

CITY OF MULESHOE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2013

City Of Muleshoe, Texas
Annual Financial Report
For The Year Ended September 30, 2013

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Financial Section

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

Independent Auditor's Report

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

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 ("the City's") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note P to the financial statements, in 2013, City Of Muleshoe, Texas adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

As described in Note P to the financial statements, in 2013, City Of Muleshoe, Texas adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

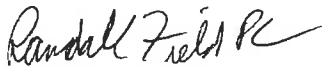
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison and Schedule of Funding Progress 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.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Of Muleshoe, Texas's basic financial statements.



Randall L. Field, P.C.

Muleshoe, TX
December 20, 2013

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined net positions were \$8,434,599 at September 30, 2013. Of this amount, \$2,273,198 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 position increased by \$ 96,752.
- 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 \$ 1,345,005.

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

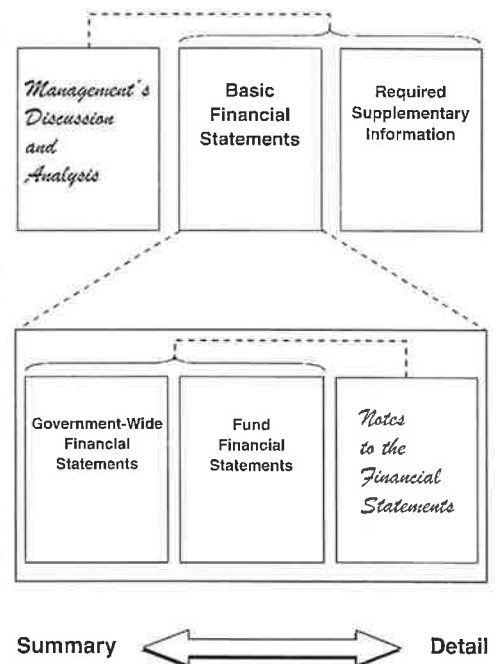


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of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

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

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

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

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

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 position 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 position and how they have changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position 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 position may serve over time as a useful indicator of government's financial position. The City's combined net positions were \$8,434,599 at September 30, 2013.

The largest portion of the City's net position 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, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

CITY OF MULESHOE'S NET POSITION

	Governmental		Business-type	
	Activities		Activities	
	2013	2012	2013	*2012
Current and other assets	\$ 2,903,134	\$ 2,874,740	\$ 1,111,122	\$ 2,318,808
Capital assets	5,078,131	5,297,264	3,246,199	1,938,928
Total Assets	7,981,265	8,172,004	4,357,321	4,257,736
Other liabilities	160,142	138,532	129,908	166,584
Long-term liabilities	3,613,937	3,786,777	-	-
Total Liabilities	3,774,079	3,925,309	129,908	166,584
Net Position:				
Net Investment in Capital Assets	1,634,308	1,757,902	3,246,199	1,938,928
Restricted	1,280,894	1,254,868	-	-
Unrestricted	1,291,984	1,233,925	981,214	2,152,224
Total Net Position	\$ 4,207,186	\$ 4,246,695	\$ 4,227,413	\$ 4,091,152

* 2012 adjusted to reflect change in accounting principle due to GASB 65

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$ 2,273,198 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2013, the City is able to report positive balances in all three categories of Net Position for the governmental as whole and all three for business-type activities.

Analysis of the City's Operations

The City's total revenues were \$4,227,875. A significant portion, \$1,831,975 of the City's revenue comes from taxes. \$2,346,435 relates to charges for services, while only \$28,366 comes from operating grants.

Governmental Activities Governmental activities decreased Net Position after transfers by \$39,509. Governmental program revenues and expenses remained similar to prior year, except for the community development grant number 710481. The general fund continues to operate at a deficit.

Business-type Activities: The Water and Sewer fund had an increase in net position 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, 2013

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

CITY OF MULESHOE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2013	*2012	2013	2012	2013	*2012
Revenues:						
Program Revenues:						
Charges for service	902,854	874,447	1,443,581	1,368,682	2,346,435	2,243,129
Operating grants	28,366	307,449	-	-	28,366	307,449
Capital grants	-	323,852	-	-	-	323,852
General Revenues:						
Property taxes	937,082	932,353	-	-	937,082	932,353
Sales taxes	573,457	547,636	-	-	573,457	547,636
Franchise taxes	273,195	277,869	-	-	273,195	277,869
Occupancy taxes	48,245	50,776	-	-	48,245	50,776
Gain on sale of capital assets	-	-	-	-	-	-
Investment earnings	17,003	38,291	4,092	33,492	21,095	71,783
Total revenues	2,780,202	3,352,673	1,447,673	1,402,174	4,227,875	4,754,847
Expenses:						
General government	365,342	625,500	-	-	365,342	625,500
Police	853,759	767,889	-	-	853,759	767,889
Fire	122,326	114,069	-	-	122,326	114,069
Streets	478,620	371,335	-	-	478,620	371,335
Maintenance Equipment	44,695	60,136	-	-	44,695	60,136
Sanitation	533,719	509,802	-	-	533,719	509,802
Health and Welfare	5,910	4,999	-	-	5,910	4,999
Parks	62,925	69,809	-	-	62,925	69,809
Swimming Pool	159,900	170,618	-	-	159,900	170,618
Library	191,000	170,183	-	-	191,000	170,183
Municipal Court	47,524	44,700	-	-	47,524	44,700
Golf Course	53,503	14,443	-	-	53,503	14,443
Code Enforcement	51,772	52,732	-	-	51,772	52,732
Economic Development and Assistance	146,189	262,049	-	-	146,189	262,049
Interest on Long-Term Debt	146,008	155,265	-	-	146,008	155,265
Water and Sewer	-	-	771,159	838,235	771,159	838,235
Airport	96,772	113,919	-	-	96,772	113,919
Total Expenses	3,359,964	3,507,448	771,159	838,235	4,131,123	4,345,683
Increases in Net Position						
Before Transfers	(579,762)	(154,775)	676,514	563,939	96,752	409,164
Transfers	540,253	487,195	(540,253)	(487,195)	-	-
Increases in Net Position	(39,509)	332,420	136,261	76,744	96,752	409,164
Net Position- October 1	4,246,695	3,914,275	4,091,152	4,014,408	8,337,847	7,928,683
Net Position- September 30	4,207,186	4,246,695	4,227,413	4,091,152	8,434,599	8,337,847

* 2012 adjusted to reflect change in accounting principle due to GASB 65

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 \$2,625,899. Approximately \$1,217,731 constitutes unassigned fund balance and \$105,499 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 \$77,842. However due to expenditures being \$196,812 less than expected and revenue being \$291,381 less than expected the actual fund balance decreased \$16,727 for the fiscal year 2012.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

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 position of the respective enterprise fund or Water and Sewer Fund was \$981,215.

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). 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 \$86,553 below the final budget amounts and resources available were \$286,381 below the final budgeted amount. The largest differences result from taxes and charges for services being less than expected.

CAPITAL ASSETS

At the end of 2013, the City had invested \$16,119,806 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 515,060	\$ 506,107	\$ 833,127	\$ 833,127	1,348,187	1,339,234
Buildings and improvements	3,515,274	3,364,619	98,023	98,023	3,613,297	3,462,642
Machinery and equipment	3,344,395	3,314,788	571,587	557,588	3,915,982	3,872,376
Water and sewer system	-	-	5,087,871	3,716,526	5,087,871	3,716,526
Airport improvements	1,879,687	1,879,687	-	-	1,879,687	1,879,687
Infrastructure	274,782	274,782	-	-	274,782	274,782
Totals at historical cost	9,529,198	9,339,983	6,590,608	5,205,264	16,119,806	14,545,247
Total accumulated depreciation	(4,451,067)	(4,042,718)	(3,344,409)	(3,266,336)	(7,795,476)	(7,309,054)
Net capital assets	\$5,078,131	\$5,297,265	\$3,246,199	\$1,938,928	\$ 8,324,330	\$ 7,236,193

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

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

DEBT ADMINISTRATION

At year-end, the City had \$ 3,613,938 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		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Capital Leases	90,301	122,934	-	-	90,301	122,934
Certificates of obligation	3,365,000	3,525,000	-	-	3,365,000	3,525,000
Landfill closure cost	158,637	138,844	-	-	158,637	138,844
Total notes payable	<u>3,613,938</u>	<u>3,786,778</u>	<u>-</u>	<u>-</u>	<u>3,613,938</u>	<u>3,786,778</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2013-2014 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 2013-2014 Annual Operating Budget was duly adopted by the Muleshoe City Council at a regular meeting held on September 9, 2013. The budget is the city's financial plan for the operation of the city for the fiscal year October 1, 2013 through September 30, 2014.

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 2013 tax base decreased 2.48% from last year. The City Council adopted the effective tax rate of \$0.6589 per \$100 evaluation to fund the Maintenance and Operation needs of the city. This tax rate is \$0.0492 (7.8%) higher than last year's tax rate.

Employee salaries were increased 3.9% in the 2013-2014 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 37.02% of the city's total 2013-2014 budget.

Medical insurance costs increased 3.4% for 2013-2014. 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 \$330.56 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.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2013

Major capital improvements projects allocated in the Governmental Activities include:

Administration

Laserfiche Archive System- \$15,000

Police Department

Vehicle lighting, cameras, and bullet-proof vest - \$10,500

Patrol Vehicle- \$15,000

Fire Department

Vehicles (pumper and grass fire trucks) - \$93,714

Parks

Playground Equipment - \$20,000

Walking Trail Improvements - \$20,000

Refuse Department

Purchase Land for Type IV Expansion- \$60,000

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

CITY OF MULESHOE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,213,405	\$ 907,717	\$ 3,121,122
Investments	75,000	--	75,000
Receivables (net of allowances for uncollectibles):			
Property Taxes- Delinquent	125,748	--	125,748
Accounts	138,761	135,350	274,111
Paving Liens	21,775	--	21,775
Notes Receivable	311,766	--	311,766
Due from Other Governments	5,202	--	5,202
Discount on issuance of debt	11,477	--	11,477
Restricted assets:			
Cash and cash equivalents			
Customer Meter Deposits	--	68,055	68,055
Capital Assets			
Land	515,060	833,127	1,348,187
Buildings and Improvements	3,515,274	98,023	3,613,297
Machinery and Equipment	3,344,394	571,588	3,915,982
Water and Sewer System	--	5,087,871	5,087,871
Airport Improvements	1,879,687	--	1,879,687
Infrastructure	274,782	--	274,782
Less Accumulated Depreciation	(4,451,066)	(3,344,410)	(7,795,476)
Total Assets	<u>7,981,265</u>	<u>4,357,321</u>	<u>12,338,586</u>
LIABILITIES			
Accounts payable	140,010	61,853	201,863
Payable from Restricted Assets:			
Customer Deposits	--	68,055	68,055
Accrued Interest Payable	20,132	--	20,132
Noncurrent Liabilities:			
Due within one year	255,300	--	255,300
Due in more than year	3,358,637	--	3,358,637
Total Liabilities	<u>3,774,079</u>	<u>129,908</u>	<u>3,903,987</u>
NET POSITION			
Net Investment in Capital Assets	1,634,308	3,246,199	4,880,507
Restricted For:			
Debt Service	101,701	--	101,701
Street Maintenance	5,520	--	5,520
Drug Seizure Proceeds	2,475	--	2,475
Economic Development	1,080,469	--	1,080,469
Hotel/Motel Occupancy Tax	90,729	--	90,729
Unrestricted	1,291,984	981,214	2,273,198
Total Net Position	<u>\$ 4,207,186</u>	<u>\$ 4,227,413</u>	<u>\$ 8,434,599</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General Government	\$ 365,342	\$ 46,744	\$ 11,774
Police	853,759	28,718	2,780
Fire	122,326	--	9,607
Streets	478,620	2,764	--
Maintenance Equipment	44,695	--	--
Sanitation	533,719	688,283	--
Health and Welfare	5,910	--	--
Parks	62,925	1,708	--
Swimming Pool	159,900	48,200	--
Library	191,000	4,452	4,205
Municipal Court	47,524	49,391	--
Golf Course	53,503	7,800	--
Code Enforcement	51,772	--	--
Economic Development and Assistance	146,189	199	--
Airport	96,772	24,595	--
Interest on Long-Term Debt	146,008	--	--
Total Governmental Activities	<u>3,359,964</u>	<u>902,854</u>	<u>28,366</u>
Business-type Activities:			
Water and Sewer	771,159	1,443,581	--
Total Primary Government	<u>\$ 4,131,123</u>	<u>\$ 2,346,435</u>	<u>\$ 28,366</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Occupancy
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Change in Accounting Principle
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (306,824)		\$ (306,824)
(822,261)		(822,261)
(112,719)		(112,719)
(475,856)		(475,856)
(44,695)		(44,695)
154,564		154,564
(5,910)		(5,910)
(61,217)		(61,217)
(111,700)		(111,700)
(182,343)		(182,343)
1,867		1,867
(45,703)		(45,703)
(51,772)		(51,772)
(145,990)		(145,990)
(72,177)		(72,177)
(146,008)		(146,008)
<u>(2,428,744)</u>		<u>(2,428,744)</u>
--	\$ 672,422	672,422
<u>(2,428,744)</u>	<u>672,422</u>	<u>(1,756,322)</u>
937,082	--	937,082
573,457	--	573,457
273,195	--	273,195
48,245	--	48,245
17,003	4,092	21,095
540,253	(540,253)	--
<u>2,389,235</u>	<u>(536,161)</u>	<u>1,853,074</u>
(39,509)	136,261	96,752
4,342,994	4,091,152	8,434,146
(96,299)	--	(96,299)
<u>\$ 4,207,186</u>	<u>\$ 4,227,413</u>	<u>\$ 8,434,599</u>

CITY OF MULESHOE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 1,317,135	\$ 697,652	\$ 198,618	\$ 2,213,405
Investments	--	75,000	--	75,000
Receivables (net of allowances for uncollectibles):				
Property Taxes- Delinquent	113,027	--	12,722	125,749
Accounts	134,775	--	3,987	138,762
Paving Liens	21,775	--	--	21,775
Notes Receivable	--	311,766	--	311,766
Due from other funds	1,513	--	2,544	4,057
Due from Other Governments	4,418	--	783	5,201
Total Assets	<u>1,592,643</u>	<u>1,084,418</u>	<u>218,654</u>	<u>2,895,715</u>
LIABILITIES				
Accounts payable	\$ 132,067	\$ 3,949	\$ 3,995	\$ 140,011
Due to other funds	2,544	--	1,513	4,057
Total Liabilities	<u>134,611</u>	<u>3,949</u>	<u>5,508</u>	<u>144,068</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue- Property Taxes	113,027	--	12,721	125,748
Total Deferred Inflows of Resources	<u>113,027</u>	<u>--</u>	<u>12,721</u>	<u>125,748</u>
FUND BALANCES				
Nonspendable Fund Balances				
Paving liens	21,775	--	--	21,775
Restricted Fund Balances				
Retirement of Long-Term debt	--	--	101,701	101,701
Economic Development	--	1,080,469	--	1,080,469
Hotel/Motel Occupancy Tax	--	--	90,729	90,729
Drug Seizure Proceeds	--	--	2,475	2,475
Street Maintenance	--	--	5,520	5,520
Assigned Fund Balances				
Capital Expenditures for Equipment	105,499	--	--	105,499
Unassigned	1,217,731	--	--	1,217,731
Total Fund Balance	<u>1,345,005</u>	<u>1,080,469</u>	<u>200,425</u>	<u>2,625,899</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 1,592,643</u>	<u>\$ 1,084,418</u>	<u>\$ 218,654</u>	<u>\$ 2,895,715</u>

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 POSITION
SEPTEMBER 30, 2013**

Total fund balances - governmental funds balance sheet \$ 2,625,899

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not reported in the funds.	5,078,131
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	125,748
Unamortized discount on issuance of debt recorded in governmental activities are not reported in the funds.	11,477
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,365,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(90,300)
Payables for bond interest which are not due in the current period are not reported in the funds.	(20,131)
Landfill Closure liabilities which are not due and payable in the current period are not reported in the funds.	(158,637)

Net position of governmental activities - Statement of Net Position \$ 4,207,186

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXASSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
Revenue:				
Property Taxes	\$ 820,376	\$ --	\$ 118,054	\$ 938,430
Sales Taxes	382,640	95,408	95,409	573,457
Franchise Taxes	273,195	--	--	273,195
Occupancy Taxes	--	--	48,245	48,245
Licenses and permits	12,597	--	--	12,597
Intergovernmental	13,812	--	11,774	25,586
Charges for services	765,620	--	--	765,620
Fines	50,455	--	2,780	53,235
Interest	3,701	12,557	745	17,003
Miscellaneous	73,983	199	--	74,182
Total revenues	<u>2,396,379</u>	<u>108,164</u>	<u>277,007</u>	<u>2,781,550</u>
Expenditures:				
Current:				
General government	338,343	--	11,774	350,117
Police	789,720	--	4,340	794,060
Fire	67,271	--	--	67,271
Streets	352,978	--	90,000	442,978
Maintenance Equipment	44,695	--	--	44,695
Sanitation	458,073	--	--	458,073
Health and welfare	5,265	--	--	5,265
Parks	46,935	--	--	46,935
Swimming Pool	81,938	--	--	81,938
Library	187,522	--	--	187,522
Municipal Court	47,524	--	--	47,524
Golf Course	50,419	--	--	50,419
Code Enforcement	51,772	--	--	51,772
Economic development and assistance	--	88,132	53,585	141,717
Airport	15,529	--	--	15,529
Capital outlay	189,215	--	--	189,215
Debt service:				
Principal	32,633	--	160,000	192,633
Interest and fiscal charges	3,274	--	140,513	143,787
Debt issuance cost and fees	--	--	1,050	1,050
Total expenditures	<u>2,763,106</u>	<u>88,132</u>	<u>461,262</u>	<u>3,312,500</u>
Excess (deficiency) of revenues (under) expenditures	(366,727)	20,032	(184,255)	(530,950)
Other financing sources (uses):				
Operating transfers in	350,000	--	190,253	540,253
Total other financing sources (uses)	<u>350,000</u>	<u>--</u>	<u>190,253</u>	<u>540,253</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(16,727)	20,032	5,998	9,303
Fund balances October 1	1,361,732	1,060,437	194,427	2,616,596
Fund balances September 30	<u>\$ 1,345,005</u>	<u>\$ 1,080,469</u>	<u>\$ 200,425</u>	<u>\$ 2,625,899</u>

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, 2013

Net change in fund balances - total governmental funds	\$ 9,303
--	----------

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

Capital outlays are not reported as expenses in the SOA.	189,215
The depreciation of capital assets used in governmental activities is not reported in the funds.	(408,350)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(1,348)
Landfill Closure cost not requiring the use of current financial resources are not reported as expenditures in the	(19,793)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	32,633
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	160,000
Bond discount and similar items are amortized in the SOA but not in the funds.	(796)
(Increase) decrease in accrued interest from beginning of period to end of period.	(375)

Change in net position of governmental activities - Statement of Activities	<u>\$ (39,509)</u>
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The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS**STATEMENT OF NET POSITION****ENTERPRISE FUND****SEPTEMBER 30, 2013**

	Enterprise Fund Water and Sewer Fund
ASSET	
Current Assets:	
Cash and cash equivalents	\$ 907,717
Receivables (net of allowances for uncollectibles):	
Accounts	135,350
Total Current Assets	<u>1,043,067</u>
Non-Current Assets:	
Restricted assets:	
Cash and cash equivalents	
Customer Meter Deposits	68,055
Capital assets	
Land	833,127
Buildings and Improvements	98,023
Machinery and Equipment	571,588
Water and Sewer System	5,087,871
Less Accumulated Depreciation	<u>(3,344,410)</u>
Total Non-Current Assets	<u>3,314,254</u>
Total Assets	<u><u>4,357,321</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 61,853
Total Current Liabilities	<u>61,853</u>
Payable from Restricted Assets:	
Customer Deposits	68,055
Total Liabilities	<u>129,908</u>
NET POSITION	
Investment in capital assets	3,246,198
Unrestricted	981,215
Total Net Position	<u><u>\$ 4,227,413</u></u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXASSTATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Enterprise Fund Water and Sewer Fund
OPERATING REVENUES:	
Charges for services	\$ 1,394,187
Rents	19,386
Miscellaneous	30,008
Total Operating Revenues	<u>1,443,581</u>
OPERATING EXPENSES:	
Personnel services	357,434
Supplies	53,081
Maintenance	109,579
Other charges	172,990
Depreciation	78,075
Total Operating Expenses	<u>771,159</u>
Operating Income	<u>672,422</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	4,092
Total Non-operating Revenues (Expenses)	<u>4,092</u>
Net Income before Transfers	<u>676,514</u>
Interfund operating transfers out	(540,253)
Change in net position	<u>136,261</u>
Net Position at October 1,	4,091,152
Net Position at September 30,	<u>\$ 4,227,413</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS**STATEMENT OF CASH FLOWS****ENTERPRISE FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Enterprise Fund Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,440,957
Cash Payments to Employees for Services	(357,434)
Cash Payments to Other Suppliers for Goods and Services	(372,326)
Net Cash Provided (Used) by Operating Activities	<u>711,197</u>
Cash Flows from Non-capital Financing Activities:	
Operating Transfers From (To) Other Funds	(540,253)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(540,253)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition or Construction of Capital Assets	(1,385,346)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,385,346)</u>
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	4,092
Net Cash Provided (Used) for Investing Activities	<u>4,092</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,210,310)
Cash and Cash Equivalents at Beginning of Year	2,186,082
Cash and Cash Equivalents at End of Year	<u>\$ 975,772</u>
Classified As:	
Current Assets	\$ 907,717
Restricted Assets	68,055
Totals	<u>\$ 975,772</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 672,422
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	78,075
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(2,624)
Increase (Decrease) in Accounts Payable	(38,016)
Increase (Decrease) in Customer Deposits	1,340
Total Adjustments	<u>38,775</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 711,197</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

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

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

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

1. Reporting Entity

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

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

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

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

They are:

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

All budgets, programs and policies

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

must be submitted to the City
Council for approval.

Joint Ventures

The City of Muleshoe has the following joint ventures at September 30, 2013. The City of Muleshoe is in conjunction with the County of Bailey, Texas, Muleshoe Independent School District, Muleshoe Area Hospital District and High Plains Underground Water Conservation District No. 1 to create Bailey Central Appraisal District pursuant to the laws of the State of Texas, for the appraisal and collection of property taxes. Bailey Central Appraisal District is governed by a five-member board composed of three appointees by Muleshoe School District and one by the County of Bailey, Texas, and the City of Muleshoe. Each taxing entity is liable for its share of the cost of operating Bailey Central Appraisal District. In accordance with the agreement with each taxing entities, excess funds will be paid annually at the discretion of Bailey Central Appraisal District. All known costs and refunds have been shown in current financial statements. Complete financial statements for Bailey Central Appraisal District can be obtained from Bailey Central Appraisal District, 302 Main, Muleshoe, Texas.

Related Organization

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

<u>Related Organizations</u>	<u>Brief Description of Activities and Relationship to the City</u>
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 position 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

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 are deferred and amortized over the life of the bonds.

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.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 issuances 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.

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, 2013 was \$0.6296 per \$100 which means that the City has a tax margin of \$1.8704 per \$100 and could raise up to \$2,414.129 additional a year from the present assessed valuation of \$129,070,172 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.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
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

CITY OF MULESHOE, TEXAS
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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 Development Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end.

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

j. Restricted Assets

These assets consist of cash restricted for customer meter deposits.

k. Fund Equity

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).

CITY OF MULESHOE, TEXAS
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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 structured through debt covenants. Taxes collected for Economic Development, Hotel/Motel Occupancy, and Street Maintenance, and proceeds received in Drug Seizures are restricted by enable legislation that requires the revenue to be 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 convey 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 Position on the Government-wide Statement:

In the government-wide statements, net position 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 position are reported when constraints placed on net position 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 position that do not meet the definition of either of the first categories of net position.

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:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

CITY OF MULESHOE, TEXAS
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C. Deposits and Investments

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

Cash Deposits:

At September 30, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,187,245 and the bank balance was \$3,457,760. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

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

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

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

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, 2013.

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

CITY OF MULESHOE, TEXAS
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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, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Since the City's deposits are covered by depository insurance and pledged securities, it has no custodial credit risk for deposits.

c. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investment in any one issuer (other than U.S. Treasury Securities, Mutual Funds, and External Investment Pools) That represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2013, all of the City's investment are in the bank investments completely covered by pledged securities, or an external investment pool.

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 506,107	\$ 8,953	\$ --	\$ 515,060
Total capital assets not being depreciated	506,107	8,953	--	515,060
Capital assets being depreciated:				
Buildings and improvements	3,364,619	150,655	--	3,515,274
Machinery and Equipment	3,314,788	29,607	--	3,344,395
Infrastructure	274,782	--	--	274,782
Airport Improvements	1,879,687	--	--	1,879,687
Total capital assets being depreciated	8,833,876	180,262	--	9,014,138
Less accumulated depreciation for:				
Buildings and improvements	(791,413)	(114,906)	--	(906,319)
Machinery and Equipment	(1,703,498)	(214,820)	--	(1,918,318)
Infrastructure	--	(5,496)	--	(5,496)
Airport Improvements	(1,547,808)	(73,127)	--	(1,620,935)
Total accumulated depreciation	(4,042,719)	(408,348)	--	(4,451,067)
Total capital assets being depreciated, net	4,791,157	(228,086)	--	4,563,071
Governmental activities capital assets, net	\$ 5,297,264	\$ (219,133)	\$ --	\$ 5,078,131

CITY OF MULESHOE, TEXAS
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	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 833,127	\$ --	\$ --	\$ 833,127
Total capital assets not being depreciated	<u>833,127</u>	<u>--</u>	<u>--</u>	<u>833,127</u>
Capital assets being depreciated:				
Buildings and improvements	98,023	--	--	98,023
Machinery and Equipment	557,587	14,000	--	571,587
Water and Sewer System	3,716,527	1,371,344	--	5,087,871
Total capital assets being depreciated	<u>4,372,137</u>	<u>1,385,344</u>	<u>--</u>	<u>5,757,481</u>
Less accumulated depreciation for:				
Buildings and improvements	(91,404)	(1,812)	--	(93,216)
Machinery and Equipment	(429,452)	(22,265)	--	(451,717)
Water and Sewer System	(2,745,478)	(53,997)	--	(2,799,475)
Total accumulated depreciation	<u>(3,266,334)</u>	<u>(78,075)</u>	<u>--</u>	<u>(3,344,409)</u>
Total capital assets being depreciated, net	<u>1,105,803</u>	<u>1,307,269</u>	<u>--</u>	<u>2,413,072</u>
Business-type activities capital assets, net	<u>\$ 1,938,930</u>	<u>\$ 1,307,269</u>	<u>\$ --</u>	<u>\$ 3,246,199</u>

Depreciation was charged to Governmental Activities functions as follows:

General Government	\$ 15,227
Police	59,699
Fire	55,055
Streets	35,642
Sanitation	55,853
Health and Welfare	645
Parks	15,990
Swimming Pool	77,962
Library	3,478
Golf Course	3,084
Airport	81,243
Economic Development and Assistance	4,472
	<u>\$ 408,348</u>

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

Water and Sewer	<u>\$ 78,075</u>
-----------------	------------------

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2013, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 1,513	Short-term loans
Debt Service Fund	General Fund	2,544	Reimbursement of Taxes
	Total	<u>\$ 4,057</u>	

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

CITY OF MULESHOE, TEXAS
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2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2013, 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	190,253	Payment of Debt
	Total	<u>\$ 540,253</u>	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Certificates of Obligation	\$ 3,525,000	\$ --	\$ 160,000	\$ 3,365,000	165,000
Capital leases	122,934	--	32,633	90,301	90,301
Estimated Liability for Landfill Closure Cost*	138,844	19,793	--	158,637	--
Total governmental activities	<u>\$ 3,786,778</u>	<u>\$ 19,793</u>	<u>\$ 192,633</u>	<u>\$ 3,613,938</u>	<u>\$ 255,301</u>

* 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, 2013, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 255,301	\$ 137,757	\$ 393,059
2015	175,000	127,213	302,213
2016	180,000	120,113	300,113
2017	190,000	112,713	302,713
2018	195,000	105,013	300,013
2019-2023	1,105,000	398,513	1,503,513
2024-2028	1,355,000	147,156	1,502,156
Totals	<u>\$ 3,455,301</u>	<u>\$ 1,148,477</u>	<u>\$ 4,603,778</u>

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%.

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The Certificates of Obligation are secure by a continuing direct annual ad valorem tax on all taxable property within the city sufficient to provide for the payment of principal of and interest on the obligations payable. Additionally, the Certificates are payable from and secured by a limited pledge of \$1,000 of net revenues of the City's Waterwork and Sewer System, as provided in the Ordinance authorizing the Certificates.

Debt Service requirements are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	195,000	105,013	300,013
2019-2023	1,105,000	398,513	1,503,513
2024-2028	1,355,000	147,156	1,502,156
Totals	<u>\$ 3,365,000</u>	<u>\$ 1,144,732</u>	<u>\$ 4,509,732</u>

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2013, 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.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 34,231	\$ 1,676	\$ 35,907
Total	<u>\$ 34,231</u>	<u>\$ 1,676</u>	<u>\$ 35,907</u>

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 Freightliner Fire Truck.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 56,070	\$ 2,069	\$ 58,139
Total	<u>\$ 56,070</u>	<u>\$ 2,069</u>	<u>\$ 58,139</u>

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of September 30, 2013, as follows:

<u>Year Ending September 30,</u>	
2014	\$ 6,708
2015	6,708
2016	3,354
Total Minimum Rentals	<u>\$ 16,770</u>
Rental Expenditures in 2013	<u>\$ 6,708</u>

CITY OF MULESHOE, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 2013, 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:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
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.

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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)	\$	210,563
2. Interest on Net Pension Obligation	--	
3. Adjustment to the ARC	--	
4. Annual Pension Cost (APC) (1)+(2)+(3)	\$	210,563
5. Contributions Made	\$	(210,563)
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 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.1 years Closed period	26.1 years Closed period	25.1 years 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 *	7.00%	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%

J. Health Care Coverage

During the year ended September 30, 2013, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$590 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.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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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, 2013.

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 future closure and postclosure care costs that will be incurred near or after the date that the landfill no longer accepts waste. The recognition of these landfill closure and post closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care cost has a balance of \$158,637 as of September 30, 2013, which is based on 27.91% usage (filled) of the landfill. It is estimated that an additional \$556,049 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 (\$573,035) 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, 2013. However, the actual cost of closure and post closure cost may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The City is required by Texas Natural Resource Conservation 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, 2013.

The total amount of landfill closure and postclosure care cost for current period in the amount of \$19,793 (required by GASB 18) increase the amount of estimated liability for landfill closure and postclosure care cost as a Long-term Liability.

M. 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.

N. Volunteer Fire Department 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 latest actuarial valuation was performed as of August 31, 2010.

At August 31, 2012, there were 188 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.

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At August 31, 2012, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,750
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,252
Active Participants (Vested and Nonvested)	4,446
	9,448

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, 2012 total contributions (dues and prior service) of \$3,517,455 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2012 and 2013.. Total contributions made were less than the contributions required by the state statute and required based on the August 31, 2010 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, 2012 revealed the inadequacy 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, 2013 (\$528,535 to 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 \$530,000 each year to help pay for the System's administrative expenses.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Schedule of Employer Contributions

Fiscal Year Ending		Annual Required Contributions (ARC)		Actual Contributions	Percentage of ARC Contributed
8-31-07	1	\$3,162,742		\$3,162,742	100%
8-31-08	1	\$3,160,764	4	\$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	100%
8-31-11	3	\$3,125,329		\$3,125,329	100%
8-31-12	3	\$4,423,898		\$3,517,455	80%

1 Based on August 31, 2006 actuarial valuation

2 Based on August 31, 2008 actuarial valuation

4 Includes a state contribution of \$8,800,000.

The actuarial assumptions and methods for the two most recent biennial valuations are shown below:

Valuation date	August 31, 2010	August 31, 2012
Actuarial cost method	Entry Age	Entry Age
Amortization method	Level dollar, open	Level dollar, open
Amortization period	30 years	Inginity
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% 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*	7.75% 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

O. 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.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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%
2012	0.03%	0.03%	100.00%
2013	0.03%	0.03%	100.00%

P. Change in Accounting Principle

For the year ending September 30, 2013, the City has implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statements requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the City's financial statements was renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

The City also implemented GASB Statement No 65, Items Previously Reported as Assets and Liabilities, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows or resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of GASB 65 resulted in the write-off of bond issuance cost and the reduction of beginning net position by \$96,299.

Required Supplementary Information

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

CITY OF MULESHOE, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 934,940	\$ 934,940	\$ 820,376	\$ (114,564)
Sales Taxes	541,000	541,000	382,640	(158,360)
Franchise Taxes	250,000	250,000	273,195	23,195
Licenses and permits	10,700	10,700	12,597	1,897
Intergovernmental	4,000	4,000	13,812	9,812
Charges for services	851,400	851,400	765,620	(85,780)
Fines	61,120	61,120	50,455	(10,665)
Interest	16,600	16,600	3,701	(12,899)
Miscellaneous	13,000	13,000	73,983	60,983
Total revenues	<u>2,682,760</u>	<u>2,682,760</u>	<u>2,396,379</u>	<u>(286,381)</u>
Expenditures:				
Current:				
General government	310,783	310,783	338,343	(27,560)
Police	781,614	781,614	789,720	(8,106)
Fire	95,600	95,600	67,271	28,329
Streets	464,555	464,555	352,978	111,577
Maintenance Equipment	60,736	60,736	44,695	16,041
Sanitation	436,377	436,377	458,073	(21,696)
Health and welfare	6,000	6,000	5,265	735
Parks	31,950	31,950	46,935	(14,985)
Swimming Pool	96,941	96,941	81,938	15,003
Library	168,613	168,613	187,522	(18,909)
Municipal Court	51,818	51,818	47,524	4,294
Golf Course	14,443	14,443	50,419	(35,976)
Code Enforcement	57,029	57,029	51,772	5,257
Airport	64,350	64,350	15,529	48,821
Capital outlay	172,943	172,943	189,215	(16,272)
Debt service:				
Principal	32,633	32,633	32,633	--
Interest and fiscal charges	3,274	3,274	3,274	--
Total expenditures	<u>2,849,659</u>	<u>2,849,659</u>	<u>2,763,106</u>	<u>86,553</u>
Excess (deficiency) of revenues (under) expenditures	(166,899)	(166,899)	(366,727)	(199,828)
Other financing sources (uses):				
Operating transfers in	350,000	350,000	350,000	--
Operating transfers out	(110,259)	(110,259)	--	(110,259)
Sale of Assets	5,000	5,000	--	(5,000)
Total other financing sources (uses)	<u>244,741</u>	<u>244,741</u>	<u>350,000</u>	<u>(105,259)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	77,842	77,842	(16,727)	(94,569)
Fund balances October 1	1,361,732	1,361,732	1,361,732	--
Fund balances September 30	<u>\$ 1,439,574</u>	<u>\$ 1,439,574</u>	<u>\$ 1,345,005</u>	<u>\$ (94,569)</u>

CITY OF MULESHOE, TEXAS
ECONOMIC DEVELOPMENT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Sales Taxes	\$ 90,000	\$ 90,000	\$ 95,408	\$ 5,408
Interest	13,500	13,500	12,557	(943)
Miscellaneous	--	--	199	199
Total revenues	<u>103,500</u>	<u>103,500</u>	<u>108,164</u>	<u>4,664</u>
Expenditures:				
Current:				
Economic development and assistance	964,671	964,671	88,132	876,539
Total expenditures	<u>964,671</u>	<u>964,671</u>	<u>88,132</u>	<u>876,539</u>
Excess (deficiency) of revenues (under) expenditures	(861,171)	(861,171)	20,032	881,203
Other financing sources (uses):				
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(861,171)	(861,171)	20,032	881,203
Fund balances October 1	1,060,437	1,060,437	1,060,437	--
Fund balances September 30	<u>\$ 199,266</u>	<u>\$ 199,266</u>	<u>\$ 1,080,469</u>	<u>\$ 881,203</u>

CITY OF MULESHOE, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-3

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12-31-10	\$ 5,074,795	\$ 6,230,341	\$ 1,155,546	81.5%	\$ 1,114,464	103.7%
12-31-11	5,493,456	6,643,934	1,150,478	82.7%	1,148,548	100.2%
12-31-12	5,928,592	6,999,098	1,070,506	84.7%	1,131,670	94.6%

CITY OF MULESHOE, TEXAS

EXHIBIT B-4

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

YEAR ENDED SEPTEMBER 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered ((b-a)/c)
8-31-06	\$ 42,268,305	\$ 58,082,828	\$ 1,155,546	72.77%	8061	\$ 1,962
8-31-08	60,987,157	64,227,341	1,150,478	94.96%	8254	393
8-31-10	64,113,803	81,264,230	1,070,506	78.90%	8644	1,984
8-31-12	67,987,487	101,856,042	1,070,506	66.75%	9448	3,585