

CITY OF MULESHOE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2009

City Of Muleshoe, Texas
Annual Financial Report
For The Year Ended September 30, 2009

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Financial Section

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214 WEST SECOND
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Independent Auditor's Report on Financial Statements

City Council
City Of Muleshoe, Texas
215 South First Street
Muleshoe, Texas 79347

Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City Of Muleshoe, Texas as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City Of Muleshoe, Texas's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City Of Muleshoe, Texas as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.


Randall L. Field, P.C.

November 20, 2009

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2009

This section of City of Muleshoe annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$7,665,214 at September 30, 2009. Of this amount, \$1,662,443 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- During the year, the City's total net assets increased by \$375,385
- The total cost of the City's programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$ 865,909

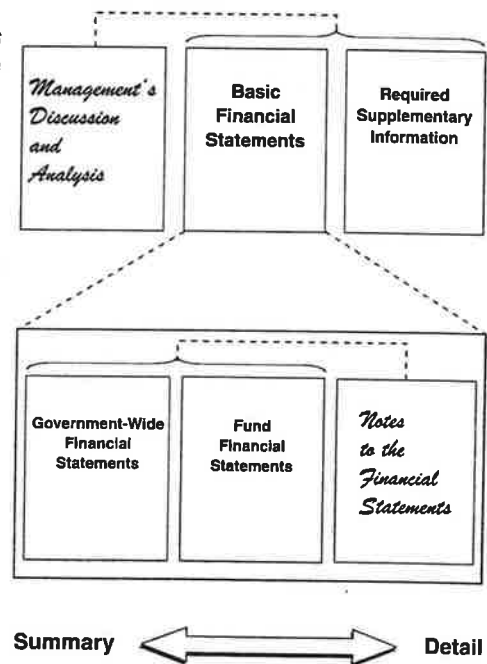
OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Enterprise fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

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

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



CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2009

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Fund Statements Enterprise Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses
<i>Required financial statements</i>	♦ Statement of net assets	♦ Balance sheet	♦ Statement of net assets
	♦ Statement of Activities	♦ Statement of revenues, expenditures & changes in fund balance	♦ Statement of revenues, expenses & changes in fund net assets
			♦ Statement of cash flow
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities both financial and capital, short-term and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payments is due during the year or soon thereafter	All revenues and expenses during year, regardless when cash is received or paid

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2009

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and grants finance most of these activities. The business-type activities of the city include the water and sewer and airport operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Enterprise funds*—Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provide in the government-wide and fund statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. The City's combined net assets were \$7,665,214 at September 30, 2009.

The largest portion of the City's net assets reflects its investments in capital assets (e.g. land, building, equipment, improvements and construction in progress), less any debt used to acquire those assets that is still outstanding. The City

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis For Year Ended September 30, 2009

uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF MULESHOE'S NET ASSETS

	Governmental		Business-type	
	Activities		Activities	
	2009	2008	2009	2008
Current and other assets	\$ 4,057,480	\$ 5,169,507	\$ 2,218,169	\$ 2,312,411
Capital assets	<u>4,316,466</u>	<u>3,203,820</u>	<u>1,753,092</u>	<u>1,295,146</u>
Total Assets	<u>8,373,946</u>	<u>8,373,327</u>	<u>3,971,261</u>	<u>3,607,557</u>
Other liabilities	353,398	294,794	101,138	85,212
Long-term liabilities	<u>4,219,697</u>	<u>4,288,477</u>	<u>5,760</u>	<u>22,573</u>
Total Liabilities	4,573,095	4,583,271	106,898	107,785
Net Assets:				
Invested in capital assets,				
net of related debt	1,681,302	2,100,539	1,747,332	1,272,573
Restricted	2,574,137	1,233,335		
Unrestricted	<u>(454,588)</u>	<u>456,182</u>	<u>2,117,031</u>	<u>2,227,199</u>
Total Net Assets	<u>\$ 3,800,851</u>	<u>\$ 3,790,056</u>	<u>\$ 3,864,363</u>	<u>\$ 3,499,772</u>

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,662,443 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2009, the City is able to report positive balances in two of the three categories of net assets for the governmental as whole and all three for business-type activities. The negative unrestricted net assets for the governmental funds is a result of the City issuing general debt to finance capital assets which are reported in other nongovernmental funds. This causes the governmental funds, which has incurred the liability, decreasing its net assets, to have no corresponding increase in its capital assets thus creating a deficit in its unrestricted net assets.

Analysis of the City's Operations

The City's total revenues were \$3,968,384. A significant portion, \$1,681,808 of the City's revenue comes from taxes. \$2,165,833 relates to charges for services, while only \$33,280 comes from operating grants and contributions.

Governmental Activities Governmental activities increased net assets after transfers by \$10,794. Governmental program revenues and expenses remained similar to prior year. The general fund continues to operate at a deficit.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2009

Business-type Activities: The Water and Sewer fund had an increase in net assets for the year and there were no significant variation in revenue or expense in relation to prior year

The following table provides a summary for the City's operations for year ended September 30, 2009

CITY OF MULESHOE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for service	888,546	882,618	1,277,287	1,143,881	2,165,833	2,026,499
Operating grants	33,280	15,431			33,280	15,431
Capital grants	-	200,989			-	200,989
General Revenues:						
Property taxes	924,673	770,582			924,673	770,582
Sales taxes	550,084	535,599			550,084	535,599
Franchise taxes	167,361	196,691			167,361	196,691
Occupancy taxes	39,690	42,813			39,690	42,813
Gain on sale of capital assets	41,509				41,509	
Investment earnings	39,436	141,877	6,518	48,583	45,954	190,460
Total revenues	2,684,579	2,786,600	1,283,805	1,192,464	3,968,384	3,979,064
Expenses:						
General government	312,459	296,877	-	-	312,459	296,877
Police	724,742	747,883	-	-	724,742	747,883
Fire	113,661	118,498	-	-	113,661	118,498
Streets	414,252	335,854	-	-	414,252	335,854
Maintenance Equipment	48,608	51,803	-	-	48,608	51,803
Sanitation	443,654	416,051	-	-	443,654	416,051
Health and Welfare	5,381	4,337	-	-	5,381	4,337
Parks	41,604	40,335	-	-	41,604	40,335
Swimming Pool	40,340	32,588	-	-	40,340	32,588
Library	167,066	145,534	-	-	167,066	145,534
Municipal Court	42,631	44,122	-	-	42,631	44,122
Golf Course	14,443	14,443	-	-	14,443	14,443
Code Enforcement	40,286	41,610	-	-	40,286	41,610
Economic Development						
and Assistance	176,110	170,723	-	-	176,110	170,723
Interest on Long-Term Debt	176,509	158,666	-	-	176,509	158,666
Water and Sewer		-	739,477	722,552	739,477	722,552
Airport	91,777	87,805	-	-	91,777	87,805
Total Expenses	2,853,523	2,707,129	739,477	722,552	3,593,000	3,429,681
Increases in Net Assets						
Before Transfers	(168,944)	79,471	544,328	469,912	375,384	549,383
Transfers	179,737	221,300	(179,737)	(221,300)	-	-
Increases in Net Assets	10,794	300,771	364,591	248,612	375,384	549,383
Net Assets- October 1	3,790,057	3,489,286	3,499,772	3,251,160	7,289,829	6,740,446
Net Assets- September 30	3,800,851	3,790,057	3,864,363	3,499,772	7,665,213	7,289,829

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds- The focus of the City of Muleshoe's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of government's net resources available for spending at the end of the fiscal year.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis For Year Ended September 30, 2009

At the end of the current fiscal year, the City of Muleshoe's governmental funds reported combined ending fund balances of \$ 3,483,158. Approximately 24% of this amount \$844,134 constitutes unreserved fund balance. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed to capital projects, debt service, economic development and paving liens.

In the general fund, the City budgeted for an increase in the fund balance on a budgeted basis of \$97,954. However due to other financing sources being more than expected the actual fund balance increased \$194,998 for the fiscal year 2009.

Enterprise Funds- The City's enterprise fund statements provide the same type of information found in the governmental-wide financial statements, but in more detail. Unrestricted net assets of the respective enterprise fund or Water and Sewer are \$2,117,031.

General Fund Budgetary Highlights

Over the course of the year, the City did not revise its budget. Actual expenditures were \$82,929 below the final budget amounts and resources available were \$89,130 below the final budgeted amount. The largest differences result from taxes and fines being less than expected.

CAPITAL ASSETS

At the end of 2009, the City had invested \$12,230,730 in a broad range of capital assets, including land, equipment, buildings, and vehicles.

CITY OF MULESHOE'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 506,107	\$ 506,107	\$ 833,127	\$ 833,126	1,339,234	1,339,233
Construction in progress	1,265,676	62,618	523,972.00	49,400.00	1,789,648	112,018
Buildings and improvements	815,548	716,924	76,314	52,717	891,862	769,641
Machinery and equipment	2,958,827	3,054,346	520,746	506,700	3,479,573	3,561,046
Water and sewer system	-	-	2,850,726	2,850,726	2,850,726	2,850,726
Airport improvements	1,879,687	1,879,687	-	-	1,879,687	1,879,687
Totals at historical cost	7,425,845	6,219,681	4,804,885	4,292,669	12,230,730	10,512,350
Total accumulated depreciation	(3,109,378)	(3,015,861)	(3,051,792)	(2,997,524)	(6,161,170)	(6,013,385)
Net capital assets	\$4,316,467	\$3,203,820	\$1,753,093	\$1,295,145	\$ 6,069,560	\$ 4,498,966

More detailed information about the City's capital assets is presented in the notes to the financial statements.

DEBT ADMINISTRATION

At year-end, the City had \$ 4,225,458 in outstanding capital leases, notes and landfill closure cost. More detailed information about the City's debt is presented in the notes to the financial statements.

The City of Muleshoe issued \$4,000,000 in Certificates of Obligation in December of 2007. These funds are designated to provide for capital improvement projects including; \$500,000 for sewer line extension, \$500,000 for Police Department, \$1,000,000 for wastewater treatment facility expansion, \$500,000 for water storage tank upgrade, and \$1,500,000 for new aquatic facility.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis For Year Ended September 30, 2009

The Certificates of Obligation are payable over a twenty (20) year period. Payments for the Certificates of Obligation are allocated 61% (\$183,337) to the Water/Sewer Fund and 39% (\$116,736) to Property Tax.

The City Council adopted an increase in water and sewer rates and established a \$0.1023 debt tax rate to fund the repayment of the Certificates of Obligation.

CITY OF MULESHOE'S LONG TERM DEBT

	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Leases payable	155,911	181,117	5,760	15,574	161,671	196,690
Notes payable	-	35,500	-	7,000	-	42,500
Certificates of obligation series 2007	3,975,000	4,000,000	-	-	3,975,000	4,000,000
Landfill closure cost	88,787	71,860	-	-	88,787	71,860
Total notes payable	<u>4,219,698</u>	<u>4,288,477</u>	<u>5,760</u>	<u>22,574</u>	<u>4,225,458</u>	<u>4,311,050</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Salary and benefit adjustments are included in this budget as recommended by the City Manager and Department Heads and approved by the City Council. Salaries: This budget provides for a \$50.00 per month increase for all employees. This increase is an overall increase of 2.3% from the FY 20082009 Budget. Insurance In response to the ever-increasing cost of medical insurance cost, the City Manager and Department Heads recommended significant changes to the employee and dependent medical insurance coverage provided by the city. Those changes include a \$2,000 deductible for medical coverage and \$5,000 out-of-pocket expenses. These changes resulted in a 28% decrease in employee insurance costs. A portion of that savings was returned to the employee in the form of a \$50.00 per month salary adjustment to help offset the additional deductible and out-of-pocket medical expense. Retirement The City's portion of employee retirement increased 4.8%. Salaries and employee benefits account for 38.25% of the city's total FY 20092010 budget.

Major capital improvement projects allocated in the General Fund include; \$25,000 for City Hall improvements, \$26,000 for Police Department vehicle replacement, \$25,128 as match funds for a grant to the Police and Fire Departments to complete the required radio upgrade, \$36,250 annual payment for the 2008 Fire Department pumper truck, \$15,000 for new softball facility, and \$18,000 for new library books and other media.

Water and wastewater rates for the FY 20092010 budget are unchanged from the FY 20082009 budget. Water and wastewater fees provide funds for infrastructure improvements and expansion, and to retire Certificates of Obligation debt. Major capital improvement projects for the Water/Wastewater Department include; \$28,000 for water mains and taps, \$10,000 for meters and settings and \$50,000 for water well improvements (SCADA System).

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager.

CITY OF MULESHOE, TEXAS**STATEMENT OF NET ASSETS**
SEPTEMBER 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Cash and cash equivalents</i>	\$ 986,184	\$ 231,913	\$ 1,218,097
<i>Investments</i>	2,595,087	1,804,562	4,399,649
<i>Receivables (net of allowances for uncollectibles):</i>			
<i>Property Taxes- Delinquent</i>	113,680	—	113,680
<i>Accounts</i>	102,132	118,224	220,356
<i>Paving Liens</i>	21,775	—	21,775
<i>Notes Receivable</i>	95,001	—	95,001
<i>Accrued Interest Receivable</i>	1,631	—	1,631
<i>Due from Other Governments</i>	12,291	—	12,291
<i>Capitalized debt issuance cost</i>	115,038	—	115,038
<i>Discount on issuance of debt</i>	14,661	—	14,661
<i>Restricted assets:</i>			
<i>Cash and cash equivalents</i>	—	63,470	63,470
<i>Customer Meter Deposits</i>	—	—	—
<i>Capital Assets</i>			
<i>Land</i>	506,107	833,127	1,339,234
<i>Buildings and Improvements</i>	815,549	76,314	891,863
<i>Machinery and Equipment</i>	2,958,827	520,746	3,479,573
<i>Water and Sewer System</i>	—	2,850,726	2,850,726
<i>Airport Improvements</i>	1,879,687	—	1,879,687
<i>Less Accumulaed Depreciation</i>	(3,109,379)	(3,051,793)	(6,161,172)
<i>Construction in Progress</i>	1,265,675	523,972	1,789,647
<i>Total Assets</i>	<u>8,373,946</u>	<u>3,971,261</u>	<u>12,345,207</u>
LIABILITIES			
<i>Accounts payable</i>	288,659	29,058	317,717
<i>Accrued wages</i>	40,653	8,610	49,263
<i>Payable from Resticted Assets:</i>			
<i>Customer Deposits</i>	—	63,470	63,470
<i>Accrued Interest Payable</i>	24,086	—	24,086
<i>Noncurrent Liabilities:</i>			
<i>Due within one year</i>	173,274	5,760	179,034
<i>Due in more than year</i>	4,046,423	—	4,046,423
<i>Total Liabilities</i>	<u>4,573,095</u>	<u>106,898</u>	<u>4,679,993</u>
NET ASSETS			
<i>Invested in Capital Assets, Net of Related Debt</i>	1,681,302	1,747,332	3,428,634
<i>Restricted For:</i>			
<i>Debt Service</i>	21,843	—	21,843
<i>Construction</i>	1,614,545	—	1,614,545
<i>Economic Development</i>	937,749	—	937,749
<i>Unrestricted</i>	(454,588)	2,117,031	1,662,443
<i>Total Net Assets</i>	<u>\$ 3,800,851</u>	<u>\$ 3,864,363</u>	<u>\$ 7,665,214</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General Government	\$ 312,459	\$ 73,617	\$ 15,855
Police	724,742	3,889	--
Fire	113,661	--	--
Streets	414,252	2,764	--
Maintenance Equipment	48,608	--	--
Sanitation	443,654	725,096	--
Health and Welfare	5,381	--	--
Parks	41,604	--	--
Swimming Pool	40,340	12,567	--
Library	167,066	4,091	17,425
Municipal Court	42,631	55,272	--
Golf Course	14,443	--	--
Code Enforcement	40,286	--	--
Economic Development and Assistance	176,110	1,906	--
Airport	91,777	9,344	--
Interest on Long-Term Debt	176,509	--	--
Total Governmental Activities	<u>2,853,523</u>	<u>888,546</u>	<u>33,280</u>
Business-type Activities:			
Water and Sewer	739,477	1,277,287	--
Total Primary Government	<u>\$ 3,592,999</u>	<u>\$ 2,165,833</u>	<u>\$ 33,280</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Occupancy
Unrestricted Investment Earnings
Gain on Sale of Capital Assets
Transfers
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (222,987)		\$ (222,987)
(720,853)		(720,853)
(113,661)		(113,661)
(411,488)		(411,488)
(48,608)		(48,608)
281,442		281,442
(5,381)		(5,381)
(41,604)		(41,604)
(27,773)		(27,773)
(145,550)		(145,550)
12,641		12,641
(14,443)		(14,443)
(40,286)		(40,286)
(174,204)		(174,204)
(82,433)		(82,433)
(176,509)		(176,509)
<u>(1,931,697)</u>		<u>(1,931,697)</u>
 —	 \$ 537,810	 537,810
<u>(1,931,696)</u>	<u>537,810</u>	<u>(1,393,886)</u>
 924,673	 —	 924,673
550,084	—	550,084
167,361	—	167,361
39,690	—	39,690
39,436	6,518	45,954
41,509	—	41,509
179,737	(179,737)	—
<u>1,942,490</u>	<u>(173,219)</u>	<u>1,769,271</u>
10,794	364,591	375,385
3,790,057	3,499,772	7,289,829
<u>\$ 3,800,851</u>	<u>\$ 3,864,363</u>	<u>\$ 7,665,214</u>

CITY OF MULESHOE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Capital Project Certificates of Obligation
ASSETS:		
<i>Cash and cash equivalents</i>	\$ 281,260	\$ 123,288
<i>Investments</i>	601,521	1,373,174
<i>Receivables (net of allowances for uncollectibles):</i>		
<i>Property Taxes- Delinquent</i>	107,991	—
<i>Accounts</i>	98,554	—
<i>Paving Liens</i>	21,775	—
<i>Notes Receivable</i>	—	—
<i>Due from other funds</i>	10,155	1,372
<i>Due from Other Governments</i>	2,066	—
Total Assets	\$ 1,123,322	\$ 1,497,834
LIABILITIES		
<i>Accounts payable</i>	\$ 110,532	\$ 176,489
<i>Accrued wages</i>	38,890	—
<i>Due to other funds</i>	—	—
<i>Deferred revenue</i>	107,991	—
Total Liabilities	257,413	176,489
FUND BALANCES		
<i>Reserved Fund Balances:</i>		
<i>Paving liens</i>	21,775	—
<i>Unreserved</i>	844,134	1,321,345
<i>Unreserved, Reported in Nonmajor</i>	—	—
<i>Special Revenue Funds</i>	—	—
<i>Capital Projects Funds</i>	—	—
<i>Debt Service Funds</i>	—	—
Total Fund Balance	865,909	1,321,345
Total Liabilities and Fund Balance	\$ 1,123,322	\$ 1,497,834

The accompanying notes are an integral part of this statement.

Economic Development	Other Governmental Funds	Total Governmental Funds
\$ 485,237	\$ 96,399	\$ 986,184
360,912	259,480	2,595,087
--	5,689	113,680
--	3,578	102,132
--	--	21,775
95,001	--	95,001
--	--	11,527
--	10,225	12,291
<u>\$ 941,150</u>	<u>\$ 375,371</u>	<u>\$ 3,937,677</u>
\$ 1,638	\$ --	\$ 288,659
1,763	--	40,653
--	11,527	11,527
--	5,689	113,680
<u>3,401</u>	<u>17,216</u>	<u>454,519</u>
--	--	21,775
937,749	--	3,103,228
--	43,112	43,112
--	293,200	293,200
--	21,843	21,843
<u>937,749</u>	<u>358,155</u>	<u>3,483,158</u>
<u>\$ 941,150</u>	<u>\$ 375,371</u>	<u>\$ 3,937,677</u>

CITY OF MULESHOE, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009**

Total fund balances - governmental funds balance sheet	\$ 3,483,158
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not reported in the funds.	4,316,467
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	113,680
Unamortized debt cost record in governmental activities are not reported in the funds.	129,699
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,975,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(155,909)
Payables for accrued interest which are not due in the current period are not reported in the funds.	(24,086)
Interest on notes which are not due in the current period are not reported in the funds.	1,631
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(88,788)

Net assets of governmental activities - statement of net assets	\$ <u>3,800,851</u>
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The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	General Fund	Capital Project Certificates of Obligation
Revenue:		
Property Taxes	\$ 786,593	\$ --
Sales Taxes	367,016	--
Franchise Taxes	167,361	--
Occupancy Taxes	--	--
Licenses and permits	12,444	--
Intergovernmental	17,425	--
Charges for services	749,787	--
Fines	55,283	--
Interest	2,437	26,398
Miscellaneous	65,237	--
Total revenues	<u>2,223,583</u>	<u>26,398</u>
Expenditures:		
Current:		
General government	283,189	--
Police	687,989	--
Fire	67,938	--
Streets	388,166	--
Maintenance Equipment	48,608	--
Sanitation	375,633	--
Health and welfare	4,736	--
Parks	26,690	--
Swimming Pool	40,340	--
Library	164,371	--
Municipal Court	42,631	--
Golf Course	14,443	--
Code Enforcement	38,286	--
Economic development and assistance	--	--
Airport	7,503	--
Capital outlay	146,088	1,216,950
Debt service:		
Principal	60,708	--
Interest and fiscal charges	12,775	--
Debt issuance cost and fees	--	--
Total expenditures	<u>2,410,094</u>	<u>1,216,950</u>
Excess (deficiency) of revenues (under) expenditures	(186,511)	(1,190,552)
Other financing sources (uses):		
Operating transfers in	340,000	--
Operating transfers out	--	(393,600)
Sale of Assets	41,509	--
Total other financing sources (uses)	<u>381,509</u>	<u>(393,600)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	194,998	(1,584,152)
Fund balances October 1	670,911	2,905,497
Fund balances September 30	<u>\$ 865,909</u>	<u>\$ 1,321,345</u>

The accompanying notes are an integral part of this statement.

Economic Development	Other Governmental Funds	Total Governmental Funds
\$ —	\$ 117,520	\$ 904,113
183,068	--	550,084
--	--	167,361
--	39,690	39,690
--	--	12,444
--	15,855	33,280
--	--	749,787
--	--	55,283
17,284	1,211	47,330
1,906	3,889	71,032
<u>202,258</u>	<u>178,165</u>	<u>2,630,404</u>
--	15,855	299,044
--	--	687,989
--	--	67,938
--	--	388,166
--	--	48,608
--	--	375,633
--	--	4,736
--	--	26,690
--	--	40,340
--	--	164,371
--	--	42,631
--	--	14,443
--	--	38,286
132,132	39,878	172,010
--	--	7,503
31,305	--	1,394,343
--	25,000	85,708
--	275,073	287,848
--	300	300
<u>163,437</u>	<u>356,106</u>	<u>4,146,587</u>
38,821	(177,941)	(1,516,183)
--	233,337	573,337
--	--	(393,600)
--	--	41,509
<u>--</u>	<u>233,337</u>	<u>221,246</u>
38,821	55,396	(1,294,937)
898,928	302,759	4,778,095
<u>\$ 937,749</u>	<u>\$ 358,155</u>	<u>\$ 3,483,158</u>

CITY OF MULESHOE, TEXAS

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

Net change in fund balances - total governmental funds \$ (1,294,937)

Amounts reported for governmental activities in the statement of activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	1,394,343
The depreciation of capital assets used in governmental activities is not reported in the funds.	(281,698)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	20,560
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(7,894)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(16,928)
Repayment of certificates of obligation principal is an expenditure in the funds but is not an expense in the SOA	25,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	25,209
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	35,500
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(7,042)
(Increase) decrease in accrued interest from beginning of period to end of period.	118,681

Change in net assets of governmental activities - statement of activities \$ 10,794

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS**STATEMENT OF NET ASSETS****ENTERPRISE FUND****SEPTEMBER 30, 2009**

	Enterprise Fund Water and Sewer Fund
ASSET	
Current Assets:	
<i>Cash and cash equivalents</i>	\$ 231,913
<i>Investments</i>	1,804,562
Receivables (net of allowances for uncollectibles):	
<i>Accounts</i>	118,224
<i>Total Current Assets</i>	<u>2,154,699</u>
Non-Current Assets:	
Restricted assets:	
<i>Cash and cash equivalents</i>	
<i>Customer Meter Deposits</i>	63,470
<i>Capital assets</i>	
Land	833,127
Buildings and Improvements	76,314
Machinery and Equipment	520,746
Water and Sewer System	2,850,726
Less Accumulated Depreciation	(3,051,793)
Constructure in Progress	523,972
<i>Total Non-Current Assets</i>	<u>1,816,562</u>
<i>Total Assets</i>	<u>\$ 3,971,261</u>
LIABILITIES	
Current Liabilities:	
<i>Accounts payable</i>	\$ 29,058
<i>Accrued wages</i>	8,610
<i>Current portion of long-term obligations</i>	5,760
<i>Total Current Liabilities</i>	<u>43,428</u>
Payable from Restricted Assets:	
<i>Customer Deposits</i>	63,470
Noncurrent Liabilities	
<i>Total Liabilities</i>	<u>106,898</u>
NET ASSETS	
<i>Investment in capital assets, net related debt</i>	1,747,331
<i>Unrestricted (Deficit)</i>	2,117,032
<i>Total Net Assets</i>	<u>\$ 3,864,363</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXASSTATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES:	
Charges for services	\$ 1,240,253
Rents	19,908
Miscellaneous	17,126
Total Operating Revenues	<u>1,277,287</u>
OPERATING EXPENSES:	
Personnel services	306,132
Supplies	41,517
Maintenance	166,951
Other charges	169,798
Depreciation	54,269
Total Operating Expenses	<u>738,667</u>
Operating Income (Loss)	<u>538,620</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	6,518
Interest expense	(810)
Total Non-operating Revenues (Expenses)	<u>5,708</u>
Net Income (Loss) before Transfers	<u>544,328</u>
Interfund operating transfers in	393,600
Interfund operating transfers out	(573,337)
Change in net assets	<u>364,591</u>
Net Assets at October 1,	<u>3,499,772</u>
Net Assets at September 30,	<u>\$ 3,864,363</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 1,208,087
<i>Cash Payments to Employees for Services</i>	(247,210)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(420,853)
<i>Other Operating Cash Receipts (Payments)</i>	37,034
Net Cash Provided (Used) by Operating Activities	<u>577,058</u>
Cash Flows from Non-capital Financing Activities:	
<i>Proceeds (Payments) from (for) Borrowings Interfund</i>	1,023,404
<i>Operating Grants Received</i>	—
<i>Operating Transfers From (To) Other Funds</i>	(179,737)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>843,667</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Proceeds from Issuance of Long-term Debt</i>	—
<i>Principal and Interest Paid</i>	(18,032)
<i>Acquisition or Construction of Capital Assets</i>	(512,215)
<i>Proceeds from Sale of Capital Assets</i>	—
<i>Contributed Capital</i>	—
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(530,247)</u>
Cash Flows from Investing Activities:	
<i>Purchase of Investment Securities</i>	—
<i>Interest and Dividends on Investments</i>	6,518
Net Cash Provided (Used) for Investing Activities	<u>6,518</u>
Net Increase (Decrease) in Cash and Cash Equivalents	896,996
Cash and Cash Equivalents at Beginning of Year	1,202,949
Cash and Cash Equivalents at End of Year	<u>\$ 2,099,945</u>
Classified As:	
Current Assets	\$ 2,036,475
Restricted Assets	63,470
Totals	<u>\$ 2,099,945</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ 538,620
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	54,269
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(32,166)
<i>Increase (Decrease) in Accounts Payable</i>	12,165
<i>Increase (Decrease) in Customer Deposits</i>	1,640
<i>Increase (Decrease) in Accrued Expenses</i>	2,530
Total Adjustments	<u>38,438</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 577,058</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. Summary of Significant Accounting Policies

The City of Muleshoe was incorporated on January 1, 1926, and adopted the Home Rule Charter in accordance with the statutes of the State of Texas on July 3, 1960. The City of Muleshoe, hereinafter called the City, operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, public improvements, planning, and general administrative services.

The basic financial statements of City Of Muleshoe, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. ("GAAP") promulgated by the Governmental Accounting Standards No. 69 of the American Institute of Certified Public Accountants; as applied to governmental units.

The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City. The City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units." The city receives support from various organizations; however, none of these organizations meet the criteria specified by GASB Statement No. 39 to be included in the City's financial statements.

In conformity with generally accepted accounting principles, the following financial statements of component units have been included in the City's financial statements as blended component units.

They are:

<u>Name of Component Unit</u>	<u>Brief Description of Activities and Relationship to City</u>	<u>Reporting Funds</u>
Muleshoe Economic Development Corporation	Promote, Assist and Enhance Economic Development in the City. Governed by a five member board of directors appointed by the Mayor and City Council.	Special Revenue Fund

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

All budgets, programs and policies
must be submitted to the City
Council for approval.

Joint Ventures

The City of Muleshoe has the following joint ventures at September 30, 2009. The City of Muleshoe is in conjunction with the County of Bailey, Texas, Muleshoe Independent School District, Muleshoe Area Hospital District and High Plains Underground Water Conservation District No. 1 to create Bailey Central Appraisal District pursuant to the laws of the State of Texas, for the appraisal and collection of property taxes. Bailey Central Appraisal District is governed by a five-member board composed of three appointees by Muleshoe School District and one by the County of Bailey, Texas, and the City of Muleshoe. Each taxing entity is liable for its share of the cost of operating Bailey Central Appraisal District. In accordance with the agreement with each taxing entities, excess funds will be paid annually at the discretion of Bailey Central Appraisal District. All known costs and refunds have been shown in current financial statements. Complete financial statements for Bailey Central Appraisal District can be obtained from Bailey Central Appraisal District, 302 Main, Muleshoe, Texas.

Related Organization

The following organization was excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the respective organization.

Related Organizations

**Brief Description of Activities and
Relationship to the City**

Housing Authority of Muleshoe

Administer Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the Governing Board are appointed by the Mayor and approved by the City Council. The City has no significant influence over the management, budget, or policies of the Housing Authority of Muleshoe. The Authority reports independently.

Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Economic Development. This fund accounts for sale tax revenue used for economic development.

Capital Projects Fund: The proceeds from Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2007 debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. All cost are through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

In addition, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds: The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund.

Debt Service Fund: The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Capital Projects Fund: The revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a general capital projects fund.

b. Measurement Focus, Basis of Accounting

Government-wide and Enterprise Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and enterprise fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

requirements have been satisfied. Long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Bond premiums and discounts, as well as bond issuance cost are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premium received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's equity in the pooled cash accounts are available upon demand and are considered to "cash equivalents" when preparing these financial statements.

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. The

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

City has contract with Bailey Central Appraisal District for the collection of property taxes.

The City is permitted by the State of Texas to levy taxes up to \$2.50 per \$100 of assessed valuation. Within this \$2.50 maximum, there is no legal limit upon the amount of taxes which may be levied for the debt service. The tax rate to finance general government service for the year ended September 30, 2009 was \$0.6550 per \$100 which means that the City has a tax margin of \$1.845 per \$100 and could raise up to \$2,214,921 additional a year from the present assessed valuation of \$120,049,937 before the limit is reached.

Allowances for uncollectible are based upon historical experience in collecting property taxes. In accordance with Texas Property Tax Code Sec. 33.05 Limitation on Collection of Taxes:

- * Personal property may not be seized and a suit may not be filed:
 - To collect a tax on personal property that has been delinquent more than four years: or
 - To collect a tax on real property that has been delinquent more than 20 years.
- * A tax delinquent for more than the limitation period prescribed by this section and any penalty and interest on the tax is presumed paid unless a suit to collect the tax is pending.
- * The collector for a taxing unit shall cancel and remove from the delinquent tax roll tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years if there is no pending litigation concerning the delinquent taxes at the time of the cancellation and removal.

Allowances for uncollectible tax receivables within the General Fund General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories

Supply inventories are recorded by the purchase method. Under the purchase method inventory items are expensed at the time a liability is created. Because the City had an insignificant amount of inventory at year end, no amounts have been shown on the financial statement.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

The City (defined as a phase 3 government in GASB Statement No. 34 "Basic Financial Statements-Management's Discussion and Analysis- for State and Local Government") has elected not to retroactively rereport general infrastructure assets, therefore general infrastructure assets acquired or constructed prior to July 1, 2003 are not reported in the financial statements.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment	3-5
Computer Equipment	3-5

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

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

f. Unpaid Vacation and Sick Pay

The City does not have an obligation to pay unpaid sick pay on termination of an employee and unpaid vacation does not accumulate from year to year. Therefore, such amounts are not accrued by the City

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Budgets and Budgetary Accounting

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

1. Prior to August 1, the City Manager 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.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 15, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Total expenditures may not exceed total appropriation for any budgeted fund without amending the budget.

CITY OF MULESHOE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

5. GASB Statement No. 34 Requires that budgetary comparison statements for the General Fund and major special funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).
6. Budgets for the General and Economic Development Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end.

Budgeted amount are as originally adopted, or as amended by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

j. Restricted Assets

These assets consist of cash restricted for customer meter deposits.

k. Fund Equity

Unreserved undesignated fund equity for governmental funds indicates available amounts for the budgeting of future operations. The unreserved designated fund equity for governmental funds indicates unreserved funds that have been earmarked by City Council for specific purposes and are therefore not available for general expenditures to be appropriated in the following period unless amended by future Council action. Reserved fund balance is that portion of fund equity which is not available for appropriation or which has been legally separated for specific purposes.

In the government-wide statements, net assets are reported in the three components- invested in capital assets net of related debt, restricted, and unrestricted. Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or notes issued to acquire, construct or improve those assets. Restricted net assets are reported when constraints placed on net assets use are either externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or by enabling legislation. Unrestricted net assets that do not meet the definition of either of the first categories of net assets.

Unrestricted net assets are assets available for use by the City for legal purpose. As of September 30, 2009, the City's Governmental Activities unrestricted net assets were a negative balance of \$454,588. The negative amount is a result of governments recognizing a liability, such as claims and judgements, compensated absences, bonds, lease obligations, and loans, on the governmental-wide statements of net assets as soon as the obligation is incurred. Because governments raise resources based on when liabilities are to be paid rather than when they are incurred, a negative balance in the unrestricted assets occurs. A deficit in unrestricted net assets provides a measure of how much the City has already committed its future resources.

When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation

None reported

Action Taken

Not applicable

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,277,954 and the bank balance was \$1,474,131. The City's cash deposits at September 30, 2009 and during the year ended September 30, 2009, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City has invested in the Texas Short Term Asset Reserve Program (TEXSTAR) and Texas Local Government Investment Pool (TEXPOOL).

TEXSTAR and TEXPOOL are organized pursuant to the Interlocal Cooperation Act of the State of Texas, Chapter 791 of the Texas Government Code as amended, and is designed to provide participating local governments with an investment vehicle for local funds not required to be spent immediately and available for investment in securities with maturities and returns generally greater than those for money market instruments. TEXSTAR and TEXPOOL invests in investments authorized under the Public Funds Investment Act. Chapter 2256 of the Texas Government Code.

The City's temporary investments at June 30, 2009 are shown below.

	Carrying Amount	Market Value	Average Maturity (DAYS)
TEXPOOL	\$ 3,007,603	\$ 3,007,603	60
TEXSTAR	1,362,047	1,392,047	60
	<u>\$ 4,369,650</u>	<u>\$ 4,399,650</u>	

CITY OF MULESHOE, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2009

The market values investment in TEXSTAR and TEXPOOL are based on quoted market values. The investments are reported by the School District at amortized cost in accordance with Governmental Accounting Standards Board Statement (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." All gains/losses that are reported in the financial statements are for realized gains/losses. In accordance with GASB 31, no unrealized gains/losses were recognized.

Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

Custodial credit risk for investment is the risk that in the event for the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of outer parties. The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The City's cash deposits at September 30, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Since the City's deposits are covered by depository insurance and pledged securities, it has no custodial credit risk for deposits.

c. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investment in any one issuer (other than U.S. Treasury Securities, Mutual Funds, and External Investment Pools) That represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2009, all of the City's investment are in the bank investments completely covered by pledged securities, or an external investment pool.

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

D. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 506,107	\$ —	\$ —	\$ 506,107
Construction in progress	62,618	1,215,059	(12,001)	1,265,676
Total capital assets not being depreciated	568,725	1,215,059	(12,001)	1,771,783
<i>Capital assets being depreciated:</i>				
Buildings and improvements	716,924	98,624	—	815,548
Machinery and Equipment	3,054,346	92,661	(188,181)	2,958,827
Airport Improvements	1,879,687	—	—	1,879,687
Total capital assets being depreciated	5,650,957	191,286	(188,181)	5,654,062
Less accumulated depreciation for:				
Buildings and improvements	(505,426)	(17,615)	—	(523,041)
Machinery and Equipment	(1,260,851)	(185,239)	188,181	(1,257,909)
Airport Improvements	(1,249,584)	(78,844)	—	(1,328,428)
Total accumulated depreciation	(3,015,861)	(281,698)	188,181	(3,109,378)
Total capital assets being depreciated, net	2,635,096	(90,412)	—	2,544,684
Governmental activities capital assets, net	\$ 3,203,821	\$ 1,124,647	\$ (12,001)	\$ 4,316,467
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 833,127	\$ —	\$ —	\$ 833,127
Construction in progress	49,400	474,572	—	523,972
Total capital assets not being depreciated	882,527	474,572	—	1,357,098
<i>Capital assets being depreciated:</i>				
Buildings and improvements	52,717	23,597	—	76,314
Machinery and Equipment	506,700	14,046	—	520,746
Water and Sewer System	2,850,726	—	—	2,850,726
Total capital assets being depreciated	3,410,143	37,643	—	3,447,786
Less accumulated depreciation for:				
Buildings and improvements	(52,716)	—	—	(52,716)
Machinery and Equipment	(342,302)	(26,393)	—	(368,695)
Water and Sewer System	(2,602,505)	(27,877)	—	(2,630,382)
Total accumulated depreciation	(2,997,523)	(54,269)	—	(3,051,792)
Total capital assets being depreciated, net	412,620	(16,626)	—	395,994
Business-type activities capital assets, net	\$ 1,295,146	\$ 457,946	\$ —	\$ 1,753,092

Depreciation was charged to Governmental Activities functions as follows:

General Government	\$ 13,415
Police	36,753
Fire	45,723
Streets	26,086
Sanitation	51,093
Health and Welfare	645
Parks	14,914
Library	2,695

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Code Enforcement	2,000
Airport	84,274
Economic Development and Assistance	4,100
	<u>\$ 281,698</u>

Depreciation was charged to Business-type Activities functions as follows:

Water and Sewer	<u>\$ 54,269</u>
	<u>\$ 54,269</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2009, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ 10,155	Short-term loans
Capital Project	Debt Service Fund	1,372	For transfer of loan receipts
	Total	<u>\$ 11,527</u>	

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

Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2009, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water and Sewer Fund	General fund	\$ 340,000	Supplement other funds sources
Water and Sewer Fund	Debt Service Fund	183,337	Payment of Debt
Water and Sewer Fund	Capital Project	50,000	Purchase of Capital Assets
	Total	<u>\$ 573,337</u>	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2009, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Certificates of Obligation	\$ 4,000,000	\$ —	\$ 25,000	\$ 3,975,000	145,000
Capital leases	181,119	—	25,208	155,911	28,274
Notes Payable	35,500	—	35,500	—	—
Estimated Liability for Landfill Closure Cost*	71,859	16,928	—	88,787	—
Total governmental activities	<u>\$ 4,288,478</u>	<u>\$ 16,928</u>	<u>\$ 85,708</u>	<u>\$ 4,219,698</u>	<u>\$ 173,274</u>
Business-type activities:					
Capital leases	\$ 15,573	\$ —	\$ 9,813	\$ 5,760	\$ 5,760
Notes	7,000	—	7,000	—	—
Total business-type activities	<u>\$ 22,573</u>	<u>\$ —</u>	<u>\$ 16,813</u>	<u>\$ 5,760</u>	<u>\$ 5,760</u>

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Estimated Liability for Landfill Closure Cost	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2009, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 145,000	\$ 158,305	\$ 303,305
2011	178,274	160,214	338,488
2012	184,374	153,014	337,387
2013	192,022	144,066	336,088
2014	197,326	137,261	334,587
2015-2019	978,915	563,722	1,542,637
2020-2024	1,150,000	352,956	1,502,956
2025-2029	1,105,000	95,700	1,200,700
Totals	<u>\$ 4,130,911</u>	<u>\$ 1,765,237</u>	<u>\$ 5,896,148</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,760	\$ 131	\$ 5,891

2 Certificates of Obligation

\$4,000,000 City of Muleshoe, Texas Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2007 original issued December 1, 2007. The Certificates are issued as serial certificates maturing February 15 in the years 2011 through 2020 and as Term Bonds maturing February in the years 2010, 2022, 2024, 2026, and 2028. Interest is payable each August 15 and February 15 thereafter until maturity or prior redemption at rates of 3.30% to 4.25%.

Debt Service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 145,000	\$ 158,305	\$ 303,305
2011	150,000	152,913	302,913
2012	155,000	146,813	301,813
2013	160,000	140,513	300,513
2014	165,000	134,013	299,013
2015-2019	945,000	562,063	1,507,063
2020-2024	1,150,000	352,956	1,502,956
2025-2029	1,105,000	95,700	1,200,700
Totals	<u>\$ 3,975,000</u>	<u>\$ 1,743,274</u>	<u>\$ 5,718,274</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2009, as follows:

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FOR THE YEAR ENDED SEPTEMBER 30, 2009

The City entered into a lease-purchase agreement for a Fire Truck for the Fire Department on January 19, 2007 with Kansas State Bank of Manhattan for a total cost of \$206,533. This lease-purchase is to be paid in annual payments of \$35,575 each at an interest rate of 4.9 percent. The payments are secured with a security interest under the Uniform Commercial Code on a Rosenbauer Pumper Truck.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 28,274	\$ 7,301	\$ 35,575
2011	29,374	6,201	35,575
2012	32,022	3,553	35,575
2013	32,326	3,249	35,575
2014	33,915	1,659	35,575
Total	\$ 155,911	\$ 21,963	\$ 177,874

The City entered into a lease-purchase agreement for a Incode Computer Software on July 10, 2008 for a total cost of \$17,143. This lease-purchase is to be paid in monthly payments of \$883. each at an interest rate of 7.068 percent.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,760	\$ 131	\$ 5,892

To secure the payments of the above lease purchases obligations the City grants a security interest under the Uniform Commercial Code constituting a first lien on the equipment.

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plan

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

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

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

CITY OF MULESHOE, TEXAS

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FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Plan Year 2008	Plan Year 2009
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating Transfer	100% Repeating Transfer
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

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

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

1. Annual Required Contribution (ARC)	\$ 185,700
2. Interest on Net Pension Obligation	—
3. Adjustment to the ARC	—
4. Annual Pension Cost (APC) (1)+(2)+(3)	185,700
5. Contributions Made	(185,700)
6. Increase (decrease) in net pension obligation (4) + (5)	—
7. Net Pension Obligation/(Asset), beginning of year	—
8. Net Pension Obligation/(Asset), end of year (6)+(7)	—

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/2006	12/31/2007	12/31/2008
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years Open period	30 years Closed period	29 years Closed period
Asset Valuation Method	Cost Amortized Cost	Cost Amortized Cost	Cost Amortized Cost

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Actuarial Assumptions:

Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases * Varies by	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	N/A	2.1%	2.1%

Required Supplementary Information

**Texas Municipal Retirement System
Schedule of Funding Progress:**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12-31-06	\$2,374,667	\$3,282,248	72.4%	\$907,581	\$896,479	101.2%
12-31-07	\$2,335,857	\$3,828,867	61.0%	\$1,493,010	\$946,758	157.7%
12-31-08	\$2,605,151	\$4,109,347	63.4%	\$1,504,196	\$1,014,225	148.3%

I. Health Care Coverage

During the year ended September 30, 2009, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$611 per month per employee and dependents to the Plan. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

Latest financial statements for the Pool are available for the year ended , have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

J. Commitments and Contingencies

The City is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney, such matters will not have a materially adverse effect on the City's financial position at September 30, 2009.

The City has been the recipient of numerous grants-in-aid, for which it is required to comply with specific terms and agreements as well as applicable Federal and State laws and regulations. In the opinion of management, the City has complied with all requirements. However, in the event of audit by grantor agencies and disallowance of any claimed expenditures, the resulting liability would be payable by the General Fund or other funds of the City.

K. Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. In addition to operating expense related to current activities of the landfill, a related liability will be recognized in the General Long-Term Debt Account based on the future closure and postclosure care costs that will be incurred near or after the date that the landfill no longer accepts waste. The recognition of these landfill closure and post closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care cost has a balance of \$88,788 as of September 30, 2009, which is based on 16.57% usage (filled) of

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

the landfill. It is estimated that an additional \$438,550 will be recognized as closure and postclosure care expenses between the balance sheet and the date the landfill is expected to be filled to capacity. The estimated total current cost of the landfill closure and postclosure care (\$527,338) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2009. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The City is required by Texas Natural Resource Conversation Commission to satisfy certain requirements of financial assurance for closure and post closure cost by meeting certain financial test. In the opinion of City Management, all financial assurance requirements have been met at September 30, 2009.

The total amount of landfill closure and postclosure care cost for current period in the amount of \$16,928 (required by GASB 18) increase the amount of estimated liability for landfill closure and postclosure care cost as a Long-term Liability.

L. Deferred Revenue

Deferred revenue at year end consisted of the following:

Tax Revenues	\$ <u>113,680</u>
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M. Notes Receivable

The Muleshoe Economic Development Corporation has loaned various individuals money for economic development purposes. These receivables are reflected in the State of Net Assets and Balance Sheet as an assets.

N. Sanitation Disposal Contract

The City entered a contract beginning September 1, 2003 with South Plains Waste Service, Inc. of Olton, Texas for the removal and disposal of trash from the City. Rates are based on residential and commercial usage.

O. Volunteer Fire Dapartment Pension Plan

The City Council on June 22, 1999 approved a pension plan for the Muleshoe Volunteer Fire Department with Texas Statewide Emergency Service Retirement Fund (SB411).

Plan Description

The Fire Fighter's Pension Commissioner is administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund.

At August 31, 2008, there were 186 member fire or emergency services departments participating in TESRS Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2008, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	1,939
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,975
Active Participants (Vested and Nonvested)	<u>4,340</u>
	8,254

CITY OF MULESHOE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

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

Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. 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. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up a limited amount to make TESRS actuarially sound.

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2008 total contributions (dues and prior service) of \$2,439,339 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$8,800,000 for the fiscal year ending August 31, 2008. Total contributions made were greater than the contributions required by the state statute and were greater than the contributions required based on the August 31, 2006 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2008 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2009 (\$415,405 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$425,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2009 are equal to the contributions required.

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ¹ (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL Per Member Covered
8-31-04	\$38,140,501	\$51,567,426	\$13,426,925	74.0%	7,994	\$1,680
8-31-06	\$42,268,305	\$58,082,828	\$15,814,523	72.8%	8,061	\$1,962

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

8-31-08	\$60,987,157	\$64,227,341	\$3,240,184	95.0%	8,254	\$393
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Notes:

- 1 The actuarial accrued liability is based upon the entry age actuarial cost method.
2 Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation. 3 Changes in actuarial assumptions were reflected in this valuation.

Three-Year Trend Information

<u>Fiscal Year Ending</u>		<u>Annual Required Contributions (ARC)</u>		<u>Actual Contributions</u>	<u>Percentage of ARC Contributed</u>
8-31-06	1	\$2,753,035	3	\$2,753,035	100%
8-31-07	2	\$3,162,742	4	\$3,162,742	100%
8-31-08	3	\$3,160,764	5	\$11,239,339	356%

- 1 Based on the revised August 31, 2004 actuarial valuation.
2 Based on the August 31, 2006 actuarial valuation.
3 Includes a state contribution of \$675,307.
4 Includes a state contribution of \$709,072.
5 Includes a state contribution of \$8,800,000.

Notes to Required Supplementary Information

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. The actuarial assumptions and methods for the two most recent biennial valuations are shown below.

Valuation date	August 31, 2006	August 31, 2006
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level dollar, open	Level dollar, open
Amortization period	30 years	6 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value

Actuarial assumptions:

Investment rate of return	8.00% per year, net of investment expenses	8.00% per year, net of investment expenses
Projected salary increase	N/A	N/A
* Includes inflation at	3.75%	3.50%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

None

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

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers

Plan/ Calendar Year	Annual Required Contribution (RATE)	Actual Contribution Made (RATE)	Percentage of ARC Contributed
2,006	0.05%	0.05%	100.00%
2,007	0.04%	0.04%	100.00%
2,008	0.02%	0.02%	100.00%
2,009	0.02%	0.02%	100.00%

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF MULESHOE, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 899,483	\$ 899,483	\$ 786,593	\$ (112,890)
Sales Taxes	356,000	356,000	367,016	11,016
Franchise Taxes	200,000	200,000	167,361	(32,639)
Licenses and permits	7,300	7,300	12,444	5,144
Intergovernmental	—	—	17,425	17,425
Charges for services	731,830	731,830	749,787	17,957
Fines	78,400	78,400	55,283	(23,117)
Interest	10,000	10,000	2,437	(7,563)
Miscellaneous	29,700	29,700	65,237	35,537
Total revenues	<u>2,312,713</u>	<u>2,312,713</u>	<u>2,223,583</u>	<u>(89,130)</u>
Expenditures:				
Current:				
General government	308,206	308,206	283,189	25,017
Police	731,262	731,262	687,989	43,273
Fire	101,430	101,430	67,938	33,492
Streets	336,502	336,502	388,166	(51,664)
Maintenance Equipment	50,911	50,911	48,608	2,303
Sanitation	400,871	400,871	375,633	25,238
Health and welfare	5,000	5,000	4,736	264
Parks	24,100	24,100	26,690	(2,590)
Swimming Pool	36,408	36,408	40,340	(3,932)
Library	151,297	151,297	164,371	(13,074)
Municipal Court	43,387	43,387	42,631	756
Golf Course	14,443	14,443	14,443	—
Code Enforcement	42,706	42,706	38,286	4,420
Airport	30,600	30,600	7,503	23,097
Capital outlay	141,900	141,900	146,088	(4,188)
Debt service:				
Principal	60,800	60,800	60,708	92
Interest and fiscal charges	13,200	13,200	12,775	425
Total expenditures	<u>2,493,023</u>	<u>2,493,023</u>	<u>2,410,094</u>	<u>82,929</u>
Excess (deficiency) of revenues (under) expenditures	(180,310)	(180,310)	(186,511)	(6,201)
Other financing sources (uses):				
Operating transfers in	390,000	390,000	340,000	(50,000)
Operating transfers out	(116,736)	(116,736)	—	(116,736)
Sale of Assets	5,000	5,000	41,509	36,509
Total other financing sources (uses)	<u>278,264</u>	<u>278,264</u>	<u>381,509</u>	<u>(103,245)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	97,954	97,954	194,998	97,044
Fund balances October 1	670,911	670,911	670,911	—
Fund balances September 30	<u>\$ 768,865</u>	<u>\$ 768,865</u>	<u>\$ 865,909</u>	<u>\$ 97,044</u>

CITY OF MULESHOE, TEXAS
ECONOMIC DEVELOPMENT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Sales Taxes</i>	\$ 177,500	\$ 177,500	\$ 183,068	\$ 5,568
<i>Interest</i>	20,000	20,000	17,284	(2,716)
<i>Miscellaneous</i>	—	—	1,906	1,906
Total revenues	<u>197,500</u>	<u>197,500</u>	<u>202,258</u>	<u>4,758</u>
Expenditures:				
Current:				
<i>Economic development and assistance</i>	154,380	220,650	132,132	88,518
<i>Capital outlay</i>	—	—	31,305	(31,305)
Total expenditures	<u>154,380</u>	<u>220,650</u>	<u>163,437</u>	<u>57,213</u>
Excess (deficiency) of revenues (under) expenditures	43,120	(23,150)	38,821	61,971
Other financing sources (uses):				
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	43,120	(23,150)	38,821	61,971
Fund balances October 1	898,928	898,928	898,928	—
Fund balances September 30	<u>\$ 942,048</u>	<u>\$ 875,778</u>	<u>\$ 937,749</u>	<u>\$ 61,971</u>