

**CITY OF MULESHOE, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

City Of Muleshoe, Texas  
Annual Financial Report  
For The Year Ended September 30, 2016

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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 the City Of Muleshoe, Texas ("the City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability and schedule of City pension contributions 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  
February 1, 2017

# CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis  
For Year Ended September 30, 2016

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, 2016. 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 \$7,932,083 at September 30, 2016. Of this amount, \$1,928,842 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 decreased by \$ 124,238.
- 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 \$ 1,475,429.

## 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

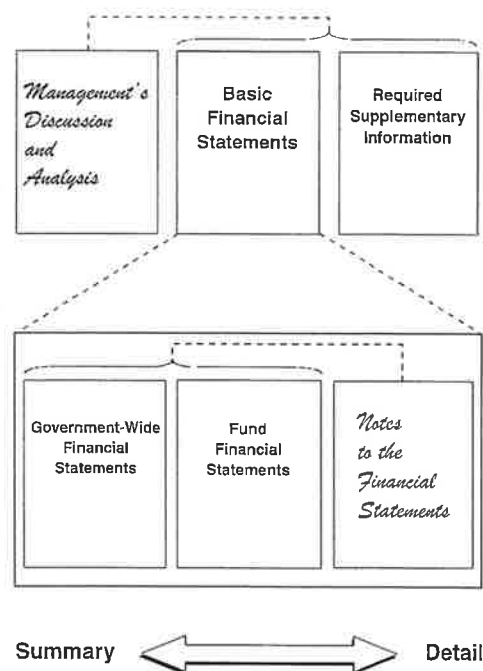


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of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

# CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis  
For Year Ended September 30, 2016

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

| <i>Type of Statements</i>                     | <b>Government-wide</b>                                                               | <b>Governmental Funds</b>                                                                                                                                                                   | <b>Fund Statements<br/>Enterprise Funds</b>                                         |
|-----------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| <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, 2016

## **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 \$7,932,083 at September 30, 2016.

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, 2016

## CITY OF MULESHOE'S NET POSITION

|                                                     | Governmental<br>Activities |              | Business-type<br>Activities |              | Total        |              |
|-----------------------------------------------------|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
|                                                     | 2016                       | 2015         | 2016                        | 2015         | 2016         | 2015         |
| Current and other assets                            | \$ 3,116,469               | \$ 3,132,649 | \$ 1,385,207                | \$ 1,265,357 | \$ 4,501,676 | \$ 4,398,006 |
| Capital assets                                      | 4,551,855                  | 4,833,197    | 3,050,233                   | 3,105,720    | 7,602,088    | 7,938,917    |
| Deferred outflow of resources                       | 653,571                    | 186,485      | 134,581                     | 49,995       | 788,152      | 236,480      |
| Total Assets and Deferred Outflow of Resources      | 8,321,895                  | 8,152,331    | 4,570,021                   | 4,421,072    | 12,891,916   | 12,573,403   |
| Other liabilities                                   | 144,211                    | 146,110      | 180,734                     | 164,110      | 324,945      | 310,220      |
| Long-term liabilities                               | 4,307,434                  | 3,965,295    | 295,673                     | 188,664      | 4,603,107    | 4,153,959    |
| Deferred inflows of resources                       | 25,003                     | 41,719       | 6,778                       | 11,185       | 31,781       | 52,904       |
| Total Liabilities and Deferred Inflows of Resources | 4,476,648                  | 4,153,124    | 483,185                     | 363,959      | 4,959,833    | 4,517,083    |
| Net Position:                                       |                            |              |                             |              |              |              |
| Net Investment in Capital Assets                    | 1,567,855                  | 1,776,081    | 3,050,233                   | 3,105,720    | 4,618,088    | 4,881,801    |
| Restricted                                          | 1,385,153                  | 1,348,694    | -                           | -            | 1,385,153    | 1,348,694    |
| Unrestricted                                        | 892,239                    | 874,432      | 1,036,603                   | 951,393      | 1,928,842    | 1,825,825    |
| Total Net Position                                  | \$ 3,845,247               | \$ 3,999,207 | \$ 4,086,836                | \$ 4,057,113 | \$ 7,932,083 | \$ 8,056,320 |

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 \$ 1,928,842 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2016, the City is able to report positive balances in all three categories of Net Position for the governmental as whole.

### Analysis of the City's Operations

The City's total revenues were \$4,391,905. A significant portion, \$1,986,085 of the City's revenue comes from taxes. \$2,367,251 relates to charges for services, while only \$16,408 comes from operating grants.

Governmental Activities Governmental activities decreased Net Position after transfers by \$153,961. Governmental program revenues and expenses remained similar to prior year, except for the community development grant.

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.

# CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis  
For Year Ended September 30, 2016

The following table provides a summary for the City's operations for year ended September 30, 2016

## CITY OF MULESHOE'S CHANGES IN NET POSITION

|                            | Governmental Activities |           | Business-type Activities |           | Total     |           |
|----------------------------|-------------------------|-----------|--------------------------|-----------|-----------|-----------|
|                            | 2016                    | 2015      | 2016                     | 2015      | 2016      | 2015      |
| Revenues:                  |                         |           |                          |           |           |           |
| Program Revenues:          |                         |           |                          |           |           |           |
| Charges for service        | 950,953                 | 982,025   | 1,416,298                | 1,434,906 | 2,367,251 | 2,416,931 |
| Operating grants           | 16,408                  | 3,458     | -                        | -         | 16,408    | 3,458     |
| Capital grants             | -                       | 51,288    | -                        | -         | -         | -         |
| General Revenues:          |                         |           |                          |           |           |           |
| Property taxes             | 983,279                 | 979,143   | -                        | -         | 983,279   | 979,143   |
| Sales taxes                | 679,725                 | 650,934   | -                        | -         | 679,725   | 650,934   |
| Franchise taxes            | 266,895                 | 288,762   | -                        | -         | 266,895   | 288,762   |
| Occupancy taxes            | 56,186                  | 59,491    | -                        | -         | 56,186    | 59,491    |
| Investment earnings        | 15,334                  | 17,727    | 2,729                    | 3,078     | 18,063    | 20,805    |
| Miscellaneous              | 4,098                   | -         | -                        | -         | 4,098     | -         |
| Total revenues             | 2,972,878               | 3,032,828 | 1,419,027                | 1,437,984 | 4,391,905 | 4,419,524 |
| Expenses:                  |                         |           |                          |           |           |           |
| General government         | 392,646                 | 387,171   | -                        | -         | 392,646   | 387,171   |
| Police                     | 967,719                 | 868,590   | -                        | -         | 967,719   | 868,590   |
| Fire                       | 170,963                 | 116,322   | -                        | -         | 170,963   | 116,322   |
| Streets                    | 509,061                 | 473,369   | -                        | -         | 509,061   | 473,369   |
| Maintenance Equipment      | 66,854                  | 67,683    | -                        | -         | 66,854    | 67,683    |
| Sanitation                 | 505,135                 | 496,310   | -                        | -         | 505,135   | 496,310   |
| Health and Welfare         | 6,375                   | 645       | -                        | -         | 6,375     | 645       |
| Parks                      | 76,266                  | 66,422    | -                        | -         | 76,266    | 66,422    |
| Swimming Pool              | 147,231                 | 154,440   | -                        | -         | 147,231   | 154,440   |
| Library                    | 212,913                 | 191,735   | -                        | -         | 212,913   | 191,735   |
| Municipal Court            | 57,366                  | 50,951    | -                        | -         | 57,366    | 50,951    |
| Golf Course                | 82,832                  | 78,468    | -                        | -         | 82,832    | 78,468    |
| Code Enforcement           | 58,724                  | 56,287    | -                        | -         | 58,724    | 56,287    |
| Economic Development       | 170,394                 | 154,090   | -                        | -         | 170,394   | 154,090   |
| Interest on Long-Term Debt | 106,968                 | 129,460   | -                        | -         | 106,968   | 129,460   |
| Water and Sewer            | -                       | -         | 950,805                  | 879,113   | 950,805   | 879,113   |
| Airport                    | 33,891                  | 31,131    | -                        | -         | 33,891    | 31,131    |
| Total Expenses             | 3,565,338               | 3,323,074 | 950,805                  | 879,113   | 4,516,143 | 4,202,187 |
| Increases in Net Position  |                         |           |                          |           |           |           |
| Before Transfers           | (592,460)               | (290,246) | 468,222                  | 558,871   | (124,238) | 268,625   |
| Transfers                  | 438,499                 | 544,090   | (438,499)                | (544,090) | -         | -         |
| Increases in Net Position  | (153,961)               | 253,844   | 29,723                   | 14,781    | (124,238) | 268,625   |
| Net Position- October 1    | 3,999,208               | 3,745,364 | 4,057,113                | 4,042,332 | 8,056,321 | 7,787,696 |
| Net Position- September 30 | 3,845,247               | 3,999,208 | 4,086,836                | 4,057,113 | 7,932,083 | 8,056,321 |

## 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 \$2,860,582. Approximately \$1,475,429 constitutes unassigned fund balance and \$89,402 is assigned for capital expenditures for equipment. The remaining is either nonspendable or restricted.

In the general fund, the City budgeted for a decrease in the fund balance on a budgeted basis of \$27,072. However due to expenditures being more than expected and revenue being less than expected the actual fund balance decreased \$42,799 for the fiscal year 2016.

# CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis  
For Year Ended September 30, 2016

**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 \$1,036,603.

## General Fund Budgetary Highlights

Over the course of the year, the City did not revise its budget. Actual expenditures were \$26,977 below the final budget amounts and resources available were \$35,870 below the final budgeted amount.

## CAPITAL ASSETS

At the end of 2016, the City had invested \$16,919,878 in a broad range of capital assets, including land, equipment, buildings, and vehicles.

### CITY OF MULESHOE'S CAPITAL ASSETS

|                                | Governmental<br>Activities |             | Business-type<br>Activities |             | Total        |              |
|--------------------------------|----------------------------|-------------|-----------------------------|-------------|--------------|--------------|
|                                | 2016                       | 2015        | 2016                        | 2015        | 2016         | 2015         |
| Land                           | \$ 612,284                 | \$ 612,284  | \$ 833,127                  | \$ 833,127  | 1,445,411    | 1,445,411    |
| Construction in progress       | 18,835.00                  | 18,835.00   | 16,108.00                   | -           | 34,943.00    | 18,835.00    |
| Buildings and improvements     | 3,727,440                  | 3,690,807   | 104,173                     | 98,023      | 3,831,613    | 3,788,830    |
| Machinery and equipment        | 3,576,807                  | 3,580,119   | 671,441                     | 644,711     | 4,248,248    | 4,224,830    |
| Water and sewer system         | -                          | -           | 5,205,194                   | 5,156,673   | 5,205,194    | 5,156,673    |
| 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      | 10,089,835                 | 10,056,514  | 6,830,043                   | 6,732,534   | 16,919,878   | 16,789,048   |
| Total accumulated depreciation | (5,537,980)                | (5,223,319) | (3,779,810)                 | (3,626,812) | (9,317,790)  | (8,850,131)  |
| Net capital assets             | \$4,551,855                | \$4,833,195 | \$3,050,233                 | \$3,105,722 | \$ 7,602,088 | \$ 7,938,917 |

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, 2016

## DEBT ADMINISTRATION

At year-end, the City had \$ 3,197,731 in outstanding capital leases, notes, net pension liability 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<br>Activities |           | Business-type<br>Activities |         | Total     |           |
|----------------------------|----------------------------|-----------|-----------------------------|---------|-----------|-----------|
|                            | 2016                       | 2015      | 2016                        | 2015    | 2016      | 2015      |
| Notes Payable              | -                          | 42,000    | -                           | -       | -         | 42,000    |
| Certificates of obligation | 2,984,000                  | 3,025,000 | -                           | -       | 2,984,000 | 3,025,000 |
| Landfill closure cost      | 213,731                    | 194,564   | -                           | -       | 213,731   | 194,564   |
| Net pension liability      | 1,109,703                  | 703,730   | 295,673                     | 188,664 | 1,405,376 | 892,394   |
| Total notes payable        | 4,307,434                  | 3,965,294 | 295,673                     | 188,664 | 4,603,107 | 4,153,958 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2016 tax base increased 1.49% from last year. The City Council adopted a tax rate of \$0.7405 per \$100 evaluation to fund the Maintenance and Operation needs and Debt Service of the city. This tax rate is the same rate as last year's tax rate. Water/Wastewater rates are increased by \$6.00 for the FY2016-2017.

Capital improvement funds allocated in the General Fund Include:

Police Department - Two police units, equipment, radios, computer equipment, crime scene equipment, bullet proof vests, and lease purchase debt - \$73,500.

Street Department - Mower - \$16,000

Parks Department - Playground equipment, resurface basketball court, and irrigation system - \$88,000

Library - Building improvements, computer equipment, books and media \$24,000

Airport - Runway and Taxiway rebuild - \$250,000 (\$2,500,000 project funded 90% by TxDOT)

The FY2016-2017 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 order to maintain fiscal stability, the City of Muleshoe maintains an Unreserved Fund Balance in each fund to meet unforeseen emergencies that may arise and to address future major capital improvement projects. The City's overall Unreserved Fund Balance is 55.1% of current year budgeted expenses.

Employee salaries were increased 4.5% in the FY2016-2017 Budget. The salary increases were a combination of cost of living adjustments and 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.

Medical insurance costs increased 11.6% for FY2015-2016. Increased costs for medical insurance are mainly driven by the Federal Affordable Care Act. 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 co-pays. The employee chooses the

## ***CITY OF MULESHOE, TEXAS***

Management's Discussion and Analysis  
For Year Ended September 30, 2016

plan that best fits his/her situation. The city contributes \$515.52 toward employee medical coverage and \$300 for dependent coverage. Any medical insurance cost above the city's contribution is paid by the employee. The city also provides \$44.40 for employee dental and vision insurance. Salaries and employee benefits account for 41.34% of the city's total FY2016-2017 budget.

### **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, 2016

|                                                      | Governmental<br>Activities | Business-type<br>Activities | Total               |
|------------------------------------------------------|----------------------------|-----------------------------|---------------------|
| <b>ASSETS</b>                                        |                            |                             |                     |
| Cash and cash equivalents                            | \$ 2,539,118               | \$ 1,196,655                | \$ 3,735,773        |
| Receivables ( net of allowances for uncollectibles): |                            |                             |                     |
| Property Taxes- Delinquent                           | 119,917                    | --                          | 119,917             |
| Accounts                                             | 154,223                    | 109,657                     | 263,880             |
| Paving Liens                                         | 21,775                     | --                          | 21,775              |
| Notes Receivable                                     | 272,246                    | --                          | 272,246             |
| Due from Other Governments                           | 9,190                      | --                          | 9,190               |
| Restricted assets:                                   |                            |                             |                     |
| Cash and cash equivalents                            |                            |                             |                     |
| Customer Meter Deposits                              | --                         | 78,895                      | 78,895              |
| Capital Assets                                       |                            |                             |                     |
| Land                                                 | 612,284                    | 833,127                     | 1,445,411           |
| Buildings and Improvements                           | 3,727,440                  | 104,173                     | 3,831,613           |
| Machinery and Equipment                              | 3,576,807                  | 671,441                     | 4,248,248           |
| Water and Sewer System                               | --                         | 5,205,194                   | 5,205,194           |
| Airport Improvements                                 | 1,879,687                  | --                          | 1,879,687           |
| Infrastructure                                       | 274,782                    | --                          | 274,782             |
| Less Accumulated Depreciation                        | (5,537,980)                | (3,779,810)                 | (9,317,790)         |
| Construction in Progress                             | 18,835                     | 16,108                      | 34,943              |
| Total Assets                                         | <u>7,668,324</u>           | <u>4,435,440</u>            | <u>12,103,764</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>               |                            |                             |                     |
| Deferred Outflows Related to Pensions                | 507,391                    | 134,581                     | 641,972             |
| Deferred Outflows Related to Refunding Bonds         | 146,180                    | --                          | 146,180             |
| Total Deferred Outflows of Resources                 | <u>653,571</u>             | <u>134,581</u>              | <u>788,152</u>      |
| <b>LIABILITIES</b>                                   |                            |                             |                     |
| Accounts payable                                     | 111,493                    | 95,321                      | 206,814             |
| Accrued wages                                        | 24,477                     | 6,518                       | 30,995              |
| Payable from Restricted Assets:                      |                            |                             |                     |
| Customer Deposits                                    | --                         | 78,895                      | 78,895              |
| Accrued Interest Payable                             | 8,241                      | --                          | 8,241               |
| Noncurrent Liabilities:                              |                            |                             |                     |
| Due within one year                                  | 222,000                    | --                          | 222,000             |
| Due in more than year                                | 2,975,731                  | --                          | 2,975,731           |
| Net Pension Liability                                | 1,109,703                  | 295,673                     | 1,405,376           |
| Total Liabilities                                    | <u>4,451,645</u>           | <u>476,407</u>              | <u>4,928,052</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                |                            |                             |                     |
| Deferred Inflow Related to Pension                   | 25,003                     | 6,778                       | 31,781              |
| Total Deferred Inflows of Resources                  | <u>25,003</u>              | <u>6,778</u>                | <u>31,781</u>       |
| <b>NET POSITION:</b>                                 |                            |                             |                     |
| Net Investment in Capital Assets                     | 1,567,855                  | 3,050,233                   | 4,618,088           |
| Restricted For:                                      |                            |                             |                     |
| State and Federal Programs                           | 100                        | --                          | 100                 |
| Debt Service                                         | 132,309                    | --                          | 132,309             |
| Street Maintenance                                   | 22,665                     | --                          | 22,665              |
| Drug Seizure Proceeds                                | 1,376                      | --                          | 1,376               |
| Economic Development                                 | 1,089,104                  | --                          | 1,089,104           |
| Hotel/Motel Occupancy Tax                            | 139,599                    | --                          | 139,599             |
| Unrestricted                                         | 892,239                    | 1,036,603                   | 1,928,842           |
| Total Net Position                                   | <u>\$ 3,845,247</u>        | <u>\$ 4,086,836</u>         | <u>\$ 7,932,083</u> |

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

| Functions/Programs                  | Expenses            | Program Revenues     |                                    |
|-------------------------------------|---------------------|----------------------|------------------------------------|
|                                     |                     | Charges for Services | Operating Grants and Contributions |
| Governmental Activities:            |                     |                      |                                    |
| General Government                  | \$ 392,646          | \$ 50,350            | \$ --                              |
| Police                              | 967,719             | --                   | --                                 |
| Fire                                | 170,963             | --                   | 16,408                             |
| Streets                             | 509,061             | 2,764                | --                                 |
| Maintenance Equipment               | 66,854              | --                   | --                                 |
| Sanitation                          | 505,135             | 736,712              | --                                 |
| Health and Welfare                  | 6,375               | --                   | --                                 |
| Parks                               | 76,266              | 4,798                | --                                 |
| Swimming Pool                       | 147,231             | 52,218               | --                                 |
| Library                             | 212,913             | 2,697                | --                                 |
| Municipal Court                     | 57,366              | 69,079               | --                                 |
| Golf Course                         | 82,832              | 15,600               | --                                 |
| Code Enforcement                    | 58,724              | --                   | --                                 |
| Economic Development and Assistance | 170,394             | --                   | --                                 |
| Airport                             | 33,891              | 16,735               | --                                 |
| Interest on Long-Term Debt          | 106,968             | --                   | --                                 |
| Total Governmental Activities       | <u>3,565,338</u>    | <u>950,953</u>       | <u>16,408</u>                      |
| Business-type Activities:           |                     |                      |                                    |
| Water and Sewer                     | 950,805             | 1,416,298            | --                                 |
| Total Business-type Activities      | <u>950,805</u>      | <u>1,416,298</u>     | <u>--</u>                          |
| Total Primary Government            | <u>\$ 4,516,143</u> | <u>\$ 2,367,251</u>  | <u>\$ 16,408</u>                   |

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

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

| Governmental<br>Activities | Business-type<br>Activities | Total               |
|----------------------------|-----------------------------|---------------------|
| \$ (342,296)               |                             | \$ (342,296)        |
| (967,719)                  |                             | (967,719)           |
| (154,555)                  |                             | (154,555)           |
| (506,297)                  |                             | (506,297)           |
| (66,854)                   |                             | (66,854)            |
| 231,577                    |                             | 231,577             |
| (6,375)                    |                             | (6,375)             |
| (71,468)                   |                             | (71,468)            |
| (95,013)                   |                             | (95,013)            |
| (210,216)                  |                             | (210,216)           |
| 11,713                     |                             | 11,713              |
| (67,232)                   |                             | (67,232)            |
| (58,724)                   |                             | (58,724)            |
| (170,394)                  |                             | (170,394)           |
| (17,156)                   |                             | (17,156)            |
| (106,968)                  |                             | (106,968)           |
| <u>(2,597,977)</u>         |                             | <u>(2,597,977)</u>  |
| --                         | \$ 465,493                  | 465,493             |
| --                         | 465,493                     | 465,493             |
| <u>(2,597,977)</u>         | <u>465,493</u>              | <u>(2,132,484)</u>  |
| 983,279                    | --                          | 983,279             |
| 679,725                    | --                          | 679,725             |
| 266,895                    | --                          | 266,895             |
| 56,186                     | --                          | 56,186              |
| 15,334                     | 2,729                       | 18,063              |
| 4,098                      | --                          | 4,098               |
| 438,499                    | (438,499)                   | --                  |
| <u>2,444,016</u>           | <u>(435,770)</u>            | <u>2,008,246</u>    |
| (153,961)                  | 29,723                      | (124,238)           |
| 3,999,208                  | 4,057,113                   | 8,056,321           |
| <u>\$ 3,845,247</u>        | <u>\$ 4,086,836</u>         | <u>\$ 7,932,083</u> |

**CITY OF MULESHOE, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2016**

|                                                                          | General<br>Fund         | Economic<br>Development | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------------------------------------------|-------------------------|-------------------------|--------------------------------|--------------------------------|
| <b>ASSETS:</b>                                                           |                         |                         |                                |                                |
| Cash and cash equivalents                                                | \$ 1,427,315            | \$ 824,804              | \$ 286,999                     | \$ 2,539,118                   |
| Receivables ( net of allowances for uncollectibles):                     |                         |                         |                                |                                |
| Property Taxes- Delinquent                                               | 107,279                 | --                      | 12,640                         | 119,919                        |
| Accounts                                                                 | 148,819                 | --                      | 5,404                          | 154,223                        |
| Paving Liens                                                             | 21,775                  | --                      | --                             | 21,775                         |
| Notes Receivable                                                         | --                      | 272,246                 | --                             | 272,246                        |
| Due from other funds                                                     | --                      | --                      | 2,544                          | 2,544                          |
| Due from Other Governments                                               | 8,088                   | --                      | 1,101                          | 9,189                          |
| Total Assets                                                             | <u>1,713,276</u>        | <u>1,097,050</u>        | <u>308,688</u>                 | <u>3,119,014</u>               |
| <b>LIABILITIES</b>                                                       |                         |                         |                                |                                |
| Accounts payable                                                         | \$ 104,552              | \$ 6,941                | \$ --                          | \$ 111,493                     |
| Accrued wages                                                            | 23,472                  | 1,005                   | --                             | 24,477                         |
| Due to other funds                                                       | 2,544                   | --                      | --                             | 2,544                          |
| Total Liabilities                                                        | <u>130,568</u>          | <u>7,946</u>            | <u>--</u>                      | <u>138,514</u>                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                     |                         |                         |                                |                                |
| Unavailable Revenue- Property Taxes                                      | 107,279                 | --                      | 12,639                         | 119,918                        |
| Total Deferred Inflows of Resources                                      | <u>107,279</u>          | <u>--</u>               | <u>12,639</u>                  | <u>119,918</u>                 |
| <b>FUND BALANCES</b>                                                     |                         |                         |                                |                                |
| Nonspendable Fund Balances                                               |                         |                         |                                |                                |
| Paving liens                                                             | 21,775                  | --                      | --                             | 21,775                         |
| Restricted Fund Balances                                                 |                         |                         |                                |                                |
| Federal/State Funds Grant Restrictions                                   | --                      | --                      | 100                            | 100                            |
| Retirement of Long-Term debt                                             | --                      | --                      | 132,309                        | 132,309                        |
| Economic Development                                                     | --                      | 1,089,104               | --                             | 1,089,104                      |
| Hotel/Motel Occupancy Tax                                                | --                      | --                      | 139,599                        | 139,599                        |
| Drug Seizure Proceeds                                                    | --                      | --                      | 1,376                          | 1,376                          |
| Street Maintenance                                                       | --                      | --                      | 22,665                         | 22,665                         |
| Assigned Fund Balances                                                   |                         |                         |                                |                                |
| Capital Expenditures for Equipment                                       | 89,402                  | --                      | --                             | 89,402                         |
| Unassigned                                                               | 1,364,252               | --                      | --                             | 1,364,252                      |
| Total Fund Balance                                                       | <u>1,475,429</u>        | <u>1,089,104</u>        | <u>296,049</u>                 | <u>2,860,582</u>               |
| <br>Total Liabilities, Deferred Inflow<br>of Resources and Fund Balances | <br><u>\$ 1,713,276</u> | <br><u>\$ 1,097,050</u> | <br><u>\$ 308,688</u>          | <br><u>\$ 3,119,014</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, 2016**

Total fund balances - governmental funds balance sheet \$ 2,860,582

- 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.                                   | 4,551,855   |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.         | 119,918     |
| Deferred Resource Outflows related to the debt refunding are not reported in the funds.                         | 146,180     |
| Payables for bond principal which are not due in the current period are not reported in the funds.              | (2,984,000) |
| Payables for bond interest which are not due in the current period are not reported in the funds.               | (8,241)     |
| Landfill Closure liabilities which are not due and payable in the current period are not reported in the funds. | (213,731)   |
| Recognition of the City's proportionate share of the net pension liability is not reported in the funds.        | (1,109,703) |
| Deferred Resource Inflows related to the pension plan are not reported in the funds.                            | (25,003)    |
| Deferred Resource Outflows related to the pension plan are not reported in the funds.                           | 507,391     |

Net position of governmental activities - Statement of Net Position \$ 3,845,247

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

|                                                                                                      | General<br>Fund     | Economic<br>Development | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------------------------------------------------------------------------|---------------------|-------------------------|--------------------------------|--------------------------------|
| <b>Revenue:</b>                                                                                      |                     |                         |                                |                                |
| Property Taxes                                                                                       | \$ 872,768          | \$ --                   | \$ 117,461                     | \$ 990,229                     |
| Sales Taxes                                                                                          | 453,624             | 113,050                 | 113,051                        | 679,725                        |
| Franchise Taxes                                                                                      | 266,895             | --                      | --                             | 266,895                        |
| Occupancy Taxes                                                                                      | --                  | --                      | 56,186                         | 56,186                         |
| Licenses and permits                                                                                 | 13,172              | --                      | --                             | 13,172                         |
| Intergovernmental                                                                                    | 16,408              | --                      | --                             | 16,408                         |
| Charges for services                                                                                 | 813,267             | --                      | --                             | 813,267                        |
| Fines                                                                                                | 69,041              | --                      | --                             | 69,041                         |
| Interest                                                                                             | 3,399               | 11,157                  | 778                            | 15,334                         |
| Miscellaneous                                                                                        | 69,965              | --                      | 4,098                          | 74,063                         |
| Total revenues                                                                                       | <u>2,578,539</u>    | <u>124,207</u>          | <u>291,574</u>                 | <u>2,994,320</u>               |
| <b>Expenditures:</b>                                                                                 |                     |                         |                                |                                |
| Current:                                                                                             |                     |                         |                                |                                |
| General government                                                                                   | 361,568             | --                      | 1,734                          | 363,302                        |
| Police                                                                                               | 877,958             | --                      | --                             | 877,958                        |
| Fire                                                                                                 | 57,209              | --                      | --                             | 57,209                         |
| Streets                                                                                              | 354,012             | --                      | 109,001                        | 463,013                        |
| Maintenance Equipment                                                                                | 64,685              | --                      | --                             | 64,685                         |
| Sanitation                                                                                           | 425,208             | --                      | --                             | 425,208                        |
| Health and welfare                                                                                   | 5,730               | --                      | --                             | 5,730                          |
| Parks                                                                                                | 56,213              | --                      | --                             | 56,213                         |
| Swimming Pool                                                                                        | 69,269              | --                      | --                             | 69,269                         |
| Library                                                                                              | 199,927             | --                      | --                             | 199,927                        |
| Municipal Court                                                                                      | 55,277              | --                      | --                             | 55,277                         |
| Golf Course                                                                                          | 76,919              | --                      | --                             | 76,919                         |
| Code Enforcement                                                                                     | 56,790              | --                      | --                             | 56,790                         |
| Economic development and assistance                                                                  | --                  | 119,339                 | 47,966                         | 167,305                        |
| Airport                                                                                              | 17,204              | --                      | --                             | 17,204                         |
| Capital outlay                                                                                       | 147,993             | --                      | --                             | 147,993                        |
| Debt service:                                                                                        |                     |                         |                                |                                |
| Principal                                                                                            | 42,000              | --                      | 241,000                        | 283,000                        |
| Interest and fiscal charges                                                                          | 1,542               | --                      | 50,214                         | 51,756                         |
| Debt issuance cost and fees                                                                          | --                  | --                      | 54,431                         | 54,431                         |
| Total expenditures                                                                                   | <u>2,869,504</u>    | <u>119,339</u>          | <u>504,346</u>                 | <u>3,493,189</u>               |
| Excess (deficiency) of revenues (under) expenditures                                                 | (290,965)           | 4,868                   | (212,772)                      | (498,869)                      |
| <b>Other financing sources (uses):</b>                                                               |                     |                         |                                |                                |
| Operating transfers in                                                                               | 248,166             | --                      | 190,333                        | 438,499                        |
| Certificates of Obligation Refunding Proceeds                                                        | --                  | --                      | 2,855,000                      | 2,855,000                      |
| Payment to refunded bond escrow agent                                                                | --                  | --                      | (2,800,970)                    | (2,800,970)                    |
| Total other financing sources (uses)                                                                 | <u>248,166</u>      | <u>--</u>               | <u>244,363</u>                 | <u>492,529</u>                 |
| Excess of revenues and other financing sources over<br>(under) expenditures and other financing uses | (42,799)            | 4,868                   | 31,591                         | (6,340)                        |
| Fund balances October 1                                                                              | 1,518,228           | 1,084,236               | 264,458                        | 2,866,922                      |
| Fund balances September 30                                                                           | <u>\$ 1,475,429</u> | <u>\$ 1,089,104</u>     | <u>\$ 296,049</u>              | <u>\$ 2,860,582</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, 2016

Net change in fund balances - total governmental funds \$ (6,340)

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

|                                                                                                                            |             |
|----------------------------------------------------------------------------------------------------------------------------|-------------|
| Capital outlays are not reported as expenses in the SOA.                                                                   | 147,993     |
| The depreciation of capital assets used in governmental activities is not reported in the funds.                           | (365,311)   |
| The gain or loss on the sale of capital assets is not reported in the funds.                                               | (64,025)    |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.                    | (6,949)     |
| Landfill Closure expense not requiring the use of current financial resources are not reported as expenditures in the SOA. | (19,167)    |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.                               | 241,000     |
| Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.                               | 42,000      |
| Bond issuance costs and similar items are amortized in the SOA but not in the funds.                                       | (9,674)     |
| (Increase) decrease in accrued interest from beginning of period to end of period.                                         | 8,892       |
| Payment to refunded debt escrow agent is an expenditure in the funds but is not an expense in the SOA.                     | 2,800,970   |
| Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.                   | (2,855,000) |
| Pension contributions made after the measurement date but in current FY were de-expended and reduced NP                    | (5,678)     |
| Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.                                           | (62,674)    |

Change in net position of governmental activities - Statement of Activities \$ (153,961)

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS****STATEMENT OF NET POSITION****ENTERPRISE FUND**

SEPTEMBER 30, 2016

|                                                      | Enterprise<br>Fund<br>Water<br>and Sewer<br>Fund |
|------------------------------------------------------|--------------------------------------------------|
| <b>ASSET</b>                                         |                                                  |
| Current Assets:                                      |                                                  |
| Cash and cash equivalents                            | \$ 1,196,655                                     |
| Receivables ( net of allowances for uncollectibles): |                                                  |
| Accounts                                             | 109,657                                          |
| Total Current Assets                                 | <u>1,306,312</u>                                 |
| Non-Current Assets:                                  |                                                  |
| Restricted assets:                                   |                                                  |
| Cash and cash equivalents                            |                                                  |
| Customer Meter Deposits                              | 78,895                                           |
| Capital assets                                       |                                                  |
| Land                                                 | 833,127                                          |
| Buildings and Improvements                           | 104,173                                          |
| Machinery and Equipment                              | 671,441                                          |
| Water and Sewer System                               | 5,205,194                                        |
| Less Accumulated Depreciation                        | (3,779,810)                                      |
| Construction in Progress                             | 16,108                                           |
| Total Non-Current Assets                             | <u>3,129,128</u>                                 |
| Total Assets                                         | <u><u>4,435,440</u></u>                          |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                |                                                  |
| Deferred Outflows Related to Pensions                | 134,581                                          |
| Total Deferred Outflows of Resources                 | <u>\$ 134,581</u>                                |
| <b>LIABILITIES</b>                                   |                                                  |
| Current Liabilities:                                 |                                                  |
| Accounts payable                                     | \$ 95,321                                        |
| Accrued wages                                        | 6,518                                            |
| Total Current Liabilities                            | <u>101,839</u>                                   |
| Payable from Restricted Assets:                      |                                                  |
| Customer Deposits                                    | 78,895                                           |
| Noncurrent Liabilities                               |                                                  |
| Net Pension Liability                                | 295,673                                          |
| Total Noncurrent Liabilities                         | <u>295,673</u>                                   |
| Total Liabilities                                    | <u><u>476,407</u></u>                            |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                 |                                                  |
| Deferred Inflow Related to Pensions                  | 6,778                                            |
| Total Deferred Inflows of Resources                  | <u>6,778</u>                                     |
| <b>NET POSITION</b>                                  |                                                  |
| Investment in capital assets                         | 3,050,233                                        |
| Unrestricted (Deficit)                               | 1,036,603                                        |
| Total Net Position                                   | <u><u>\$ 4,086,836</u></u>                       |

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION - ENTERPRISE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

|                                         | Enterprise<br>Fund<br>Water<br>and Sewer<br>Fund |
|-----------------------------------------|--------------------------------------------------|
| OPERATING REVENUES:                     |                                                  |
| Charges for services                    | \$ 1,395,783                                     |
| Rents                                   | 295                                              |
| Miscellaneous                           | 20,220                                           |
| Total Operating Revenues                | <u>1,416,298</u>                                 |
| OPERATING EXPENSES:                     |                                                  |
| Personnel services                      | 417,762                                          |
| Supplies                                | 42,107                                           |
| Maintenance                             | 141,938                                          |
| Other charges                           | 196,001                                          |
| Depreciation                            | 152,997                                          |
| Total Operating Expenses                | <u>950,805</u>                                   |
| Operating Income                        | <u>465,493</u>                                   |
| NON-OPERATING REVENUES (EXPENSES):      |                                                  |
| Interest revenue                        | 2,729                                            |
| Total Non-operating Revenues (Expenses) | <u>2,729</u>                                     |
| Net Income before Transfers             | <u>468,222</u>                                   |
| Interfund operating transfers out       | (438,499)                                        |
| Change in net position                  | <u>29,723</u>                                    |
| Net Position at October 1,              | 4,057,113                                        |
| Net Position at September 30,           | <u>\$ 4,086,836</u>                              |

**CITY OF MULESHOE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

|                                                                                                 | Enterprise<br>Fund<br>Water and Sewer<br>Fund |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------|
| <b>Cash Flows from Operating Activities:</b>                                                    |                                               |
| Cash Received from Customers                                                                    | \$ 1,450,315                                  |
| Cash Payments to Employees for Services                                                         | (416,069)                                     |
| Cash Payments to Other Suppliers for Goods and Services                                         | (347,099)                                     |
| Net Cash Provided (Used) by Operating Activities                                                | <u>687,147</u>                                |
| <b>Cash Flows from Non-capital Financing Activities:</b>                                        |                                               |
| Operating Transfers From (To) Other Funds                                                       | (438,499)                                     |
| Net Cash Provided (Used) by Non-capital Financing Activities                                    | <u>(438,499)</u>                              |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                |                                               |
| Acquisition or Construction of Capital Assets                                                   | (97,509)                                      |
| Net Cash Provided (Used) for Capital & Related Financing Activities                             | <u>(97,509)</u>                               |
| <b>Cash Flows from Investing Activities:</b>                                                    |                                               |
| Interest and Dividends on Investments                                                           | 2,729                                         |
| Net Cash Provided (Used) for Investing Activities                                               | <u>2,729</u>                                  |
| Net Increase (Decrease) in Cash and Cash Equivalents                                            | 153,868                                       |
| Cash and Cash Equivalents at Beginning of Year                                                  | 1,121,682                                     |
| Cash and Cash Equivalents at End of Year                                                        | <u>\$ 1,275,550</u>                           |
| <b>Classified As:</b>                                                                           |                                               |
| Current Assets                                                                                  | \$ 1,196,655                                  |
| Restricted Assets                                                                               | 78,895                                        |
| Totals                                                                                          | <u>\$ 1,275,550</u>                           |
| <b>Reconciliation of Operating Income to Net Cash<br/>    Provided by Operating Activities:</b> |                                               |
| Operating Income (Loss)                                                                         | \$ 465,493                                    |
| Adjustments to Reconcile Operating Income to Net Cash<br>Provided by Operating Activities       |                                               |
| Depreciation                                                                                    | 152,997                                       |
| Change in Assets and Liabilities:                                                               |                                               |
| Decrease (Increase) in Receivables                                                              | 34,017                                        |
| Decrease (Increase) in Deferred Outflows of Resources                                           | (84,586)                                      |
| Increase (Decrease) in Accounts Payable                                                         | 11,409                                        |
| Increase (Decrease) in Customer Deposits                                                        | 5,215                                         |
| Increase (Decrease) in Net Pension Liability                                                    | 107,009                                       |
| Increase (Decrease) in Deferred Inflow of Resources                                             | (4,407)                                       |
| Total Adjustments                                                                               | <u>221,654</u>                                |
| Net Cash Provided (Used) by Operating Activities                                                | <u>\$ 687,147</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, 2016

### 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<br/>and Relationship to City</u>                                                                                             | <u>Reporting Funds</u>  |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Muleshoe Economic<br>Development Corporation | Promote, Assist and Enhance<br>Economic Development in the<br>City. Governed by a five member<br>board of directors appointed by<br>the Mayor and City Council. | Special Revenue<br>Fund |

**CITY OF MULESHOE, TEXAS**  
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All budgets, programs and policies  
must be submitted to the City  
Council for approval.

**Joint Ventures**

The City of Muleshoe has the following joint ventures at September 30, 2015. The City of Muleshoe is in conjunction with the County of Bailey, Texas, Muleshoe Independent School District, Muleshoe Area Hospital District and High Plains Underground Water Conservation District No. 1 to create Bailey Central Appraisal District pursuant to the laws of the State of Texas, for the appraisal and collection of property taxes. Bailey Central Appraisal District is governed by a five-member board composed of three appointees by Muleshoe School District and one by the County of Bailey, Texas, and the City of Muleshoe. Each taxing entity is liable for its share of the cost of operating Bailey Central Appraisal District. In accordance with the agreement with each taxing entities, excess funds will be paid annually at the discretion of Bailey Central Appraisal District. All known costs and refunds have been shown in current financial statements. Complete financial statements for Bailey Central Appraisal District can be obtained from Bailey Central Appraisal District, 302 Main, Muleshoe, Texas.

**Related Organization**

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

**Related Organizations**

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

**Housing Authority of Muleshoe**

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

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

**2. Basis of Presentation, Basis of Accounting**

**a. Basis of Presentation**

Government-wide Statements: The statement of net 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

**CITY OF MULESHOE, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

**Water and Sewer Fund.** This fund accounts for the operation of the City's water and sewer utility. Activities of this 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, 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

**CITY OF MULESHOE, TEXAS**  
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FOR THE YEAR ENDED SEPTEMBER 30, 2016

property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Bond premiums and discounts, as well as bond issuance cost are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premium received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**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 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, 2016 was \$0.6538 per \$100 which means that the City has a tax margin of \$1.8462 per \$100 and could raise up to \$2,419,498 additional a year from the present assessed valuation of \$131,052,913 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.

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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- \* A tax delinquent for more than the limitation period prescribed by this section and any penalty and interest on the tax is presumed paid unless a suit to collect the tax is pending.
- \* The collector for a taxing unit shall cancel and remove from the delinquent tax roll tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years if there is no pending litigation concerning the delinquent taxes at the time of the cancellation and removal.

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

c. Inventories

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

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

d. Capital Assets

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

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

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

| <u>Asset Class</u>    | <u>Estimated<br/>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.

## CITY OF MULESHOE, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

f. Unpaid Vacation and Sick Pay

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

g. Interfund Activity

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

h. Use of Estimates

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

i. Budgets and Budgetary Accounting

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

1. Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 15, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Total expenditures may not exceed total appropriation for any budgeted fund without amending the budget.
5. GASB Statement No. 34 Requires that budgetary comparison statements for the General Fund and major special funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).
6. Budgets for the General and Economic 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.

## CITY OF MULESHOE, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

#### k. Fund Equity

Fund balances of the governmental funds are classified as follows:

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

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

#### 4. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of

## CITY OF MULESHOE, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to or deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### 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      |

#### 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, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,682,439 and the bank balance was \$1,765,420. The City's cash deposits at September 30, 2016 and during the year ended September 30, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

##### Investments:

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

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

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

The City has invested in the Texas Short Term Asset Reserve Program (TEXSTAR).

TEXSTAR is organized pursuant to the Interlocal Cooperation Act of the State of Texas, Chapter 791 of the Texas Government Code as amended, and is designed to provide participating local governments with an investment

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**NOTES TO THE FINANCIAL STATEMENTS**  
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vehicle for local funds not required to be spent immediately and available for investment in securities with maturities and returns generally greater than those for money market instruments. TEXSTAR invests in investments authorized under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

The City's temporary investments at September 30, 2016 are shown below.

|         | Carrying<br>Amount  | Market<br>Value  | Average<br>Maturity<br>(DAYS) |
|---------|---------------------|------------------|-------------------------------|
| TEXSTAR | \$ <u>2,130,099</u> | <u>2,130,099</u> | 60                            |

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

**Analysis of Specific Deposit and Investment Risks**

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

**a. Credit Risk**

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

**b. Custodial Credit Risk**

Custodial credit risk for investment is the risk that in the event for the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of outer parties. The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The City's cash deposits at September 30, 2016 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, 2016, 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.

**CITY OF MULESHOE, TEXAS**  
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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, 2016, was as follows:

|                                              | Beginning<br>Balances | Increases    | Decreases   | Ending<br>Balances |
|----------------------------------------------|-----------------------|--------------|-------------|--------------------|
| <b><u>Governmental activities:</u></b>       |                       |              |             |                    |
| Capital assets not being depreciated:        |                       |              |             |                    |
| Land                                         | \$ 612,284            | \$ --        | \$ --       | \$ 612,284         |
| Construction in progress                     | --                    | 18,835       | --          | 18,835             |
| Total capital assets not being depreciated   | 612,284               | 18,835       | --          | 631,119            |
| Capital assets being depreciated:            |                       |              |             |                    |
| Buildings and improvements                   | 3,690,807             | 36,633       | --          | 3,727,440          |
| Machinery and Equipment                      | 3,580,119             | 111,361      | (114,672)   | 3,576,807          |
| Infrastructure                               | 274,782               | --           | --          | 274,782            |
| Airport Improvements                         | 1,879,687             | --           | --          | 1,879,687          |
| Total capital assets being depreciated       | 9,425,395             | 147,993      | (114,672)   | 9,458,716          |
| Less accumulated depreciation for:           |                       |              |             |                    |
| Buildings and improvements                   | (1,146,757)           | (129,072)    | --          | (1,275,829)        |
| Machinery and Equipment                      | (2,352,151)           | (216,881)    | 50,647      | (2,518,385)        |
| Infrastructure                               | (16,487)              | (5,496)      | --          | (21,983)           |
| Airport Improvements                         | (1,707,922)           | (13,861)     | --          | (1,721,783)        |
| Total accumulated depreciation               | (5,223,317)           | (365,310)    | 50,647      | (5,537,980)        |
| Total capital assets being depreciated, net  | 4,202,078             | (217,317)    | (64,025)    | 3,920,736          |
| Governmental activities capital assets, net  | \$ 4,814,362          | \$ (198,482) | \$ (64,025) | \$ 4,551,855       |
| <b><u>Business-type activities:</u></b>      |                       |              |             |                    |
| Capital assets not being depreciated:        |                       |              |             |                    |
| Land                                         | \$ 833,127            | \$ --        | \$ --       | \$ 833,127         |
| Construction in progress                     | --                    | 16,108       | --          | 16,108             |
| Total capital assets not being depreciated   | 833,127               | 16,108       | --          | 849,235            |
| Capital assets being depreciated:            |                       |              |             |                    |
| Buildings and improvements                   | 98,023                | 6,150        | --          | 104,173            |
| Machinery and Equipment                      | 644,711               | 26,730       | --          | 671,441            |
| Water and Sewer System                       | 5,156,673             | 48,521       | --          | 5,205,194          |
| Total capital assets being depreciated       | 5,899,407             | 81,401       | --          | 5,980,808          |
| Less accumulated depreciation for:           |                       |              |             |                    |
| Buildings and improvements                   | (96,842)              | (1,915)      | --          | (98,756)           |
| Machinery and Equipment                      | (503,783)             | (32,256)     | --          | (536,040)          |
| Water and Sewer System                       | (3,026,189)           | (118,826)    | --          | (3,145,014)        |
| Total accumulated depreciation               | (3,626,814)           | (152,997)    | --          | (3,779,810)        |
| Total capital assets being depreciated, net  | 2,272,593             | (71,596)     | --          | 2,200,998          |
| Business-type activities capital assets, net | \$ 3,105,720          | \$ (55,487)  | \$ --       | \$ 3,050,233       |

# CITY OF MULESHOE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Depreciation was charged to Governmental Activities functions as follows:

|                                     |    |                |
|-------------------------------------|----|----------------|
| General Government                  | \$ | 19,287         |
| Police                              |    | 59,844         |
| Fire                                |    | 64,221         |
| Streets                             |    | 38,717         |
| Sanitation                          |    | 55,209         |
| Health and Welfare                  |    | 645            |
| Parks                               |    | 20,053         |
| Swimming Pool                       |    | 77,962         |
| Library                             |    | 6,399          |
| Golf Course                         |    | 5,914          |
| Airport                             |    | 16,687         |
| Economic Development and Assistance |    | 373            |
|                                     | \$ | <u>365,310</u> |

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

|                 |    |                |
|-----------------|----|----------------|
| Water and Sewer | \$ | <u>152,997</u> |
|-----------------|----|----------------|

### E. Interfund Balances and Activity

#### 1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2016, consisted of the following:

| Due To Fund       | Due From Fund | Amount          | Purpose                |
|-------------------|---------------|-----------------|------------------------|
| Debt Service Fund | General Fund  | \$ 2,544        | Reimbursement of Taxes |
|                   | Total         | <u>\$ 2,544</u> |                        |

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

#### 2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2016, consisted of the following:

| Transfers From       | Transfers To      | Amount            | Reason                         |
|----------------------|-------------------|-------------------|--------------------------------|
| Water and Sewer Fund | General fund      | \$ 248,166        | Supplement other funds sources |
| Water and Sewer Fund | Debt Service Fund | 190,333           | Payment of Debt                |
|                      | Total             | <u>\$ 438,499</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, 2016, are as follows:

|                                 | Beginning<br>Balance | Increases | Decreases    | Ending<br>Balance | Amounts<br>Due Within<br>One Year |
|---------------------------------|----------------------|-----------|--------------|-------------------|-----------------------------------|
| <u>Governmental activities:</u> |                      |           |              |                   |                                   |
| Certificates of Obligation      |                      |           |              |                   |                                   |
| Series 2007                     | \$ 3,025,000         | \$ --     | \$ 2,835,000 | \$ 190,000        | 190,000                           |

# CITY OF MULESHOE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

|                                                |                     |                     |                     |                     |                   |
|------------------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| General Obligation Refunding Bond Series 2015  |                     | 2,855,000           | 61,000              | 2,794,000           | 32,000            |
| Notes Payable                                  | 42,000              | --                  | 42,000              | --                  | --                |
| Net Pension Liability *                        | 703,730             | 405,973             |                     | 1,109,703           |                   |
| Estimated Liability for Landfill Closure Cost* | 194,564             | 19,167              | --                  | 213,731             | --                |
| Total governmental activities                  | <u>\$ 3,965,294</u> | <u>\$ 3,280,140</u> | <u>\$ 2,938,000</u> | <u>\$ 4,307,434</u> | <u>\$ 222,000</u> |

### Business-type activities:

|                                |                   |                   |              |                   |              |
|--------------------------------|-------------------|-------------------|--------------|-------------------|--------------|
| Net Pension Liability *        | 188,664           | 107,009           | --           | 295,673           | --           |
| Total business-type activities | <u>\$ 188,664</u> | <u>\$ 107,009</u> | <u>\$ --</u> | <u>\$ 295,673</u> | <u>\$ --</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            |
|-----------------------------------------------|---------------|-----------------|
| Net Pension Liability *                       | Governmental  | General         |
| Estimated Liability for Landfill Closure Cost | Governmental  | General         |
| Net Pension Liability *                       | Business-type | Water and Sewer |

## 2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2016, are as follows:

| Year Ending September 30, | Governmental Activities |                   |                     |
|---------------------------|-------------------------|-------------------|---------------------|
|                           | Principal               | Interest          | Total               |
| 2017                      | \$ 222,000              | \$ 60,471         | \$ 282,471          |
| 2018                      | 226,000                 | 54,040            | 280,040             |
| 2019                      | 232,000                 | 49,368            | 281,368             |
| 2020                      | 234,000                 | 44,615            | 278,615             |
| 2021                      | 240,000                 | 39,780            | 279,780             |
| 2022-2026                 | 1,282,000               | 122,278           | 1,404,278           |
| 2027-2031                 | 548,000                 | 11,261            | 559,261             |
| Totals                    | <u>\$ 2,984,000</u>     | <u>\$ 381,812</u> | <u>\$ 3,365,812</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 maturing and after on February 15, 2018 will be redeemed by the General Obligation Refunding Bond, Series 2015 issued November 1, 2016.

On November 1, 2015, City of Muleshoe issued General Obligation Refunding Bond Series 2015 of 2,855,000 due in various annual installments of \$32,00 to \$278,000 through 2028 at interest of 2.04%, to refund the City's outstanding City of Muleshoe, Texas Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2007, of \$2,655,000 with interest and pay the costs of issuing the bonds.

As a result of current refunding, the City reduced its total debt service requirements by \$251,604, which resulted in an economic gain (difference between the present value of debt service payments on the old and new debt) of \$215,264.

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,

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Notes Payable

The City has a note payable to Muleshoe State Bank for a Fire Truck purchase December 22, 2014, in amount of \$42,000. This note is to be paid in one annual payment of \$42,000 at an interest rate of 5. percent The following is a schedule of liability to maturity: This is an unsecured loan. This loan is record in the Business-type Activities.

**G. 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 2016, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**H. Pension Plan**

1. Plan Description The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the City are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms:

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

|                                                                  |           |
|------------------------------------------------------------------|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 23        |
| Inactive employees entitled to but not yet receiving benefits    | 23        |
| Active employees                                                 | 33        |
| Total covered employees                                          | <u>79</u> |

## CITY OF MULESHOE, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

#### 3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.91% and 16.10% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$214,497, and were equal to the required contributions.

#### 4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

|                           |                                                                    |
|---------------------------|--------------------------------------------------------------------|
| Inflation                 | 2.5% per year                                                      |
| Overall payroll growth    | 3.0% per year                                                      |
| Investment Rate of Return | 4.25%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

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

#### Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

payments to determine the Total Pension Liability.

| Changes in Net Pension Liability                              | Increase (Decrease)        |                             | Net Pension Liability |
|---------------------------------------------------------------|----------------------------|-----------------------------|-----------------------|
|                                                               | \$ Total Pension Liability | Plan Fiduciary Net Position |                       |
|                                                               | (a)                        | (b)                         | (a) - (b)             |
| Balance at 12/31/2014                                         | \$ 8,123,991               | \$ 7,231,596                | \$ 892,395            |
| Changes for the year                                          |                            |                             |                       |
| Service cost                                                  | 212,058                    | --                          | 212,058               |
| Interest                                                      | 567,622                    | --                          | 567,622               |
| Change of benefit terms                                       | --                         | --                          | --                    |
| Difference between expected and actual experience             | 16,982                     | --                          | 16,982                |
| Changes of assumptions                                        | 30,665                     | --                          | 30,665                |
| Contributions - employer                                      | --                         | 218,865                     | (218,865)             |
| Contributions - employee                                      | --                         | 91,630                      | (91,630)              |
| Net investment income                                         | --                         | 10,671                      | (10,671)              |
| Benefit payments, including refunds of employee contributions | (242,269)                  | (242,269)                   | --                    |
| Administrative expense                                        | --                         | (6,500)                     | 6,500                 |
| Other changes                                                 | --                         | (320)                       | 320                   |
| Net changes                                                   | \$ 585,058                 | \$ 72,077                   | \$ 512,981            |
| Balance at 12/31/2015                                         | \$ 8,709,049               | \$ 7,303,673                | \$ 1,405,376          |

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 5.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (7.75%) than the current rate.

|                              | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|------------------------------|------------------------------|---------------|------------------------------|
| City's net pension liability | \$ 2,614,234                 | \$ 1,405,376  | \$ 412,857                   |

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

**5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2016, the City recognized pension expense of \$309,018.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                             | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------------------------------------------------|--------------------------------|-------------------------------|
| Differences between expected and actual economic experience | \$ 11,973                      | \$ 31,781                     |
| Changes in actuarial assumptions                            | \$ 21,619                      | \$ --                         |
| Difference between projected and actual investment earnings | \$ 448,515                     | \$ --                         |
| Contributions subsequent to the measurement date            | \$ 159,865                     | \$ --                         |
| Total                                                       | \$ 641,972                     | \$ 31,781                     |

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

\$159,865 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|                     |    |         |
|---------------------|----|---------|
| Year ended Dec. 31: |    |         |
| 2016                | \$ | 109,400 |
| 2017                | \$ | 119,865 |
| 2018                | \$ | 121,951 |
| 2019                | \$ | 99,109  |
| 2020                | \$ | --      |
| Thereafter          | \$ | --      |

**I. Health Care Coverage**

During the year ended September 30, 2016, employees of the City were covered through TML MultiState IEBP. The City paid premiums of \$566 per month per employee and dependents to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. Under this plan, the City is not liable for costs incurred beyond the premiums paid.

**J. Commitments and Contingencies**

The City is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney, such matters will not have a materially adverse effect on the City's financial position at September 30, 2016.

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

**K. Closure and Postclosure Care Cost**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. In addition to operating expense related to current activities of the landfill, a related liability will be recognized in the General Long-Term Debt Account based on the future closure and postclosure care costs that will be incurred near or after the date that the landfill no longer accepts waste. The recognition of these landfill closure and post closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care cost has a balance of \$213,731 as of September 30, 2016, which is based on 35.66% usage (filled) of the landfill. It is estimated that an additional \$385,573 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 (\$599,304) 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, 2016. 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, 2016.

The total amount of landfill closure and postclosure care cost for current period in the amount of \$19,167 (required by GASB 18) increase the amount of estimated liability for landfill closure and postclosure care cost as a Long-term Liability.

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**L. Notes Receivable**

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

**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 Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2014, the pension system membership consisted of:

|                                                                    |       |
|--------------------------------------------------------------------|-------|
| Retirees and Beneficiaries Currently Receiving Benefits            | 3,073 |
| Terminated Members Entitled to Benefits but Not Yet Receiving Them | 2,161 |
| Active Participants (Vested and Nonvested)                         | 4,036 |

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified 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. There is no provision for automatic postretirement benefit increases.

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 or continuing monthly payments to a member's surviving spouse and dependent children

**FUNDING POLICY**

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

## CITY OF MULESHOE, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

#### CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,530,343 for the fiscal year ending August 31, 2014.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection D below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

#### ACTUARIAL ASSUMPTIONS

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |                                                                    |
|---------------------------|--------------------------------------------------------------------|
| Inflation                 | 3.50%                                                              |
| Salary increases          | N/A                                                                |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which

# CITY OF MULESHOE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>     | <u>Target Allocation</u> | <u>Long-Term Expected Net Real Rate of Return</u> |
|------------------------|--------------------------|---------------------------------------------------|
| Equities               |                          |                                                   |
| Large cap domestic     | 32%                      | 5.2%                                              |
| Small cap domestic     | 10                       | 6                                                 |
| Developed internatio   | 21                       | 6                                                 |
| Emerging markets       | 6                        | 5                                                 |
| Master limited partner | 5                        | 7                                                 |
| Fixed income           |                          |                                                   |
| Domestic               | 21                       | 1                                                 |
| International          | 5                        | 2                                                 |
| Cash                   | --                       | --                                                |
| Total                  | 100%                     |                                                   |

### 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.

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)

| <u>Plan/<br/>Calendar<br/>Year</u> | <u>Annual<br/>Required<br/>Contribution<br/>(RATE)</u> | <u>Actual<br/>Contribution<br/>Made<br/>(RATE)</u> | <u>Percentage of<br/>ARC<br/>Contributed</u> |
|------------------------------------|--------------------------------------------------------|----------------------------------------------------|----------------------------------------------|
| 2014                               | 0.04%                                                  | 0.04%                                              | 100.00%                                      |
| 2015                               | 0.04%                                                  | 0.04%                                              | 100.00%                                      |
| 2016                               | 0.04%                                                  | 0.04%                                              | 100.00%                                      |

## Required Supplementary Information

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

# CITY OF MULESHOE, TEXAS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2016

|                                                                                                      | Budgeted Amounts    |                     | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------------------------------------------|
|                                                                                                      | Original            | Final               |                     |                                                         |
| <b>Revenue:</b>                                                                                      |                     |                     |                     |                                                         |
| Property Taxes                                                                                       | \$ 904,129          | \$ 904,129          | \$ 872,768          | \$ (31,361)                                             |
| Sales Taxes                                                                                          | 431,000             | 431,000             | 453,624             | 22,624                                                  |
| Franchise Taxes                                                                                      | 290,000             | 290,000             | 266,895             | (23,105)                                                |
| Licenses and permits                                                                                 | 13,060              | 13,060              | 13,172              | 112                                                     |
| Intergovernmental                                                                                    | 4,000               | 4,000               | 16,408              | 12,408                                                  |
| Charges for services                                                                                 | 863,800             | 863,800             | 813,267             | (50,533)                                                |
| Fines                                                                                                | 61,120              | 61,120              | 69,041              | 7,921                                                   |
| Interest                                                                                             | 3,000               | 3,000               | 3,399               | 399                                                     |
| Miscellaneous                                                                                        | 44,300              | 44,300              | 69,965              | 25,665                                                  |
| Total revenues                                                                                       | <u>2,614,409</u>    | <u>2,614,409</u>    | <u>2,578,539</u>    | <u>(35,870)</u>                                         |
| <b>Expenditures:</b>                                                                                 |                     |                     |                     |                                                         |
| Current:                                                                                             |                     |                     |                     |                                                         |
| General government                                                                                   | 346,049             | 346,049             | 361,568             | (15,519)                                                |
| Police                                                                                               | 786,197             | 786,197             | 877,958             | (91,761)                                                |
| Fire                                                                                                 | 84,400              | 84,400              | 57,209              | 27,191                                                  |
| Streets                                                                                              | 371,947             | 371,947             | 354,012             | 17,935                                                  |
| Maintenance Equipment                                                                                | 63,976              | 63,976              | 64,685              | (709)                                                   |
| Sanitation                                                                                           | 445,274             | 445,274             | 425,208             | 20,066                                                  |
| Health and welfare                                                                                   | 6,000               | 6,000               | 5,730               | 270                                                     |
| Parks                                                                                                | 35,250              | 35,250              | 56,213              | (20,963)                                                |
| Swimming Pool                                                                                        | 99,941              | 99,941              | 69,269              | 30,672                                                  |
| Library                                                                                              | 194,129             | 194,129             | 199,927             | (5,798)                                                 |
| Municipal Court                                                                                      | 57,133              | 57,133              | 55,277              | 1,856                                                   |
| Golf Course                                                                                          | 95,000              | 95,000              | 76,919              | 18,081                                                  |
| Code Enforcement                                                                                     | 64,785              | 64,785              | 56,790              | 7,995                                                   |
| Airport                                                                                              | 35,200              | 35,200              | 17,204              | 17,996                                                  |
| Capital outlay                                                                                       | 169,200             | 169,200             | 147,993             | 21,207                                                  |
| Debt service:                                                                                        |                     |                     |                     |                                                         |
| Principal                                                                                            | 42,000              | 42,000              | 42,000              | --                                                      |
| Interest and fiscal charges                                                                          | --                  | --                  | 1,542               | (1,542)                                                 |
| Total expenditures                                                                                   | <u>2,896,481</u>    | <u>2,896,481</u>    | <u>2,869,504</u>    | <u>26,977</u>                                           |
| Excess (deficiency) of revenues (under) expenditures                                                 | (282,072)           | (282,072)           | (290,965)           | (8,893)                                                 |
| <b>Other financing sources (uses):</b>                                                               |                     |                     |                     |                                                         |
| Operating transfers in                                                                               | 250,000             | 250,000             | 250,000             | --                                                      |
| Sale of Assets                                                                                       | 5,000               | 5,000               | --                  | (5,000)                                                 |
| Total other financing sources (uses)                                                                 | <u>255,000</u>      | <u>255,000</u>      | <u>248,166</u>      | <u>6,834</u>                                            |
| Excess of revenues and other financing sources over<br>(under) expenditures and other financing uses | (27,072)            | (27,072)            | (42,799)            | (15,727)                                                |
| Fund balances October 1                                                                              | 1,518,228           | 1,518,228           | 1,518,228           | --                                                      |
| Fund balances September 30                                                                           | <u>\$ 1,491,156</u> | <u>\$ 1,491,156</u> | <u>\$ 1,475,429</u> | <u>\$ (15,727)</u>                                      |

**CITY OF MULESHOE, TEXAS**  
ECONOMIC DEVELOPMENT  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

|                                                                                                      | Budgeted Amounts    |                     | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------------------------------------------|
|                                                                                                      | Original            | Final               |                     |                                                         |
| <b>Revenue:</b>                                                                                      |                     |                     |                     |                                                         |
| Sales Taxes                                                                                          | \$ 107,500          | \$ 107,500          | \$ 113,050          | \$ 5,550                                                |
| Interest                                                                                             | 1,400               | 1,400               | 11,157              | 9,757                                                   |
| Total revenues                                                                                       | <u>108,900</u>      | <u>108,900</u>      | <u>124,207</u>      | <u>15,307</u>                                           |
| <b>Expenditures:</b>                                                                                 |                     |                     |                     |                                                         |
| Current:                                                                                             |                     |                     |                     |                                                         |
| Economic development and assistance                                                                  | 120,637             | 120,637             | 119,339             | 1,298                                                   |
| Total expenditures                                                                                   | <u>120,637</u>      | <u>120,637</u>      | <u>119,339</u>      | <u>1,298</u>                                            |
| Excess (deficiency) of revenues (under) expenditures                                                 | (11,737)            | (11,737)            | 4,868               | 16,605                                                  |
| <b>Other financing sources (uses):</b>                                                               |                     |                     |                     |                                                         |
| Total other financing sources (uses)                                                                 | <u>--</u>           | <u>--</u>           | <u>--</u>           | <u>--</u>                                               |
| Excess of revenues and other financing sources over<br>(under) expenditures and other financing uses | (11,737)            | (11,737)            | 4,868               | 16,605                                                  |
| Fund balances October 1                                                                              | 1,084,236           | 1,084,236           | 1,084,236           | --                                                      |
| Fund balances September 30                                                                           | <u>\$ 1,072,499</u> | <u>\$ 1,072,499</u> | <u>\$ 1,089,104</u> | <u>\$ 16,605</u>                                        |

**CITY OF MULESHOE, TEXAS****SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM**

|                                                                                   | <u>2014</u>         | <u>2015</u>         |
|-----------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Total pension liability</b>                                                    |                     |                     |
| Service Cost                                                                      | \$ 184,619          | \$ 212,058          |
| Interest (on the Total Pension Liability)                                         | 538,551             | 567,622             |
| Changes of benefit terms                                                          | -                   | -                   |
| Difference between expected and actual experience                                 | (74,027)            | 16,982              |
| Change of assumptions                                                             | -                   | 30,665              |
| Benefit payments, including refunds of employee contributions                     | (252,849)           | (242,269)           |
| <b>Net Change in Total Pension Liability</b>                                      | <u>396,294</u>      | <u>585,058</u>      |
| <b>Total Pension Liability - Beginning</b>                                        | <u>7,727,697</u>    | <u>8,123,991</u>    |
| <b>Total Pension Liability - Ending (a)</b>                                       | <u>\$ 8,123,991</u> | <u>\$ 8,709,049</u> |
| <b>Plan Fiduciary Net Position</b>                                                |                     |                     |
| Contributions - Employer                                                          | \$ 227,385          | \$ 218,865          |
| Contributions - Employee                                                          | 88,576              | 91,630              |
| Net Investment Income                                                             | 388,131             | 10,671              |
| Benefit payments, including refunds of employee contributions                     | (252,849)           | (242,269)           |
| Administrative Expense                                                            | (4,052)             | (6,500)             |
| Other                                                                             | (333)               | (321)               |
| <b>Net Change in Plan Fiduciary Net Position</b>                                  | <u>446,858</u>      | <u>72,076</u>       |
| <b>Plan Fiduciary Net Position - Beginning</b>                                    | <u>6,784,738</u>    | <u>7,231,596</u>    |
| <b>Plan Fiduciary Net Position - Ending (b)</b>                                   | <u>7,231,596</u>    | <u>7,303,672</u>    |
| <b>Net Pension Liability - Ending (a) - (b)</b>                                   | \$ 892,395          | \$ 1,405,377        |
| <b>Plan Fiduciary Net Position as a Percentage<br/>of Total Pension Liability</b> | 89.02%              | 83.86%              |
| <b>Covered Employee Payroll</b>                                                   | \$ 1,265,377        | \$ 1,309,003        |
| <b>Net Pension Liability as a Percentage<br/>of Covered Employee Payroll</b>      | 70.52%              | 107.36%             |

Only two year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**CITY OF MULESHOE, TEXAS**  
**SCHEDULE OF CITY CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**

|                                                                      | <u>2014</u>          | <u>2015</u>          |
|----------------------------------------------------------------------|----------------------|----------------------|
| Actuarially Determined Contribution                                  | \$ 222,738           | \$ 214,497           |
| Contributions in relation to the actuarially determined contribution | (222,738)            | (214,497)            |
| Contribution deficiency (excess)                                     | \$ <u>    --    </u> | \$ <u>    --    </u> |
| Covered employee payroll                                             | \$ 1,294,694         | \$ 1,314,140         |
| Contributions as a percentage of covered employee payroll            | 17.20%               | 16.32%               |

Only two year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

# CITY OF MULESHOE, TEXAS

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS FOR THE YEAR ENDED SEPTEMBER 30, 2016

### Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

### Methods and Assumptions Used to Determine Contribution Rates:

|                                      |                                                                                                                                                                                    |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Actuarial Cost Method</b>         | Entry Age Normal                                                                                                                                                                   |
| <b>Amortization Method</b>           | Level Percentage of Payroll, Closed                                                                                                                                                |
| <b>Remaining Amortization Period</b> | 30 years                                                                                                                                                                           |
| <b>Asset Valuation Method</b>        | 10 Year smoothed market; 15% soft corridor                                                                                                                                         |
| <b>Inflation</b>                     | 2.50%                                                                                                                                                                              |
| <b>Salary Increases</b>              | 3.50% to 10.50% including inflation                                                                                                                                                |
| <b>Investment Rate of Return</b>     | 6.75%                                                                                                                                                                              |
| <b>Retirement Age</b>                | Experience-based table of rates that are specific to the City's plan of benefits.<br>Last updated for the 2015 valuation pursuant to an experience study of the period 2010- 2014. |

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

### Other Information:

Notes There were no benefit changes during the year.