313)	709,882	(3,497,824)
Total capital assets, being depreciated, net	3,091,581	(174,725)	(901,698)	2,015,158
Governmental activities capital assets, net	\$ 3,194,686	\$ (158,554)	\$ (901,698)	\$ 2,134,434

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

Capital asset activity for the City's business-type activities for the year ended September 30, 2019, was as follows:

Business-type activities:	Beginning Balance	Acquisitions	Disposals/ Reclasses	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 24,119	\$ 27,900	\$ -	\$ 52,019
Land	90,000	-	-	90,000
Total capital assets, not being depreciated	<u>114,119</u>	<u>27,900</u>	<u>-</u>	<u>142,019</u>
Capital assets, being depreciated:				
Infrastructure	9,942,000	61,202	(37,350)	9,965,852
Furniture and equipment	1,413,805	78,210	37,047	1,529,062
Total assets being depreciated	<u>11,355,805</u>	<u>139,412</u>	<u>(303)</u>	<u>11,494,914</u>
Less accumulated depreciation for:				
Infrastructure	(8,030,320)	(212,675)	874,097	(7,368,898)
Furniture and equipment	(1,100,475)	(221,195)	-	(1,321,670)
Total accumulated depreciation	<u>(9,130,795)</u>	<u>(433,870)</u>	<u>874,097</u>	<u>(8,690,568)</u>
Total capital assets, being depreciated, net	<u>2,225,010</u>	<u>(294,458)</u>	<u>873,794</u>	<u>2,804,346</u>
Business-type activities capital assets, net	<u>\$ 2,339,129</u>	<u>\$ (266,558)</u>	<u>\$ 873,794</u>	<u>\$ 2,946,365</u>

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

Capital asset activity for the City's nonmajor component unit for the year ended September 30, 2019, was as follows:

Component Unit:	Beginning Balance	Acquisitions	Disposals/ Reclasses	Ending Balance
Capital assets, being depreciated:				
Building	\$ 91,654	\$ -	\$ -	\$ 91,654
Infrastructure	826,769	87,043		913,812
Furniture and equipment	63,761	-	-	63,761
Total assets being depreciated	982,184	87,043	-	1,069,227
Less accumulated depreciation for:				
Building	(21,864)	(580)	-	(22,444)
Infrastructure	(228,852)	(63,153)		(292,005)
Furniture and equipment	(63,761)	-	-	(63,761)
Total accumulated depreciation	(314,477)	(63,733)	-	(378,210)
Total capital assets, being depreciated, net	667,707	23,310	-	691,017
Component unit capital assets, net	\$ 667,707	\$ 23,310	\$ -	\$ 691,017

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

D. Bonds and long-term notes payable

Governmental Activities: The following is a summary of the City's governmental long-term debt at September 30, 2019:

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

Outstanding at September 30, 2019	\$ 300,000
Less current maturities	<u>(145,000)</u>
Long-term portion at September 30, 2019	<u>\$ 155,000</u>

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

Outstanding at September 30, 2019	\$ 160,000
Less current maturities	<u>(160,000)</u>
Long-term portion at September 30, 2019	<u>\$ -</u>

\$500,000; 2019 Texas Tax Note; due in annual installments through 2022;
interest rate of 2.09%.

Outstanding at September 30, 2019	\$ 500,000
Less current maturities	<u>(30,000)</u>
Long-term portion at September 30, 2019	<u>\$ 470,000</u>
Total short-term debt at September 30, 2019	<u>\$ 335,000</u>
Total long-term debt at September 30, 2019	<u>\$ 625,000</u>

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

The following is a summary of the City’s proprietary long-term debt at September 30, 2019:

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, 2019, the unamortized discount totaled \$147,832.

Outstanding at September 30, 2019, less unamortized discounts	\$ 498,419
Less current maturities	<u>(80,000)</u>
Long-term portion at September 30, 2019, less unamortized discounts	<u>\$ 418,419</u>

\$705,000; 2015; SWIFT Waterwell Combination Tax and Surplus Revenue Certification of Obligation, Series 2015; due in annual installments through 2036. The certificates bear variable interest through the maturities date (0.380% at September 30, 2019).

Outstanding at September 30, 2019	\$ 620,000
Less current maturities	<u>(30,000)</u>
Long-term portion at September 30, 2019	<u>\$ 590,000</u>
Total short-term debt at September 30, 2019	<u>\$ 110,000</u>
Total long-term debt at September 30, 2019	<u>\$ 1,008,419</u>

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

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

A summary of changes in long-term debt for the year ended September 30, 2019 is as follows:

Description	Amounts Outstanding October 1,	Additions	Retirements	Amounts Outstanding September 30,
	2018			2019
Governmental activities:				
2014 Tax note	\$ 445,000	\$ -	\$ (145,000)	\$ 300,000
2017 Tax note	320,000	-	(160,000)	160,000
2019 Tax note	-	500,000	-	500,000
	<u>765,000</u>	<u>500,000</u>	<u>(305,000)</u>	<u>960,000</u>
Business-type activities:				
Revenue bonds	1,200,901	-	(82,482)	1,118,419
	<u>1,200,901</u>	<u>-</u>	<u>(82,482)</u>	<u>1,118,419</u>
	<u>\$ 1,965,901</u>	<u>\$ 500,000</u>	<u>\$ (387,482)</u>	<u>\$ 2,078,419</u>

E. Debt service requirements – bonds and notes payable

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

Years Ending September 30,	Governmental Activities Tax Notes		Total
	Principal	Interest	Requirements
2020	\$ 335,000	\$ 24,925	\$ 359,925
2021	340,000	16,522	356,522
2022	285,000	2,978	287,978
	<u>\$ 960,000</u>	<u>\$ 44,425</u>	<u>\$ 1,004,425</u>

Years Ending September 30,	Business-Type Activities Revenue Bonds		Total
	Principal	Interest	Requirements
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	113,607	22,087	135,694
2025 and thereafter	635,323	77,696	713,019
	<u>\$ 1,118,419</u>	<u>\$ 225,109</u>	<u>\$ 1,343,528</u>

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

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).

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

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. 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.
Mortality	
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, 2018 valuations are contained in the 2018 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, 2018 valuation and measurement date, the following employees were covered by the defined benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not receiving benefits	28
Active employees	39
	88

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	17.50%	4.55%
International equity	17.50%	6.10%
Core fixed income	10.00%	1.00%
Non-core fixed income	20.00%	3.65%
Real return	10.00%	4.03%
Real estate	10.00%	5.00%
Absolute return	10.00%	4.00%
Private equity	5.00%	8.00%
	100.00%	

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 (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
\$ 207,249	\$ (140,941)	\$ (431,913)

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

Schedule of Pension Expense

Total service cost	\$ 159,374
Interest on the total pension liability	182,045
Current period benefit changes	-
Employee contributions (reduction of expense)	(86,242)
Projected earnings on plan investments (reduction of expense)	(213,821)
Administrative expense	1,834
Other changes in fiduciary net position	96
Recognition of current year outflow (inflow) of resources-liabilities	10,194
Recognition of current year outflow (inflow) of resources-assets	61,714
Amortization of prior year outflows (inflows) of resources-liabilities	7,181
Amortization of prior year outflows (inflows) of resources-assets	4,619
	<u> </u>
Total pension expense	<u>\$ 126,994</u>

Schedule of Outflows and Inflows

	Deferred
	Outflows of
	Resources
	<u> </u>
Difference between expected and actual economic experience	\$ 18,656
Changes in actuarial assumptions	-
Difference between projected and actual investment earnings	246,855
	<u> </u>
	<u>\$ 265,511</u>

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

2019	\$ 70,837
2020	30,226
2021	21,754
2022	142,694
	<u> </u>
	<u>\$ 265,511</u>

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

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

Texas Emergency Services Retirement System

Plan Description

The City provides pension, disability, and survivor benefits for all persons who 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 four years ended September 30, are as follows:

<u>Year End</u>	<u>Actual Contribution Made</u>
2016	\$ 8,755
2017	\$ 7,740
2018	\$ 10,903
2019	\$ 8,537

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

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

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

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

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%
	100.00%	

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.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

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

1% Decrease (6.75%)	Current Single Rate Assumption (7.75%)	1% Increase (8.75%)
\$ 62,231	\$ 54,141	\$ 29,778

Schedule of Outflows and Inflows

	Deferred Outflows of Resources
Difference between expected and actual economic experience	\$ (65)
Changes in actuarial assumptions	-
Difference between projected and actual investment earnings	6,970
	<u>\$ 6,905</u>

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

2020	\$ 1,470
2021	771
2022	1,713
2023	2,951
	<u>\$ 6,905</u>

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

G. Interfund balances and transfers

During the fiscal year ended September 30, 2019, the Parks Fund transferred \$52,590 to the City Interest and Sinking Fund to utilize toward tax note payments and the government funds transferred \$522,422 of capital assets to the proprietary funds.

CITY OF MARFA
NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

Note 3—Notes on all funds and account groups (continued)

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 2019 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, 2019, this date was October 23, 2020.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result of the declared outbreak, an economic downturn has had a significant, negative impact on local and global economies. While the City expects this matter to negatively impact its results of operations, cash flows, and financial position, the related financial impact cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED

This section contains additional information required by accounting principles generally accepted in the United States of America.

- Schedule of Funding Progress
- Budget and Actual General Fund
- Notes to Required Supplementary Information

CITY OF MARFA
SCHEDULE OF FUNDING PROGRESS – UNAUDITED

YEAR ENDED SEPTEMBER 30, 2019

EMPLOYEE RETIREMENT PLANS

Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability and Related Ratios

Total Pension:

Service cost	\$ 159,374
Interest (on TPL)	182,045
Changes of benefit terms	-
Difference between expected and actual experience	28,850
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(133,812)</u>
Net change in total pension liability	236,457
Total pension liability - beginning	<u>2,684,183</u>
Total pension liability - ending	<u><u>\$ 2,920,640</u></u>

Plan fiduciary net position:

Contributions - Employer	\$ 38,110
Contributions - Employee	86,242
Net investment income	(94,748)
Benefit payments, including refunds of employee contributions	(133,812)
Administrative expense	(1,834)
Other	<u>(96)</u>
Net change in plan fiduciary net position	(106,138)
Plan fiduciary net position - beginning	<u>3,167,719</u>
Plan fiduciary net position - ending	<u><u>\$ 3,061,581</u></u>

Net pension liability (prepaid)	<u><u>\$ (140,941)</u></u>
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Plan fiduciary net positions as a percentage of TPL	104.83%
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Covered-employee payroll	\$ 1,724,832
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Net pension liability as a percentage of covered employee payroll	-8.17%
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CITY OF MARFA

SCHEDULE OF FUNDING PROGRESS – UNAUDITED (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2019

Schedule of Contributions

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 19,130	\$ 7,238	\$ 7,590	\$ 8,231	\$ 31,140
Contribution in relation to the actuarially determined contribution	\$ 17,039	\$ 11,830	\$ 11,438	\$ 16,788	\$ 38,110
Contribution deficiency (excess)	\$ 2,091	\$ (4,592)	\$ (3,848)	\$ (8,557)	\$ (6,970)
Covered employee payroll	\$ 986,091	\$ 1,033,989	\$ 1,084,282	\$ 1,175,802	\$ 1,409,070
Contributions as a percentage of covered employee payroll	1.73%	1.14%	1.05%	1.43%	2.70%

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. 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.
Mortality	
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

SCHEDULE OF FUNDING PROGRESS – UNAUDITED (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2019

Texas Emergency Services Retirement System

Total Pension:

Service Cost	\$ 3,564
Interest (on TPL)	20,156
Changes of benefit terms	5,505
Difference between expected and actual experience	(42)
Changes of assumptions	155
Pension plan administrative expenses	433
Projected earnings on pension plan investments	(16,941)
	<hr/>
Net change in total pension liability	12,830
Total pension liability - beginning	254,624
	<hr/>
Total pension liability - ending	<u>\$ 267,454</u>

Plan Fiduciary Net Position:

Contributions - Employer	\$ 8,537
Contributions - Employee	-
Net investment income	16,941
Benefit payments, including refunds of employee contributions	-
Administrative expense	(433)
Other	(25,871)
	<hr/>
Net change in plan fiduciary net position	(826)
Plan fiduciary net position - beginning	214,139
	<hr/>
Plan fiduciary net position - ending	<u>\$ 213,313</u>

Net pension liability (prepaid)	<u>\$ 54,141</u>
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Plan fiduciary net positions as a percentage of TPL	79.76%
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Number of active participants	15
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Net pension liability per active participant	\$ 3,609.40
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Notes: No contributions are required by individual members. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. At the date the plan began, the City granted monetary credits for service rendered before the plan began of \$28,539. Monetary credits for service since the plan began are \$45 per active member per month. Contributions made by the City the last four years are as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actual Contribution Made	\$ 7,965	\$ 8,775	\$ 7,740	\$ 10,903	\$ 8,537

CITY OF MARFA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND – UNAUDITED**

YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (GAAP Basis)	Final Budget Positive (or Negative)
Revenues:				
Administration	\$ 116,832	\$ 116,832	\$ -	\$ (116,832)
Law enforcement	47,100	47,100	46,831	(269)
Fire department	18,650	18,650	18,357	(293)
Municipal court fees	128,750	128,750	163,284	34,534
Library	14,665	14,665	15,809	1,144
Senior citizen	94,000	94,000	125,823	31,823
Property tax	464,177	464,177	469,920	5,743
Sales tax	365,875	365,875	378,755	12,880
Franchise tax	50,000	50,000	35,932	(14,068)
Interest	36,400	36,400	36,156	(244)
Other revenue	38,732	38,732	121,834	83,102
Total Revenues	1,375,181	1,375,181	1,412,701	37,520
Expenditures:				
Current:				
Administration	292,806	292,806	111,020	181,786
Law enforcement	466,250	466,250	431,825	34,425
Fire department	70,110	70,110	18,618	51,492
Municipal court	87,075	87,075	89,482	(2,407)
Library	201,152	201,152	170,593	30,559
Senior citizen	97,244	97,244	100,473	(3,229)
Marfa Activity Center	52,551	52,551	47,152	5,399
Capital outlay	-	-	54,931	(54,931)
Total Expenditures	1,267,188	1,267,188	1,024,094	243,094
Expenditures in excess of revenues	\$ 107,993	\$ 107,993	388,607	\$ 280,614
Other Financing Sources (Uses):				
Proceeds of tax note			-	
Transfers in			570,232	
Transfers out			-	
Total Other Financing Sources (Uses):			570,232	
Net change in fund balances			958,839	
Fund Balance, beginning balance			(170,290)	
Fund Balance, Ending Balance			\$ 788,549	

CITY OF MARFA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED

YEAR ENDED SEPTEMBER 30, 2019

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-U.S. GAAP budget basis in order to reserve that portion of the applicable appropriation. On the U.S. 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, 2019.

OTHER REPORT

**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***

To the 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, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated October 23, 2020.

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 and, therefore, material weaknesses may exist that were not identified. 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 2019-01, that we consider to be a significant deficiency:

- Finding 2019-01 – Certain transactions processed near year-end were not evaluated for accrual in accordance with U.S. GAAP.

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 below. 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.

In response to the finding previously noted, 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.

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.



Sugar Land, Texas
October 23, 2020