CITY OF MULESHOE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

City Of Muleshoe, Texas
Annual Financial Report
For The Year Ended September 30, 2012

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Financial Section

RANDALL L. FIELD, P.C.
214 WEST SECOND
MULESHOE, TEXAS 79347

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, 2012, which collectively comprise the City's'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 the 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, 2012, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2012, on my consideration of City Of Muleshoe, Texas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Of Muleshoe, Texas's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Randall Field PC

Randall L. Field, P.C.

December 14, 2012

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, 2012. 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 $8,434,149 at September 30, 2012. Of this amount, $3,482,451 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 $ 402,918
- 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 $ 1,361,732

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

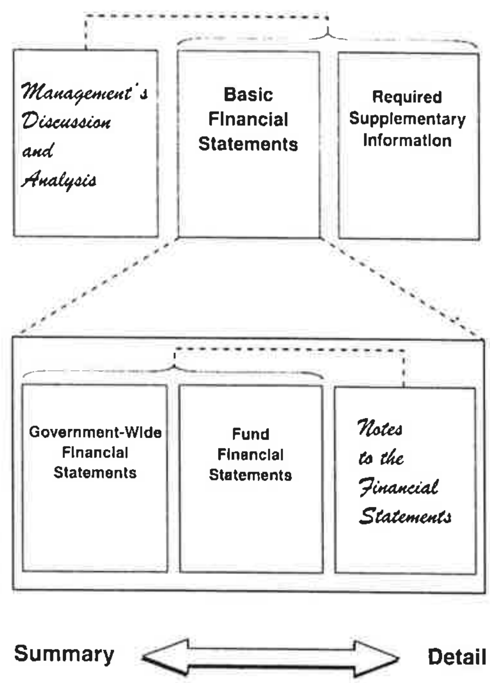

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of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

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

Type of Statements	Government-wide	Governmental Funds	Fund Statements Enterprise Funds
Scope	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
Required financial statements	Statement of net assets Statement of Activities	Balance sheet Statement of revenues, expenditures & changes in fund balance	Statement of net assets Statement of revenues, expenses & changes in fund net assets Statement of cash flow
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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
Type of inflow/outflow information	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

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 $8,434,149 at September 30, 2012.

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 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 Activities		Business-type Activities	
	2012	2011	2012	2011
Current and other assets	$ 2,971,042	$ 2,918,008	$ 2,318,808	$ 2,262,946
Capital assets	5,297,264	5,262,982	1,938,928	1,864,079
Total Assets	8,268,306	8,180,990	4,257,736	4,127,025
Other liabilities	138,532	140,745	166,584	112,617
Long-term liabilities	3,786,777	4,023,421	-	-
Total Liabilities	3,925,309	4,164,166	166,584	112,617
Net Assets:				
Invested in capital assets, net of related debt	1,757,902	1,475,476	1,938,928	1,849,079
Restricted	1,254,868	1,247,626	-	-
Unrestricted	1,330,227	1,293,722	2,152,224	2,165,329
Total Net Assets	$ 4,342,997	$ 4,016,824	$ 4,091,152	$ 4,014,408

An additional portion of the City's net assets represents resources that are subject to external restrictions on how the may be used. The remaining balance of unrestricted net assets $ 3,482,451 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2012, the City is able to report positive balances in all three categories of net assets for the governmental as whole and all three for business-type activities.

Analysis of the City's Operations

The City's total revenues were $4,754,847. A significant portion, $1,808,634 of the City's revenue comes from taxes. $2,243,129 relates to charges for services, while only $307,449 comes from operating grants and $323,852 comes from capital grants.

Governmental Activities Governmental activities increased net assets after transfers by $326,174. Governmental program revenues and expenses remained similar to prior year, except for the community development grant number 710481. This grant provided the City $227,520 for the construction of roadways including curb & gutter to control run-off and eliminate potential flooding of homes. The general fund continues to operate at a deficit.

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, 2012

CITY OF MULESHOE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for service	874,447	821,930	1,368,682	1,389,977	2,243,129	2,211,907
Operating grants	307,449	13,260	-	-	307,449	13,260
Capital grants	323,852	-	-	-	323,852	-
General Revenues:					-	-
Property taxes	932,353	929,431	-	-	932,353	929,431
Sales taxes	547,636	529,567	-	-	547,636	529,567
Franchise taxes	277,869	242,541	-	-	277,869	242,541
Occupancy taxes	50,776	61,029	-	-	50,776	61,029
Gain on sale of capital assets	-	14,000	-	-	-	
Investment earnings	38,291	37,925	33,492	32,908	71,783	70,833
Total revenues	3,352,673	2,649,683	1,402,174	1,422,885	4,754,847	4,058,568
Expenses:						
General government	625,500	327,372	-	-	625,500	327,372
Police	767,889	764,832	-	-	767,889	764,832
Fire	114,069	147,276	-	-	114,069	147,276
Streets	371,335	415,023	-	-	371,335	415,023
Maintenance Equipment	60,136	49,538	-	-	60,136	49,538
Sanitation	509,802	475,357	-	-	509,802	475,357
Health and Welfare	4,999	5,733	-	-	4,999	5,733
Parks	69,809	61,897	-	-	69,809	61,897
Swimming Pool	170,618	178,044	-	-	170,618	178,044
Library	170,183	176,639	-	-	170,183	176,639
Municipal Court	44,700	44,580	-	-	44,700	44,580
Golf Course	14,443	14,443	-	-	14,443	14,443
Code Enforcement	52,732	53,900	-	-	52,732	53,900
Economic Development and Assistance	262,049	157,003	-	-	262,049	157,003
Interest on Long-Term Debt	161,511	166,634	-	-	161,511	166,634
Water and Sewer	-	-	838,235	778,375	838,235	778,375
Airport	113,919	88,615	-	-	113,919	88,615
Total Expenses	3,513,694	3,126,886	838,235	778,375	4,351,929	3,905,261
Increases in Net Assets Before Transfers	(161,021)	(477,203)	563,939	644,510	402,918	167,307
Transfers	487,195	536,536	(487,195)	(536,536)	-	-
Increases in Net Assets	326,174	59,333	76,744	107,974	402,918	167,307
Net Assets- October 1	4,016,823	3,957,491	4,014,408	3,906,434	8,031,231	7,863,925
Net Assets- September 30	4,342,997	4,016,824	4,091,152	4,014,408	8,434,149	8,031,232

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.

At the end of the current fiscal year, the City of Muleshoe's governmental funds reported combined ending fund balances of $2,616,000. Approximately $1,223,929 constitutes unassigned fund balance and $116,028 is assigned for capital expenditures for equipment. The remaining is either nonspendable or restricted.

In the general fund, the City budgeted for an increase in the fund balance on a budgeted basis of $7,987. However due to expenditures being less than expected the actual fund balance increased $51,128 for the fiscal year 2012.

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 $2,152,224.

The adopted 2012-2013 Budget contains tiered rate increases for water as well as an increase in base water and sewer rates and an increase in the sewer consumption charge. These increases are included to encourage conservation of water and provide funds for the anticipated replacement and maintenance of an ageing water and sewer system.

These tiered rate increases protect low water users (average increase for low water users will be $4.81 per month) and encourage high water users to implement conservation measures (average increase for high water users will be $16.32 per month).

The increases are projected to increase revenues for the Water/Wastewater Fund by $146,991 (16.33%). This is the first increase in water and sewer rates since 2008.

General Fund Budgetary Highlights

Over the course of the year, the City did not revise its budget. Actual expenditures were $8,091 above the final budget amounts and resources available were $24,607 above the final budgeted amount. The largest differences result from taxes and fines being less than expected and capital outlay being more than expected.

CAPITAL ASSETS

At the end of 2012, the City had invested $14,545,247 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	
	2012	2011	2012	2011	2012	2011
Land	$ 506,107	$ 506,107	$ 833,127	$ 833,127	1,339,234	1,339,234
Construction in progress	-	47,262	-	-	-	47,262
Buildings and improvements	3,364,619	3,351,539	98,023	98,023	3,462,642	3,449,562
Machinery and equipment	3,314,788	3,119,484	557,588	557,588	3,872,376	3,677,072
Water and sewer system	-	-	3,716,526	3,562,041	3,716,526	3,562,041
Airport improvements	1,879,687	1,879,687	-	-	1,879,687	1,879,687
Infrastructure	274,782	-	-	-	274,782	-
Totals at historical cost	9,339,983	8,904,079	5,205,264	5,050,779	14,545,247	13,954,858
Total accumulated depreciation	(4,042,718)	(3,641,096)	(3,266,336)	(3,186,698)	(7,309,054)	(6,827,794)
Net capital assets	$5,297,265	$5,262,983	$1,938,928	$1,864,081	$ 7,236,193	$ 7,127,064

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 $ 3,786,778 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.

CITY OF MULESHOE'S LONG TERM DEBT

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Capital Leases	122,934	208,119	-	-	122,934	208,119
Notes payable	-	15,000	-	15,000	-	30,000
Certificates of obligation	3,525,000	3,680,000	-	-	3,525,000	3,680,000
Landfill closure cost	138,844	120,301	-	-	138,844	120,301
Total notes payable	3,786,778	4,023,420	-	15,000	3,786,778	4,038,420

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2012-2013 Annual Operating Budget for the City of Muleshoe is the product of many hours of deliberation and consideration by the City Council. Department Heads, Administrative, and Financial staff. I firmly believe that this financial plan indicates the commitment of the city to continue to provide excellent efficient services to the citizens of Muleshoe and provides a plan to implement and develop growth within the city.

In compliance with the provisions of the Civil Statutes of the State of Texas and the Charter of the City of Muleshoe, the 2012-2013 Annual Operating Budget was duly adopted by the Muleshoe City Council at a regular meeting held on September 10, 2012. The budget is the city's financial plan for the operation of the city for the fiscal year October 1, 2012 through September 30, 2013.

The General Fund is funded with revenues from property tax, sales tax, and franchise tax as well as a transfer from the Water/Wastewater Fund for payment in lieu of taxes, and other miscellaneous fees. The 2012 tax base increased .12% from last year. The City Council adopted the effective tax rate of $0.6296 per $100 evaluation to fund the Maintenance and Operation needs of the city. This tax rate is $0.0118 (1.9%) higher than last year's tax rate.

In May of 2012, the voters of the City of Muleshoe voted to reduce the Economic Development Sales Tax from one-half of one percent to one-fourth of one percent and to implement a one-fourth of one percent sales tax to fund street maintenance. An additional $90,000 in projected General Fund revenues will be used exclusively for street maintenance (mostly seal coating).

Employee salaries were increased 5.6% in the 2012-2013 Budget. The salary increases were a combination of across-the-board, merit increases, and were made possible because of efficiencies within each department. Salary adjustments were not dependent on any increase in revenues i.e. tax rate, sales taxes, fees for service, etc. Salaries and employee benefits account for 30.66% of the city's total 2012-2013 budget.

Medical insurance costs increased 13% for 2012-2013. The city offers a consumer driven insurance option to employees. This plan allows employees to choose from eight (8) medical plans that provide various deductibles, out-of-pocket expenses, and co-pays. The employee chooses the plan that best fits his/her situation. The city contributes $325.20 toward employee medical coverage and $265.00 for dependent coverage. Any medical insurance cost above the city's contribution is paid by the employee. The city also provides $36.90 for employee dental and vision insurance.

Major capital improvements projects allocated in the Governmental Activities include:

Police Department

- Taser Upgrade - $10,500

Fire Department

- Vehicles (pumper and grass fire trucks) - $86,250

Parks

- Playground Equipment - $20,000
- Concession Stand/Restroom for Softball Field - $15,000
- Walking Trail Improvements - $20,000

Major capital improvement projects for Business-type Activities include:

Water & Sewer

- Wastewater Treatment Plant Improvements - $1,450,575
- Water System Improvements (wells, pumps, motors, and meters) - $60,000
- Equipment - $9,000

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.

Basic Financial Statements

EXHIBIT A-1

CITY OF MULESHOE, TEXAS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 2,143,355	$ 2,119,367	$ 4,262,722
Investments	75,000	--	75,000
Receivables (net of allowances for uncollectibles):			
Property Taxes- Delinquent	127,096	--	127,096
Accounts	146,844	132,726	279,570
Paving Liens	21,775	--	21,775
Notes Receivable	344,983	--	344,983
Due from Other Governments	3,418	--	3,418
Capitalized debt issuance cost	96,298	--	96,298
Discount on issuance of debt	12,273	--	12,273
Restricted assets:			
Cash and cash equivalents			
Customer Meter Deposits	--	66,715	66,715
Capital Assets			
Land	506,107	833,127	1,339,234
Buildings and Improvements	3,364,619	98,023	3,462,642
Machinery and Equipment	3,314,787	557,588	3,872,375
Water and Sewer System	--	3,716,526	3,716,526
Airport Improvements	1,879,687	--	1,879,687
Infrastructure	274,782	--	274,782
Less Accumulated Depreciation	(4,042,718)	(3,266,336)	(7,309,054)
Total Assets	8,268,306	4,257,736	12,526,042
LIABILITIES			
Accounts payable	118,775	99,869	218,644
Payable from Restricted Assets:			
Customer Deposits	--	66,715	66,715
Accrued Interest Payable	19,757	--	19,757
Noncurrent Liabilities:			
Due within one year	248,703	--	248,703
Due in more than year	3,538,074	--	3,538,074
Total Liabilities	3,925,309	166,584	4,091,893
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,757,902	1,938,928	3,696,830
Restricted For:			
Debt Service	94,588	--	94,588
Drug Seizure Proceeds	4,025	--	4,025
Economic Development	1,060,436	--	1,060,436
Hotel/Motel Occupancy Tax	95,819	--	95,819
Unrestricted	1,330,227	2,152,224	3,482,451
Total Net Assets	$ 4,342,997	$ 4,091,152	$ 8,434,149

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
$ (270,192)		$ (270,192)
(669,231)		(669,231)
(114,069)		(114,069)
(139,586)		(139,586)
(60,136)		(60,136)
180,493		180,493
(4,999)		(4,999)
(69,143)		(69,143)
(111,384)		(111,384)
(164,879)		(164,879)
(886)		(886)
(14,443)		(14,443)
(52,732)		(52,732)
(262,049)		(262,049)
(93,199)		(93,199)
(161,511)		(161,511)
(2,007,946)		(2,007,946)
--	$ 530,447	530,447
(2,007,946)	530,447	(1,477,499)
932,353	--	932,353
547,636	--	547,636
277,869	--	277,869
50,776	--	50,776
38,291	33,492	71,783
487,195	(487,195)	--
2,334,120	(453,703)	1,880,417
326,174	76,744	402,918
4,016,823	4,014,408	8,031,231
$ 4,342,997	$ 4,091,152	$ 8,434,149

CITY OF MULESHOE, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 1,311,591	$ 643,879	$ 187,886	$ 2,143,356
Investments	--	75,000	--	75,000
Receivables (net of allowances for uncollectibles):				
Property Taxes- Delinquent	115,026	--	12,070	127,096
Accounts	135,546	--	11,298	146,844
Paving Liens	21,775	--	--	21,775
Notes Receivable	--	344,983	--	344,983
Due from other funds	7,670	--	2,544	10,214
Due from Other Governments	3,044	--	374	3,418
Total Assets	$ 1,594,652	$ 1,063,862	$ 214,172	$ 2,872,686
LIABILITIES				
Accounts payable	$ 115,350	$ 3,426	$ --	$ 118,776
Due to other funds	2,544	--	7,670	10,214
Deferred revenue	115,026	--	12,070	127,096
Total Liabilities	232,920	3,426	19,740	256,086
FUND BALANCES				
Nonspendable Fund Balances				
Paving liens	21,775	--	--	21,775
Restricted Fund Balances				
Retirement of Long-Term debt	--	--	94,588	94,588
Economic Development	--	1,060,436	--	1,060,436
Hotel/Motel Occupancy Tax	--	--	95,819	95,819
Drug Seizure Proceeds	--	--	4,025	4,025
Assigned Fund Balances				
Capital Expenditures for Equipment	116,028	--	--	116,028
Unassigned	1,223,929	--	--	1,223,929
Total Fund Balance	1,361,732	1,060,436	194,432	2,616,600
Total Liabilities and Fund Balance	$ 1,594,652	$ 1,063,862	$ 214,172	$ 2,872,686

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total fund balances - governmental funds balance sheet	$	2,616,600
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.		5,297,264
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		127,096
Unamortized debt issue cost recorded in governmental activities are not reported in the funds.		108,572
Payables for bond principal which are not due in the current period are not reported in the funds.		(3,525,000)
Payables for capital leases which are not due in the current period are not reported in the funds.		(122,933)
Payables for bond interest which are not due in the current period are not reported in the funds.		(19,756)
Landfill Closure liabilities which are not due and payable in the current period are not reported in the funds.		(138,844)
Net assets of governmental activities - Statement of Net Assets	$	4,342,997

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, 2012

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
Revenue:				
Property Taxes	$ 805,362	$ --	$ 125,326	$ 930,688
Sales Taxes	365,483	182,153	--	547,636
Franchise Taxes	277,869	--	--	277,869
Occupancy Taxes	--	--	50,776	50,776
Licenses and permits	12,596	--	--	12,596
Intergovernmental	94,867	--	532,643	627,510
Charges for services	773,739	--	--	773,739
Fines	45,292	--	3,791	49,083
Interest	18,615	16,333	3,343	38,291
Miscellaneous	42,820	--	--	42,820
Total revenues	2,436,643	198,486	715,879	3,351,008
Expenditures:				
Current:				
General government	318,885	--	291,388	610,273
Police	712,641	--	348	712,989
Fire	53,404	--	--	53,404
Streets	341,260	--	--	341,260
Maintenance Equipment	60,136	--	--	60,136
Sanitation	435,407	--	--	435,407
Health and welfare	4,354	--	--	4,354
Parks	53,951	--	--	53,951
Swimming Pool	92,656	--	--	92,656
Library	166,705	--	--	166,705
Municipal Court	44,700	--	--	44,700
Golf Course	14,443	--	--	14,443
Code Enforcement	50,732	--	--	50,732
Economic development and assistance	--	229,861	27,716	257,577
Airport	33,432	--	--	33,432
Capital outlay	208,384	--	227,520	435,904
Debt service:				
Principal	100,185	--	155,000	255,185
Interest and fiscal charges	9,611	--	146,813	156,424
Debt issuance cost and fees	--	--	300	300
Total expenditures	2,700,886	229,861	849,085	3,779,832
Excess (deficiency) of revenues (under) expenditures	(264,243)	(31,375)	(133,206)	(428,824)
Other financing sources (uses):				
Operating transfers in	363,735	--	185,559	549,294
Operating transfers out	(48,364)	--	(13,735)	(62,099)
Total other financing sources (uses)	315,371	--	171,824	487,195
Excess of revenues and other financing sources over (under) expenditures and other financing uses	51,128	(31,375)	38,618	58,371
Fund balances October 1	1,310,604	1,091,811	155,814	2,558,229
Fund balances September 30	$ 1,361,732	$ 1,060,436	$ 194,432	$ 2,616,600

The accompanying notes are an integral part of this statement.

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, 2012

Net change in fund balances - total governmental funds	$	58,371
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		435,904
The depreciation of capital assets used in governmental activities is not reported in the funds.		(401,622)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		1,666
Landfill Closure cost not requiring the use of current financial resources are not reported as expenditures in the funds		(18,542)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		100,186
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		155,000
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.		2,255
Change in net assets of governmental activities - Statement of Activities	$	326,174

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
STATEMENT OF NET ASSETS
ENTERPRISE FUND
SEPTEMBER 30, 2012

	Enterprise Fund Water and Sewer Fund
ASSET	
Current Assets:	
Cash and cash equivalents	$ 2,119,367
Receivables (net of allowances for uncollectibles):	
Accounts	132,726
Total Current Assets	2,252,093
Non-Current Assets:	
Restricted assets:	
Cash and cash equivalents	
Customer Meter Deposits	66,715
Capital assets	
Land	833,127
Buildings and Improvements	98,023
Machinery and Equipment	557,588
Water and Sewer System	3,716,526
Less Accumulated Depreciation	(3,266,336)
Total Non-Current Assets	2,005,643
Total Assets	$ 4,257,736
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 99,869
Total Current Liabilities	99,869
Payable from Restricted Assets:	
Customer Deposits	66,715
Total Liabilities	166,584
NET ASSETS	
Investment in capital assets, net related debt	1,938,928
Unrestricted (Deficit)	2,152,224
Total Net Assets	$ 4,091,152

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES:	
Charges for services	$ 1,339,441
Miscellaneous	29,241
Total Operating Revenues	1,368,682
OPERATING EXPENSES:	
Personnel services	365,623
Supplies	46,483
Maintenance	160,176
Other charges	186,275
Depreciation	79,637
Total Operating Expenses	838,194
Operating Income (Loss)	530,488
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	33,492
Interest expense	(41)
Total Non-operating Revenues (Expenses)	33,451
Net Income (Loss) before Transfers	563,939
Interfund operating transfers in	48,364
Interfund operating transfers out	(535,559)
Change in net assets	76,744
Net Assets at October 1,	4,014,408
Net Assets at September 30,	$ 4,091,152

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, 2012

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	$ 1,369,316
Cash Payments to Employees for Services	(365,623)
Cash Payments to Other Suppliers for Goods and Services	(323,967)
Net Cash Provided (Used) by Operating Activities	679,726
Cash Flows from Non-capital Financing Activities:	
Proceeds (Payments) from (for) Borrowings Interfund	--
Operating Grants Received	--
Operating Transfers From (To) Other Funds	(487,195)
Net Cash Provided (Used) by Non-capital Financing Activities	(487,195)
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Issuance of Long-term Debt	--
Principal and Interest Paid	(15,041)
Acquisition or Construction of Capital Assets	(154,486)
Proceeds from Sale of Capital Assets	--
Net Cash Provided (Used) for Capital & Related Financing Activities	(169,527)
Cash Flows from Investing Activities:	
Purchase of Investment Securities	--
Interest and Dividends on Investments	33,492
Net Cash Provided (Used) for Investing Activities	33,492
Net Increase (Decrease) in Cash and Cash Equivalents	56,496
Cash and Cash Equivalents at Beginning of Year	2,129,586
Cash and Cash Equivalents at End of Year	$ 2,186,082
Classified As:	
Current Assets	$ 2,119,367
Restricted Assets	66,715
Totals	$ 2,186,082
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	$ 530,488
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	79,637
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	634
Increase (Decrease) in Accounts Payable	68,446
Increase (Decrease) in Customer Deposits	1,230
Increase (Decrease) in Accrued Expenses	(709)
Total Adjustments	149,238
Net Cash Provided (Used) by Operating Activities	$ 679,726

The accompanying notes are an integral part of this statement.

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 statues of the State of Texas on July 3, 1960. The City of Muleshoe, herinafter 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.

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 Componet Units." The city receives support from various originizations; 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:

Name of Component Unit	Brief Description of Activities and Relationship to City	Reporting Funds
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. All budgets, programs and policies must be submitted to the City Council for approval.	Special Revenue Fund

Joint Ventures

The City of Muleshoe has the following joint ventures at September 30, 2012. 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, exess funds will be paid annually at the discretion of Bailey Central Apprasial 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 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.
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.

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 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 recognize 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 isssuances are reported as other financing uses Issurance 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 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 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, 2012 was $0.6178 per $100 which means that the City has a tax margin of $1.882 per $100 and could raise up to $2,429,596 additional a year from the present assessed valuation of $129,096,495 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 goverment in GASB Statement No. 34 "Basic Financial Stemants-Managment'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.

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

Asset Class	Estimated Useful Lives
Infrastructure	50
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.

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 Developement 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

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation. Debt services resources are to be used for future servicing of the Certificates of Obligations and are structed through debt covenants. Taxes collected for Ecomonic Development and Hotel/Motel Occupancy, and proceeds received in Drug Seizures are restricted by enable legislation that requires the revenue to used for specific purposes.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Assets on the Government-wide Statement:

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.

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	Action Taken
None reported	Not applicable

C. Deposits and Investments

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

Cash Deposits:

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $4,327,739 and the bank balance was $4,417,429. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012, 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 adheed 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.

In May 2010, the Muleshoe Economic Development Corporation acquired real estate in the settlement of an outstanding notes receivable. The real estate has been record as an investment at the estimated market value of $75,000 at September 30, 2012.

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, 2012 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 investement policy of the City contains no limitations on the amount that can be invested in any one issuer. Investement in any one issuer (other than U.S. Treasury Securities, Mutual Funds, and External Investment Pools) That respresent five percent or more of the total entity investments represent a concentration risk. At September 30, 2012, all of the City's investment are in the bank investments completely covered by pedged 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.

D. Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 506,107	$	$ --	$ 506,107
Construction in progress	47,262	--	(47,262)	--
Total capital assets not being depreciated	553,369	--	(47,262)	506,107
Capital assets being depreciated:				
Buildings and improvements	3,351,539	13,080	--	3,364,619
Machinery and Equipment	3,119,484	195,304		3,314,788
Infrastructure	--	274,782		274,782
Airport Improvemenrts	1,879,687	--	--	1,879,687
Total capital assets being depreciated	8,350,710	483,166	--	8,833,876
Less accumulated depreciation for:				
Buildings and improvements	(680,351)	(111,062)	--	(791,413)
Machinery and Equipment	(1,486,064)	(217,434)		(1,703,498)
Infrastructure	--	--	--	--
Airport Improvemenrts	(1,474,681)	(73,127)	--	(1,547,808)
Total accumulated depreciation	(3,641,096)	(401,622)	--	(4,042,718)
Total capital assets being depreciated, net	4,709,614	81,544	--	4,791,158
Governmental activities capital assets, net	$ 5,262,983	$ 81,544	$ (47,262)	$ 5,297,265

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 833,127	$ --	$ --	$ 833,127
Total capital assets not being depreciated	833,127	--	--	833,127
Capital assets being depreciated:				
Buildings and improvements	98,023	--		98,023
Machinery and Equipment	557,587	--	--	557,587
Water and Sewer System	3,562,041	154,486	--	3,716,527
Total capital assets being depreciated	4,217,651	154,486	--	4,372,137
Less accumulated depreciation for:				
Buildings and improvements	(89,592)	(1,812)	--	(91,404)
Machinery and Equipment	(399,878)	(29,574)	--	(429,452)
Water and Sewer System	(2,697,227)	(48,251)	--	(2,745,478)
Total accumulated depreciation	(3,186,697)	(79,637)	--	(3,266,334)
Total capital assets being depreciated, net	1,030,954	74,849	--	1,105,803
Business-type activities capital assets, net	$ 1,864,081	$ 74,849	$ --	$ 1,938,930

Depreciation was charged to Governmental Activities functions as follows:

General Government	$ 15,227
Police	54,900
Fire	60,665
Streets	30,075
Sanitation	55,853
Health and Welfare	645
Parks	15,858
Swimming Pool	77,962
Library	3,478
Code Enforcement	2,000
Airport	80,487
Economic Development and Assistance	4,472
	$ 401,622

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

Water and Sewer	$ 79,637

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2012, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	$ 7,670	Short-term loans
Debt Service Fund	General Fund	2,544	Reimbursement of Taxes
	Total	$ 10,214	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2012, consisted of the following:

Transfers From	Transfers To		Amount	Reason
Water and Sewer Fund	General fund	$	350,000	Supplement other funds sources
Water and Sewer Fund	Debt Service Fund		185,559	Payment of Debt
Special Revenue Funds	General fund		13,735	Matching Cost
General fund	Water and Sewer Fund		48,364	Reimburse expenditures
	Total	$	597,658	

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, 2012, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of Obligation	$ 3,680,000	$ --	$ 155,000	$ 3,525,000	160,000
Capital leases	208,119	--	85,185	122,934	88,703
Notes Payable	15,000	--	15,000	--	--
Estimated Liability for Landfill Closure Cost*	120,302	18,542	--	138,844	--
Total governmental activities	$ 4,023,421	$ 18,542	$ 255,185	$ 3,786,778	$ 248,703
Business-type activities:					
Notes	$ 15,000	$ --	$ 15,000	$ --	$ --
Total business-type activities	$ 15,000	$ --	$ 15,000	$ --	$ --

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

Liability	Activity Type	Fund
Estimated Liability for Landfill Closure Cost	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2012, are as follows:

	Governmental Activities		
Year Ending September 30,	Principal	Interest	Total
2013	$ 248,703	$ 145,855	$ 394,559
2014	199,231	135,688	334,919
2015	175,000	127,213	302,213
2016	180,000	120,113	300,113
2017	190,000	112,713	302,713
2018-2022	1,060,000	441,963	1,501,963
2023-2027	1,300,000	202,450	1,502,450
2028-2032	295,000	6,269	301,269
Totals	$ 3,647,934	$ 1,292,262	$ 4,940,197

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:

Year Ending September 30,	Principal	Interest	Total
2013	$ 160,000	140,513	$ 300,513
2014	165,000	134,013	299,013
2015	175,000	127,213	302,213
2016	180,000	120,113	300,113
2017	190,000	112,713	302,713
2018-2022	1,060,000	441,963	1,501,963
2023-2027	1,300,000	202,450	1,502,450
2028-2032	295,000	6,269	301,269
Totals	$ 3,525,000	$ 1,285,244	$ 4,810,244

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2012, as follows:

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 $58,139 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.

September 30	Principal	Interest	Total
2013	32,633	3,274	35,907
2014	34,231	1,676	35,907
Total	$ 66,864	$ 4,950	$ 71,814

The City entered into a lease-purchase agreement for a Fire Truck for the Fire Department on August 23, 2011 with Community First Bank, Manhattan, KS for a total cost of $167,375. This lease-purchase is to be paid in annual payments of $58,139 each at an interest rate of 3.69 percent. The payments are secured with a security interest under the Uniform Commercial Code on a Frightliner Fire Truck.

September 30	Principal	Interest	Total
2013	56,070	2,069	58,139
Total	$ 56,070	$ 2,069	$ 58,139

Notes Payable

The City has a note payable to Muleshoe State Bank for a 2010 Chevrolet Tahoe purchase October 10, 2010, in amount of $15,000. This note is to be paid in one annual payment of $15,000 at an interest rate of 5. percent The following is a schedule of liability to maturity: This is an unsecured loan. This loan is record in the Governmental Activities.

The City has a note payable to Muleshoe State Bank for a 2010 Ford F150 Truck purchase October 10, 2010, in amount of $15,000. This note is to be paid in one annual payment of $15,000 at an interest rate of 5. percent The following is a schedule of liability to maturity: This is an unsecured loan. This loan is record in the Business-type Activities.

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of September 30, 2012, as follows:

Year Ending September 30,		
2013	$	6,708
2014		6,708
2015		6,708
2016		3,354
Total Minimum Rentals	$	23,478
Rental Expenditures in 2012	$	6,708

H. 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 2012, 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.

I. 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:

	Plan Year 2011	Plan Year 2012
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)	$	210,332
2. Interest on Net Pension Obligation		--
3. Adjustment to the ARC		--
4. Annual Pension Cost (APC) (1)+(2)+(3)	$	210,332
5. Contributions Made	$	(210,332)
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 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Mehtod	Level Precent of Payroll	Level Precent of Payroll	Level Precent of Payroll
GASB 25 Equivalent Single Amortization Period	28.1 years Closed period	27.1 years Closed period	26.1 Closed period
Amortization Period for New Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10 Year Smoothed Market	10 Year Smoothed Market	10 Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.50%	7.00%	7.00%
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	2.1%	2.1%	2.1%

Funded Status and Funding Progress

Required Supplementary Information

Texas Municipal Retirement System
Schedule of Funding Progress:

Actuarial Valuation Date Actuarial	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12-31-09	$2,956,335	$4,506,372	65.6%	$1,550,037	$1,037,777	149.4%
12-31-10	$5,074,795	$6,230,341	81.5%	$1,155,546	$1,114,464	103.7%
12-31-11	$5,493,456	$6,643,934	82.7%	$1,150,478	$1,148,548	100.2%

J. Health Care Coverage

During the year ended September 30, 2012, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of $565 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.

K. 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, 2012.

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.

L. 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 furture 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 closeure and postclosure care cost has a balance of $138,844 as of September 30, 2012, which is based on 24.29% usage (filled) of the landfill. It is estimated that an additional $424,147 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 ($562,991) 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, 2012. However, the actual cost of closure and postclosure care may be highter due to inflation, changes in techology, 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, 2012.

The total amount of landfill closure and postclosure care cost for current period in the amount of $18,542 (required by GASB 18) increase the amount of estimated liability for landfill closure ane postclosure care cost as a Long-term Liability.

M. Deferred Revenue

Deferred revenue at year end consisted of the following:

Tax Revenues	$ 127,096

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. The TESRS lastest actuarial valuation was performed as of August 31, 2010.

At August 31, 2010, there were 199 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, 2010, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,167
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,106
Active Participants (Vested and Nonvested)	4,371
	8,644

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, 2010 total contributions (dues and prior service) of $2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated did not appropriate any maximum state contribution for thesending August 31, 2010 and 2011.. Total contributions made were equal to the contributions required by the state statute and equal to the contributions required based on the August 31, 2008 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, 2010 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, 2010 ($502,941) 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 $500,000 each year to help pay for the System's administrative expenses Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability1 (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Total Members Covered	UAAL Per Member Covered
8-31-06	$42,268,305	$58,082,828	$15,814,523	72.8%	8,061	$1,962
8-31-08	$60,987,157	$64,227,341	$3,240,184	95.0%	8,254	$393
8-31-10	$64,113,803	$81,264,230	$17,150,427	7890.0%	8,644	$1,984

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

Fiscal Year Ending		Annual Required Contributions (ARC)		Actual Contributions	Percentage of ARC Contributed
8-31-08	1	$3,160,764	3	$11,239,339	356%
8-31-09	2	$2,698,271		$2,698,271	100%
8-31-10	2	$2,875,103		$2,875,103	356%

1 Based on August 31,2006 actuarial valuation
2 Based on August 31,2006 actuarial valuation
3 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, 2008	August 31, 2010
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level dollar, open	Level dollar, open
Amortization period	6 years	30 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 80%/120% corridor on market value
Actuarial assumptions:		
Investment rate of return*	8.00% per year, net of investment expenses	7.75% per year, net of investment expenses
Projected salary increases	N/A	N/A
* Includes inflation at	3.50%	3.50%
Cost-of-living adjustments	None	None

P. Defined Benefit Life Insurance Plan

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 death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an other postemployment benefit, or OPEB Contributions.

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

Schedule of Contribution Rates:
(RETIREE-ONLY PORTION OF THE RATE)

Plan/ Calendar Year	Annual Required Contribution (RATE)	Actual Contribution Made (RATE)	Percentage of ARC Contributed
2009	0.05%	0.05%	100.00%
2010	0.02%	0.02%	100.00%
2011	0.02%	0.02%	100.00%
2011	0.03%	0.03%	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

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Property Taxes	$ 915,116	$ 915,116	$ 805,362	$ (109,754)
Sales Taxes	379,000	379,000	365,483	(13,517)
Franchise Taxes	220,000	220,000	277,869	57,869
Licenses and permits	8,900	8,900	12,596	3,696
Intergovernmental	4,000	4,000	94,867	90,867
Charges for services	795,900	795,900	773,739	(22,161)
Fines	61,120	61,120	45,292	(15,828)
Interest	15,000	15,000	18,615	3,615
Miscellaneous	13,000	13,000	42,820	29,820
Total revenues	2,412,036	2,412,036	2,436,643	24,607
Expenditures:				
Current:				
General government	301,128	301,128	318,885	(17,757)
Police	754,076	754,076	712,641	41,435
Fire	93,504	93,504	53,404	40,100
Streets	370,392	370,392	341,260	29,132
Maintenance Equipment	65,002	65,002	60,136	4,866
Sanitation	432,686	432,686	435,407	(2,721)
Health and welfare	6,000	6,000	4,354	1,646
Parks	28,950	28,950	53,951	(25,001)
Swimming Pool	83,636	83,636	92,656	(9,020)
Library	158,672	158,672	166,705	(8,033)
Municipal Court	48,834	48,834	44,700	4,134
Golf Course	14,443	14,443	14,443	--
Code Enforcement	53,226	53,226	50,732	2,494
Airport	34,500	34,500	33,432	1,068
Capital outlay	137,950	137,950	208,384	(70,434)
Debt service:				
Principal	100,185	100,185	100,185	--
Interest and fiscal charges	9,611	9,611	9,611	--
Total expenditures	2,692,795	2,692,795	2,700,886	(8,091)
Excess (deficiency) of revenues (under) expenditures	(280,759)	(280,759)	(264,243)	16,516
Other financing sources (uses):				
Operating transfers in	400,000	400,000	350,000	(50,000)
Operating transfers out	(116,254)	(116,254)	--	(116,254)
Sale of Assets	5,000	5,000	--	(5,000)
Total other financing sources (uses)	288,746	288,746	315,371	(26,625)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	7,987	7,987	51,128	43,141
Fund balances October 1	1,310,604	1,310,604	1,310,604	--
Fund balances September 30	$ 1,318,591	$ 1,318,591	$ 1,361,732	$ 43,141

CITY OF MULESHOE, TEXAS

EXHIBIT B-2

ECONOMIC DEVELOPMENT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Sales Taxes	$ 189,000	$ 189,000	$ 182,153	$ (6,847)
Interest	13,500	13,500	16,333	2,833
Total revenues	202,500	202,500	198,486	(4,014)
Expenditures:				
Current:				
Economic development and assistance	1,059,273	1,059,273	229,861	829,412
Total expenditures	1,059,273	1,059,273	229,861	829,412
Excess (deficiency) of revenues (under) expenditures	(856,773)	(856,773)	(31,375)	825,398
Other financing sources (uses):				
Total other financing sources (uses)	--	--	--	--
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(856,773)	(856,773)	(31,375)	825,398
Fund balances October 1	1,091,811	1,091,811	1,091,811	--
Fund balances September 30	$ 235,038	$ 235,038	$ 1,060,436	$ 825,398

Other Supplementary Information

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

RANDALL L. FIELD, P.C.
214 WEST SECOND
MULESHOE, TEXAS 79347

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

Members of the City Council:

I have audited the 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, 2012, which collectively comprise the City Of Muleshoe, Texas's basic financial statements and have issued my report thereon dated December 14, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City Of Muleshoe, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered City Of Muleshoe, Texas's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City Of Muleshoe, Texas's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City Of Muleshoe, Texas's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City Of Muleshoe, Texas's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randall Field PC

Randall L. Field, P.C.

December 14, 2012

RANDALL L. FIELD, P.C.
214 WEST SECOND
MULESHOE, TEXAS 79347

Independent Auditor's Report

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

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

Members of the City Council:

Compliance

I have audited City Of Muleshoe, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City Of Muleshoe, Texas's major federal programs for the year ended September 30, 2012. City Of Muleshoe, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City Of Muleshoe, Texas's management. My responsibility is to express an opinion on City Of Muleshoe, Texas's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City Of Muleshoe, Texas's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of City Of Muleshoe, Texas's compliance with those requirements.

In my opinion, City Of Muleshoe, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of City Of Muleshoe, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered City Of Muleshoe, Texas's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City Of Muleshoe, Texas's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randall Field

Randall L. Field, P.C.

December 14, 2012

CITY OF MULESHOE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
One or more material weaknesses identified?	____ Yes	X No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

2. Federal Awards

Internal control over major programs:		
One or more material weaknesses identified?	____ Yes	X No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.239	Home Investment Partships Program

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	____ Yes	X No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF MULESHOE, TEXAS

EXHIBIT C-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF JUSTICE			
Passed Through Criminal Justice Division of the Office of the Governor of Texas:			
Edward Byne Memorial Justice Assistance Grant	16.7380	SU-09-A10-25140	$ 78,847
Total U. S. Department of Justice			78,847
U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
Passed Through Texas Department of Rural Affairs:			
Community Delvelopment Block Grant *	14.2180	710481	191,973
Passed Through Texas Department of Housing Community Affairs:			
Home Investment Partnership Program	14.2390	1001175	291,388
Total U. S. Department of Housing & Urban Development			483,361
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES			
Passed Through Texas State Library and Archives Commission:			
Federal Fiscal Year 2011	45.31	451-1203	1,078
Total National Foundation on the Arts and the Humanities			1,078
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 563,286

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

CITY OF MULESHOE, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City Of Muleshoe, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.