

**CITY OF MULESHOE, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

City Of Muleshoe, Texas  
 Annual Financial Report  
 For The Year Ended September 30, 2014

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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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City Of Muleshoe, Texas ("the City's") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City Of Muleshoe, Texas as of September 30, 2014, 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 and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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



Randall L. Field, P.C.

Muleshoe, TX  
December 18, 2014

# CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis  
For Year Ended September 30, 2014

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, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- The City's total combined net positions were \$8,556,538 at September 30, 2014. Of this amount, \$2,327,230 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- During the year, the City's total net position increased by \$ 121,940.
- 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 \$ 1,360,461.

## 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

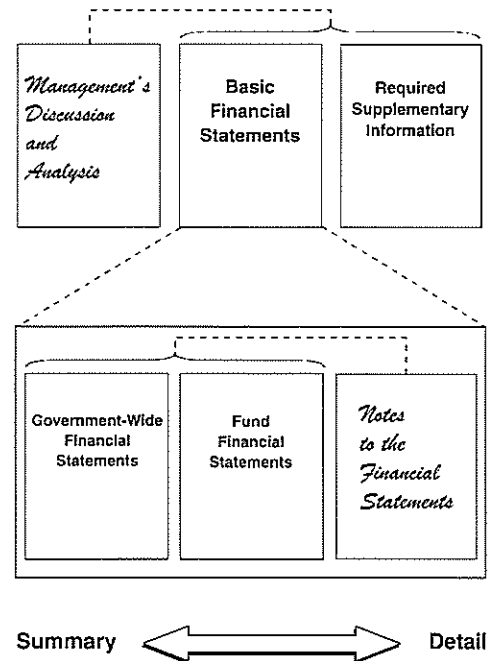


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of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

**CITY OF MULESHOE, TEXAS**

Management's Discussion and Analysis  
 For Year Ended September 30, 2014

**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 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>	<input type="checkbox"/> Statement of net position	<input type="checkbox"/> Balance sheet	<input type="checkbox"/> Statement of net position
	<input type="checkbox"/> Statement of Activities	<input type="checkbox"/> Statement of revenues, expenditures & changes in fund balance	<input type="checkbox"/> Statement of revenues, expenses & changes in fund net position
			<input type="checkbox"/> 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, 2014

### **Government-wide Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The City has the following kinds of funds:

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

### **Notes to the Financial Statements**

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

## **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

As noted earlier, net position may serve over time as a useful indicator of government's financial position. The City's combined net positions were \$8,556,538 at September 30, 2014.

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, 2014

**CITY OF MULESHOE'S NET POSITION**

	Governmental		Business-type	
	Activities		Activities	
	2014	2013	2014	2013
Current and other assets	\$ 3,008,161	\$ 2,903,134	\$ 1,151,320	\$ 1,111,122
Capital assets	<u>4,960,860</u>	<u>5,078,131</u>	<u>3,166,912</u>	<u>3,246,199</u>
Total Assets	<u>7,969,021</u>	<u>7,981,265</u>	<u>4,318,232</u>	<u>4,357,321</u>
Other liabilities	226,534	160,142	113,357	129,908
Long-term liabilities	<u>3,390,824</u>	<u>3,613,937</u>	-	-
Total Liabilities	3,617,358	3,774,079	113,357	129,908
Net Position:				
Net Investment in Capital Assets	1,756,540	1,634,308	3,166,912	3,246,199
Restricted	1,305,856	1,280,894	-	-
Unrestricted	<u>1,289,267</u>	<u>1,291,984</u>	<u>1,037,963</u>	<u>981,214</u>
Total Net Position	\$ <u>4,351,663</u>	\$ <u>4,207,186</u>	\$ <u>4,204,875</u>	\$ <u>4,227,413</u>

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$ 2,327,230 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2014, the City is able to report positive balances in all three categories of Net Position for the governmental as a whole.

**Analysis of the City's Operations**

The City's total revenues were \$4,579,004. A significant portion, \$1,896,471 of the City's revenue comes from taxes. \$2,305,636 relates to charges for services, while only \$359,344 comes from operating grants.

Governmental Activities Governmental activities increased Net Position after transfers by \$144,478. 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 decrease 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, 2014

The following table provides a summary for the City's operations for year ended September 30, 2014

## CITY OF MULESHOE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program Revenues:						
Charges for service	933,659	902,854	1,371,977	1,443,581	2,305,636	2,346,435
Operating grants	359,344	28,366	-	-	359,344	28,366
General Revenues:						
Property taxes	951,112	937,082	-	-	951,112	937,082
Sales taxes	584,529	573,457	-	-	584,529	573,457
Franchise taxes	302,528	273,195	-	-	302,528	273,195
Occupancy taxes	58,302	48,245	-	-	58,302	48,245
Investment earnings	14,674	17,003	2,879	4,092	17,553	21,095
<b>Total revenues</b>	<b>3,204,148</b>	<b>2,780,202</b>	<b>1,374,856</b>	<b>1,447,673</b>	<b>4,579,004</b>	<b>4,227,875</b>
<b>Expenses:</b>						
General government	623,375	365,342	-	-	623,375	365,342
Police	872,751	853,759	-	-	872,751	853,759
Fire	102,176	122,326	-	-	102,176	122,326
Streets	470,690	478,620	-	-	470,690	478,620
Maintenance Equipment	56,787	44,695	-	-	56,787	44,695
Sanitation	497,538	533,719	-	-	497,538	533,719
Health and Welfare	6,324	5,910	-	-	6,324	5,910
Parks	72,613	62,925	-	-	72,613	62,925
Swimming Pool	146,065	159,900	-	-	146,065	159,900
Library	183,126	191,000	-	-	183,126	191,000
Municipal Court	50,698	47,524	-	-	50,698	47,524
Golf Course	78,396	53,503	-	-	78,396	53,503
Code Enforcement	54,317	51,772	-	-	54,317	51,772
Economic Development	156,984	146,189	-	-	156,984	146,189
Interest on Long-Term Debt	136,376	146,008	-	-	136,376	146,008
Water and Sewer	-	-	847,919	771,159	847,919	771,159
Airport	100,929	96,772	-	-	100,929	96,772
<b>Total Expenses</b>	<b>3,609,145</b>	<b>3,359,964</b>	<b>847,919</b>	<b>771,159</b>	<b>4,457,064</b>	<b>4,131,123</b>
<b>Increases in Net Position</b>						
Before Transfers	(404,997)	(579,762)	526,937	676,514	121,940	96,752
Transfers	549,475	540,253	(549,475)	(540,253)	-	-
<b>Increases in Net Position</b>	<b>144,478</b>	<b>(39,509)</b>	<b>(22,538)</b>	<b>136,261</b>	<b>121,940</b>	<b>96,752</b>
<b>Net Position- October 1</b>	<b>4,207,185</b>	<b>4,246,694</b>	<b>4,227,413</b>	<b>4,091,152</b>	<b>8,434,598</b>	<b>8,337,846</b>
<b>Net Position- September 30</b>	<b>4,351,663</b>	<b>4,207,185</b>	<b>4,204,875</b>	<b>4,227,413</b>	<b>8,556,538</b>	<b>8,434,598</b>

## 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 \$2,666,317. Approximately \$1,243,862 constitutes unassigned fund balance and \$94,824 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 \$160,027. However due to expenditures being less than expected and revenue being more than expected the actual fund balance increased \$15,455 for the fiscal year 2014.

**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 \$1,037,963.

**CITY OF MULESHOE, TEXAS**

Management's Discussion and Analysis  
For Year Ended September 30, 2014

**General Fund Budgetary Highlights**

Over the course of the year, the City did not revise its budget. Actual expenditures were \$110,960 below the final budget amounts and resources available were \$56,327 above the final budgeted amount. The largest differences result from taxes and charges for services being less than expected and miscellaneous revenue being more as result of a \$100,000 contribution.

**CAPITAL ASSETS**

At the end of 2014, the City had invested \$16,478,767 in a broad range of capital assets, including land, equipment, buildings, and vehicles.

**CITY OF MULESHOE'S CAPITAL ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 612,284	\$ 515,060	\$ 833,127	\$ 833,127	1,445,411	1,348,187
Buildings and improvements	3,572,048	3,515,274	98,023	98,023	3,670,071	3,613,297
Machinery and equipment	3,490,679	3,344,395	589,869	571,587	4,080,548	3,915,982
Water and sewer system	-	-	5,128,268	5,087,871	5,128,268	5,087,871
Airport improvements	1,879,687	1,879,687	-	-	1,879,687	1,879,687
Infrastructure	274,782	274,782	-	-	274,782	274,782
Totals at historical cost	9,829,480	9,529,198	6,649,287	6,590,608	16,478,767	16,119,806
Total accumulated depreciation	<u>(4,868,621)</u>	<u>(4,451,068)</u>	<u>(3,482,374)</u>	<u>(3,344,408)</u>	<u>(8,350,995)</u>	<u>(7,795,476)</u>
Net capital assets	<u>\$4,960,859</u>	<u>\$5,078,130</u>	<u>\$3,166,913</u>	<u>\$3,246,200</u>	<u>\$ 8,127,772</u>	<u>\$ 8,324,330</u>

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, 2014

**DEBT ADMINISTRATION**

At year-end, the City had \$ 3,390,824 in outstanding capital leases, notes and landfill closure cost. More detailed information about the City's debt is presented in the notes to the financial statements.

**CITY OF MULESHOE'S LONG TERM DEBT**

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Capital Leases	-	90,301	-	-	-	90,301
Notes Payable	15,000	-	-	-	15,000	-
Certificates of obligation	3,200,000	3,365,000	-	-	3,200,000	3,365,000
Landfill closure cost	175,824	158,637	-	-	175,824	158,637
Total notes payable	<u>3,390,824</u>	<u>3,613,938</u>	<u>-</u>	<u>-</u>	<u>3,390,824</u>	<u>3,613,938</u>

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

The 2014 tax base decreased 1.43% from last year. The City Council adopted the effective tax rate of \$0.6588 per \$100 evaluation to fund the Maintenance and Operation needs of the city. This tax rate is \$0.003 (0.05%) higher than last year's tax rate.

Employee salaries were increased 4.5% in the FY2014-2015 Budget. The salary increases were a combination of across-the-board 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 4.4% for FY2014-2015. The city offers a consumer driven insurance option to employees. This plan allows employees to choose from eight (8) medical plans that provide various deductibles, out-of-pocket expenses, and co-pays. The employee chooses the plan that best fits his/her situation.

The 2014-2015 Budget contains tiered rate increases for water consumption as well as an increase in base water and sewer rates and an increase in the sewer consumption charge. These increases are included to encourage conservation of water and provide funds for the anticipated replacement and maintenance of an ageing water and sewer system.

The tiered rate increases protect low water users (average monthly increase for low water users will be \$3.43 per month) and encourage high water users to implement conservation measures (average monthly increase for high water users will be \$11.05 per month).

The new rates are projected to increase revenues for the Water/Wastewater Fund 12.95%.

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

Management's Discussion and Analysis  
For Year Ended September 30, 2014

Capital improvement funds allocated in the General Fund include:

Administration

Computer equipment and lease purchase debt - \$3,100.

Police Department

Equipment, radios, computer equipment, crime scene equipment, lease purchase debt - \$25,750.

Fire Department

Grass fire truck, building improvements, radios - \$52,000

Parks Department

Playground equipment, walking trail, irrigation system - \$46,000

Library

Building improvements, computer equipment, books and media - \$28,000

Municipal Court

Computer equipment, technology fund expenses - \$3,700

### **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, 2014**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,328,238	\$ 955,884	\$ 3,284,122
Receivables ( net of allowances for uncollectibles):			
Property Taxes- Delinquent	121,833	--	121,833
Accounts	162,303	127,261	289,564
Paving Liens	21,775	--	21,775
Notes Receivable	357,804	--	357,804
Due from Other Governments	5,528	--	5,528
Discount on issuance of debt	10,680	--	10,680
Restricted assets:			
Cash and cash equivalents			
Customer Meter Deposits	--	68,175	68,175
Capital Assets			
Land	612,284	833,127	1,445,411
Buildings and Improvements	3,572,048	98,023	3,670,071
Machinery and Equipment	3,490,678	589,870	4,080,548
Water and Sewer System	--	5,128,268	5,128,268
Airport Improvements	1,879,687	--	1,879,687
Infrastructure	274,782	--	274,782
Less Accumulated Depreciation	(4,868,619)	(3,482,376)	(8,350,995)
Total Assets	<u>7,969,021</u>	<u>4,318,232</u>	<u>12,287,253</u>
<b>LIABILITIES</b>			
Accounts payable	209,331	45,182	254,513
Payable from Restricted Assets:			
Customer Deposits	--	68,175	68,175
Accrued Interest Payable	17,203	--	17,203
Noncurrent Liabilities:			
Due within one year	190,000	--	190,000
Due in more than year	3,200,824	--	3,200,824
Total Liabilities	<u>3,617,358</u>	<u>113,357</u>	<u>3,730,715</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	1,756,540	3,166,912	4,923,452
Restricted For:			
Debt Service	110,782	--	110,782
Street Maintenance	8,848	--	8,848
Drug Seizure Proceeds	1,163	--	1,163
Economic Development	1,074,441	--	1,074,441
Hotel/Motel Occupancy Tax	110,622	--	110,622
Unrestricted	1,289,267	1,037,963	2,327,230
Total Net Position	<u>\$ 4,351,663</u>	<u>\$ 4,204,875</u>	<u>\$ 8,556,538</u>

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental Activities:</b>			
General Government	\$ 623,375	\$ 88,107	\$ 255,777
Police	872,751	--	--
Fire	102,176	--	102,599
Streets	470,690	2,764	--
Maintenance Equipment	56,787	--	--
Sanitation	497,538	714,468	--
Health and Welfare	6,324	--	--
Parks	72,613	1,964	--
Swimming Pool	146,065	44,576	--
Library	183,126	1,718	968
Municipal Court	50,698	44,796	--
Golf Course	78,396	15,600	--
Code Enforcement	54,317	--	--
Economic Development and Assistance	156,984	368	--
Airport	100,929	19,298	--
Interest on Long-Term Debt	136,376	--	--
<b>Total Governmental Activities</b>	<b>3,609,145</b>	<b>933,659</b>	<b>359,344</b>
<b>Business-type Activities:</b>			
Water and Sewer	847,919	1,371,977	--
<b>Total Primary Government</b>	<b>\$ 4,457,064</b>	<b>\$ 2,305,636</b>	<b>\$ 359,344</b>

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

The accompanying notes are an integral part of this statement.



Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (279,491)		\$ (279,491)
(872,751)		(872,751)
423		423
(467,926)		(467,926)
(56,787)		(56,787)
216,930		216,930
(6,324)		(6,324)
(70,649)		(70,649)
(101,489)		(101,489)
(180,440)		(180,440)
(5,902)		(5,902)
(62,796)		(62,796)
(54,317)		(54,317)
(156,616)		(156,616)
(81,631)		(81,631)
(136,376)		(136,376)
<u>(2,316,142)</u>		<u>(2,316,142)</u>
--	\$ 524,058	524,058
<u>(2,316,142)</u>	<u>524,058</u>	<u>(1,792,084)</u>
951,112	--	951,112
584,529	--	584,529
302,528	--	302,528
58,302	--	58,302
14,674	2,879	17,553
549,475	(549,475)	--
<u>2,460,620</u>	<u>(546,596)</u>	<u>1,914,024</u>
144,478	(22,538)	121,940
4,207,185	4,227,413	8,434,598
<u>\$ 4,351,663</u>	<u>\$ 4,204,875</u>	<u>\$ 8,556,538</u>

**CITY OF MULESHOE, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2014**

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,378,788	\$ 720,018	\$ 229,432	\$ 2,328,238
Receivables ( net of allowances for uncollectibles):				
Property Taxes- Delinquent	109,239	--	12,594	121,833
Accounts	156,886	--	5,418	162,304
Paving Liens	21,775	--	--	21,775
Notes Receivable	--	357,804	--	357,804
Due from other funds	6,590	--	2,544	9,134
Due from Other Governments	4,917	--	611	5,528
Total Assets	<u>1,678,195</u>	<u>1,077,822</u>	<u>250,599</u>	<u>3,006,616</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 205,951	\$ 3,381	\$ --	\$ 209,332
Due to other funds	2,544	--	6,590	9,134
Total Liabilities	<u>208,495</u>	<u>3,381</u>	<u>6,590</u>	<u>218,466</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue- Property Taxes	109,239	--	12,594	121,833
Total Deferred Inflows of Resources	<u>109,239</u>	<u>--</u>	<u>12,594</u>	<u>121,833</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balances				
Paving liens	21,775	--	--	21,775
Restricted Fund Balances				
Retirement of Long-Term debt	--	--	110,782	110,782
Economic Development	--	1,074,441	--	1,074,441
Hotel/Motel Occupancy Tax	--	--	110,622	110,622
Drug Seizure Proceeds	--	--	1,163	1,163
Street Maintenance	--	--	8,848	8,848
Assigned Fund Balances				
Capital Expenditures for Equipment	94,824	--	--	94,824
Unassigned	1,243,862	--	--	1,243,862
Total Fund Balance	<u>1,360,461</u>	<u>1,074,441</u>	<u>231,415</u>	<u>2,666,317</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 1,678,195</u>	<u>\$ 1,077,822</u>	<u>\$ 250,599</u>	<u>\$ 3,006,616</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, 2014**

Total fund balances - governmental funds balance sheet	\$ 2,666,317
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.	4,960,860
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	121,833
Unamortized discount on issuance of debt recorded in governmental activities are not reported in the funds.	10,680
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,200,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(17,203)
Payables for notes which are not due in the current period are not reported in the funds.	(15,000)
Landfill Closure liabilities which are not due and payable in the current period are not reported in the funds.	<u>(175,824)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 4,351,663</u>

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, 2014

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>				
Property Taxes	\$ 840,993	\$ --	\$ 114,034	\$ 955,027
Sales Taxes	390,131	97,199	97,199	584,529
Franchise Taxes	302,528	--	--	302,528
Occupancy Taxes	--	--	58,302	58,302
Licenses and permits	9,144	--	--	9,144
Intergovernmental	3,567	--	255,777	259,344
Charges for services	766,080	--	--	766,080
Fines	43,631	--	--	43,631
Interest	3,655	10,234	785	14,674
Miscellaneous	214,436	368	--	214,804
Total revenues	<u>2,574,165</u>	<u>107,801</u>	<u>526,097</u>	<u>3,208,063</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	343,182	--	262,627	605,809
Police	807,565	--	1,313	808,878
Fire	49,866	--	--	49,866
Streets	337,915	--	94,000	431,915
Maintenance Equipment	56,787	--	--	56,787
Sanitation	427,218	--	--	427,218
Health and welfare	5,679	--	--	5,679
Parks	53,803	--	--	53,803
Swimming Pool	68,103	--	--	68,103
Library	179,648	--	--	179,648
Municipal Court	50,698	--	--	50,698
Golf Course	73,110	--	--	73,110
Code Enforcement	54,317	--	--	54,317
Economic development and assistance	--	113,829	38,683	152,512
Airport	19,686	--	--	19,686
Capital outlay	300,282	--	--	300,282
<b>Debt service:</b>				
Principal	90,300	--	165,000	255,300
Interest and fiscal charges	3,746	--	134,013	137,759
Debt issuance cost and fees	--	--	750	750
Total expenditures	<u>2,921,905</u>	<u>113,829</u>	<u>696,386</u>	<u>3,732,120</u>
Excess (deficiency) of revenues (under) expenditures	(347,740)	(6,028)	(170,289)	(524,057)
<b>Other financing sources (uses):</b>				
Operating transfers in	355,045	--	201,280	556,325
Operating transfers out	(6,850)	--	--	(6,850)
Note Payable Proceeds	15,000	--	--	15,000
Total other financing sources (uses)	<u>363,195</u>	<u>--</u>	<u>201,280</u>	<u>564,475</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	15,455	(6,028)	30,991	40,418
Fund balances October 1	1,345,006	1,080,469	200,424	2,625,899
Fund balances September 30	<u>\$ 1,360,461</u>	<u>\$ 1,074,441</u>	<u>\$ 231,415</u>	<u>\$ 2,666,317</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, 2014**

Net change in fund balances - total governmental funds	\$ 40,418
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	300,281
The depreciation of capital assets used in governmental activities is not reported in the funds.	(417,555)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(3,914)
Landfill Closure cost not requiring the use of current financial resources are not reported as expenditures in the funds.	(17,187)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	90,300
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	165,000
Bond discount and similar items are amortized in the SOA but not in the funds.	(796)
(Increase) decrease in accrued interest from beginning of period to end of period.	2,928
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(15,000)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 144,478</u>

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS**

STATEMENT OF NET POSITION

ENTERPRISE FUND

SEPTEMBER 30, 2014

	Enterprise Fund <u>Water and Sewer Fund</u>
<b>ASSET</b>	
Current Assets:	
Cash and cash equivalents	\$ 955,884
Receivables ( net of allowances for uncollectibles):	
Accounts	<u>127,261</u>
Total Current Assets	<u>1,083,145</u>
Non-Current Assets:	
Restricted assets:	
Cash and cash equivalents	
Customer Meter Deposits	68,175
Capital assets	
Land	833,127
Buildings and Improvements	98,023
Machinery and Equipment	589,870
Water and Sewer System	5,128,268
Less Accumulated Depreciation	<u>(3,482,376)</u>
Total Non-Current Assets	<u>3,235,087</u>
Total Assets	<u><u>4,318,232</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ <u>45,182</u>
Total Current Liabilities	<u>45,182</u>
Payable from Restricted Assets:	
Customer Deposits	<u>68,175</u>
Total Liabilities	<u>113,357</u>
<b>NET POSITION</b>	
Investment in capital assets	3,166,912
Unrestricted (Deficit)	<u>1,037,963</u>
Total Net Position	<u><u>\$ 4,204,875</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, 2014**

	Enterprise Fund <u>Water and Sewer Fund</u>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 1,323,558
Rents	25,000
Miscellaneous	<u>23,419</u>
Total Operating Revenues	<u>1,371,977</u>
<b>OPERATING EXPENSES:</b>	
Personnel services	370,935
Supplies	45,010
Maintenance	108,750
Other charges	185,258
Depreciation	<u>137,966</u>
Total Operating Expenses	<u>847,919</u>
Operating Income (Loss)	<u>524,058</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Interest revenue	<u>2,879</u>
Total Non-operating Revenues (Expenses)	<u>2,879</u>
Net Income (Loss) before Transfers	<u>526,937</u>
Interfund operating transfers out	(549,475)
Change in net position	<u>(22,538)</u>
Net Position at October 1,	<u>4,227,413</u>
Net Position at September 30,	<u>\$ 4,204,875</u>

The accompanying notes are an integral part of this statement.

**CITY OF MULESHOE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Enterprise Fund <u>Water and Sewer Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$ 1,380,066
Cash Payments to Employees for Services	(376,935)
Cash Payments to Other Suppliers for Goods and Services	(349,569)
Net Cash Provided (Used) by Operating Activities	<u>653,562</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
Operating Transfers From (To) Other Funds	(549,475)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(549,475)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition or Construction of Capital Assets	(58,679)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(58,679)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest and Dividends on Investments	2,879
Net Cash Provided (Used) for Investing Activities	<u>2,879</u>
Net Increase (Decrease) in Cash and Cash Equivalents	48,287
Cash and Cash Equivalents at Beginning of Year	975,772
Cash and Cash Equivalents at End of Year	<u>\$ 1,024,059</u>
Classified As:	
Current Assets	\$ 955,884
Restricted Assets	68,175
Totals	<u>\$ 1,024,059</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 524,058
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	137,966
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	8,089
Increase (Decrease) in Accounts Payable	(16,671)
Increase (Decrease) in Customer Deposits	120
Total Adjustments	<u>129,504</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 653,562</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, 2014**

**A. Summary of Significant Accounting Policies**

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

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

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

**1. Reporting Entity**

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

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

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

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

They are:

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

**CITY OF MULESHOE, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014. 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, 2014

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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 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, 2014 was \$0.6588 per \$100 which means that the City has a tax margin of \$1.8412 per \$100 and could raise up to \$2,315,236 additional a year from the present assessed valuation of \$125,746,021 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**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

- \* 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 Stemants-Managment's Discussion and Analysis- for State and Local Government") has elected not to retroactively rereport general infrastructure assets, therefore general infrastructure assets acquired or constructed prior to July 1, 2003 are not reported in the financial statements.

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

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

e. Receivable and Payable Balances

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

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

**CITY OF MULESHOE, TEXAS**  
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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.

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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 enable legislation that requires the revenue to be used for specific purposes.

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

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

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

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

Net Position on the Government-wide Statement:

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

**CITY OF MULESHOE, TEXAS**  
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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, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,350,166 and the bank balance was \$3,561,598. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014, 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.

**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.



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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, 2014 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, 2014, all of the City's investment are in the bank investments completely covered by pedged securities, or an external investment pool.

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

D. Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 515,060	\$ 97,224	\$ --	\$ 612,284
Total capital assets not being depreciated	<u>515,060</u>	<u>97,224</u>	<u>--</u>	<u>612,284</u>
Capital assets being depreciated:				
Buildings and improvements	3,515,274	56,774	--	3,572,048
Machinery and Equipment	3,344,395	146,284	--	3,490,679
Infrastructure	274,782	--	--	274,782
Airport Improvemrnts	1,879,687	--	--	1,879,687
Total capital assets being depreciated	<u>9,014,138</u>	<u>203,058</u>	<u>--</u>	<u>9,217,196</u>
Less accumulated depreciation for:				
Buildings and improvements	(906,319)	(121,119)	--	(1,027,438)
Machinery and Equipment	(1,918,318)	(217,813)	--	(2,136,131)
Infrastructure	(5,496)	(5,496)	--	(10,991)
Airport Improvemrnts	(1,620,935)	(73,127)	--	(1,694,062)
Total accumulated depreciation	<u>(4,451,068)</u>	<u>(417,553)</u>	<u>--</u>	<u>(4,868,621)</u>
Total capital assets being depreciated, net	<u>4,563,070</u>	<u>(214,495)</u>	<u>--</u>	<u>4,348,575</u>
Governmental activities capital assets, net	<u>\$ 5,078,130</u>	<u>\$ (117,271)</u>	<u>\$ --</u>	<u>\$ 4,960,859</u>

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 833,127	\$ --	\$ --	\$ 833,127
Total capital assets not being depreciated	<u>833,127</u>	<u>--</u>	<u>--</u>	<u>833,127</u>
Capital assets being depreciated:				
Buildings and improvements	98,023	--		98,023
Machinery and Equipment	571,587	18,282	--	589,869
Water and Sewer System	5,087,871	40,397	--	5,128,268
Total capital assets being depreciated	<u>5,757,481</u>	<u>58,679</u>	<u>--</u>	<u>5,816,160</u>
Less accumulated depreciation for:				
Buildings and improvements	(93,216)	(1,812)	--	(95,028)
Machinery and Equipment	(451,717)	(24,817)	--	(476,534)
Water and Sewer System	(2,799,475)	(111,337)	--	(2,910,812)
Total accumulated depreciation	<u>(3,344,408)</u>	<u>(137,966)</u>	<u>--</u>	<u>(3,482,374)</u>
Total capital assets being depreciated, net	<u>2,413,073</u>	<u>(79,287)</u>	<u>--</u>	<u>2,333,786</u>
Business-type activities capital assets, net	<u>\$ 3,246,200</u>	<u>\$ (79,287)</u>	<u>\$ --</u>	<u>\$ 3,166,913</u>

Depreciation was charged to Governmental Activities functions as follows:

General Government	\$ 17,568
Police	63,873
Fire	52,310
Streets	38,775
Sanitation	53,133
Health and Welfare	645
Parks	18,810
Swimming Pool	77,962
Library	3,478
Golf Course	5,286
Airport	81,243
Economic Development and Assistance	4,472
	<u>\$ 417,553</u>

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

Water and Sewer	<u>\$ 137,966</u>
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**E. Interfund Balances and Activity**

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

Balances due to and due from other funds at September 30, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 6,590	Short-term loans
Debt Service Fund	General Fund	2,544	Reimbursement of Taxes
	Total	<u>\$ 9,134</u>	

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

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2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2014, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water and Sewer Fund	General fund	\$ 355,045	Supplement other funds sources
Water and Sewer Fund	Debt Service Fund	194,430	Payment of Debt
General fund	Other Governmental Funds	6,850	Matching Cost Federal Grant
	Total	<u>\$ 556,325</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, 2014, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Certificates of Obligation	\$ 3,365,000	\$ --	\$ 165,000	\$ 3,200,000	175,000
Capital leases	90,301	--	90,301	--	--
Notes Payable	--	15,000	--	15,000	15,000
Estimated Liability for Landfill Closure Cost*	158,637	17,187	--	175,824	--
Total governmental activities	<u>\$ 3,613,938</u>	<u>\$ 32,187</u>	<u>\$ 255,301</u>	<u>\$ 3,390,824</u>	<u>\$ 190,000</u>

\* Other long-term liabilities

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

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

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2014, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 190,000	\$ 127,983	\$ 317,983
2016	180,000	120,113	300,113
2017	190,000	112,713	302,713
2018	195,000	105,013	300,013
2019	205,000	97,013	302,013
2020-2024	1,150,000	352,956	1,502,956
2025-2029	1,105,000	95,700	1,200,700
Totals	<u>\$ 3,215,000</u>	<u>\$ 1,011,490</u>	<u>\$ 4,226,490</u>

Certificates of Obligation

\$4,000,000 City of Muleshoe, Texas Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2007 original issued December 1, 2007. The Certificates are issued as serial certificates maturing February 15 in the years 2011 through 2020 and as Term Bonds maturing February in the

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years 2010, 2022, 2024, 2026, and 2028. Interest is payable each August 15 and February 15 thereafter until maturity or prior redemption at rates of 3.30% to 4.25%.

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

Debt Service requirements are as follows:

<u>Year Ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 175,000	127,213	\$ 302,213
2016	180,000	120,113	300,113
2017	190,000	112,713	302,713
2018	195,000	105,013	300,013
2019	205,000	97,013	302,013
2020-2024	1,150,000	352,956	1,502,956
2025-2029	1,105,000	95,700	1,200,700
Totals	<u>\$ 3,200,000</u>	<u>\$ 1,010,719</u>	<u>\$ 4,210,719</u>

**Capital Leases**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2014, as follows:

The City entered into a lease-purchase agreement for a Fire Truck for the Fire Department on January 19, 2007 with Kansas State Bank of Manhattan for a total cost of \$206,533. This lease-purchase is to be paid in annual payments of \$58,139 each at an interest rate of 4.9 percent. The payments are secured with a security interest under the Uniform Commercial Code on a Rosenbauer Pumper Truck.

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

**Notes Payable**

The City has a note payable to Muleshoe State Bank for a 2013 Ford Explorer purchase October 3 2013, in amount of \$15,000. This note is to be paid in one annual payment of \$15,000 at an interest rate of 5 percent. The following is a schedule of liability to maturity: This is an unsecured loan. This loan is record in the Governmental Activities.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 15,000	771	\$ 15,771

**G. Commitments Under Noncapitalized Leases**

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of September 30, 2014, as follows:

<u>Year Ending September 30.</u>	
2015	\$ 6,708
2016	3,354
Total Minimum Rentals	<u>\$ 10,062</u>
Rental Expenditures in 2014	<u>\$ 6,708</u>

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H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Pension Plan

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

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

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating Transfer	100% Repeating Transfer
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior

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service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases

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

1. Annual Required Contribution (ARC)	\$	226,808
2. Interest on Net Pension Obligation		--
3. Adjustment to the ARC		--
4. Annual Pension Cost (APC) (1)+(2)+(3)	\$	226,808
5. Contributions Made	\$	(226,808)
6. Increase (decrease) in net pension obligation (4) + (5)		--
7. Net Pension Obligation/(Asset), beginning of year		--
8. Net Pension Obligation/(Asset), end of year (6)+(7)		--

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.1 years Closed period	25.1 years Closed period	21.0 years Closed period
Amortization Period for New Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10 Year Smoothed Market	10 Year Smoothed Market	10 Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.00%	7.00%	7.00%
Projected Salary Increases * Varies by	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

**J. Health Care Coverage**

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$590 per month per employee and dependents to the Plan. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

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

**K. Commitments and Contingencies**

The City is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney, such matters will not have a materially adverse effect on the City's financial position at September 30, 2014.

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

**L. Closure and Postclosure Care Cost**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. In addition to operating expense related to current activities of the landfill, a related liability will be recognized in the General Long-Term Debt Account based on the future closure and postclosure care costs that will be incurred near or after the date that the landfill no longer accepts waste. The recognition of these landfill closure and post closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care cost has a balance of \$175,824 as of September 30, 2014, which is based on 30.22% usage (filled) of the landfill. It is estimated that an additional \$405,898 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 (\$581,722) 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, 2014. 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 Conversation Commission to satisfy certain requirements of financial assurance for closure and post closure cost by meeting certain financial test. In the opinion of City Management, all financial assurance requirements have been met at September 30, 2014.

The total amount of landfill closure and postclosure care cost for current period in the amount of \$17,187 (required by GASB 18) increase the amount of estimated liability for landfill closure and postclosure care cost as a Long-term Liability.

**M. Notes Receivable**

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

**N. Sanitation Disposal Contract**

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

**O. Volunteer Fire 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

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

(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.

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.



**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 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

**CITY OF MULESHOE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

International	5	2
Cash	--	--
Total	100%	

**P. Defined Benefit Life Insurance Plan**

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

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

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

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

Plan/ Calendar Year	Annual Required Contribution (RATE)	Actual Contribution Made (RATE)	Percentage of ARC Contributed
2011	0.02%	0.02%	100.00%
2012	0.03%	0.03%	100.00%
2013	0.03%	0.03%	100.00%
2013	0.03%	0.03%	100.00%

## Required Supplementary Information

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

**CITY OF MULESHOE, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue:</b>				
Property Taxes	\$ 876,518	\$ 876,518	\$ 840,993	\$ (35,525)
Sales Taxes	396,000	396,000	390,131	(5,869)
Franchise Taxes	285,000	285,000	302,528	17,528
Licenses and permits	12,700	12,700	9,144	(3,556)
Intergovernmental	4,000	4,000	3,567	(433)
Charges for services	832,600	832,600	766,080	(66,520)
Fines	61,120	61,120	43,631	(17,489)
Interest	10,600	10,600	3,655	(6,945)
Miscellaneous	39,300	39,300	214,436	175,136
Total revenues	<u>2,517,838</u>	<u>2,517,838</u>	<u>2,574,165</u>	<u>56,327</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	321,485	321,485	343,182	(21,697)
Police	796,106	796,106	807,565	(11,459)
Fire	89,400	89,400	49,866	39,534
Streets	443,626	443,626	337,915	105,711
Maintenance Equipment	58,321	58,321	56,787	1,534
Sanitation	450,351	450,351	427,218	23,133
Health and welfare	6,000	6,000	5,679	321
Parks	34,950	34,950	53,803	(18,853)
Swimming Pool	97,941	97,941	68,103	29,838
Library	175,526	175,526	179,648	(4,122)
Municipal Court	53,386	53,386	50,698	2,688
Golf Course	85,000	85,000	73,110	11,890
Code Enforcement	59,159	59,159	54,317	4,842
Airport	42,350	42,350	19,686	22,664
Capital outlay	225,550	225,550	300,282	(74,732)
<b>Debt service:</b>				
Principal	89,964	89,964	90,300	(336)
Interest and fiscal charges	3,750	3,750	3,746	4
Total expenditures	<u>3,032,865</u>	<u>3,032,865</u>	<u>2,921,905</u>	<u>110,960</u>
Excess (deficiency) of revenues (under) expenditures	(515,027)	(515,027)	(347,740)	167,287
<b>Other financing sources (uses):</b>				
Operating transfers in	350,000	350,000	355,045	5,045
Operating transfers out	--	--	(6,850)	6,850
Sale of Assets	5,000	5,000	--	(5,000)
Note Payable Proceeds	--	--	15,000	15,000
Total other financing sources (uses)	<u>355,000</u>	<u>355,000</u>	<u>363,195</u>	<u>(8,195)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(160,027)	(160,027)	15,455	175,482
Fund balances October 1	1,345,006	1,345,006	1,345,006	--
Fund balances September 30	<u>\$ 1,184,979</u>	<u>\$ 1,184,979</u>	<u>\$ 1,360,461</u>	<u>\$ 175,482</u>

**CITY OF MULESHOE, TEXAS**  
**ECONOMIC DEVELOPMENT**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue:</b>				
Sales Taxes	\$ 94,000	\$ 94,000	\$ 97,199	\$ 3,199
Interest	7,500	7,500	10,234	2,734
Miscellaneous	--	--	368	368
Total revenues	<u>101,500</u>	<u>101,500</u>	<u>107,801</u>	<u>6,301</u>
<b>Expenditures:</b>				
Current:				
Economic development and assistance	758,752	758,752	113,829	644,923
Total expenditures	<u>758,752</u>	<u>758,752</u>	<u>113,829</u>	<u>644,923</u>
Excess (deficiency) of revenues (under) expenditures	(657,252)	(657,252)	(6,028)	651,224
<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 (under) expenditures and other financing uses	(657,252)	(657,252)	(6,028)	651,224
Fund balances October 1	1,080,469	1,080,469	1,080,469	--
Fund balances September 30	<u>\$ 423,217</u>	<u>\$ 423,217</u>	<u>\$ 1,074,441</u>	<u>\$ 651,224</u>

**CITY OF MULESHOE, TEXAS**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-3

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12-31-11	5,493,456	6,643,934	1,150,478	82.7%	1,148,548	100.2%
12-31-12	5,928,592	6,999,098	1,070,506	84.7%	1,131,670	94.6%
12-31-13	6,392,244	7,727,697	1,335,453	82.7%	1,214,887	109.9%

**CITY OF MULESHOE, TEXAS**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM  
 YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-4

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered ((b-a)/c)
8-31-10	64,113,803	81,264,230	1,070,506	78.90%	8644	1,984
8-31-12	67,987,487	101,856,042	1,070,506	66.75%	9448	3,585
8-31-14	83,761,038	109,854,799	1,070,506	76.20%	9270	2,815

- 1 The actuarial accrued liability is based upon the entry age actuarial cost method.
- 2 Changes in actuarial assumptions were reflected in this valuation.
- 3 Changes in an actuarial assumption and method were reflected in this valuation.

Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Actuarial assumptions and methods as of the latest actuarial valuation are as follows:

Valuation date	August 31, 2014
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75% per year, net of investment expenses
Projected salary increases	N/A
*Includes inflation at	3.50%
Cost-of-living adjustments	None