

City of Mesquite, Texas



Comprehensive Annual Financial Report For Fiscal Year Ended September 30, 2012

About the Cover:

New City Hall

The New City Hall, located at 757 North Galloway opened to the public in August 2011. The new facility, which is adjacent to the Police Department Headquarters, features state-of-the-art City Council Chambers, two Courtrooms with staff support offices, a Community/Training Room, and City offices consisting of Finance and Accounting, the Print Shop, the Communication Division's video production studio and the Convention and Visitor's Bureau.

On October 25, 2011, the City of Mesquite held a Dedication Ceremony to celebrate the grand opening of the New City Hall and to invite citizens out to view and tour the new facility.

The entire project from the landscaping to the building design promotes a forward thinking philosophy and commitment of Mesquite's leadership. The design of the building includes low E-glass, Energy Management Lighting Controls, Building Systems Management and exterior window sun visors that all work together to reduce energy and maintenance costs. The construction of the project earned a Silver LEED award (Leadership in Energy and Environmental Design) for its environmentally friendly design and construction. The water fountain along the building's front is enhanced by flying stairs and two permanently displayed sculptures created by award winning sculptor Cliff Garten. It also features an open plaza with terraced landscaping and interior public art by artist, Tim Prentice.

Mesquite's Quasquicentennial

In 2012, Mesquite celebrated its 125th Anniversary. Mesquite was incorporated in December 1887 and to celebrate the Quasquicentennial, the City of Mesquite and Historic Mesquite, Inc. planned several events and activities over the course of the year to foster community pride and develop an appreciation for Mesquite's history. For more information regarding the year-long event please visit www.cityofmesquite.com/125.

CITY OF MESQUITE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

September 30, 2012

Prepared by:

Finance Department

MESQUITE
T E X A S
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City of Mesquite, Texas

Comprehensive Annual Financial Report For the Fiscal Year Ended September 30, 2012

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City of Mesquite, Texas

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MESQUITE
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CITY OF MESQUITE, TEXAS

CITY OFFICIALS

SEPTEMBER 30, 2012

CITY COUNCIL

John Monaco, Mayor

Stan Pickett, Mayor Pro Tem

Shirley Roberts, Deputy Mayor Pro Tem

Al Forsythe, Council Member

Greg Noschese, Council Member

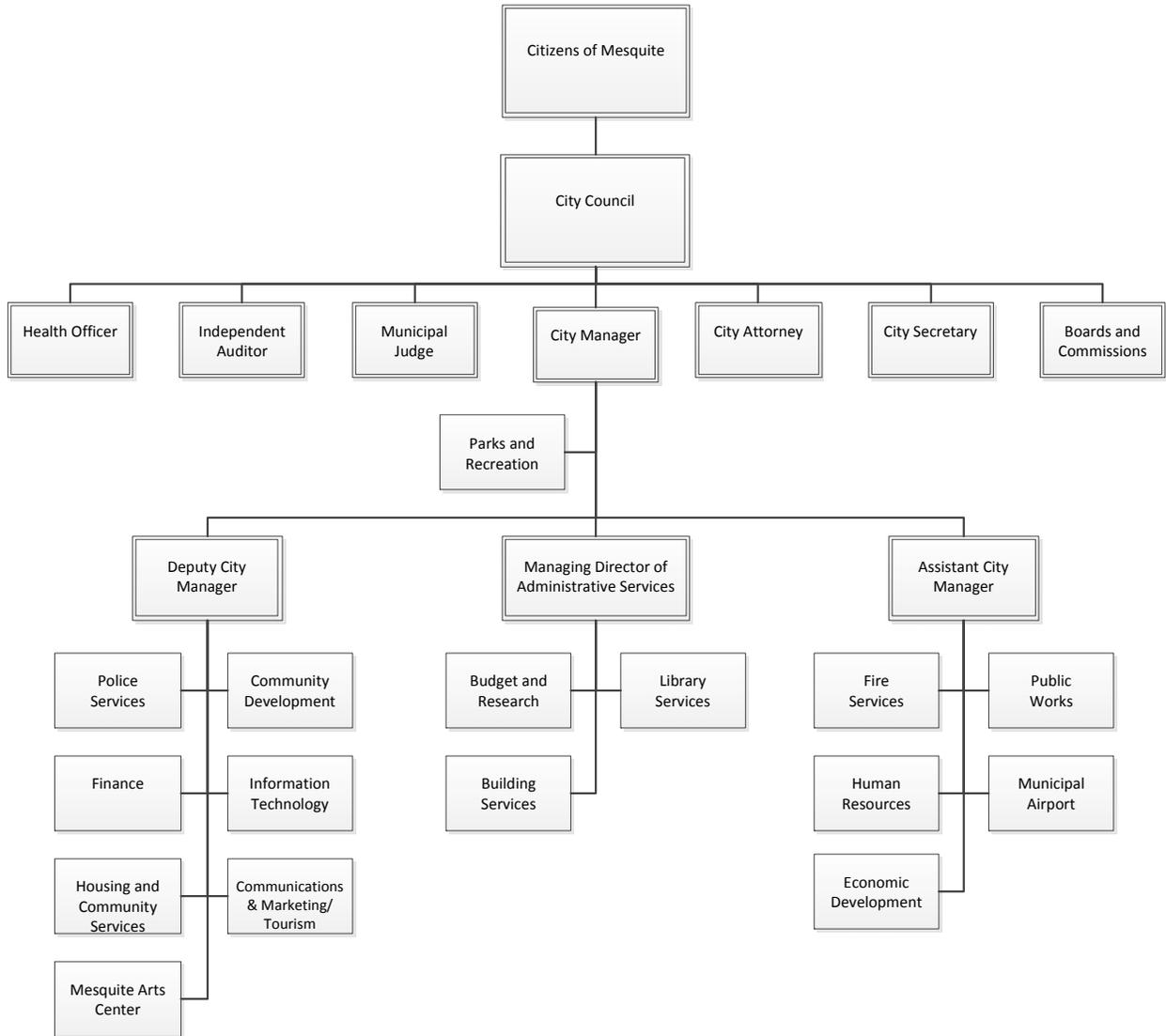
Bill Porter, Council Member

Dennis Tarpley, Council Member

Ted Barron, City Manager
Deborah A. Mol, Director of Finance

City of Mesquite, Texas

Organizational Chart October 1, 2012





March 26, 2013

Honorable Mayor, City Council, and City Manager,
City of Mesquite, Texas:

The Comprehensive Annual Financial Report (“CAFR”) of the City of Mesquite, Texas (the City), for the fiscal year ended September 30, 2012, is hereby submitted.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Grant Thornton LLP has issued an unqualified (“clean”) opinion on the City’s financial statements for the year ending September 30, 2012. The independent auditors’ report is located at the front of the financial section of this report.

This letter of transmittal is designed to compliment Management’s Discussion and Analysis (MD&A) and should be read in conjunction with it. The City’s MD&A can be found immediately following the independent auditors’ report and provides a narrative introduction, overview and analysis of the basic financial statements.

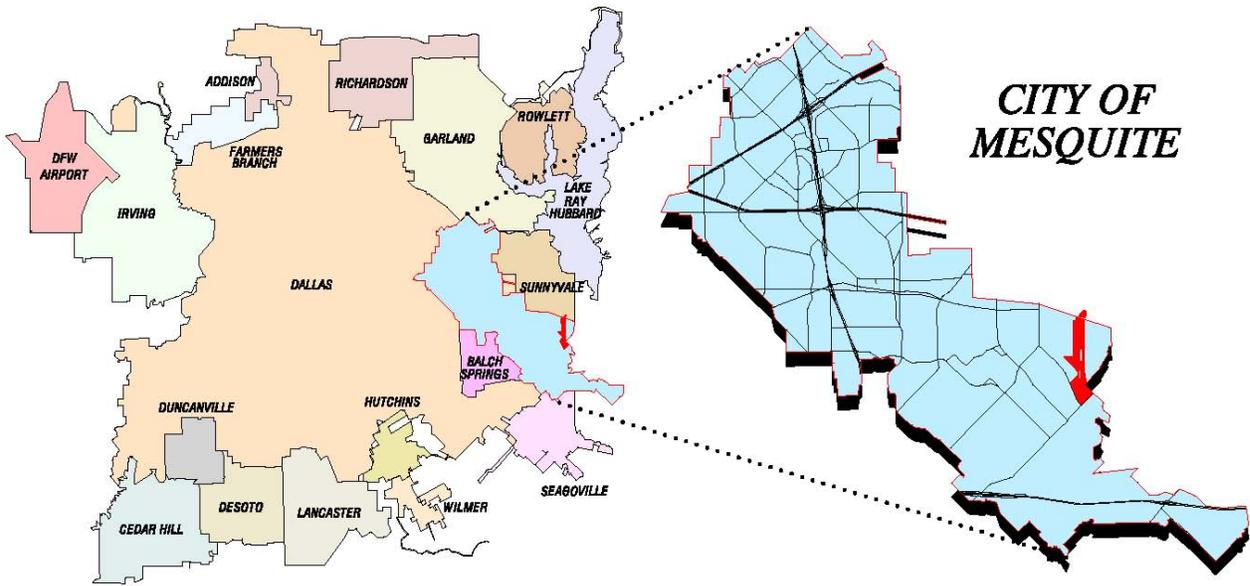
Article IV, Section 32 of the City Charter requires an annual audit of the books of account and transactions of all city departments be conducted by an independent certified public accountant selected by City Council. The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to the single audit, including the supplemental schedule of federal awards, schedules of findings and questioned costs, and independent auditors’ reports on internal controls and compliance are included at the end of this report.

Profile of the City of Mesquite, Texas

The City is located in eastern Dallas County, with its corporate limits adjoining the corporate limits of Dallas for a distance of about eight miles. The old downtown section of Mesquite is approximately 13 miles from downtown Dallas. The incorporated area of Mesquite is presently 45.972 square miles.

Mesquite celebrated its 125th birthday on December 3, 2012. Although the little farming settlement had existed as an unfranchised township since being organized at the arrival of the Texas and Pacific railroad in 1873, not until December 3, 1887, did its citizens take action to make it the first incorporated Dallas County town outside the county seat city.

The town, little more than a frontier outpost at the time, struggled for each meager step of progress under the leadership of dedicated early-day residents. Mesquite grew not only in numbers but in strength and importance, becoming a viable agricultural center by the turn of the century. The town's population increased threefold between the 1890 and 1900 U. S. censuses - from 135 to 405 - and grew to 729 by 1930. Twenty years later, in 1950, Mesquite was home to 1,696 citizens, and that is when explosive growth set in. The population total jumped to 27,526 in 1960, to 67,053 in 1980, and to 124,523 in 2000. Today, the headcount stands at an estimated 139,950, and Mesquite is still one of the most dynamic cities in the Metroplex, served by excellent schools, churches, healthcare institutions, cultural and entertainment facilities, parks, playgrounds and many other amenities.



The City of Mesquite provides a full range of services, including police and fire protection, streets, health and sanitation services, libraries and recreation, public improvements, planning and zoning, and general administrative services. Additionally, water and sewer utility services, drainage utility services, and the municipal airport are provided under an enterprise fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses and payments on outstanding debt where applicable. Certain public safety, transportation, and parks and recreation services are provided through a legally separate Quality of Life Corporation, which functions, in essence, as a department/fund of the City of Mesquite and, therefore, has been included as an integral part of the City's financial statements.

The City of Mesquite is a Home Rule City operating under a Council/Manager form of government. The City Council consists of the Mayor and six council members. Council members serve two-year terms and are responsible for appointing the City Manager, Municipal Judge, City Attorney, City Secretary, and members of various boards and commissions. The mayor and six council members are elected at large; however, four Council positions have residency requirements. The City Manager serves as the administrative head of the municipal government and is responsible for carrying out policies and for daily management of the City.

The City's financial statements include ten component units, which are discussed in Note 1 of the Notes to The Financial Statements. Component units are legally separate entities for which the primary government is financially accountable.

Local Economy

Our Nation continues to experience perhaps the longest economic recession since the Great Depression. A positive factor for the City of Mesquite over the years has been the strength of the Dallas area economy. The Metroplex has ranked high nationally in attracting new businesses and expansion of existing companies. The area remains the distribution and financial center of the Southwest, and the growth of high-tech industries, services industries, trade, and corporate headquarters have provided a strong, stable and diverse local economy. These factors have helped curb the major economic downturn that our nation faces but have not totally eliminated its effects.

Several positive factors exist which favor a continued optimistic economic outlook for the City including the availability of affordable housing, a well-educated work force, a diversified financial and service-oriented marketplace and a blossoming high technology trade. Mesquite also continues to benefit from having four major highways crossing through its corporate limits. The City is well served by rail facilities and enjoys the convenience of nearby Dallas/Fort Worth International Airport to meet commercial passenger air transportation needs and also operates its own municipal airport facility.

In spite of the recession that has plagued our nation Mesquite continues to make strides in diversifying our economic landscape in the areas of industrial, healthcare, retail, and more. Industrial facility vacancies in Mesquite were reduced by half in 2012 which amounted to more than 600,000 square-feet in new leases. Masonite, a world leader in door manufacturing, signed a lease for a facility of nearly 250,000 square feet and will bring approximately 130 new jobs to Mesquite. ECS Refining Corporation, a world leader in innovative electronics recycling, moved into a 225,000 square-foot facility investing more than \$20 million dollars in their new Mesquite headquarters. In the Medical arena Galloway Pharmacy opened in 2012 and brought in new medical tenants who will provide a wide range of needed health care services. The Mesquite Rehabilitation Institute was recently ranked in the top 4 percent of 800 rehab facilities across the nation and in 2012 they received a National Certification of Distinction for their management in stroke rehabilitation. On the retail side Mesquite added more than 112,000 square-feet in new leases in 2012. Town East Mall sales trended upward for the past 19 consecutive months and they have seen an unprecedented sales record for 13 consecutive months. Buca Di Beppo, an upscale Italian restaurant, also opened at the mall in 2012. Union Pacific Railroad continued to experience growth in 2012 after their expansion in Mesquite in 2011. Union Pacific named Mesquite a "Train Town USA" as part of their 150th anniversary celebration in 2012. This is an important honor since Mesquite was founded by a railroad employee 125 years ago. Mesquite continued to grow the shuttle bus service called "Compass" which allows our citizens to access the Dallas Area Rapid Transit system (DART) including light rail. The contract with the DART board made Mesquite the first non-member city to establish a connection to the DART system. The Mesquite Metro Airport recently broke ground on a new \$3 million dollar air traffic control tower, which is 90 percent funded by federal grants and will be staffed by FAA-trained air traffic controllers.

Major Initiatives

Following the directives of the City Council, a number of initiatives were undertaken during the year to provide for and improve the quality of governmental services the citizens of Mesquite have come to expect. These improvements were identified after a systematic review of all activities of the City in which each program was analyzed to ensure that it was needed and wanted by the community and that it was being provided with maximum efficiency at the lowest cost possible. An excellent source of information about the

City, its services, and current initiatives can be found at the City's website. We encourage you to visit us at <http://www.cityofmesquite.com>.

In fiscal year 2012 the City continued to be impacted by the downturn in the economy. Property tax revenues were down again and sales tax revenues experienced slight growth for the year. Throughout the year the City operated with an extremely lean budget and reduced service costs without sacrificing quality or impacting critical core areas. The focus on capital projects was one of finishing projects already started and starting necessary projects to keep the City on track with maintenance of key infrastructure such as roads and the water and sewer system. The MD&A section of this report provides further review of the current year operating results.

Long Term Financial Planning

In January of 2011 City Council met to establish their overall goals for the City. Developing a stronger fiscal condition, a digital city government, a safe city reputation, expanded parks and recreation opportunities, viable transit options, reliable sound infrastructure, quality development and redevelopment, and a positive hometown image will be the focus of City Council and city management over the next several years. City management continued to make great progress in 2012 in assigning objectives to work at achieving or maintaining each of these goals.

Capital projects such as new roads, continued traffic improvements along the Interstate 635 interchange area, drainage improvements throughout the City, and new water storage and distribution projects will continue to be a priority as well as maintenance and expansion of the City's general infrastructure. To address these goals, the City has developed a five-year capital projects plan that provides a framework for the development and maintenance of infrastructure to meet current and future needs.

Continued support of efforts to maintain neighborhood integrity is a commitment of the City Council. Funding will be provided in future budgets to expand code enforcement programs, beautification efforts, infrastructure renewal, and public safety initiatives to help sustain neighborhood vitality and promote a cleaner, safer, and healthier environment for our citizens. To preserve the value of our neighborhoods for generations to come, the City continues to support "Addressing MESQUITE" – an initiative to raise awareness about existing codes that maintain the appearance and condition of our area homes and neighborhoods.

The Council also recognizes that the need to attract and retain a qualified workforce is dependent upon a competitive compensation and benefit package for its employees. Future plans include continued support of an adopted pay plan that establishes compensation for City employees at the "market midpoint" as determined by a seven-city survey of peer cities. The Council also is committed to regular reviews of employee benefits such as insurance, retirement, holidays, and working conditions to ensure that Mesquite is providing an attractive work environment.

Relevant Financial Policies

Internal Controls. City management is responsible for establishing and maintaining an internal control structure design to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accounting System and Budgetary Controls. In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Budgets are legally adopted by Council for governmental funds other than Capital Projects Funds and the Other Special Revenue Fund, at the fund level of control. Project-length financial plans are adopted for Capital Projects Funds. Advisory budgetary control is maintained at the object class level (personal services, supplies, contractual services, capital outlay, etc.) in each departmental budget, and encumbrances are entered at the time a purchase order is issued. Outstanding purchase orders are reported at year-end as reservations of fund balances and the commitments will be honored during the subsequent year.

The budgetary process begins each year with the preparation of both revenue estimates and expenditure requests by each city department. Budgets are reviewed by the Deputy City Manager, Assistant City Manager, Finance Director and Budget Director. The City Manager makes final decisions and submits a recommended budget to the City Council prior to August 15. The proposed budget is reviewed extensively by the City Council, public hearings are conducted, and the budget is legally enacted by passage of an ordinance prior to October 1.

As part of each year's budget development process, departments are required to update expenditure estimates for the current fiscal year. These estimates, as well as revenue estimate revisions, are reviewed by the Budget Office, Finance Department, City Manager, and the City Council. The City Council approves the adoption of the amended budget by ordinance.

During the course of the fiscal year, monthly expenditure reports are generated by the Accounting Division using the City's automated accounting system. These reports provide budget, expenditure, and encumbrance data for each cost center. In addition, on-line inquiry capability is provided to every department to review appropriation, project, document, and vendor file data. At month-end, a summarized Monthly Financial Report is presented to the City Council.

Revenue Policy. The City will strive to maintain a diversified and stable revenue system to shelter it from unforeseeable short-run fluctuations in any one-revenue source.

Transfers between funds shall only be authorized by City Council and only to the extent that the basis and justification for the transfer can be quantified. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.

One-time revenues in either operating fund will not be used for funding on-going appropriations. One-time revenues should be used to fund capital improvements, capital equipment or other one-time appropriations.

Charges for services, or user fees, shall be reviewed at least every two years for the effects of inflation and revised subject to City Council approval.

Other Information

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Mesquite, Texas, for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011. This was the thirty-third consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to its preparation. We would also like to thank the Mayor, City Council, and City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Deborah A. Mol".

Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Mesquite
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

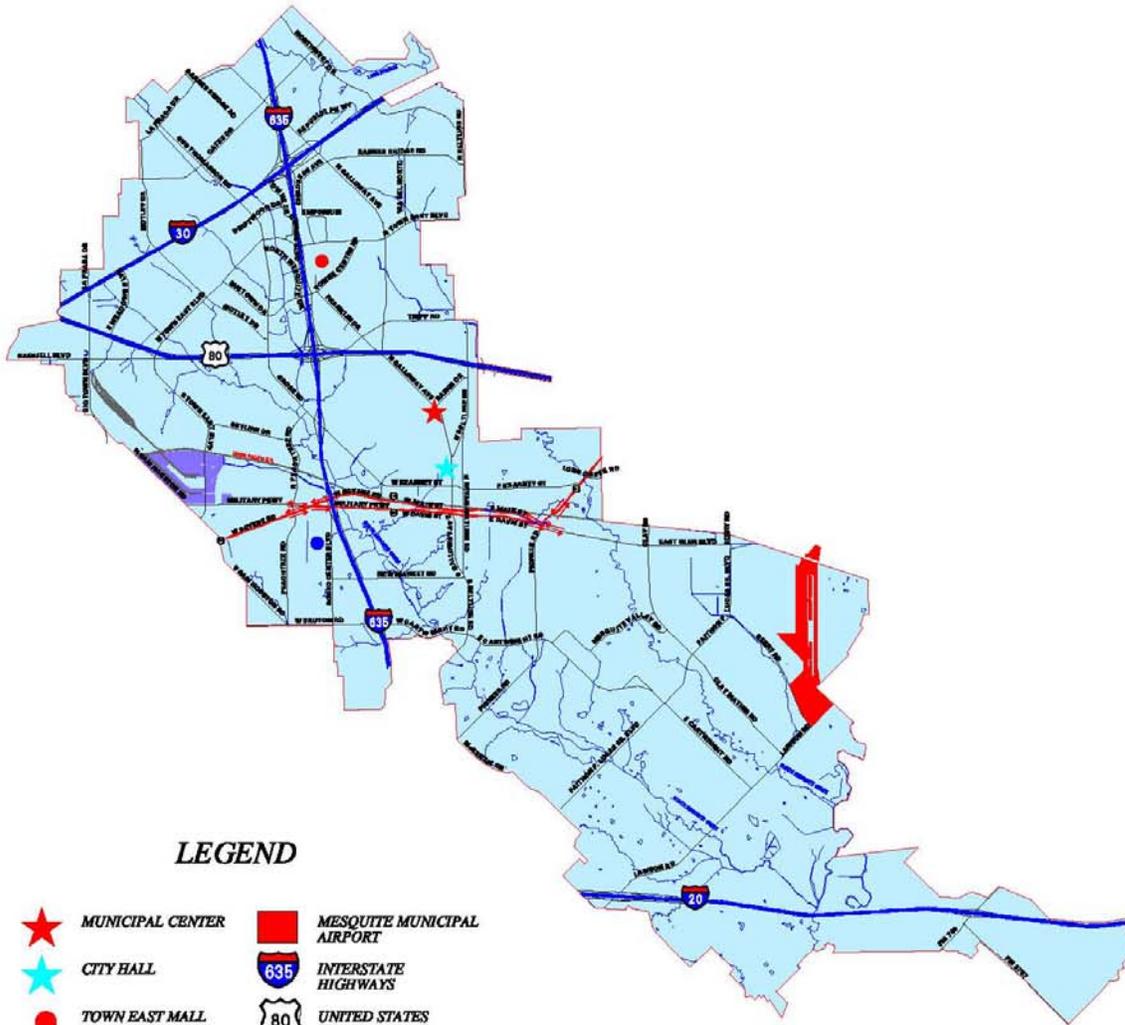


Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director



LEGEND

- | | | | |
|---|---|---|------------------------------|
|  | MUNICIPAL CENTER |  | MESQUITE MUNICIPAL AIRPORT |
|  | CITY HALL |  | INTERSTATE HIGHWAYS |
|  | TOWN EAST MALL |  | UNITED STATES HIGHWAYS |
|  | RODEO ARENA
CONVENTION CENTER
EXHIBITION HALL |  | STATES & PROVINCIAL HIGHWAYS |
|  | SKYLINE INDUSTRIAL DISTRICT | | |

City of Mesquite
 GIS Division
 2009



Report of Independent Certified Public Accountants

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The Honorable Mayor, City Council and City Manager
The City of Mesquite, Texas

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 the City of Mesquite, Texas (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the City of Mesquite, Texas, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Housing Grants major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12, and the Texas Municipal Retirement System Schedule of Funding Progress and the Other Post Employment Benefits Schedule of Funding Progress on page 64, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards and the schedule of expenditures of state awards for the year ended September 30, 2012 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas *Single Audit Circular*, respectively, the combining financial statements, individual nonmajor fund financial statements, and individual fund budget to actual schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the schedule of expenditures of federal awards, schedule of expenditures of state awards, the combining financial statements, individual nonmajor fund financial statements, and individual fund budget to actual schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

GRANT THORNTON LLP

Dallas, Texas
March 26, 2013

Mesquite, City of Texas
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2012

As management of the City of Mesquite, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$308 million (net assets). Of this amount, approximately \$37 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$900 thousand this fiscal year. Governmental activities which receive taxes and other non-exchange revenues decreased \$5.1 million while business type activities increased by \$4.2 million.
- As of the close of the current fiscal year, the City of Mesquite's governmental funds reported combined ending fund balances of \$54 million, a decrease of \$1.2 million from the prior year. Of this amount, \$18.4 million is available for spending subject to the City's self-imposed limitations by management for intended use.
- At year-end, the unassigned fund balance for the general fund was \$16 million and total fund balance was \$17 million. Total fund balance represents over 17.4 percent of expenditures and transfers out and exceeds the 15 percent required by the City's adopted fund balance policy. On a current financial resources basis, total fund balance for the general fund increased \$21 thousand which was primarily the result of transfers out coming in less than budget which offset overall expenditures coming in higher than budget.
- The City's net bonded debt increased by \$400 thousand during this current fiscal year. The City issued certificate of obligation debt for street, equipment, municipal building improvements, and new facilities as well as revenue bonded debt for water and sewer improvements.
- The City experienced a higher claims year in its General Liability Internal Service fund which resulted in a deficit fund balance at year end. The City will increase contributions to the General Liability Internal Service fund in fiscal year 2013 in order to eliminate the deficit fund balance, as necessary.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Mesquite's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. One of the most important questions asked about the City's finances is, "Is the City of Mesquite in a better financial position at the end of this fiscal year compared to last year?" The government-wide financial statements report information about the City as a whole and about its activities in a way that helps to answer this question.

Other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition of the City's streets to assess the overall health or financial condition of the City.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from the functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include most of the City's basic services such as fire, police, code compliance, library, parks and recreation, and community services as well as general government activities. The business-type activities of the City include water and sewer, drainage utility, and municipal airport services.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Housing Grants Special Revenue, Local Finance Capital Project, and Bond Finance Capital Project funds, all of which are major funds. Data from the other six funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for the General and the Housing Grants Special Revenue funds which are presented as part of the basic financial statements to demonstrate compliance with these budgets.

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, drainage utility, and municipal airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its group health insurance and general liability insurance programs. Both of these programs are predominantly governmental activities; however, as they benefit both governmental and business-type activities, current year results have been allocated by function in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Drainage Utility funds since both are considered to be major funds of the City. Because the Municipal Airport fund is the only remaining enterprise fund, it is being presented in a separate column even though it does not meet the criteria of a major fund. Conversely, both of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City reports only one fiduciary fund, an agency fund entitled the Tax Clearing fund. As the City collects ad valorem taxes for both the City and the Mesquite Independent School District, a separate legal entity, funds are held in the agency account until amounts due each government can be determined and distributed. The basic financial statements include a statement of fiduciary assets and liabilities. The accounting used for this fiduciary fund is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and other post employment benefits. Required supplementary information immediately follows the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Mesquite, assets exceeded liabilities by \$308 million as of September 30, 2012.

The largest portion of the City's net assets (84.6 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, infrastructure 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 spending. Although the City's investment in its capital assets 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 Mesquite's Net Assets
(in Thousands)**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 68,741	\$ 71,613	\$ 40,985	\$ 44,649	\$ 109,726	\$ 116,262
Capital assets	242,961	246,796	188,379	182,358	431,340	429,154
Total assets	<u>311,702</u>	<u>318,409</u>	<u>229,364</u>	<u>227,007</u>	<u>541,066</u>	<u>545,416</u>
Long-term liabilities outstanding	141,801	140,500	78,114	79,351	219,915	219,851
Other liabilities	6,707	9,578	6,026	6,712	12,733	16,290
Total liabilities	<u>148,508</u>	<u>150,078</u>	<u>84,140</u>	<u>86,063</u>	<u>232,648</u>	<u>236,141</u>
Invested in capital assets, net of related debt	136,034	141,703	125,070	116,898	261,104	258,601
Restricted net assets	7,702	5,683	3,064	3,121	10,766	8,804
Unrestricted net assets	<u>19,458</u>	<u>20,945</u>	<u>17,090</u>	<u>20,925</u>	<u>36,548</u>	<u>41,870</u>
Total net assets	<u>\$ 163,194</u>	<u>\$ 168,331</u>	<u>\$ 145,224</u>	<u>\$ 140,944</u>	<u>\$ 308,418</u>	<u>\$ 309,275</u>

An additional portion of the City's net assets (3.5 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$37 million may be used to meet the government's ongoing obligation to citizens and creditors.

At the end of the current fiscal year, the City of Mesquite is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Analysis of the City's Operations. Governmental and Business-type activities decreased the City's net assets by \$900 thousand. The key elements of this decrease and the prior year results are as follows:

**City of Mesquite's Change in Net Assets
(in Thousands)**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 31,257	\$ 30,673	\$ 47,995	\$ 49,727	\$ 79,252	\$ 80,400
Operating grants and contributions	14,616	15,791	-	-	14,616	15,791
Capital grants and contributions	960	2,735	1,874	1,149	2,834	3,884
General revenues:						
Ad valorem taxes	35,787	36,572	-	-	35,787	36,572
Gross receipts taxes	7,760	7,931	-	-	7,760	7,931
Sales taxes	37,440	36,154	-	-	37,440	36,154
Sale of capital assets	109	(327)	41	(45)	150	(372)
Investment income	145	245	73	113	218	358
Total revenues	128,074	129,774	49,983	50,944	178,057	180,718
Expenses:						
General government	26,027	22,552	-	-	26,027	22,552
Fire services	25,330	24,532	-	-	25,330	24,532
Police services	31,995	31,965	-	-	31,995	31,965
Field services	14,348	18,752	-	-	14,348	18,752
Public works	3,766	2,446	-	-	3,766	2,446
Community development	3,706	3,020	-	-	3,706	3,020
Housing & community services	14,900	14,159	-	-	14,900	14,159
Library services	1,942	2,137	-	-	1,942	2,137
Parks and recreation	10,475	10,510	-	-	10,475	10,510
Interest on long-term debt	5,032	5,010	-	-	5,032	5,010
Water and sewer	-	-	37,665	38,216	37,665	38,216
Drainage utility	-	-	1,806	2,437	1,806	2,437
Municipal airport	-	-	1,922	1,766	1,922	1,766
Total expenses	137,521	135,083	41,393	42,419	178,914	177,502
Increase (decrease) in net assets before transfers	(9,447)	(5,309)	8,590	8,525	(857)	3,216
Transfers	4,310	4,873	(4,310)	(4,873)	-	-
Increase (decrease) in net assets	(5,137)	(436)	4,280	3,652	(857)	3,216
Net assets - October 1, 2011	168,331	168,767	140,944	137,292	309,275	306,059
Net assets - September 30, 2012	\$ 163,194	\$ 168,331	\$ 145,224	\$ 140,944	\$ 308,418	\$ 309,275

Governmental Activities

Governmental activities decreased the City of Mesquite's net assets by \$5.1 million.

The City's program revenues from governmental activities decreased approximately \$2.4 million (4.8 percent) during the year. Charges for services increased approximately \$584 thousand, operating grants and contributions decreased approximately \$1.2 million and capital grants and contributions decreased approximately \$1.8 million. The increase in charges for services was the result of an increase in Parks and Recreation activity fees of \$163 thousand due to increased program activity and an increase in ambulance fees of \$421 thousand as a result of an increase in ambulance receivables at year-end and corresponding entry

from deferred revenue at the government wide statement level. Operating grants and contributions decreased due to contributions for traffic and signal projects from TxDOT and the North Central Texas Council of Governments (NCTCOG) for \$420 thousand and \$975 thousand respectively in fiscal year 2011 that were not repeated in fiscal year 2012. Capital grants and contributions decreased due to a contribution in Parks and Recreation from the Texas Department of Transportation Regional Toll Revenue funds in fiscal year 2011 for \$524 thousand that was not repeated in fiscal year 2012; a contribution in Parks and Recreation for an elderly transportation program bus in fiscal year 2011 for approximately \$140 thousand that was not repeated in fiscal year 2012; less grant spending in emergency management grants by \$590 thousand as compared to fiscal year 2011; street project contributions received in fiscal year 2011 for approximately \$303 thousand that were not repeated in fiscal year 2012; and grant spending in fiscal year 2011 for an energy efficiency grant program for approximately \$163 thousand that was not repeated in fiscal year 2012.

General revenues of the City's governmental activities increased \$667 thousand (.83 percent) during the year. General revenue from property taxes decreased \$785 thousand due to lower property tax values for the year. Sale of capital assets resulted in a net gain of \$109 thousand as compared to a net loss in fiscal year 2011 of \$327 thousand. Sales tax revenues increased \$1.3 million.

Expenses for the City's governmental activities experienced a net increase of \$2.4 million (1.8 percent) compared with the prior fiscal year. The major increases were in General Government (\$3.5 million), Public Works (\$1.3 million), Fire Service (\$798 thousand), Housing and Community Services (\$741 thousand), and Community Development (\$686 thousand). These increases were offset by a decrease in Field Services (\$4.4 million) and Library Services (\$195 thousand). The increase in General Government was due to a large payment from the Town Centre TIF for the Town East Mall capital project reimbursement of approximately \$5.5 million which was offset by less spending in the General fund for tax incentive payments and capital outlay. The increase in Public Works was due to increased capital outlay activity and increased depreciation expense. The increase in Fire Services was due to an increase to accrued compensated absence reserve and an increase in the allocation of the internal service fund activity for fiscal year 2012. Housing and Community Services increased due to an increase in the Housing voucher grant program activity. The Community Development increase was due to increased capital outlay activity. Field Services decreased due to a decrease in capital outlay activity in fiscal year 2012 compared to fiscal year 2011.

Business-type Activities

Business-type activities increased the City of Mesquite's net assets by \$4.3 million.

The City's overall revenues for business-type activities decreased by \$961 thousand (1.8 percent) during the fiscal year. The majority of the program revenues for the City's business-type activities are from its water and sewer operations. Water and sewer customer charges decreased \$1.7 million due to less consumption of City water customers due to drought induced watering restrictions. The decrease in customer charges was offset by an increase in capital grants and contributions of \$725 thousand. The increase in capital grants and contributions was due to more contributions by developers in the Water and Sewer fund.

Expenses attributable to the business-type activities decreased approximately \$1 million (2.4 percent) this fiscal year. The decrease was primarily due to a credit from the North Texas Municipal Water District (NTMWD) of \$1.0 million for the City's share of wastewater cost savings from NTMWD allocated to member cities. Net transfers out for fiscal year 2012 were less than fiscal year 2011 by \$563 thousand. In 2010/11 there was a transfer in to the Municipal Airport fund for \$168 thousand for assets purchased by the City's governmental type funds. There was a similar transfer in 2011/12 but for \$748 thousand.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$53.7 million. Approximately 30 percent of this total amount (\$16 million) constitutes unassigned fund balance. The remainder of the fund balance is comprised of \$962 thousand for nonspendable, which represents funds committed to pay for prepaid and inventory items, \$34 million for restricted, which represents funds restricted for specific purposes by their providers (such as grantors, bondholders, and higher levels of government), and \$2 million for assigned, which represents amounts the City intends to use for specific purposes (such as encumbrances, promotion of tourism and capital projects). The fund balance for all governmental funds decreased by \$1.2 million from the previous fiscal year. This decrease is explained below individually by fund.

The General Fund is the chief operating fund of the City of Mesquite. At the end of the current fiscal year, unassigned fund balance of the General fund was \$16 million while the total fund balance was at \$17 million. The total fund balance increased by \$21 thousand. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 16.4 percent of total General Fund expenditures and transfers out, while the total fund balance represents 17.5 percent of that same amount. By the City's adopted fund balance policy, fund balance is required to be maintained at 15 percent of General Fund expenditures.

In the General Fund, total revenues increased \$400 thousand from the prior year. Ad valorem taxes decreased \$743 thousand due to a decrease in assessed property values. Sales tax revenue increased \$943 thousand as we started to see a slow turn around in the local economy. Charges for services increased \$181 thousand largely due to Parks and Recreation program fees due to increased activity in Parks and Recreation programs throughout the year. On the expenditure side, the actual expenditures decreased \$1.2 million. The main decreases were in General government, \$1 million, due to an overall effort to reduce spending, less tax incentive payments in fiscal year 2012 and less insurance cost. Net transfers out were more in fiscal year 2012 by \$898 thousand. This is due to an increase in transfer for scheduled debt service payments and a transfer to the capital projects fund of \$300,000 that was not made in fiscal year 2011.

The Housing Grants Fund is a major special revenue fund used to account for funds awarded the City by the U. S. Department of Housing and Urban Development under their housing assistance program. The fund balance is \$1.4 million at the end of the year. Fund balance decreased by \$354 thousand due to program spending in excess of program funding during the year. There was more participation in the voucher program during the year. In fiscal year 2011 program revenues exceeded program spending and the excess was carried over to fiscal year 2012 for spending.

The Local Finance capital projects fund is reported as a major fund in fiscal year 2012 and is used to account for capital project expenditures from the proceeds of local revenue sources. Fund balance at year end is \$11.7 million, \$9.6 million of which is restricted for various capital projects and specified spending and \$2.1 million is assigned for other capital projects identified by the City. The fund balance decreased \$3.2 million which is due to timing fluctuations of capital project spending from year to year. Project spending carries over from year to year depending on the scheduled activity.

The Bond Finance capital projects fund is a major fund used to account for capital project expenditures from the proceeds of governmental debt. Fund balance at year end is \$11.1 million, all of which is restricted for

use for the capital projects approved within the various bond issues. The fund balance decreased \$318 thousand which is due to timing fluctuations of capital project spending from year to year.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$16.4 million and those for the Drainage Utility District amounted to \$1.3 million. The total change in net assets for both funds was an increase of \$3.7 million and an increase of \$406 thousand, respectively. The factors concerning the finances of the Water and Sewer fund have already been addressed in the discussion of the City of Mesquite's business-type activities. The Drainage Utility District fund operating results were consistent with prior year except for a decrease in contractual services of \$565 thousand and a decrease in interest expense of \$117 thousand. The decrease in contractual services was due to a payment in fiscal year 2011 for a settled general liability claim that was not repeated on fiscal year 2012.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in budgeted revenues from the original budget of \$1.1 million and an increase in budgeted expenditures from the original budget of \$485 thousand. The increases in budgeted revenues was to reflect increased collections of sales tax revenue during the year by approximately \$581 thousand and increased collection of fines and forfeitures during the year by approximately \$508 thousand. The main increase in expenditures was in Police services (\$646 thousand) which was offset by a decrease in General government (\$100 thousand). The increase in Police services was to cover increased costs in salaries and wages due to overtime not offset by work order credits as originally planned. The decrease in General government was from various departments in an effort to cut costs. The main budget variances were in General government due to less cost for insurance, Field services due to increased fuel costs, and Parks and recreation due to increased program costs. The increased program costs in Parks and recreation were offset by increased revenue in program fees which are part of charges for services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the City had over \$431 million (net of accumulated depreciation) invested in capital assets for its governmental and business-type activities in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. The total increase in the City of Mesquite's investment in capital assets (net of accumulated depreciation) was .51 percent for the current fiscal year.

**City of Mesquite's Capital Assets
(Net of Depreciation, in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 23,705	\$ 23,416	\$ 9,969	\$ 9,969	\$ 33,674	\$ 33,385
Construction in progress	20,233	15,664	23,197	15,167	43,430	30,831
Buildings	79,260	80,430	4,524	4,666	83,784	85,096
Infrastructure	92,302	96,653	148,150	150,529	240,452	247,182
Improvements	8,382	9,069	378	407	8,760	9,476
Equipment	19,079	21,564	2,162	1,620	21,241	23,184
Totals	\$ 242,961	\$ 246,796	\$ 188,380	\$ 182,358	\$ 431,341	\$ 429,154

Major capital asset events during the current fiscal year include the following:

- Approximately \$12.5 million was expended for capital projects in 2012 and \$3 million was completed and placed in service.
- Over \$3.3 million was expended for transportation and street and alley projects including continuing work on concrete street rehab projects, alley reconstruction, Pioneer and Hillview Road construction and street lighting projects.
- Approximately \$210 thousand was expended for renovations at the Convention Center and Exhibit Hall.
- Over \$500 thousand was spent on Parks and Recreation capital projects for items such as playground equipment replacement, the Hike and Bike Trail, Lawson Historical Park, and recreation center renovations.
- Current year capital outlay for the water and sewer system capital projects was \$7.4 million and \$748 thousand of infrastructure and equipment was completed and placed into service.
- The Mesquite Municipal Airport current year capital outlay for projects was \$748 thousand for the start of construction on the air traffic control tower.

Additional information on the City of Mesquite's capital assets can be found in Note 5 of the Notes to the Basic Financial Statements.

Debt Administration

At year-end, the City had \$194.4 million in net bonded debt outstanding. Of this total amount, \$117.5 million or 60 percent is comprised of bonded debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured by specified revenue sources (i.e., revenue bonds).

**City of Mesquite's Outstanding Net Bonded Debt
General Obligation and Revenue Bonds (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation	\$ 36,081	\$ 35,677	\$ -	\$ -	\$ 36,081	\$ 35,677
Certificates of obligation	79,950	77,115	-	-	79,950	77,115
Public property finance contractual obligations	1,505	3,075	-	-	1,505	3,075
Revenue bonds	<u>-</u>	<u>-</u>	<u>76,823</u>	<u>78,054</u>	<u>76,823</u>	<u>78,054</u>
Totals	<u>\$ 117,536</u>	<u>\$ 115,867</u>	<u>\$ 76,823</u>	<u>\$ 78,054</u>	<u>\$ 194,359</u>	<u>\$ 193,921</u>

During the fiscal year, the City had three debt issuances. The first debt issue was for \$3.8 million in general obligation debt to advance refund prior tax exempt bonds. The second debt issue was for \$7.2 million of certificate of obligation debt for constructing and improving streets, roads, and alleys including related drainage, signalization, landscaping, lighting and signage, major repairs and renovations to existing municipal buildings, acquisition of equipment and vehicles for various City departments, acquisition of computer equipment and software for various City departments, and paying for legal, fiscal, engineering and other professional fees in connection with such projects. The third debt issue was for \$7.9 million of revenue bonds for water and sewer improvements as well as to refund prior water and sewer debt issues.

Standard and Poor's Rating Services assigned its 'AA' long-term rating to the city's series 2012 general obligation refunding bonds and series 2012 combination tax and limited surplus revenue certificates of obligation. In addition, Standard and Poor's affirmed its 'AA' long-term and underlying rating on the city's outstanding general obligation debt. Standard and Poor's Rating Services assigned its 'AA' rating and stable outlook to the city's series 2012 waterworks and sewer system revenue refunding and improvement bonds. At the same time, Standard and Poor's affirmed its 'AA' rating on the city's existing system revenue debt.

Additional information on the City's long-term bonded debt can be found in Note 7 of the Notes to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In this coming fiscal year the City's budget will continue to be impacted by the economic downturn. Although we are seeing signs of recovery we are by no means back to where we were before the recession began. On the positive side, the City has seen continued growth in its retail and industrial communities.

In the 2012-13 budget General Fund revenues and transfers in are projected to decrease by 0.2 percent from the 2011-12 final budget with the majority of this decrease coming from general property tax revenues. General property tax revenue (Ad valorem tax revenue) is determined by two major factors: the total assessed property value established by the Dallas Central Appraisal District and the tax rate set by City Council. Certified assessed valuations decreased 2.4 percent over the preceding year while the City tax rate will remain the same at \$.64 per \$100 of assessed valuation. General sales tax receipts are projected to decrease slightly over the prior year's receipts. This revenue source comprises 27.6 percent of General Fund revenues and transfers in and is the most volatile and subject to decline if the economic slowdown worsens. Charges for services revenues are projected to increase 2.4 percent over last year along with intergovernmental revenues at a 51 percent increase due to MTED federal grant monies to purchase new buses. The 2012-13 budget

includes other modest increases to some of the other revenue line items that make up the remaining change from the previous year.

General Fund expenditures and transfers out are budgeted at a .2 percent decrease over the 2011-12 final budget. The 2012-13 budget includes no raises for employees and only the required step increases for firefighters and police officers with less than five years of service. Parks and recreation expenditures are projected to decrease by 24 percent due to increased support from the Mesquite Quality of Life Corporation (4B Sales Tax) Fund. There are other increases and decreases between the expenditure categories that offset each other to create the overall budget decrease. Most fluctuations are in budgeted capital outlay items that vary from year to year.

Total fund balance for the General Fund is projected to remain the same in fiscal year 2013. The projected ending fund balance is approximately 17.5 percent of budgeted expenditures and transfers out which is greater than the required minimum set by the City's fund balance policy of 15 percent.

The Water and Sewer Fund budget assumes no rate increases for both water and sewer charge for fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Finance Director, at P. O. Box 850137, Mesquite, Texas 75185-0137, call (972) 216-6287 or e-mail at dmol@cityofmesquite.com.

MESQUITE
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City of Mesquite, Texas

**Statement of Net Assets
September 30, 2012**

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Pooled cash and investments	\$ 50,460,651	\$ 30,469,641	\$ 80,930,292
Receivables (net of allowance for uncollectibles)	15,075,253	9,374,704	24,449,957
Internal balances	624,409	(624,409)	-
Inventory	858,464	464,409	1,322,873
Prepays and other assets	566,966	1,293,323	1,860,289
Accrued interest	67,363	7,030	74,393
Net other post employment benefit (OPEB) asset	636,996	-	636,996
Net pension benefit asset	451,488	-	451,488
Capital assets-			
Land and construction in progress	43,937,874	33,165,386	77,103,260
Other capital assets (net of accumulated depreciation)	<u>199,023,012</u>	<u>155,213,790</u>	<u>354,236,802</u>
Total Assets	<u>311,702,476</u>	<u>229,363,874</u>	<u>541,066,350</u>
LIABILITIES:			
Accounts payable	\$ 4,820,638	\$ 2,323,817	\$ 7,144,455
Accrued interest payable	728,642	251,350	979,992
Deposits and other liabilities	1,157,875	3,451,097	4,608,972
Long-term liabilities:			
Due within one year:			
Capital lease payable	81,619	15,648	97,267
Bonds payable	5,880,000	6,050,000	11,930,000
Notes payable	531,137	-	531,137
Accrued compensated absences	6,677,547	364,554	7,042,101
Estimated claims payable	1,116,070	-	1,116,070
Due in more than one year:			
Capital lease payable	78,809	41,052	119,861
Bonds payable	111,656,281	70,773,149	182,429,430
Notes payable	2,889,778	-	2,889,778
Accrued compensated absences	11,912,286	869,542	12,781,828
Estimated claims payable	<u>977,541</u>	<u>-</u>	<u>977,541</u>
Total Liabilities	<u>148,508,223</u>	<u>84,140,209</u>	<u>232,648,432</u>
NET ASSETS:			
Invested in capital assets, net of related debt	136,034,295	125,070,146	261,104,441
Restricted for:			
Capital projects	6,283,004	-	6,283,004
Housing grants	1,362,409	-	1,362,409
Debt service	56,293	3,063,593	3,119,886
Unrestricted	<u>19,458,252</u>	<u>17,089,926</u>	<u>36,548,178</u>
Total Net Assets	<u>\$ 163,194,253</u>	<u>\$ 145,223,665</u>	<u>\$ 308,417,918</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Activities

For the Year Ended September 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTION / PROGRAM ACTIVITIES:				
Governmental activities:				
General government	\$ 26,027,499	\$ 6,047,578	\$ -	\$ -
Fire services	25,330,106	2,267,419	23,300	378,776
Police services	31,995,111	5,764,374	193,803	-
Field services	14,348,036	7,669,694	-	9,944
Public works	3,766,192	2,392,981	633,354	-
Community development	3,705,795	4,361,407	474,613	68,393
Housing & community services	14,899,677	234,763	12,846,466	503,114
Library services	1,941,815	70,520	1,747	-
Parks and recreation	10,475,333	2,448,508	442,639	-
Interest on long-term debt	5,032,054	-	-	-
Total governmental activities	<u>137,521,618</u>	<u>31,257,244</u>	<u>14,615,922</u>	<u>960,227</u>
Business-type activities:				
Water and sewer	37,664,799	44,230,647	-	1,828,014
Drainage utility	1,806,219	2,196,303	-	10,595
Municipal airport	1,922,020	1,567,996	-	34,980
Total business-type activities	<u>41,393,038</u>	<u>47,994,946</u>	<u>-</u>	<u>1,873,589</u>
Total function / program activities	<u>\$ 178,914,656</u>	<u>\$ 79,252,190</u>	<u>\$ 14,615,922</u>	<u>\$ 2,833,816</u>
General revenues:				
Ad valorem taxes				
Gross receipts taxes				
Sales taxes				
Sale of capital assets				
Investment income				
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 (Expenses) Revenues and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (19,979,921)	\$ -	\$ (19,979,921)
(22,660,611)	-	(22,660,611)
(26,036,934)	-	(26,036,934)
(6,668,398)	-	(6,668,398)
(739,857)	-	(739,857)
1,198,618	-	1,198,618
(1,315,334)	-	(1,315,334)
(1,869,548)	-	(1,869,548)
(7,584,186)	-	(7,584,186)
<u>(5,032,054)</u>	<u>-</u>	<u>(5,032,054)</u>
<u>(90,688,225)</u>	<u>-</u>	<u>(90,688,225)</u>
-	8,393,862	8,393,862
-	400,679	400,679
-	<u>(319,044)</u>	<u>(319,044)</u>
-	<u>8,475,497</u>	<u>8,475,497</u>
<u>(90,688,225)</u>	<u>8,475,497</u>	<u>(82,212,728)</u>
35,786,825	-	35,786,825
7,760,389	-	7,760,389
37,439,889	-	37,439,889
109,486	41,117	150,603
144,719	72,989	217,708
<u>4,310,223</u>	<u>(4,310,223)</u>	<u>-</u>
<u>85,551,531</u>	<u>(4,196,117)</u>	<u>81,355,414</u>
(5,136,694)	4,279,380	(857,314)
<u>168,330,947</u>	<u>140,944,285</u>	<u>309,275,232</u>
<u>\$ 163,194,253</u>	<u>\$ 145,223,665</u>	<u>\$ 308,417,918</u>

City of Mesquite, Texas

**Balance Sheet - Governmental Funds
September 30, 2012**

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Bond Finance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Pooled cash and investments	\$ 12,112,388	\$ 1,385,129	\$ 12,102,937	\$ 11,341,798	\$ 11,261,926	\$ 48,204,178
Receivables (net of allowance):						
Accounts receivable	4,721,854	40,896	-	53,788	-	4,816,538
Ad valorem taxes	1,272,888	-	-	-	-	1,272,888
Other taxes receivable	1,909,096	-	-	-	-	1,909,096
Assessments	-	-	-	341,888	-	341,888
Intergovernmental	4,674,421	-	-	-	2,060,422	6,734,843
Due from other funds	210,787	-	-	-	-	210,787
Inventory	858,464	-	-	-	-	858,464
Prepays	103,903	-	-	-	2,688	106,591
Accrued interest	8,104	1,516	552	39,019	17,002	66,193
	<u> </u>	<u> </u>				
Total Assets	<u>\$ 25,871,905</u>	<u>\$ 1,427,541</u>	<u>\$ 12,103,489</u>	<u>\$ 11,776,493</u>	<u>\$ 13,342,038</u>	<u>\$ 64,521,466</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	\$ 3,410,624	\$ 24,236	\$ 96,826	\$ 98,397	\$ 127,074	\$ 3,757,157
Contracts payable	-	-	1,920	254,097	252,635	508,652
Deposits	520,941	-	281,889	-	355,045	1,157,875
Due to other funds	-	-	-	-	82,654	82,654
Deferred revenues	4,901,822	40,896	-	367,688	-	5,310,406
	<u> </u>	<u> </u>				
Total Liabilities	<u>8,833,387</u>	<u>65,132</u>	<u>380,635</u>	<u>720,182</u>	<u>817,408</u>	<u>10,816,744</u>
Fund Balances:						
Nonspendable	962,367	-	-	-	2,688	965,055
Restricted	-	1,362,409	9,624,177	11,056,311	12,278,443	34,321,340
Assigned	50,127	-	2,098,677	-	243,499	2,392,303
Unassigned	16,026,024	-	-	-	-	16,026,024
	<u> </u>	<u> </u>				
Total Fund Balances	<u>17,038,518</u>	<u>1,362,409</u>	<u>11,722,854</u>	<u>11,056,311</u>	<u>12,524,630</u>	<u>53,704,722</u>
Total Liabilities and Fund Balances	<u>\$ 25,871,905</u>	<u>\$ 1,427,541</u>	<u>\$ 12,103,489</u>	<u>\$ 11,776,493</u>	<u>\$ 13,342,038</u>	<u>\$ 64,521,466</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Reconciliation of the Balance Sheet
of Governmental Funds
To the Statement of Net Assets
As of September 30, 2012**

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

Total fund balance per balance sheet	\$ 53,704,722
Net other post employment benefit asset in the governmental type activities is not a current financial resource and therefore is not reported in the governmental funds balance sheet.	636,996
Net pension benefit asset in the governmental type activities is not a current financial resource and therefore is not reported in the governmental funds balance sheet.	451,488
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	242,960,890
Other long-term assets less related uncollectibles are not available to pay for current period expenditures and therefore are offset by deferred revenues in the governmental funds.	5,310,406
Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. The assets and liabilities are included in governmental activities in the statement of net assets.	584,593
Accrued interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the balance sheet of governmental funds.	(728,642)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities consist of:	
General obligation bonds payable	(37,545,000)
Certificate of obligation bonds payable	(79,950,000)
Public property finance contractual obligations payable	(1,505,000)
Notes Payable	(3,420,915)
Capital lease payable	(160,428)
Less: deferred amounts	1,444,976
Accrued compensated absences	<u>(18,589,833)</u>
	(139,726,200)
Net assets of governmental activities	<u>\$ 163,194,253</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012**

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Bond Finance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:						
Taxes-						
Ad valorem	\$ 35,827,628	\$ -	\$ -	\$ -	\$ -	\$ 35,827,628
Gross receipts	7,507,354	-	-	-	253,035	7,760,389
Sales	27,440,269	-	-	-	9,999,620	37,439,889
Licenses and permits	1,086,202	-	-	-	3,575	1,089,777
Fines and forfeitures	3,327,581	-	-	-	1,194,661	4,522,242
Investment income	65,390	1,015	19,215	28,675	23,253	137,548
Charges for services	12,839,449	-	3,189,120	68,886	991,404	17,088,859
Intergovernmental	437,604	12,149,120	-	-	2,206,985	14,793,709
Contributions and donations	342,250	-	4,686	-	432,530	779,466
Other revenues	846,328	52,655	2,056,340	1,200	262,490	3,219,013
	<u>89,720,055</u>	<u>12,202,790</u>	<u>5,269,361</u>	<u>98,761</u>	<u>15,367,553</u>	<u>122,658,520</u>
Total Revenues						
EXPENDITURES:						
Current-						
General government	11,532,468	-	5,952,239	382,592	978,149	18,845,448
Fire services	23,203,516	-	-	17,450	386,954	23,607,920
Police services	30,031,841	-	-	3,326	900,512	30,935,679
Field services	10,366,214	-	-	601,004	-	10,967,218
Public works	2,219,881	-	82,531	24,804	383,960	2,711,176
Community development	2,816,723	-	7,988	-	840,679	3,665,390
Library services	1,925,131	-	-	-	1,967	1,927,098
Parks and recreation	4,157,912	-	-	-	5,456,039	9,613,951
Housing and community services	1,778,765	12,406,053	-	-	472,486	14,657,304
Capital outlay	-	-	1,311,015	4,248,812	2,251,796	7,811,623
Debt service						
Principal	-	-	454,250	-	5,860,000	6,314,250
Interest and fiscal charges	-	-	147,547	-	4,982,586	5,130,133
Bond issuance costs	-	-	-	192,641	-	192,641
	<u>88,032,451</u>	<u>12,406,053</u>	<u>7,955,570</u>	<u>5,470,629</u>	<u>22,515,128</u>	<u>136,379,831</u>
Total Expenditures						
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,687,604</u>	<u>(203,263)</u>	<u>(2,686,209)</u>	<u>(5,371,868)</u>	<u>(7,147,575)</u>	<u>(13,721,311)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	7,905,587	-	312,740	-	10,837,729	19,056,056
Transfers out	(9,572,028)	(151,000)	(826,123)	(2,458,433)	(990,000)	(13,997,584)
Issuance of debt	-	-	-	7,235,000	-	7,235,000
Issuance of refunding debt	-	-	-	3,765,000	-	3,765,000
Premium on bonds issued	-	-	-	236,428	-	236,428
Payment to refunding bond agent	-	-	-	(3,723,892)	-	(3,723,892)
	<u>(1,666,441)</u>	<u>(151,000)</u>	<u>(513,383)</u>	<u>5,054,103</u>	<u>9,847,729</u>	<u>12,571,008</u>
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCES	21,163	(354,263)	(3,199,592)	(317,765)	2,700,154	(1,150,303)
FUND BALANCES AT BEGINNING OF YEAR	<u>17,017,355</u>	<u>1,716,672</u>	<u>14,922,446</u>	<u>11,374,076</u>	<u>9,824,476</u>	<u>54,855,025</u>
FUND BALANCES AT END OF YEAR	<u>\$ 17,038,518</u>	<u>\$ 1,362,409</u>	<u>\$ 11,722,854</u>	<u>\$ 11,056,311</u>	<u>\$ 12,524,630</u>	<u>\$ 53,704,722</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2012**

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

Net change in fund balance - total governmental funds	\$ (1,150,303)
<p>All payments for other post employment benefits for the year are recorded as expenditures. However, in the government-wide statement of activities only the actuarially required contribution is considered expense. Any excess payment is recorded as an asset. Change in net other post employment benefits (OPEB) asset.</p>	
	(63,092)
<p>All payments for pension benefits for the year are recorded as expenditures. However, in the government-wide statement of activities only the actuarially required contribution is considered expense. Any excess payment is recorded as an asset. Change in net pension benefit asset.</p>	
	451,488
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlay expenditures	9,545,445
Depreciation expense	<u>(13,390,773)</u>
	(3,845,328)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment is to recognize contributions of capital assets by developers.</p>	
	9,944
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment is to recognize the net change in deferred revenues.</p>	
	684,814
<p>The issuance of long-term debt (e.g. bond proceeds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	
Principal amount of debt issued	(11,000,000)
Refunded bond debt amortization	(245,143)
Principal amount of debt paid to bondholders	9,370,000
Principal amount of capital lease paid	78,018
Principal amount of notes paid	510,797
Net change in accrued interest payable	51,796
Net deferred offering costs and related debt issuance items	<u>216,389</u>
	(1,018,143)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This adjustment is to reflect the net change in accrued compensated absences.</p>	
	208,646
<p>Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities.</p>	
	<u>(414,720)</u>
Change in net assets of governmental activities	<u>\$ (5,136,694)</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes-				
Ad valorem	\$ 35,841,000	\$ 35,990,000	\$ 35,827,628	\$ (162,372)
Gross receipts	7,792,500	7,722,500	7,507,354	(215,146)
Sales	26,530,000	27,111,000	27,440,269	329,269
Licenses and permits	1,119,500	1,139,000	1,086,202	(52,798)
Fines and forfeitures	2,695,500	3,203,500	3,327,581	124,081
Investment income	120,000	70,000	65,390	(4,610)
Charges for services	12,686,750	12,837,850	12,839,449	1,599
Intergovernmental	663,000	405,000	437,604	32,604
Contributions and donations	401,500	393,900	342,250	(51,650)
Other revenues	823,000	861,800	846,328	(15,472)
TOTAL REVENUES	<u>88,672,750</u>	<u>89,734,550</u>	<u>89,720,055</u>	<u>(14,495)</u>
EXPENDITURES:				
General government	11,926,058	11,825,218	11,532,468	292,750
Fire services	23,177,987	23,210,535	23,203,516	7,019
Police services	29,319,937	29,966,274	30,031,841	(65,567)
Field services	10,136,339	10,167,193	10,366,214	(199,021)
Public works	2,422,813	2,406,555	2,219,881	186,674
Community development	2,813,399	2,802,606	2,816,723	(14,117)
Library services	2,004,589	1,998,770	1,925,131	73,639
Parks and recreation	3,752,088	3,697,522	4,157,912	(460,390)
Housing and community services	1,829,113	1,792,607	1,778,765	13,842
TOTAL EXPENDITURES	<u>87,382,323</u>	<u>87,867,280</u>	<u>88,032,451</u>	<u>(165,171)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,290,427</u>	<u>1,867,270</u>	<u>1,687,604</u>	<u>(179,666)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	7,980,000	7,895,000	7,905,587	10,587
Transfer out	(9,259,288)	(9,759,288)	(9,572,028)	187,260
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,279,288)</u>	<u>(1,864,288)</u>	<u>(1,666,441)</u>	<u>197,847</u>
NET CHANGE IN FUND BALANCES	<u>\$ 11,139</u>	<u>\$ 2,982</u>	<u>21,163</u>	<u>\$ 18,181</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>17,017,355</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 17,038,518</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Housing Grants Special Revenue Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment income	\$ 2,000	\$ 2,000	\$ 1,015	\$ (985)
Intergovernmental	12,243,502	12,231,591	12,149,120	(82,471)
Other revenues	<u>40,000</u>	<u>40,000</u>	<u>52,655</u>	<u>12,655</u>
TOTAL REVENUES	<u>12,285,502</u>	<u>12,273,591</u>	<u>12,202,790</u>	<u>(70,801)</u>
EXPENDITURES:				
Current-				
Housing and community services	<u>12,135,502</u>	<u>12,123,591</u>	<u>12,406,053</u>	<u>(282,462)</u>
TOTAL EXPENDITURES	<u>12,135,502</u>	<u>12,123,591</u>	<u>12,406,053</u>	<u>(282,462)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>150,000</u>	<u>150,000</u>	<u>(203,263)</u>	<u>(353,263)</u>
OTHER FINANCING USES:				
Transfers out	<u>(150,000)</u>	<u>(150,000)</u>	<u>(151,000)</u>	<u>(1,000)</u>
TOTAL OTHER FINANCING USES	<u>(150,000)</u>	<u>(150,000)</u>	<u>(151,000)</u>	<u>(1,000)</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>(354,263)</u>	<u>\$ (354,263)</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>1,716,672</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 1,362,409</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Net Assets
Proprietary Funds
September 30, 2012**

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Fund		
	Water and Sewer	Drainage Utility District	Municipal Airport	Totals	
ASSETS:					
Current assets:					
Pooled cash and investments	\$ 10,205,372	\$ 1,191,604	\$ 200	\$ 11,397,176	\$ 2,256,473
Restricted pooled cash and investments	18,263,757	283,569	-	18,547,326	-
Receivables (net of allowance for uncollectibles)	9,123,235	135,757	115,712	9,374,704	-
Inventory	398,970	-	65,439	464,409	-
Prepays and other assets	1,184,004	109,319	-	1,293,323	479,118
Accrued interest	7,030	-	-	7,030	1,165
Total current assets	<u>39,182,368</u>	<u>1,720,249</u>	<u>181,351</u>	<u>41,083,968</u>	<u>2,736,756</u>
Noncurrent assets:					
Revenue bond reserve-					
Pooled cash and investments	-	525,139	-	525,139	-
Capital assets-					
Land and construction in progress	22,912,830	2,079,438	8,173,118	33,165,386	-
Other capital assets (net of accumulated depreciation)	120,758,401	26,086,600	8,368,789	155,213,790	-
Total noncurrent assets	<u>143,671,231</u>	<u>28,691,177</u>	<u>16,541,907</u>	<u>188,904,315</u>	<u>-</u>
Total Assets	<u>182,853,599</u>	<u>30,411,426</u>	<u>16,723,258</u>	<u>229,988,283</u>	<u>2,736,756</u>
LIABILITIES:					
Current liabilities:					
Accounts payable	1,329,986	42,723	40,180	1,412,889	554,828
Estimated claims payable	-	-	-	-	1,116,070
Due to other funds	-	-	128,133	128,133	-
Deposits and other liabilities	3,418,528	1,056	31,513	3,451,097	-
Capital lease payable	15,648	-	-	15,648	-
Accrued compensated absences	333,759	30,795	-	364,554	-
Total current liabilities	<u>5,097,921</u>	<u>74,574</u>	<u>199,826</u>	<u>5,372,321</u>	<u>1,670,898</u>
Current liabilities payable from restricted assets:					
Accounts payable	910,928	-	-	910,928	-
Accrued interest payable	242,562	8,788	-	251,350	-
Bonds payable	5,435,000	615,000	-	6,050,000	-
Total current liabilities payable from restricted assets	<u>6,588,490</u>	<u>623,788</u>	<u>-</u>	<u>7,212,278</u>	<u>-</u>
Total current liabilities	<u>11,686,411</u>	<u>698,362</u>	<u>199,826</u>	<u>12,584,599</u>	<u>1,670,898</u>
Noncurrent liabilities:					
Estimated claims payable	-	-	-	-	977,541
Capital lease payable	41,052	-	-	41,052	-
Bonds payable	67,426,323	3,346,826	-	70,773,149	-
Accrued compensated absences	747,944	72,911	48,687	869,542	-
Total noncurrent liabilities	<u>68,215,319</u>	<u>3,419,737</u>	<u>48,687</u>	<u>71,683,743</u>	<u>977,541</u>
Total Liabilities	<u>79,901,730</u>	<u>4,118,099</u>	<u>248,513</u>	<u>84,268,342</u>	<u>2,648,439</u>
NET ASSETS:					
Invested in capital assets, net of related debt	84,314,017	24,214,222	16,541,907	125,070,146	-
Restricted for debt service	2,273,683	789,910	-	3,063,593	-
Unrestricted	16,364,169	1,289,195	(67,162)	17,586,202	88,317
Total Net Assets	<u>\$ 102,951,869</u>	<u>\$ 26,293,327</u>	<u>\$ 16,474,745</u>	<u>\$ 145,719,941</u>	<u>\$ 88,317</u>

RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF NET ASSETS:

Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds (496,276)

Total Net Assets for Business Type Activities \$ 145,223,665

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2012**

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Fund		
	Water and Sewer	Drainage Utility District	Municipal Airport	Totals	
Operating revenues:					
Customer charges	\$ 44,230,647	\$ 2,196,303	\$ 1,567,996	\$ 47,994,946	\$ -
Contributions - City	-	-	-	-	11,825,240
Contributions - other	-	-	-	-	3,866,973
Total operating revenues	44,230,647	2,196,303	1,567,996	47,994,946	15,692,213
Operating expenses:					
Personal services	5,377,165	454,084	263,615	6,094,864	-
Supplies	401,939	274,548	908,475	1,584,962	-
Contractual services	24,557,649	184,181	268,048	25,009,878	16,146,126
Depreciation	4,074,415	739,972	481,882	5,296,269	-
Total operating expenses	34,411,168	1,652,785	1,922,020	37,985,973	16,146,126
Operating income (loss)	9,819,479	543,518	(354,024)	10,008,973	(453,913)
Nonoperating revenues (expenses):					
Investment income	68,099	4,890	-	72,989	7,171
Gain on sale of capital assets	41,117	-	-	41,117	-
Other nonoperating income	-	-	28,463	28,463	-
Interest expense	(3,106,276)	(122,621)	-	(3,228,897)	-
Other nonoperating expenses	(115,333)	(30,813)	-	(146,146)	-
Total nonoperating revenues (expenses)	(3,112,393)	(148,544)	28,463	(3,232,474)	7,171
Income (loss) before contributions and transfers	6,707,086	394,974	(325,561)	6,776,499	(446,742)
Capital contributions	1,828,014	10,595	754,766	2,593,375	-
Transfers out	(4,858,668)	-	(199,804)	(5,058,472)	-
Change in net assets	3,676,432	405,569	229,401	4,311,402	(446,742)
Total net assets - beginning	99,275,437	25,887,758	16,245,344		535,059
Total net assets - ending	\$ 102,951,869	\$ 26,293,327	\$ 16,474,745		\$ 88,317
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(32,022)	
Change in net assets of business-type activities				\$ 4,279,380	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Fund		
	Water and Sewer	Drainage Utility District	Municipal Airport	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 43,187,527	\$ 2,195,541	\$ 1,594,056	\$ 46,977,124	\$ -
Cash received from City funds	-	-	-	-	11,825,240
Cash received from other operating sources	-	-	-	-	3,866,973
Cash paid to suppliers for goods and services	(25,492,102)	(1,042,126)	(1,161,240)	(27,695,468)	(4,201,788)
Cash paid to employees for services	(5,366,982)	(457,471)	(261,375)	(6,085,828)	-
Cash paid to claimants	-	-	-	-	(11,191,987)
Net cash provided by operating activities	<u>12,328,443</u>	<u>695,944</u>	<u>171,441</u>	<u>13,195,828</u>	<u>298,438</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Grant revenues received for airport maintenance	-	-	28,463	28,463	-
Transfers out to other funds	(4,858,668)	-	(199,804)	(5,058,472)	-
Net cash used for noncapital financing activities	<u>(4,858,668)</u>	<u>-</u>	<u>(171,341)</u>	<u>(5,030,009)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the sale of revenue bonds	7,945,000	-	-	7,945,000	-
Premium from the sale of revenue bonds	247,472	-	-	247,472	-
Proceeds from the sale of capital assets	41,117	-	-	41,117	-
Acquisition and construction of capital assets	(8,253,607)	(188,644)	-	(8,442,251)	-
Principal paid on revenue bond maturities	(8,115,000)	(1,060,000)	-	(9,175,000)	-
Interest paid on revenue bonds	(3,140,013)	(125,114)	-	(3,265,127)	-
Principal paid on capital lease obligation	(14,594)	-	-	(14,594)	-
Bond issuance costs and other debt related activity	(369,926)	-	-	(369,926)	-
Net cash used for capital and related financing activities	<u>(11,659,551)</u>	<u>(1,373,758)</u>	<u>-</u>	<u>(13,033,309)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received on investments	<u>66,605</u>	<u>4,890</u>	<u>-</u>	<u>71,495</u>	<u>7,345</u>
Net cash provided by investing activities	<u>66,605</u>	<u>4,890</u>	<u>-</u>	<u>71,495</u>	<u>7,345</u>
NET INCREASE (DECREASE) IN POOLED CASH AND CASH EQUIVALENTS	(4,123,171)	(672,924)	100	(4,795,995)	305,783
POOLED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>32,592,300</u>	<u>2,673,236</u>	<u>100</u>	<u>35,265,636</u>	<u>1,950,690</u>
POOLED CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 28,469,129</u>	<u>\$ 2,000,312</u>	<u>\$ 200</u>	<u>\$ 30,469,641</u>	<u>\$ 2,256,473</u>
RECONCILIATION OF TOTAL POOLED CASH AND CASH EQUIVALENTS:					
Current assets:					
Pooled cash and investments	\$ 10,205,372	\$ 1,191,604	\$ 200	\$ 11,397,176	\$ 2,256,473
Restricted pooled cash and investments	18,263,757	283,569	-	18,547,326	-
Noncurrent assets:					
Revenue bond reserve-pooled cash and investments	-	525,139	-	525,139	-
	<u>\$ 28,469,129</u>	<u>\$ 2,000,312</u>	<u>\$ 200</u>	<u>\$ 30,469,641</u>	<u>\$ 2,256,473</u>

(Continued on following page)

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Fund		
	Water and Sewer	Drainage Utility District	Municipal Airport	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 9,819,479	\$ 543,518	\$ (354,024)	\$ 10,008,973	\$ (453,913)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities-					
Depreciation	4,074,415	739,972	481,882	5,296,269	-
Changes in assets and liabilities-					
(Increase)decrease in accounts receivable	(1,124,522)	(762)	(47,407)	(1,172,691)	-
(Increase)decrease in inventory	(69,375)	-	(16,732)	(86,107)	-
(Increase)decrease in prepaid items	-	-	-	-	(38,153)
Increase (decrease) in accounts payable	(456,660)	(583,397)	32,015	(1,008,042)	360,558
Increase(decrease) in estimated claims payable	-	-	-	-	429,946
Increase(decrease) in deposits	74,923	-	873	75,796	-
Increase(decrease) in due to other funds	-	-	72,594	72,594	-
Increase(decrease) in accrued compensated absences	10,183	(3,387)	2,240	9,036	-
Total adjustments	2,508,964	152,426	525,465	3,186,855	752,351
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 12,328,443	\$ 695,944	\$ 171,441	\$ 13,195,828	\$ 298,438
NONCASH CAPITAL ACTIVITIES:					
Contribution of capital assets from developers	\$ 1,828,014	\$ 10,595	\$ -	\$ 1,838,609	\$ -
Contribution of capital assets from government	-	-	754,766	754,766	-
Total noncash capital activities	\$ 1,828,014	\$ 10,595	\$ 754,766	\$ 2,593,375	\$ -

(Concluded)

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
September 30, 2012**

	<u>Agency Fund</u> Tax Clearing Fund
ASSETS:	
Current assets:	
Pooled cash and investments	\$ 103,117
Taxes receivable levied for other government (net of allowance for uncollectibles)	<u>3,623,208</u>
Total Assets	<u>\$ 3,726,325</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 103,117
Due to other governments	<u>3,623,208</u>
Total Liabilities	<u>\$ 3,726,325</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

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City of Mesquite, Texas

Notes to Basic Financial Statements

September 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mesquite, Texas (the "City") was incorporated on December 3, 1887. It has been a home rule charter city since August 1953, pursuant to Article XI, Section 5 of the State Constitution. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public services, culture, recreation, and community development.

The financial statements of the City have been prepared to conform to generally accepted accounting principles ("GAAP") as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below:

Reporting Entity-The City is a municipal corporation governed by an elected mayor and six-member Council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

The Quality of Life Corporation (the "Corporation") 4B Sales Tax Special Revenue Fund is presented as a "blended" fund in the financial statements. The Corporation is administered by a seven-member City Council appointed board of directors which are removable by the City Council at any time without cause. No more than four of the seven directors may be City Council members or City of Mesquite employees. Presently, one member of the Board is a City Council member with the remaining six members being residents who are neither City Council members nor City employees. The purpose of the Corporation is to study and fund permissible projects for public safety, transportation or parks and recreation purposes from a one-half of one percent general sales tax. The Corporation's activities are subject to Council approval and are for the exclusive benefit of the City. In this respect, the Corporation acts as a financing authority to obtain resources for the projects. When the project is completed the capital assets are owned by the City not the Corporation. Complete financial statements for the Quality of Life Corporation are available upon request from the City.

Included in the financial statements are the activities of other legally separate entities whose very limited activities have been combined in various governmental funds for financial statement presentation purposes. These include two Tax Increment Financing Districts which provide for public improvements within these districts, the Mesquite Cemetery Board which provides funds to maintain a small cemetery within the City, Historic Mesquite, Inc. which provides funding to maintain historical sites within the City, the Mesquite Arts Council which provides funding for arts and culture to the Mesquite Art Center, and Keep Mesquite Beautiful, Inc. which provides funding for local beautification projects within the City. The City does not have a majority position on these boards, however, the City does have the ability to influence the financial decisions of these groups in that City Council reviews and approves the annual budgets of these entities. The activity of these entities is almost entirely for the benefit of the City as well. Separate financial statements for

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

these entities are not available. Also included in the financial statements are the operating activities of the Mesquite Housing Finance Corporation, the Mesquite Health Facilities Corporation, and the Mesquite Industrial Development Corporation which provide services almost entirely to the primary government. These corporations have substantively the same governing body as the City. The issuance of conduit debt for the corporations is discussed in Note 12. Separate financial statements for these entities are not available.

Government-Wide Financial Statements- The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The effect of interfund activity has been removed from these statements with the exception of some vehicle maintenance charges and management information services provided to user departments. Governmental activities, which are partially supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Mesquite is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. This statement also demonstrates the degree to which the direct expenses of a given activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements- Fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All non-major funds are aggregated and presented in a single column. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Mesquite, like other local governments, uses fund accounting to aid financial management and demonstrate legal compliance.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains ten governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Housing Grants Special Revenue, Local Finance Capital Project and Bond Finance Capital Project funds, all of which are major funds. Data from the other six funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

the form of combining statements elsewhere in this report. Budgetary comparison schedules follow these combining statements for those nonmajor funds, which adopt annual budgets.

Proprietary funds are maintained for enterprise and internal service operations of the City. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer and the Drainage Utility District funds are considered to be major enterprise funds and the Municipal Airport is presented in a separate column as the only non-major enterprise fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health claims and general liability operations. The activity in these funds is allocated between governmental type activities and business type activities based on proportionate use for presentation in the government wide statements. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of these funds are not reflected in the government-wide financial statements because they are not available to support the City's own programs. The City reports only one fiduciary fund, an agency fund used to account for ad valorem taxes collected on behalf of the Mesquite Independent School District. The fiduciary fund, an agency fund, applies the accrual basis of accounting but has no measurement focus.

Measurement Focus and Basis of Accounting- The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. With the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) are reported on the statement of net assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the fiscal year-end except investment income, which is recorded as earned. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, accrued interest on long-term debt, as well as expenditures related to compensated absences are recorded only when the payment is due.

Those revenues susceptible to accrual in governmental funds are ad valorem taxes, gross receipts taxes, sales taxes, interest earned, certain charges for services, and intergovernmental revenues, if such revenues are both measurable and available as previously defined. Licenses and permits, and charges for services related to paving assessments and ambulance service billings are recognized when payment is received. The deferred revenues account is utilized in governmental funds to record earned amounts, which are unavailable to liquidate liabilities of the current period (i. e., not collectible within 60 days).

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, drainage utility and other proprietary operations are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses that do not meet this definition are reported as nonoperating revenues and expenses.

The City of Mesquite reports the following major governmental funds:

- The General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The Housing Grants special revenue fund is used to account for funds awarded the City by the U. S. Department of Housing and Urban Development ("HUD") under their housing assistance program (HAP).
- The Local Finance capital project fund is used to account for financial resources generated from local revenue sources to be expended for various capital projects. This fund includes the resources of the two Tax Increment Financing Districts as well as the Housing Finance, Health Facilities and Industrial Development Corporations. The individual projects within the Local Finance fund are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.
- The Bond Finance capital project fund is used to account for financial resources generated primarily from bond proceeds to be expended for various capital projects. The individual projects are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.

The City of Mesquite reports the following major proprietary funds:

- The Water and Sewer enterprise fund is used to account for the rendering of water and sewer services to the residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operation, maintenance, debt service, and billing and collecting.
- The Drainage Utility District enterprise fund is used to account for those expenditures incurred as a result of the federally mandated National Pollutant Discharge Elimination System ("NPDES") permit program. This federal program requires the City to educate the general public about pollutants and their presence in stormwater runoff; adopt a comprehensive storm water ordinance; operate a street sweeping program; design, establish and review stormwater drainage improvements; and monitor storm water quality. Funding for the District is from monthly drainage charges to commercial and residential customers, revenue bond proceeds and interest earnings.

Additionally, the City of Mesquite reports the following fiduciary fund:

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

- An agency fund is used to account for ad valorem taxes collected on behalf of the Mesquite Independent School District.

Budgetary Data- Budgets are a plan of financial operation providing an estimate of proposed expenditures for a given period and the proposed means of financing them. The budgetary process begins with City department heads (or, in the case of the Quality of Life Corporation, its Board of Directors) developing expenditure budget requests and revenue estimates in April for the fiscal year beginning the following October 1. These requests and estimates are then submitted to the City Manager for review and input. As required by City Charter, the City Manager is to have prepared an annual operating budget by August 15 for the General, Debt Service and certain budgeted Special Revenue funds. The proposed budget is then presented to the City Council for its consideration and adoption through passage of an ordinance.

Between the time the budget is made available to the public and the time it is legally adopted, the City Council provides for several public hearings to gather input from the public. During the public hearings, citizens are encouraged to offer their suggestions and ideas of what programs they would like to be included (or not included) in the budget. During the preparation of the 2011-2012 budget, the City Council conducted three public hearings and held numerous work sessions in an effort to obtain as much citizen input as possible. The adopted budget is reassessed by departments midway through the fiscal year and revenue and expenditure projections are revised. The City Manager then presents these revisions to the City Council for adoption, resulting in what is termed an amended budget. While infrequent, the City Council may amend the budget prior to or after this mid-year review. All revisions to the budget, however, must be adopted by ordinance. Unexpended appropriations lapse at fiscal year-end.

In 2011-2012 the City Council amended the budget in May and again in September. Individual amendments were not material in relation to the original appropriations. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that would increase total fund appropriations must be approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level.

Budgets for the General, Debt Service, and the following special revenue funds: Housing Grants, Quality of Life Corporation, Hotel/Motel, Confiscated Drug and Other Grants are legally adopted on a basis consistent with GAAP on the modified accrual basis of accounting. Accordingly, the budgetary comparison statements and schedules present actual expenditures on a basis consistent with the legally adopted budgets as amended. Capital Project funds are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.

Encumbrances- An encumbrance system is maintained in governmental funds to account for commitments resulting from approved purchase orders, contracts, or other forms of legal commitments. Encumbrances outstanding at year-end are reported as restricted or assigned fund balance depending on the nature of the encumbrance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Pooled Cash and Investments- Cash balances of all City funds, excluding the accounts payable account and payroll clearing account are pooled into one bank account in order to maximize investment opportunities. Negative balances, if applicable, incurred in pooled cash at year-end are treated as interfund receivables of the General Fund and interfund payables of the deficit fund.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

Investments purchased with pooled cash are classified as pooled cash and investments in the accompanying balance sheet and statement of net assets. Earnings from these investments are allocated monthly to each fund based on each fund's relative month-end cash and investment balance, except for the debt service fund, which is allocated to the General Fund. Investments are recorded at amortized cost, and at fiscal year-end investments with original maturity greater than one year are reflected at fair value on the accompanying balance sheet and statement of net assets.

The relationship of an individual fund to the pooled cash and investments account is essentially that of a demand deposit account. Individual funds can withdraw cash from the account as needed, and therefore all equity that the fund has in the pooled cash and investments account is highly liquid. For the purpose of the accompanying statement of cash flows, the City has chosen to reconcile to "pooled cash and investments," as all investments of the funds are regarded as cash equivalents. Deposit and investment risk disclosures are in accordance with GASB Statement No. 40 *Deposit and Investment Risk Disclosures*.

Interfund Receivables and Payables- Short-term amounts owed between funds are classified as "Due to/from other funds" in the fund financial statements. On the government-wide statement of net assets, payables and receivables within governmental and business-type activities are eliminated and balances between these activities are reported on a single line entitled "internal balances."

Inventory- Inventory is valued at cost using the first-in / first-out ("FIFO") method. Inventories are maintained on a perpetual inventory system and adjustments are made at fiscal year-end based upon a physical count. Inventory consists of expendable supplies held for consumption and are recorded as an expenditure upon consumption in governmental funds.

Prepaid Items- Payments made to vendors for services that will benefit periods beyond September 30, 2012, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are accounted for on the consumption basis in governmental funds.

Restricted Assets- Proceeds of Water and Sewer Fund and Drainage Utility District Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as both current and noncurrent assets in the City's financial accounting system because their use is limited by applicable bond covenants. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Capital Assets- Capital assets, which includes land, right-of-way, buildings, infrastructure, improvements, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Construction in progress is not depreciated until the assets are placed into service. Interest has not been capitalized during the construction period for proprietary capital assets as such amounts are not material.

The City's capitalization policy requires that assets capitalized have an original cost of \$5,000 or more and a useful life of at least five years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

Buildings	25 - 50 years
Infrastructure/improvements	15 - 50 years
Equipment	5 - 20 years

Estimated Claims Payable- Property, general liability, and workers' compensation insurance coverage is accounted for in the General Liability Fund, an internal service fund. At year-end, the estimated settlement value of claims reported and of claims incurred but not reported in excess of liability insurance limits is classified as estimated claims payable. Group health insurance is accounted for in the Health Claims Fund, an internal service fund. At year-end, an estimate of unpaid claims that were incurred prior to September 30, 2012 is accrued based on past claims experience.

Accrued Compensated Absences- City employees earn vacation and sick leave in varying amounts. Vacation leave accrues for employees with less than five years of service at the annual rate of 10 working days. Upon attaining five years of service, an additional five working days are awarded annually until 15 years of service when vacation leave is earned at an annual rate of 20 days. Employees with over 25 service years accrue 25 days annually. Any employee leaving the City in good standing following one year of continuous service is paid for accumulated vacation leave not to exceed 20 working days at their current pay rate. Sick leave accrues at an annual rate of 15 working days. Upon termination, unused accumulated sick leave is paid to employees with three to five years of service at one-third, employees with five to six years of service at two-thirds, and six years and over is paid all accumulated sick leave up to a maximum of 90 days. Police and firemen are reimbursed upon termination for all unused accumulated sick leave up to the maximum of 90 days no matter how long they were employed by the City as required by State Civil Service law.

The measurement of the liability for compensated absences was determined by applying a vesting method approach to accumulated vacation and sick leave balances at fiscal year-end and includes additional salary related payments for Social Security, Medicare, and retirement contributions, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. No liability is recorded in the fund statements of governmental funds unless they have matured, as payment of this liability will not be made with expendable available financial resources unless an employee has terminated employment as of the end of a fiscal year. In the government-wide financial statements and proprietary fund statements, the liability for employees with over 20 years of service is recorded as a current liability as these employees are eligible for retirement regardless of their age.

Long-Term Debt- In the government-wide financial statements and the fund level proprietary financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized using the interest method over the life of the bonds. In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs as expenditures, during the current period. The face amount of debt issued is recorded as other financing sources. Issuance costs are reported as expenditures in the funds receiving the bond proceeds.

Nature and Purpose of Classifications of Fund Equity- Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

Assignments are made by City management based on Council direction according to the City's fund balance policy. Fund balances classified as nonspendable are resources that cannot be spent because of their form or because they must be maintained intact.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available. When assigned and unassigned amounts are available, expenditures from other than the assigned purpose will be spent from unassigned fund balance first.

Net Assets- In the government-wide financial statements and proprietary funds, net assets represent the difference between assets and liabilities. The net assets are reported in three components (1) invested in capital assets, net of related debt, (2) restricted, and (3) unrestricted. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

New Accounting Pronouncements- GASB has issued Statement No. 61 *The Financial Reporting Entity: Omnibus* ("GASB 61"), which is effective for the City in fiscal year 2013. GASB 61 is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

GASB has issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), which is effective for the City in fiscal year 2013. GASB 63 establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. GASB 63 establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effect on a government's net position.

GASB has issued Statement No. 65 *Items Previously Reported as Assets and Liabilities* ("GASB 65"), which is effective for the City in fiscal year 2014. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB has issued Statement No. 66 *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62* ("GASB 66"), which is effective for the City in fiscal year 2014. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. GASB 66 also amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type.

GASB has issued Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (“GASB 67”), which is effective for the City in fiscal year 2014. GASB 67's objective is to improve financial reporting by state and local governmental pension plans. .

GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* (“GASB 68”), which is effective for the City in fiscal year 2015. GASB 68's primary objective is to improve accounting and financial reporting by state and local governments for pensions. This Statement requires recognition of a long-term obligation for pension benefits as a liability. It also improves information provided by state and local governmental employers about financial support for pensions that are provided by other entities.

GASB has issued Statement No. 69 *Government Combinations and Disposals of Government Operations* (“GASB 69”), which is effective for the City in fiscal year 2015. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of governmental operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

Management has not yet determined the impact on the financial statements of the statements effective in future years.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The amounts reflected below include the revenue bond reserve cash and investments reflected on the government-wide and proprietary fund financial statements of net assets.

Deposits

At September 30, 2012, the carrying amount of the City's demand deposits was \$(667,535) and the bank balance was \$2,706,828. The demand deposits balance for the blended component units was \$22,572. Cash on hand for the City was \$16,400. The remaining cash balance of \$18,890 represents a recreation cash clearing account.

Investments

The City's investments at September 30, 2012, are:

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

Investment type	Fair Value	Weighted Average Maturity (Years)
Managed Pools:		
Texpool	\$22,797,741	0.00079
Texstar	31,481,938	0.00109
Money Market:		
Fidelity Investments	3,578,932	0.00012
US Agency Notes	21,077,643	0.39066
Total	<u>\$78,936,254</u>	<u>0.39266</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the City's investment policy establishes the portfolio's maximum average dollar-weighted maturity to no more than one year. By policy, the City will not directly invest in securities maturing more than three years from the date of purchase.

Credit Risk. The City's investment policy helps minimize credit risk by requiring the City to limit investments to the safest types of securities, pre-qualify the financial institutions and broker/dealers with which the City will do business, and diversify the investment portfolio so that potential losses on individual securities will be minimized. The City's investments in U.S. Agency securities (FHLB and FFCB) are rated AA by Standard and Poor's and Aaa by Moody's Investor's Service at the date of purchase. The investment in Texas Local Government Pools (Texpool and Texstar) carried a credit rating of AAAM by Standard and Poor's as of September 30, 2012. Texpool is overseen by the Texas State Comptroller of Public Accounts, and the fair value is the same as the value of the pool shares. Texstar is overseen by a Governing Board consisting of individuals from participating Government Entities in the pool, and the fair value is the same as the value of the pool shares. The City's investments in Fidelity Money Market funds carried a credit rating of AAAM by Standard and Poor's and Aaa by Moody's Investor's Service as of September 30, 2012.

Concentration of Credit Risk. With the exception of U.S. Treasury securities, the City's investment policy limits the amount that may be invested in any single security type to 85% of the total investment portfolio. As of September 30, 2012, the City's total investments are in the following: Agency issues (26.7%) consisting of FHLB (10.8%) and FFCB (15.9%), investment pools (68.8%), and money market funds (4.5%).

Custodial Credit Risk. Pursuant to provisions of both the Texas Public Funds Investment Act and the Public Funds Investment Policy of the City, all deposits of the City that exceed the federal depository insurance coverage levels are collateralized with securities held by a third party custodian in the City's name. Investments, other than investments that are obligations of the U.S. government, its agencies and instrumentalities, are insured or registered in the City's name and held by a third party custodian. In order to anticipate market changes and to provide a level of security for all funds, the collateralization level will be 102% (on a market value basis) of principal and accrued interest on the deposits.

3. AD VALOREM TAXES

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraised value less applicable exemptions authorized by the City Council. Appraised values are established by the Dallas Central Appraisal

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

District and the Kaufman Central Appraisal District at 100% of estimated market value. The total assessed value for the tax roll of January 1, 2011, upon which the 2012 fiscal year levy was based, was \$5,848,915,995. Taxes are due on October 1, immediately following the January 1 lien date and are delinquent after the following January 31st. Penalty and interest is charged at 7% on delinquent taxes beginning February 1, and increases each month to 18% on July 1, additional interest accrues at the rate of 1% each month.

Current tax collections for the year ended September 30, 2012, were \$36,004,478 or 98.04% of the current tax levy and total tax collections (including collections on previous years) were \$36,322,239 or 98.91% of the current tax levy.

In Texas, countywide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The City Charter does not provide for a debt limit; therefore, no computation of legal debt margin can be made. However, at September 30, 2012, the City had a tax margin of \$1.86000 for every \$100 of valuation based upon a maximum ad valorem tax rate of \$2.50 for every \$100 of valuation imposed by Texas Constitutional law.

4. RECEIVABLES

Receivables at September 30, 2012 for the government's individual major funds, which have receivables and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

	<u>General</u>	<u>Housing Grants</u>	<u>Bond Finance</u>	<u>Water and Sewer</u>	<u>Drainage Utility District</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:							
Accounts	\$ 9,534,485	\$ 40,896	\$ 65,305	\$ 9,409,423	\$ 135,757	\$ 121,709	\$ 19,307,575
Ad valorem taxes	2,289,642	-	-	-	-	-	2,289,642
Other taxes	1,909,096	-	-	-	-	-	1,909,096
Assessments	-	-	341,888	-	-	-	341,888
Intergovernmental	4,674,421	-	-	-	-	2,060,422	6,734,843
Gross receivables	18,407,644	40,896	407,193	9,409,423	135,757	2,182,131	30,583,044
Less: allowance for uncollectibles	<u>(5,829,385)</u>	<u>-</u>	<u>(11,517)</u>	<u>(286,188)</u>	<u>-</u>	<u>(5,997)</u>	<u>(6,133,087)</u>
Net total receivables	<u>\$ 12,578,259</u>	<u>\$ 40,896</u>	<u>\$ 395,676</u>	<u>\$ 9,123,235</u>	<u>\$ 135,757</u>	<u>\$ 2,176,134</u>	<u>\$ 24,449,957</u>

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenues reported in the governmental funds were as follows:

General fund - ambulance accounts receivable	\$ 1,801,344
General fund - ad valorem taxes receivable	1,215,368
General fund - court fines receivable	643,827
General fund - accounts receivable, grass and weed mowing	1,241,283
Housing Grants fund - HUD vouchers	40,896
Bond Finance capital projects fund - assessments receivable	341,888
Bond Finance capital projects fund - other receivable	<u>25,800</u>
Total deferred revenues for governmental funds	<u>\$ 5,310,406</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2012

5. CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended September 30, 2012:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 23,416,121	\$ 288,858	\$ -	\$ 23,704,979
Construction in progress	15,663,587	4,981,003	411,695	20,232,895
Total capital assets, not being depreciated	<u>39,079,708</u>	<u>5,269,861</u>	<u>411,695</u>	<u>43,937,874</u>
Capital assets, being depreciated:				
Buildings	98,079,553	1,318,689	-	99,398,242
Infrastructure	219,316,366	218,918	-	219,535,284
Improvements	16,113,735	-	-	16,113,735
Equipment	53,185,401	3,298,686	2,324,704	54,159,383
Total capital assets, being depreciated	<u>386,695,055</u>	<u>4,836,293</u>	<u>2,324,704</u>	<u>389,206,644</u>
Less accumulated depreciation for:				
Buildings	17,649,354	2,488,741	-	20,138,095
Infrastructure	122,663,027	4,570,389	-	127,233,416
Improvements	7,044,685	687,394	-	7,732,079
Equipment	31,621,424	5,644,249	2,185,631	35,080,042
Total accumulated depreciation	<u>178,978,490</u>	<u>13,390,773</u>	<u>2,185,631</u>	<u>190,183,632</u>
Total capital assets, being depreciated, net	<u>207,716,565</u>	<u>(8,554,480)</u>	<u>139,073</u>	<u>199,023,012</u>
Governmental activities capital assets, net	<u>\$ 246,796,273</u>	<u>\$ (3,284,619)</u>	<u>\$ 550,768</u>	<u>\$ 242,960,886</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,968,629	\$ -	\$ -	\$ 9,968,629
Construction in progress	15,167,143	8,291,934	262,320	23,196,757
Total capital assets, not being depreciated	<u>25,135,772</u>	<u>8,291,934</u>	<u>262,320</u>	<u>33,165,386</u>
Capital assets, being depreciated:				
Buildings	6,304,149	-	-	6,304,149
Infrastructure	225,790,695	2,255,116	-	228,045,811
Improvements	542,167	-	-	542,167
Equipment	5,305,137	1,026,621	116,073	6,215,685
Total capital assets, being depreciated	<u>237,942,148</u>	<u>3,281,737</u>	<u>116,073</u>	<u>241,107,812</u>
Less accumulated depreciation for:				
Buildings	1,637,992	141,975	-	1,779,967
Infrastructure	75,261,968	4,633,650	-	79,895,618
Improvements	135,538	28,823	-	164,361
Equipment	3,684,846	491,821	122,591	4,054,076
Total accumulated depreciation	<u>80,720,344</u>	<u>5,296,269</u>	<u>122,591</u>	<u>85,894,022</u>
Total capital assets, being depreciated, net	<u>157,221,804</u>	<u>(2,014,532)</u>	<u>(6,518)</u>	<u>155,213,790</u>
Business-type activities capital assets, net	<u>\$ 182,357,576</u>	<u>\$ 6,277,402</u>	<u>\$ 255,802</u>	<u>\$ 188,379,176</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 2,850,508
Fire services	1,601,544
Police services	1,640,655
Field services	4,447,184
Public works	1,408,609
Community development	55,479
Library services	19,565
Parks and recreation	1,099,714
Housing and community services	267,515
Total governmental activities	<u>\$ 13,390,773</u>
Business-type activities:	
Water and sewer	\$ 4,074,415
Drainage utility	739,972
Municipal airport	481,882
Total business-type activities	<u>\$ 5,296,269</u>

The City has active construction projects as of September 30, 2012. Projects include street construction primarily in the southeast section of Mesquite, various traffic signalization projects throughout the City, as well as improvements in water storage and distribution facilities. Construction in progress has been categorized by the primary revenue source being used to fund the construction as follows:

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2012

	<u>Spent-to-date</u>	<u>Construction Commitments</u>
Governmental activities:		
Projects funded by general obligation bonds:		
Street	\$ 6,985,733	\$ 2,623,588
Fire Improvement	-	33,147
Municipal building	215,253	4,200
Parks and recreation	-	22,693
Traffic signal	23,336	-
Finance	-	493,393
Projects funded by local finance sources:		
Street	656,473	19,393
Municipal building	285,389	41,847
Traffic Signal	187,995	-
Finance	-	122,040
Projects funded by general sales tax (4B portion):		
Transportation	9,529,772	61,852
Parks and recreation	1,756,424	251,293
Projects funded by grant funds:		
Municipal building	85,631	-
Infrastructure	198,256	-
Project funded by community access funds:		
Community Access Broadcast Equipment	<u>308,633</u>	<u>-</u>
 Total governmental activities	 <u><u>\$ 20,232,895</u></u>	 <u><u>\$ 3,673,446</u></u>
Business-type activities:		
Projects funded by revenue bonds:		
Water and sewer	\$ 21,955,052	\$ 2,630,861
Drainage utility district	486,293	816,170
Projects funded by general obligation bonds:		
Municipal airport	<u>755,412</u>	<u>-</u>
 Total business-type activities	 <u><u>\$ 23,196,757</u></u>	 <u><u>\$ 3,447,031</u></u>

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds-

These amounts represent intergovernmental revenue accrued but not received in the Other Grants special revenue fund in the "Other Governmental Funds" and an amount for a loan to the Airport to cover additional cash needed. The current portion of lending/ borrowing arrangements outstanding at September 30, 2012 is as follows:

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Grants Special Revenue Fund	\$ 82,654
General Fund	Airport Fund	\$128,133

Transfers-

Transfers were as follows for the fiscal year ended September 30, 2012:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 7,905,587	\$ 9,572,028
Housing Grants	-	151,000
Local Finance	312,740	826,123
Bond Finance	-	2,458,433
Non-Major Governmental Funds	10,837,729	990,000
Water and Sewer	-	4,858,668
Non-Major Enterprise Fund	-	199,804
	<u>\$ 19,056,056</u>	<u>\$ 19,056,056</u>

The transfers were for the following purposes:

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

<u>Transfer from Fund / Purpose</u>	<u>Transfer to Fund</u>	<u>Amount</u>
General Fund-		
Property tax debt service levy	Debt Service	\$ 9,259,288
Capital Projects Reserve fund transfer	Local Finance	\$ 300,000
Interest Income Allocation	Local Finance	\$ 12,740
Housing Grants Fund-		
Indirect cost charge	General	151,000
Local Finance Fund-		
Roadway Impact Fees Debt Service	Debt service	400,000
Operating subsidy	Debt service	425,000
Interest Income Allocation	General	1,123
Bond Finance Fund-		
Interest Income Allocation	General	33,464
Bond Proceeds	General	2,330,000
Residual Equity Transfer	Debt Service	94,969
Non-Major Governmental Funds-		
Hotel / Motel Tax General Obligation Debt Allocation	Debt service	150,000
Other Special Revenue - 9-1-1 Operations Subsidy	General	840,000
Water and Sewer Enterprise Fund-		
Nonoperating administrative and overhead charge	General	4,550,000
General Obligation Debt Allocation	Debt Service	308,668
Non-Major Enterprise Fund-		
Airport general obligation debt allocation	Debt service	<u>199,804</u>
	Total	<u>\$ 19,056,056</u>

The Water and Sewer fund contributes on behalf of the other City funds to the General Liability fund. The total amount contributed to the General Liability fund was \$1,405,000. In the government wide statement of activities an additional transfer is shown for assets purchased by the City's governmental type funds for the airport enterprise fund in the amount of \$748,249. In the fund level statements it is shown as part of the capital contribution in the airport fund.

7. LONG-TERM DEBT

Various types of long-term debt have been issued by the City for the acquisition and construction of major capital facilities and equipment as follows:

- General obligation bonds are issued pursuant to voter authorization for infrastructure and facility projects accounted for in a governmental capital project fund. General obligation bonds have also been issued in previous fiscal years to refund prior debt issues. During the year \$3,765,000 was issued to advance refund prior tax-exempt bonds in order to lower the overall debt service requirements of the City and pay legal, fiscal, and other professional fees in connection with the issuance of the bonds. The City intends to retire this debt, plus interest, from ad valorem taxes.

City of Mesquite, Texas

Notes to Basic Financial Statements

September 30, 2012

- Certificate of obligation debt is similar to general obligation bonds in their usage and retirement but do not require voter authorization and are not used for refunding debt. Included in the July 2012 bond sale was \$7,235,000 for (i) constructing and improving streets, roads, alleys and sidewalks including related drainage, signalization, landscaping, lighting and signage; (ii) major repairs and renovations to existing municipal buildings; (iii) acquisition of equipment and vehicles for various City departments; (iv) acquisition of computer equipment and software for various City departments; and (v) paying for legal, fiscal, engineering and other professional fees in connection with such projects.
- Contractual obligations have been issued in prior years to acquire equipment and will also be repaid from ad valorem property taxes. There were no contractual obligations issued in the current fiscal year.
- Water and sewer revenue bonds are issued to provide funds for certain improvements to the water distribution and wastewater collection systems as well as to refund prior water and sewer debt issues. These bonds are reported in the Water and Sewer fund as the debt will be repaid from revenues of this enterprise fund operation. Included in the July 2012 bond sale was \$3,260,000 to be used for refunding a portion of the City's outstanding waterworks and sewer system debt in order to lower the overall debt service requirements of the City and \$4,685,000 to (i) provide funds for improvements, additions and extension to the system; (ii) fund the additional amount required to be accumulated in the Revenue Reserve Fund as a result of the issuance of the bonds; and (iii) to pay the costs of issuance of the bonds.
- Municipal drainage utility system revenue bonds have been issued in prior years to provide funds for drainage improvements, including the acquisition and construction of structures, equipment, and facilities for the Drainage Utility District. Debt for this enterprise operation is being repaid from revenues generated from customer charges.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Long-term bonded debt at September 30, 2012, includes the following individual issues:

<u>Governmental Activities</u>	<u>Issued Amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
General Obligation Bonds-					
Series 2004A refunding and improvements	14,760,000	2.50-4.625	02/15/24	3,070,000	280,000
Taxable Series 2004B refunding	5,510,000	1.40-4.65	02/15/15	1,790,000	570,000
Series 2005 refunding and improvement	13,465,000	3.25-5.00	02/15/25	8,280,000	810,000
Series 2006 improvements	1,840,000	4.00-5.00	02/15/26	1,620,000	85,000
Series 2008 refunding and improvements	2,115,000	3.50-3.625	02/15/21	1,315,000	45,000
Series 2009 refunding	4,245,000	2.00-4.60	02/15/29	3,990,000	85,000
Series 2010 refunding	1,320,000	2.00-3.625	2/15/23	1,320,000	10,000
Series 2011 refunding	12,715,000	2.00-5.00	2/15/28	12,395,000	-
Series 2012 refunding	3,765,000	2.00-3.00	2/15/24	<u>3,765,000</u>	<u>30,000</u>
				<u>37,545,000</u>	<u>1,915,000</u>
Certificate of Obligation Bonds-					
Series 2004	6,250,000	2.00-4.625	02/15/24	540,000	100,000
Series 2004A	2,095,000	2.00-5.00	02/15/24	705,000	-
Series 2005	8,330,000	3.25-5.00	02/15/25	4,070,000	55,000
Series 2006	9,145,000	4.00-5.00	02/15/26	6,780,000	250,000
Series 2007	20,545,000	4.00-5.00	02/15/27	16,870,000	825,000
Series 2008	10,070,000	3.50-4.00	02/15/28	9,250,000	205,000
Series 2009	11,260,000	2.00-4.60	02/15/29	10,585,000	225,000
Series 2010	12,340,000	3.00-4.5	02/15/30	12,340,000	415,000
Series 2011	11,575,000	2.00-4.125	02/15/26	11,575,000	460,000
Series 2012	7,235,000	2.00-3.375	02/15/32	<u>7,235,000</u>	<u>315,000</u>
				<u>79,950,000</u>	<u>2,850,000</u>
Public Property Finance Contractual Obligations-					
Series 2008	3,455,000	3.50-3.375	02/15/13	735,000	735,000
Series 2009	1,865,000	2.00-3.00	02/15/14	<u>770,000</u>	<u>380,000</u>
				<u>1,505,000</u>	<u>1,115,000</u>
Total governmental activities long-term bonded debt				119,000,000	5,880,000
Less: deferred loss on refunding				(1,463,719)	-
Net governmental activities long-term bonded debt				<u>\$ 117,536,281</u>	<u>\$ 5,880,000</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2012

	<u>Issued Amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
<u>Business-type Activities-</u>					
Water and Sewer Revenue Bonds-					
Series 2004 refunding and improvements	\$ 12,990,000	2.625-5.00	03/01/24	\$ 4,170,000	\$ 915,000
Series 2005 refunding and improvements	13,510,000	3.25-5.25	03/01/25	9,780,000	1,115,000
Series 2006 improvements	8,570,000	4.00-5.00	03/01/26	7,190,000	320,000
Series 2007 improvements	7,670,000	4.00-5.00	03/01/27	6,465,000	315,000
Series 2008 improvements	11,585,000	3.50-4.50	03/01/28	8,235,000	720,000
Series 2009 improvements	8,380,000	2.00-4.60	03/01/29	7,460,000	320,000
Series 2010 improvements	8,270,000	2.00-4.25	03/01/30	7,730,000	320,000
Series 2011 refunding and improvements	14,240,000	2.00-4.125	03/01/26	13,470,000	1,215,000
Series 2012 refunding and improvements	7,945,000	2.00-3.375	03/01/32	<u>7,945,000</u>	<u>195,000</u>
				<u>72,445,000</u>	<u>5,435,000</u>
Drainage Utility System Revenue Bonds-					
Series 2011 refunding	4,385,000	2.00-3.75	03/01/22	3,950,000	615,000
				<u>3,950,000</u>	<u>615,000</u>
Total business-type activities long-term debt				76,395,000	6,050,000
Less: premium and deferred loss on refunding				<u>428,149</u>	<u>-</u>
Net business-type activities long-term debt				<u>76,823,149</u>	<u>6,050,000</u>
Net long-term bonded debt				<u>\$ 194,359,430</u>	<u>\$ 11,930,000</u>

Annual debt service requirements to maturity for long-term bonded debt are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	5,880,000	4,829,589	6,050,000	2,987,179
2014	5,595,000	4,591,579	5,730,000	2,743,213
2015	6,400,000	4,361,439	5,370,000	2,531,981
2016	6,835,000	4,106,269	5,215,000	2,331,147
2017	5,360,000	3,871,716	5,135,000	2,123,952
2018-2022	35,345,000	15,656,491	24,585,000	7,504,000
2023-2027	40,850,000	7,147,516	17,730,000	3,158,514
2028-2032	<u>12,735,000</u>	<u>769,674</u>	<u>6,580,000</u>	<u>458,781</u>
Total	<u>\$ 119,000,000</u>	<u>\$ 45,334,273</u>	<u>\$ 76,395,000</u>	<u>\$ 23,838,767</u>

Advance Refundings- The City's May 2012 bond issues included two advance refundings. Proceeds from the General Obligation Refunding Bond and the Waterworks and Sewer System Revenue Refunding and Improvement Bond issues were used to advance refund and defease in substance certain maturities of the

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

City's existing outstanding bond issuances. The advance refunding allowed the City to recognize savings on future debt payments. The General Obligation refunding resulted in decrease in total debt service payments of \$302,345 of the new debt over the old debt therefore an economic gain was realized. The Waterworks and Sewer System refunding resulted in a decrease in total debt service payments of \$205,745 of the new debt over the old debt therefore an economic gain was realized. The refunding portion of the issue provided resources to purchase direct obligations of the U. S. government that were placed in a separate irrevocable trust for the purpose of generating resources for all future debt service payments of the debt being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets in the government-wide financial statements. The difference between the reacquisition price and the net carrying amount of the old debt (deferred amount on refunding) will be amortized over the remaining life of the original debt issued. The statement of net assets on the government-wide financial statements reports this deferred amount as a contra-liability to the new debt obligation. The details of the refunding debt transaction were as follows:

	<u>General Obligation Refunding Bonds</u>	<u>Waterworks and Sewer System Revenue Bonds</u>
Amount of new debt issue	\$ 3,765,000	\$ 3,260,000
Add: Reoffering premium	60,545	142,606
Less: net issuance costs	<u>(109,337)</u>	<u>(59,695)</u>
Reacquisition price	3,716,208	3,342,911
Net carrying amount of old debt	<u>3,510,000</u>	<u>3,150,000</u>
Deferred amount on refunding	<u>\$ 206,208</u>	<u>\$ 192,911</u>
Decrease in total debt service payments of new debt over old debt	<u>\$ 302,345</u>	<u>\$ 205,745</u>
Economic gain on refunding	<u>\$ 302,345</u>	<u>\$ 205,745</u>

In prior years, the City defeased certain general obligation and other bonds by using the proceeds of new bonds to purchase direct obligations of the U. S. government that were placed in separate irrevocable trusts for the purpose of generating resources for all future debt service payments of the debt being refunded. As a result, the refunded bonds are considered to be defeased and the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The principal balance of refunded bonds still outstanding at September 30, 2012 was \$11,530,000 for general obligation bonds and \$3,150,000 for water and sewer bonds.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Capital Leases- The City enters into lease agreements as lessee for financing the acquisition of various equipment which is payable from both governmental and business-type activities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Asset:		
Equipment	\$ 561,531	\$ 250,870
Less: Accumulated depreciation	<u>(312,649)</u>	<u>(190,355)</u>
 Total	 <u>\$ 248,882</u>	 <u>\$ 60,515</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, were as follows (current capital lease obligations expire in fiscal year 2016):

<u>Year ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2013	87,510	19,120
2014	74,964	19,120
2015	6,116	19,120
2016	<u>-</u>	<u>6,374</u>
 Total minimum future lease payments	 168,590	 63,734
Less: Amount representing interest	<u>(8,162)</u>	<u>(7,034)</u>
 Present value of minimum lease payments	 <u>\$ 160,428</u>	 <u>\$ 56,700</u>

Notes Payable- The City entered into a loan agreement with the State Infrastructure Bank in the original amount of \$5,615,287 for Mesquite's participation with the State of Texas for the LBJ Corridor Improvements. The interest rate on the note is 4.1%. Debt service payments are being made through available revenues from the Towne Center TIF. The outstanding balance at year end is \$3,144,461.

The City entered into a revolving loan agreement in the amount of \$555,328 with the State Energy Conservation Office to implement conservation improvements at the Municipal Center. Construction was completed on July 19, 2007 and the loan was set up to amortize over 9.75 years beginning August 31, 2007. The interest rate on the note is 3%. Debt service payments will be made from available operating funds of the government. The outstanding balance at year end is \$276,454.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Annual debt service requirements through maturity for notes payable are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 531,137	\$ 136,565
2014	552,292	115,410
2015	574,296	93,406
2016	597,183	70,519
2017	587,912	46,837
2018	578,095	23,702
Total	<u>\$ 3,420,915</u>	<u>\$ 486,439</u>

Compensated Absences – Compensated absences represent the estimated liability for employees’ accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund, Housing Grants Fund, Other Grants Fund, and Enterprise Funds based on the assignment of an employee at termination.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Long-term liabilities activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 37,180,000	\$ 3,765,000	\$ 3,400,000	\$ 37,545,000	\$ 1,915,000
Certificates of obligation	77,115,000	7,235,000	4,400,000	79,950,000	2,850,000
Public property finance contractual obligations	<u>3,075,000</u>	<u>-</u>	<u>1,570,000</u>	<u>1,505,000</u>	<u>1,115,000</u>
Total bonds payable	117,370,000	11,000,000	9,370,000	119,000,000	5,880,000
Less deferred loss on refunding	<u>(1,502,655)</u>	<u>(206,208)</u>	<u>(245,144)</u>	<u>(1,463,719)</u>	<u>-</u>
Net bonds payable	115,867,345	10,793,792	9,124,856	117,536,281	5,880,000
Other General Fund long-term liability:					
Notes payable	3,931,712	-	510,797	3,420,915	531,137
Capital leases	238,446	-	78,018	160,428	81,619
Accrued compensated absences	18,798,479	501,834	710,480	18,589,833	6,677,547
Estimated claims payable	<u>1,663,665</u>	<u>9,853,874</u>	<u>9,423,928</u>	<u>2,093,611</u>	<u>1,116,070</u>
Total governmental activities	<u>140,499,647</u>	<u>21,149,500</u>	<u>19,848,079</u>	<u>141,801,068</u>	<u>14,286,373</u>
Business-type activities:					
Bonds payable:					
Revenue bonds -water/sewer	72,615,000	7,945,000	8,115,000	72,445,000	5,435,000
Revenue bonds -drainage	<u>5,010,000</u>	<u>-</u>	<u>1,060,000</u>	<u>3,950,000</u>	<u>615,000</u>
Total revenue bonds payable	77,625,000	7,945,000	9,175,000	76,395,000	6,050,000
Less premium and deferred loss on refunding	<u>429,111</u>	<u>(210,737)</u>	<u>(209,775)</u>	<u>428,149</u>	<u>-</u>
Net revenue bonds payable	78,054,111	7,734,263	8,965,225	76,823,149	6,050,000
Capital leases	71,294	-	14,594	56,700	15,648
Accrued compensated absences	<u>1,225,060</u>	<u>42,272</u>	<u>33,236</u>	<u>1,234,096</u>	<u>364,554</u>
Total business-type activities	<u>79,350,465</u>	<u>7,776,535</u>	<u>9,013,055</u>	<u>78,113,945</u>	<u>6,430,202</u>
Total long-term liabilities	<u>\$219,850,112</u>	<u>\$28,926,035</u>	<u>\$28,861,134</u>	<u>\$219,915,013</u>	<u>\$20,716,575</u>

8. RETIREMENT PLAN

Plan Description- The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System ("TMRS") one of 847 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information 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 from TMRS' website at www.TMRS.com.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows:

	<u>Plan Year 2012</u>
Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years
Updated Service Credit	100%, Transfers
Annuity Increases to Retirees	70% of CPI

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years/age 60, 20 years/any age.

Contributions- Under the state law governing TMRS, the City is required to contribute at an actuarially determined rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 20.2-year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution 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 (i.e., December 31, 2010, valuation is effective for rates beginning January 2012).

Annual Pension Cost- For fiscal year 2012, the City's actual pension contribution of \$7,493,281 was based on a required contribution rate of 10.86% for January 2012 through September 2012 and a required contribution rate of 15.77% for October 2011 through December 2011 of covered payroll for the the same periods. The required contribution rate was determined as part of the December 31, 2009 and December 31, 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011 also follows.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

The City's annual pension cost and net pension obligation (asset) are as follows:

Annual required contribution (ARC)	\$ 7,493,281
Interest adjustment to net pension obligation	31,918
Adjustment to the ARC	<u>(27,437)</u>
Annual pension cost (APC)	7,497,762
Contributions made	<u>(7,493,281)</u>
Decrease in net pension asset	4,481
Net pension obligation (asset) - beginning of year	<u>(455,969)</u>
Net pension obligation (asset) - end of year	<u><u>\$ (451,488)</u></u>

The City's annual pension cost and net pension obligation (asset) for TMRS for the past three years is calculated as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage % of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
9/30/2012	\$ 7,497,762	\$ 7,493,281	100%	\$ (451,488)
9/30/2011	\$ 10,020,935	\$ 10,101,342	101%	\$ (455,969)
9/30/2010	\$ 9,389,060	\$ 9,764,622	104%	\$ (375,562)

Actuarial methods and assumptions were as follows:

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	<i>Projected Unit Credit</i>	<i>Projected Unit Credit</i>	<i>Projected Unit Credit</i>
Amortization Method	<i>Level Percent of Payroll</i>	<i>Level Percent of Payroll</i>	<i>Level Percent of Payroll</i>
GASB 25 Equivalent Single Amortization Period	<i>28.0 years; closed period</i>	<i>22.0 closed period</i>	<i>18.6 years closed period</i>
Amortization Period for new Gains/Losses	<i>30 years</i>	<i>30 years</i>	<i>30 years</i>
Asset Valuation Method	<i>10-year Smoothed Market</i>	<i>10-year Smoothed Market</i>	<i>10-year Smoothed Market</i>
Actuarial Assumptions: Investment Rate of Return *	<i>7.5%</i>	<i>7.0%</i>	<i>7.0%</i>
Projected Salary Increases	<i>Varies by age and service</i>	<i>Varies by age and service</i>	<i>Varies by age and service</i>
* Includes Inflation at	<i>3.00%</i>	<i>3.00%</i>	<i>3.00%</i>
Cost-of-Living Adjustments	<i>2.1%</i>	<i>2.1%</i>	<i>2.1%</i>

Funding Status and Funding Progress –The funding status for the City as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2011	\$ 328,142,416	\$ 345,220,559	95.1%	\$ 17,078,143	\$ 62,091,305	27.5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Future Funding Requirements- TMRS is a flexible system that allows member cities to adopt benefit levels that they determine appropriate for their city. Among those benefit levels, cities can choose to adopt Updated

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

Service Credits (USC) and annual Cost of Living Adjustments (COLA). Mesquite has chosen to fund the USC at 100% of the based calculated USC amount and the COLA at 70% of CPI. These levels are similar to those chosen by other comparable North Texas cities. In addition to the option for setting various levels of these benefits, a member city may choose to establish these benefits as automatically repeating. With the adoption of these benefits as automatically repeating, a city's annual contribution rate is set to assume that the city will adopt these benefits each year in the future. This automatically repeating assumption has a major impact on a member city's annual contribution rate.

In fiscal year 2010 the City concluded that it could reduce the required TMRS annual contribution rate and continue to offer the existing level of benefit for USC and COLA by terminating the annual automatic repeating option for these benefits and adopt them as ad hoc. In each future fiscal year these benefit levels will be established during the annual budget process.

For the 2013 budget year the City will keep the USC and COLA at the same benefit levels under the ad hoc option. The City's full contribution rate for 2013 is 10.8%.

Required Supplementary Information - Required supplementary information for the analysis of funding progress for the past three years is presented immediately following the Notes to the Basic Financial Statements.

9. REGIONAL SYSTEMS FOR WATER SUPPLY AND WASTEWATER TREATMENT

The City secures substantially all of its water supply and sewer services from the North Texas Municipal Water District (the "District"). The District has police, taxation, and eminent domain powers and is authorized to issue revenue bonds with State approval and functions as a political subdivision independent of the City. The District is governed by a 17-member board (the "Board"), the City being authorized by statute to appoint two of those members. The Board has full power and discretion to establish its budget and to set the rates for services it provides by contracts with its member cities and customers. The Board is empowered by statute and contract, or otherwise permitted by law, to discontinue a facility or to enforce payment of an unpaid charge, fee, or rental due to the District. A portion of the outstanding bonds of the District are contract revenue bonds based on contracts with certain member cities of the District. The City provides for the payment of its contractual obligations with the District from revenue generated by its waterworks and sewer systems. Such contractual payments provide for the payment of the principal and interest requirements on specified indebtedness and associated operation and maintenance expenses of the District. Because of the factors mentioned above the District is not included in the City's basic financial statements.

Water Supply- On August 1, 1988, the City entered into a contract with the District whereby the District agreed to provide water supply for the benefit of the City. The provisions of this contract are similar in concept, essence and intent to the provisions of the contract originally entered into on December 12, 1953. In return for this service, the City agreed to pay the District at a rate per 1,000-gallon basis, subject to minimum annual payments which approximated \$11.654 million for the fiscal year ended September 30, 2012.

Wastewater Treatment- On October 1, 1975, the City entered into a contract with the District whereby the District agreed to provide a wastewater treatment and disposal system for the benefit of the City and other cities located in Dallas, Collin, Kaufman and Rockwall Counties, Texas. Each member city annually pays its

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

proportionate share of operating expenses and debt service of the District. The City's annual payment for the year ended September 30, 2012, was approximately \$5.964 million.

10. SELF-INSURANCE

Group Health Insurance- The City established the Health Claims internal service fund in 1984 to account for the provision of group life and health insurance coverage for employees and their dependents. The City's health insurance program is a "self-insured" plan funded by both the City and participating employees. The City makes a predetermined contribution to the plan each biweekly payroll for group life and health insurance coverage for qualifying City employees and a subsidy toward employee dependent coverage. Employees contribute through payroll deductions for the balance of dependent health insurance coverage. The City's health insurance program includes stop loss coverage with a \$300,000 deductible per individual with an unlimited liability limit per claim. According to the Health Care Reform Act lifetime maximums are no longer allowed. The coverage is consistent with prior years and settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed.

The Health Claims internal service fund began the fiscal year with \$59,656 in unrestricted net assets after inclusion of \$553,000 of estimated outstanding health claims payable. During the year, operating and non-operating revenues exceeded operating expenses by \$165,937 after inclusion of a \$74,300 increase in estimated claims payable resulting in a \$225,593 balance in unrestricted net assets at year-end. Actual claims paid totaled \$10,301,100. The increase in net assets was due to increased contributions from the City and from the employees. The City has continued a contract with an outside firm to assist the City in controlling and monitoring medical claims.

The estimated claims payable of \$627,300 reported in the Health Claims internal service fund is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* ("GASB No. 10"), which requires that a liability be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2011 and 2012 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2011	\$ 926,000	\$ 9,683,946	\$ 10,056,946	\$ 553,000
2012	\$ 553,000	\$ 10,375,400	\$ 10,301,100	\$ 627,300

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by an independent consultant.

General Liability Insurance- The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1985, the

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

City established the General Liability internal service fund to account for the provision of property, general liability, and workers' compensation insurance. The City's insurance coverage is through scheduled specific policies with large deductibles with the primary carrier being the Texas Municipal League Risk Pool. Under this program, the General Liability Fund provides coverage for up to a maximum of \$10,000 retention for each real & personal property claim and a scheduled limit on coverage, \$10,000 retention for each mobile equipment claim and a scheduled limit on coverage, \$10,000 retention for each auto physical damage claim and a scheduled limit on coverage, \$100,000 retention for each auto catastrophe claim and a \$7,700,000 limit on coverage, \$100,000 retention for each law enforcement claim and a \$5,000,000 limit on coverage, \$100,000 retention for each general liability claim and a \$1,000,000 limit on coverage, \$2,500 retention for each airport hangarkeeper claim and a \$1,000,000 limit on coverage, \$100,000 retention for each auto liability claim and a \$1,000,000 limit on coverage, \$100,000 retention for each errors and omission claim and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate, \$300,000 retention for each worker's compensation claim, \$10,000 retention for each crime coverage claim with a \$500,000 limit on coverage, and \$10,000 retention for each storage tank pollution claim with a \$1,000,000 limit on coverage. The General Liability Fund is funded through revenues from participating governmental and proprietary funds of the City. The above coverage is consistent with prior years and settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

The General Liability fund began the fiscal year with unrestricted net assets of \$475,403. During the year, operating expenses exceeded operating and non-operating revenues by \$612,680 after inclusion of a \$355,646 increase in estimated claims payable, resulting in a (\$137,277) balance in unrestricted net assets at year-end. Actual claims paid were \$890,886. The estimated claims payable of \$1,466,311 reported in the General Liability internal service fund is based on the requirements of GASB No. 10. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2011 and 2012 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Fiscal Year Liability</u>
2011	\$ 1,473,506	\$ 863,426	\$ 1,226,267	\$ 1,110,665
2012	\$ 1,110,665	\$ 1,246,532	\$ 890,886	\$ 1,466,311

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provisions for reported claims and for claims incurred but not yet reported are determined by an independent consultant.

11. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the City provides postretirement healthcare benefits to retirees and their dependents through a single-employer defined benefit healthcare plan. These benefits are provided to retired employees under the same plan options as active employees in accordance with City ordinances. For those employees who retired prior to February 1, 2000 the premiums are almost entirely paid by the City, subject to a small cap, until the employee attains age 65. For those employees hired prior to October 1, 2004 who retire after February 1, 2000 with a minimum of ten years of service, the City will pay 4% per year of service (up to 25 years of service) subject to a small cap amount. The City's payment for the retirees' dependents is 2.6% per year of service. Employees hired after October 1, 2004 who retire at age 55 or older with 15 years of service will receive a City medical plan contribution of \$12/month for each year of

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

service. After age 65, retired employees may continue in the City healthcare plan if they pay the premiums or will have the option to enroll in a Medicare Supplement plan and pay the monthly premium associated with the plan. For financial reporting purposes the postretirement healthcare benefits are reported in the Health Claims Internal Service Fund.

The City paid approximately \$2.2 million in premiums and claims for 280 retired employees and their dependents in fiscal year 2012. Retiree health care activity is reported in the Health Claims Internal Service Fund.

Funding Policy – current retirees contribute to the retiree health care program the total blended premium for active and retired participants. The City contribution to the retiree health care program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contribution rates for fiscal year 2012 were \$4,408 to \$6,640 per year depending on coverage levels selected. In fiscal year 2012, total retiree contributions were \$1,259,838. The City contributions to the plan for fiscal year 2012, which are equal to claims and premiums paid in excess of premiums collected, were \$2,248,318.

Annual OPEB Cost and Net OPEB Asset – The City’s annual other postemployment benefit (OPEB) cost for the retiree health care program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount annually contributed to the plan, and the changes in the City’s net OPEB obligation to the plan.

Annual required contribution	\$ 2,313,074
Interest adjustment to net OPEB obligation	(31,504)
Adjustment to ARC	29,840
Annual OPEB cost (expense)	<u>2,311,410</u>
Contributions made	<u>(2,248,318)</u>
Decrease in net OPEB asset	63,092
Net OPEB asset - beginning of year	<u>(700,088)</u>
Net OPEB asset - end of year	<u><u>\$ (636,996)</u></u>

The following table shows the assumed annual OPEB cost and net OPEB obligation for the past three years.

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	Cost Contributed	% of Cost Contributed	Net OPEB Liability (Asset)
9/30/2012	4.50%	\$ 2,311,410	\$ 2,248,318	97.3%	\$ (636,996)
9/30/2011	4.00%	\$ 1,774,058	\$ 1,856,094	104.6%	\$ (700,088)
9/30/2010	4.00%	\$ 1,679,108	\$ 2,330,820	138.8%	\$ (618,052)

Funding Status and Funding Progress – As of October 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$30,992,554, all of which was unfunded. The covered payroll

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2012

(annual payroll of active employees covered by the plan) was \$53,446,081 and the ratio of UAAL to the covered payroll was 58%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – In the October 1, 2011 actuarial valuation, the unit credit method was used. The actuarial assumptions included a 4.5% investment rate of return which is a blended rate of the expected long-term investment returns on the plan assets and on the employer's own investments. An annual inflation rate of 2.5% and an annual aggregate payroll increase of 3% was assumed. There is no healthcare trend increase assumed as all increases to insured plan premiums and self-funded plan funding are assumed to be borne by the retirees. The UAAL is being amortized at a level percentage of projected payroll. The amortization period is thirty years and is an open period.

Required Supplementary Information - Required supplementary information for the analysis of funding progress is presented immediately following the Notes to the Basic Financial Statements.

12. CONTINGENT LIABILITIES

Pending Litigation- Various lawsuits pending against the City involve claims relating to general liability, automobile liability, workers' compensation, civil rights action, and various contractual matters. In the opinion of the City's management, the outcome of the pending litigation will not have a material adverse effect on the City's financial position or operations.

Arbitrage Rebate Requirements- The Tax Reform Act of 1986 imposes a rebate requirement with respect to some bonds issued by the City. Under this requirement, an amount equal to the sum of (a) the excess of the aggregate amount earned on all investments over the amount that would have been earned if all investments were invested at a rate equal to the yield on the bonds and (b) any income earned on the excess described in (a) is required to be rebated to the United States Treasury, in order for the interest on the bonds to be excluded from federal taxation. Regulations implementing the rebate requirement were released by the Internal Revenue Service on May 12, 1989. Rebateable arbitrage is computed as of each installment computation date. The last computation date for the City was performed for financial information as of July 19, 2012. No rebate liability was due to the federal government. Information for the next computation period is due in June of 2013. Management does not anticipate there will be a material liability once the computation is completed.

Grant Audit- The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant to the City's financial statements.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2012**

Conduit Debt Obligations- From time to time, various legally separate component units of the City have issued bonded debt obligations to provide financial assistance to private-sector entities. The bonds were issued to acquire and construct industrial and commercial facilities (Mesquite Industrial Development Corporation); or to construct medical and health facilities (Mesquite Health Facilities Corporation). The bonds are secured by the property financed and are payable solely from payments received on the underlying debt obligations. Upon repayment of the bonds, ownership of the acquired capital assets transfers to the private-sector entity served by the bond issuance. Even though some of the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit debt by component unit at September 30, 2012, is as follows.

Series	Mesquite Industrial Development Corporation	Mesquite Health Facilities Corporation	Total
2000B	\$ -	\$ 2,465,804	\$ 2,465,804
2000C	-	6,291,503	6,291,503
2003A	582,496	-	582,496
2003B	600,000	-	600,000
2005	-	18,208,372	18,208,372
2005	-	11,009,573	11,009,573
2005	-	2,947,479	2,947,479
Total	<u>\$ 1,182,496</u>	<u>\$ 40,922,731</u>	<u>\$ 42,105,227</u>

Contingent Liability for Service Agreement- The City entered into separate agreements with the North Texas Municipal Water District (the “District”) and Kingsborough Municipal Utility District Nos. 1, 2, 3, 4, and 5 (the “MUDs”) to provide sewer service within the City’s extraterritorial jurisdiction. As a member city of the District, the City’s involvement was required to develop capacity for a wastewater service requirement of 13.1 million gallons per day to service the area. The District has agreed to construct and operate a project known as the Lower East Fork Sewer Interceptor System and obtained financing on August 24, 2006 in the amount of \$19,190,000. The City’s share of the debt service payments on the project is \$105,584 per month over 20 years and is being passed through to the MUDs. As additional security for the payments due the City the MUDs agreed to establish, levy, and collect an ad valorem tax on all taxable property within the MUDs.

13. FUND BALANCES

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose.

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2012

Details of the Governmental Funds fund balances as of year-end are as follows:

Description	General Fund	Housing Grants	Local Finance	Bond Finance	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepays	\$ 103,903	\$ -	\$ -	\$ -	\$ 2,688	\$ 106,591
Inventory	858,464	-	-	-	-	858,464
Total Nonspendable	962,367	-	-	-	2,688	965,055
Restricted for:						
Debt Retirement	-	-	-	-	56,293	56,293
Purpose of grantors, trustees, and donors	-	1,362,409	-	-	481,453	1,843,862
4B Sales Tax projects	-	-	-	-	6,283,004	6,283,004
Law Enforcement	-	-	-	-	5,293,560	5,293,560
Capital Projects	-	-	-	11,056,311	-	11,056,311
Community Access Projects	-	-	-	-	164,133	164,133
Road Surface Repairs	-	-	96,704	-	-	96,704
Tax Increment Financing Districts	-	-	3,961,141	-	-	3,961,141
Hike and Bike Trail	-	-	3,603,300	-	-	3,603,300
Developer's Deposits	-	-	1,505,186	-	-	1,505,186
Capital Replacement	-	-	83,808	-	-	83,808
Other Purposes	-	-	374,038	-	-	374,038
Total Restricted	-	1,362,409	9,624,177	11,056,311	12,278,443	34,321,340
Assigned to:						
Encumbrances	50,127	-	-	-	-	50,127
Promotion of Tourism	-	-	-	-	51,417	51,417
Other Capital Projects	-	-	2,098,677	-	-	2,098,677
Other Purposes	-	-	-	-	192,082	192,082
Total Assigned	50,127	-	2,098,677	-	243,499	2,392,303
Unassigned	16,026,024	-	-	-	-	16,026,024
TOTAL FUND BALANCES	\$ 17,038,518	\$ 1,362,409	\$ 11,722,854	\$ 11,056,311	\$ 12,524,630	\$ 53,704,722

City Council establishes, modifies and/or rescinds fund balance commitments by passage of an ordinance. Assigned fund balance is established by City Management based on Council direction according to the City's fund balance policy.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available. When assigned and unassigned amounts are available, expenditures from other than the assigned purpose will be spent from unassigned fund balance first.

It is the desire of the City to maintain adequate General Fund fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a fund balance policy of 15 percent of General Fund expenditures.

End of Notes to Basic Financial Statements

City of Mesquite, Texas

**Required Supplemental Information (Unaudited)
September 30, 2012**

**Texas Municipal Retirement System (TMRS)
Schedule of Funding Progress – Retirement Plan
Last Three Years**

As of 12/31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2009	\$ 179,836,315	\$ 238,172,775	75.5%	\$ 58,336,460	\$ 60,147,995	97.0%
2010	\$ 309,071,023	\$ 330,700,027	93.5%	\$ 21,629,004	\$ 61,964,871	34.9%
2011	\$ 328,142,416	\$ 345,220,559	95.1%	\$ 17,078,143	\$ 62,091,305	27.5%

Source: Texas Municipal Retirement System Actuarial Valuation

Notes:

- Trend data presented is based on the fiscal year of the Texas Municipal Retirement System which ends December 31.
- The actuarial accrued liability was calculated using the Projected Unit Credit actuarial funding method.

**Other Post Employment Benefits (OPEB)
Schedule of Funding Progress – OPEB
Last Three Years**

Fiscal Year *	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percent of Covered Payroll
2010	\$ -	\$ 30,375,813	\$ 30,375,813	0.0%	\$ 55,482,589	54.7%
2011	\$ -	\$ 29,465,744	\$ 29,465,744	0.0%	\$ 51,152,481	57.6%
2012	\$ -	\$ 30,992,554	\$ 30,992,554	0.0%	\$ 53,446,081	58.0%

* Source for fiscal year 2010 is actuarial valuation as of October 1, 2008; fiscal year 2011 is actuarial valuation as of October 1, 2010; fiscal year 2012 is actuarial valuation as of October 1, 2011. Actuarial valuations are currently only required every-other year.

Note: The actuarial accrued liability was calculated using the Entry Age Cost actuarial funding method for fiscal year 2010 and 2011 and the Unit Credit actuarial funding method for fiscal year 2012.

Combining and Individual Fund

Statements and Schedules

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City of Mesquite, Texas

Non-Major Governmental Funds

Special Revenue Funds:

Special Revenue funds are a governmental fund type used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. Individual funds maintained are as follows:

Hotel/Motel Tax Fund - to account for funds received from a tax on the cost of occupancy in area hotels and motels, the revenues of which may be expended to promote tourism and the convention and hotel industry.

Confiscated Drug Fund - to account for funds awarded as a result of court forfeitures of contraband pursuant to Chapter 59 of the Texas Code of Criminal Procedure. The law provides for a special fund to be established and to be used solely for law enforcement purposes.

Mesquite Quality of Life Corporation (4B Sales Tax) Fund - to account for funds received from a one-half of one percent general sales tax, which can be utilized for public safety, transportation or parks and recreation purposes.

Other Grants Fund- to account for grant funds received from state and local sources restricted for the purposes specified in the grant.

Other Special Revenue Funds - to account for other miscellaneous non-major special revenue activities including 9-1-1 emergency service, court technology, recreation user programs, cemetery maintenance, and donation accounts.

Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal and interest. The resources for this fund are generated by a tax levy based upon property values. Payment for principal and interest are made from this fund for the general obligation bonds, certificates of obligation bonds, and contractual obligation debt when due through-out the year.

City of Mesquite, Texas

**Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2012**

	Special Revenue			
	Hotel/Motel Tax	Confiscated Drug	Mesquite Quality of Life Corporation (4B Sales Tax)	Other Grants
ASSETS:				
Pooled cash and investments	\$ 62,018	\$ 5,388,547	\$ 4,709,357	\$ 69,010
Receivables (net of allowance for uncollectibles):				
Intergovernmental	5,637	-	1,843,407	211,378
Prepays	348	-	-	-
Accrued interest	-	-	17,002	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 68,003</u>	<u>\$ 5,388,547</u>	<u>\$ 6,569,766</u>	<u>\$ 280,388</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 16,238	\$ 10,470	\$ 34,127	\$ 52,530
Contracts payable	-	-	252,635	-
Deposits	-	355,045	-	-
Due to other funds	-	-	-	82,654
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>16,238</u>	<u>365,515</u>	<u>286,762</u>	<u>135,184</u>
Fund Balances:				
Restricted	-	5,023,032	6,283,004	145,204
Assigned	51,765	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>51,765</u>	<u>5,023,032</u>	<u>6,283,004</u>	<u>145,204</u>
Total Liabilities and Fund Balances	<u>\$ 68,003</u>	<u>\$ 5,388,547</u>	<u>\$ 6,569,766</u>	<u>\$ 280,388</u>

<u>Other Special Revenue</u>	<u>Debt Service</u>	<u>Total Other Governmental Funds</u>
\$ 976,701	\$ 56,293	\$ 11,261,926
-	-	2,060,422
2,340	-	2,688
-	-	17,002
\$ 979,041	\$ 56,293	\$ 13,342,038
\$ 13,709	\$ -	\$ 127,074
-	-	252,635
-	-	355,045
-	-	82,654
13,709	-	817,408
770,910	56,293	12,278,443
194,422	-	246,187
965,332	56,293	12,524,630
\$ 979,041	\$ 56,293	\$ 13,342,038

City of Mesquite, Texas

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2012**

	Special Revenue			
	Hotel/Motel Tax	Confiscated Drug	Mesquite Quality of Life Corporation (4B Sales Tax)	Other Grants
REVENUES:				
Gross receipts taxes	\$ -	\$ -	\$ -	\$ -
Sales tax	910,427	-	9,089,193	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	1,107,335	-	-
Investment income	332	12,777	9,011	-
Charges for services	-	-	-	-
Intergovernmental	-	-	286,607	1,920,378
Contributions and donations	-	-	342,061	-
Other revenues	-	24,844	-	219,646
Total Revenues	910,759	1,144,956	9,726,872	2,140,024
EXPENDITURES:				
Current-				
General government	595,802	-	50,000	-
Fire services	-	-	-	378,776
Police services	-	577,002	-	165,684
Public works	-	-	383,960	-
Community development	96,514	-	-	744,165
Library services	-	-	-	-
Parks and recreation	-	-	5,360,909	91,764
Housing and community services	118,514	-	-	332,880
Capital outlay	-	316,591	1,554,108	283,888
Debt service-				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	810,830	893,593	7,348,977	1,997,157
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	99,929	251,363	2,377,895	142,867
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(150,000)	-	-	-
Total Other Financing Sources (Uses)	(150,000)	-	-	-
NET CHANGE IN FUND BALANCES	(50,071)	251,363	2,377,895	142,867
FUND BALANCES AT BEGINNING OF YEAR	101,836	4,771,669	3,905,109	2,337
FUND BALANCES AT END OF YEAR	\$ 51,765	\$ 5,023,032	\$ 6,283,004	\$ 145,204

<u>Other Special Revenue</u>	<u>Debt Service</u>	<u>Total Other Governmental Funds</u>
\$ 253,035	\$ -	\$ 253,035
-	-	9,999,620
3,575	-	3,575
87,326	-	1,194,661
1,133	-	23,253
991,404	-	991,404
-	-	2,206,985
90,469	-	432,530
18,000	-	262,490
<u>1,444,942</u>	<u>-</u>	<u>15,367,553</u>
332,347	-	978,149
8,178	-	386,954
157,826	-	900,512
-	-	383,960
-	-	840,679
1,967	-	1,967
3,366	-	5,456,039
21,092	-	472,486
97,209	-	2,251,796
-	5,860,000	5,860,000
-	<u>4,982,586</u>	<u>4,982,586</u>
<u>621,985</u>	<u>10,842,586</u>	<u>22,515,128</u>
<u>822,957</u>	<u>(10,842,586)</u>	<u>(7,147,575)</u>
-	10,837,729	10,837,729
<u>(840,000)</u>	<u>-</u>	<u>(990,000)</u>
<u>(840,000)</u>	<u>10,837,729</u>	<u>9,847,729</u>
(17,043)	(4,857)	2,700,154
<u>982,375</u>	<u>61,150</u>	<u>9,824,476</u>
<u>\$ 965,332</u>	<u>\$ 56,293</u>	<u>\$ 12,524,630</u>

City of Mesquite, Texas

**Hotel/Motel Tax Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended September 30, 2012
 With Comparative Actual Totals for the Year Ended September 30, 2011**

	2012				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Original	Final			
REVENUES:					
Sales tax	\$ 900,000	\$ 935,000	\$ 910,427	\$ (24,573)	\$ 891,536
Investment income	200	300	332	32	324
TOTAL REVENUES	<u>900,200</u>	<u>935,300</u>	<u>910,759</u>	<u>(24,541)</u>	<u>891,860</u>
EXPENDITURES:					
Other-					
Administration projects-					
Contractual services	<u>175,000</u>	<u>175,000</u>	<u>200,442</u>	<u>(25,442)</u>	<u>195,318</u>
	<u>175,000</u>	<u>175,000</u>	<u>200,442</u>	<u>(25,442)</u>	<u>195,318</u>
Convention and Visitor Bureau					
Personal services	213,367	213,367	227,340	(13,973)	214,316
Supplies	18,137	12,572	9,298	3,274	15,176
Contractual services	<u>170,709</u>	<u>175,974</u>	<u>158,722</u>	<u>17,252</u>	<u>159,779</u>
	<u>402,213</u>	<u>401,913</u>	<u>395,360</u>	<u>6,553</u>	<u>389,271</u>
Arts Council projects					
Contractual services	<u>97,000</u>	<u>97,000</u>	<u>96,514</u>	<u>486</u>	<u>94,754</u>
	<u>97,000</u>	<u>97,000</u>	<u>96,514</u>	<u>486</u>	<u>94,754</u>
Beautification Commission projects-					
Contractual services	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
	<u>22,000</u>	<u>22,000</u>	<u>22,000</u>	<u>-</u>	<u>22,000</u>
Historic Commission projects-					
Contractual services	<u>97,000</u>	<u>97,000</u>	<u>96,514</u>	<u>486</u>	<u>94,755</u>
	<u>97,000</u>	<u>97,000</u>	<u>96,514</u>	<u>486</u>	<u>94,755</u>
TOTAL EXPENDITURES	<u>793,213</u>	<u>792,913</u>	<u>810,830</u>	<u>(17,917)</u>	<u>796,098</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>106,987</u>	<u>142,387</u>	<u>99,929</u>	<u>(42,458)</u>	<u>95,762</u>
OTHER FINANCING USES:					
Transfers out	<u>(58,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>(58,000)</u>
TOTAL OTHER FINANCING USES	<u>(58,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>	<u>(58,000)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 48,987</u>	<u>\$ (7,613)</u>	<u>(50,071)</u>	<u>\$ (42,458)</u>	<u>37,762</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>101,836</u>		<u>64,074</u>
FUND BALANCE AT END OF YEAR			<u>\$ 51,765</u>		<u>\$ 101,836</u>

City of Mesquite, Texas

**Confiscated Drug Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended September 30, 2012
 With Comparative Actual Totals for the Year Ended September 30, 2011**

	2012			Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
REVENUES:					
Fines and forfeitures	\$ 750,000	\$ 1,050,000	\$ 1,107,335	\$ 57,335	\$ 1,722,837
Investment income	15,000	10,000	12,777	2,777	14,543
Other revenues	50,000	-	24,844	24,844	55,603
TOTAL REVENUES	<u>815,000</u>	<u>1,060,000</u>	<u>1,144,956</u>	<u>84,956</u>	<u>1,792,983</u>
EXPENDITURES:					
Police services-					
Supplies	90,000	603,000	477,778	125,222	47,820
Contractual services	127,800	138,000	99,224	38,776	86,928
Capital outlay	-	1,136,000	316,591	819,409	7,500
TOTAL EXPENDITURES	<u>217,800</u>	<u>1,877,000</u>	<u>893,593</u>	<u>983,407</u>	<u>142,248</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>597,200</u>	<u>(817,000)</u>	<u>251,363</u>	<u>1,068,363</u>	<u>1,650,735</u>
NET CHANGE IN FUND BALANCES	<u>\$ 597,200</u>	<u>\$ (817,000)</u>	251,363	<u>\$ 1,068,363</u>	1,650,735
FUND BALANCE AT BEGINNING OF YEAR			<u>4,771,669</u>		<u>3,120,934</u>
FUND BALANCE AT END OF YEAR			<u>\$ 5,023,032</u>		<u>\$ 4,771,669</u>

City of Mesquite, Texas

**Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 For the Year Ended September 30, 2012
 With Comparative Actual Totals for the Year Ended September 30, 2011**

	2012		Actual Amounts	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	Budgeted Amounts				
	Original	Final			
REVENUES:					
Sales tax	\$ 8,790,000	\$ 8,980,000	\$ 9,089,193	\$ 109,193	\$ 8,764,973
Investment income	13,000	10,000	9,011	(989)	10,473
Intergovernmental	-	-	286,607		
Contributions and donations	<u>3,078,000</u>	<u>342,061</u>	<u>342,061</u>	<u>-</u>	<u>1,546,583</u>
TOTAL REVENUES	<u>11,881,000</u>	<u>9,332,061</u>	<u>9,726,872</u>	<u>108,204</u>	<u>10,322,029</u>
EXPENDITURES:					
Current-					
General government	40,000	50,000	50,000	-	50,000
Fire servcies	-	-	-	-	11,356
Public works	3,656,000	3,650,000	383,960	3,266,040	231,825
Parks and recreation	7,603,000	7,653,000	5,360,909	2,292,091	5,342,604
Capital Projects					
Public safety projects	-	-	-	-	852,808
Transportation projects	-	-	508,817	(508,817)	2,034,426
Parks and recreation projects	<u>-</u>	<u>-</u>	<u>1,045,291</u>	<u>(1,045,291)</u>	<u>1,002,831</u>
TOTAL EXPENDITURES	<u>11,299,000</u>	<u>11,353,000</u>	<u>7,348,977</u>	<u>4,004,023</u>	<u>9,525,850</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>582,000</u>	<u>(2,020,939)</u>	<u>2,377,895</u>	<u>4,112,227</u>	<u>796,179</u>
OTHER FINANCING USES:					
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ 582,000</u>	<u>\$ (2,020,939)</u>	<u>2,377,895</u>	<u>\$ 4,112,227</u>	<u>\$ 796,179</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>3,905,109</u>		
FUND BALANCE AT END OF YEAR			<u>\$ 6,283,004</u>		

City of Mesquite, Texas

Other Grants Special Revenue Fund

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2012**

With Comparative Actual Totals for the Year Ended For the Year Ended September 30, 2011

	2012				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	<u>Original</u>	<u>Final</u>			
REVENUES:					
Charges for services	\$ 100	\$ 100	\$ -	\$ (100)	\$ -
Intergovernmental	833,281	2,524,094	1,920,378	(603,716)	2,894,109
Other revenues	<u>111,007</u>	<u>111,007</u>	<u>219,646</u>	<u>108,639</u>	<u>421,141</u>
TOTAL REVENUES	<u>944,388</u>	<u>2,635,201</u>	<u>2,140,024</u>	<u>(495,177)</u>	<u>3,315,250</u>
EXPENDITURES:					
Current-					
Fire services	-	699,142	378,776	320,366	971,122
Police services	97,492	129,308	165,684	(36,376)	231,245
Public works	-	-	-	-	698,768
Community Development	570,324	1,082,038	829,796	252,242	765,771
Library services	-	-	-	-	23,186
Parks and recreation	-	-	91,764	(91,764)	234,058
Housing and community services	<u>276,472</u>	<u>724,363</u>	<u>531,137</u>	<u>193,226</u>	<u>305,751</u>
TOTAL EXPENDITURES	<u>944,288</u>	<u>2,634,851</u>	<u>1,997,157</u>	<u>637,694</u>	<u>3,229,901</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>100</u>	<u>350</u>	<u>142,867</u>	<u>142,517</u>	<u>85,349</u>
NET CHANGE IN FUND BALANCES	<u>\$ 100</u>	<u>\$ 350</u>	<u>142,867</u>	<u>\$ 142,517</u>	<u>85,349</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>2,337</u>		<u>(83,012)</u>
FUND BALANCE AT END OF YEAR			<u>\$ 145,204</u>		<u>\$ 2,337</u>

City of Mesquite, Texas

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended September 30, 2012

With Comparative Actual Totals for the Year Ended September 30, 2011

	2012			Variance with Final Budget - Positive (Negative)	2011 Actual Amounts
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>		
	<u>Original</u>	<u>Final</u>			
EXPENDITURES:					
Debt service-					
Principal	\$ 5,860,000	\$ 5,860,000	\$ 5,860,000	\$ -	\$ 6,570,000
Interest and fiscal charges	<u>5,005,729</u>	<u>5,005,729</u>	<u>4,982,586</u>	<u>23,143</u>	<u>4,665,040</u>
TOTAL EXPENDITURES	<u>10,865,729</u>	<u>10,865,729</u>	<u>10,842,586</u>	<u>23,143</u>	<u>11,235,040</u>
EXCESS (DEFICIENCY) OF EXPENDITURES OVER (UNDER) REVENUES	<u>(10,865,729)</u>	<u>(10,865,729)</u>	<u>(10,842,586)</u>	<u>23,143</u>	<u>(11,235,040)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	<u>10,870,729</u>	<u>10,837,729</u>	<u>10,837,729</u>	<u>-</u>	<u>10,733,123</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>10,870,729</u>	<u>10,837,729</u>	<u>10,837,729</u>	<u>-</u>	<u>10,733,123</u>
NET CHANGE IN FUND BALANCES	<u>\$ 5,000</u>	<u>\$ (28,000)</u>	(4,857)	<u>\$ 23,143</u>	(501,917)
FUND BALANCE AT BEGINNING OF YEAR			61,150		563,067
FUND BALANCE AT END OF YEAR			<u>\$ 56,293</u>		<u>\$ 61,150</u>

City of Mesquite, Texas

Combining Statement of Net Assets

Internal Service Funds

September 30, 2012

With Comparative Totals for September 30, 2011

	Health <u>Claims</u>	General <u>Liability</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
ASSETS:				
Current assets:				
Pooled cash and investments	\$ 925,960	\$ 1,330,513	\$ 2,256,473	\$ 1,950,690
Prepays and other assets	380,118	99,000	479,118	440,965
Accrued interest	<u>-</u>	<u>1,165</u>	<u>1,165</u>	<u>1,339</u>
Total Assets	<u>1,306,078</u>	<u>1,430,678</u>	<u>2,736,756</u>	<u>2,392,994</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	453,185	101,644	554,829	194,270
Estimated claims payable	<u>627,300</u>	<u>488,770</u>	<u>1,116,070</u>	<u>923,222</u>
Total current liabilities	<u>1,080,485</u>	<u>590,414</u>	<u>1,670,899</u>	<u>1,117,492</u>
Noncurrent liabilities:				
Estimated claims payable	<u>-</u>	<u>977,541</u>	<u>977,541</u>	<u>740,443</u>
Total noncurrent liabilities	<u>-</u>	<u>977,541</u>	<u>977,541</u>	<u>740,443</u>
Total Liabilities	<u>1,080,485</u>	<u>1,567,955</u>	<u>2,648,440</u>	<u>1,857,935</u>
NET ASSETS:				
Unrestricted	<u>225,593</u>	<u>(137,277)</u>	<u>88,316</u>	<u>535,059</u>
Total Net Assets	<u>\$ 225,593</u>	<u>\$ (137,277)</u>	<u>\$ 88,316</u>	<u>\$ 535,059</u>

City of Mesquite, Texas

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended September 30, 2012
With Comparative Totals for September 30, 2011**

	Health <u>Claims</u>	General <u>Liability</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
Operating revenues:				
Contributions - City				
Medical insurance	\$ 8,863,047	\$ -	\$ 8,863,047	\$ 8,417,549
Life and dental insurance	986,347	-	986,347	1,055,252
General liability	-	1,405,000	1,405,000	1,405,000
Workers' compensation	-	570,845	570,845	467,782
Total contributions - City	<u>9,849,394</u>	<u>1,975,845</u>	<u>11,825,239</u>	<u>11,345,583</u>
Contributions - Other				
Employees - medical insurance	2,413,463	-	2,413,463	2,197,135
Retirees - medical insurance	1,259,838	-	1,259,838	1,147,672
COBRA - medical insurance	35,968	-	35,968	22,030
Stop loss and other contributions	124,541	-	124,541	371,920
Other Revenues	1,987	31,177	33,164	948,767
Total contributions - other	<u>3,835,797</u>	<u>31,177</u>	<u>3,866,974</u>	<u>4,687,524</u>
Total operating revenues	<u>13,685,191</u>	<u>2,007,022</u>	<u>15,692,213</u>	<u>16,033,107</u>
Operating expenses:				
Claims incurred	10,375,401	1,246,533	11,621,934	10,547,372
Insurance premiums	1,730,232	630,133	2,360,365	2,305,483
Administrative fees	785,610	711,566	1,497,176	1,441,991
Other Expenses	632,130	34,522	666,652	505,723
Total operating expenses	<u>13,523,373</u>	<u>2,622,754</u>	<u>16,146,127</u>	<u>14,800,569</u>
Operating income (loss)	<u>161,818</u>	<u>(615,732)</u>	<u>(453,914)</u>	<u>1,232,538</u>
Nonoperating revenues:				
Investment income	4,119	3,052	7,171	8,955
Total nonoperating revenues	<u>4,119</u>	<u>3,052</u>	<u>7,171</u>	<u>8,955</u>
Change in net assets	165,937	(612,680)	(446,743)	1,241,493
Total net assets - beginning	<u>59,656</u>	<u>475,403</u>	<u>535,059</u>	<u>(706,434)</u>
Total net assets - ending	<u>\$ 225,593</u>	<u>\$ (137,277)</u>	<u>\$ 88,316</u>	<u>\$ 535,059</u>

City of Mesquite, Texas

**Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2012
With Comparative Actual Totals for the Year ended September 30, 2011**

	Health <u>Claims</u>	General <u>Liability</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from City funds	\$ 9,849,395	\$ 1,975,845	\$ 11,825,240	\$ 11,345,583
Cash received from other operating sources	3,835,796	31,177	3,866,973	4,687,524
Cash paid to suppliers for goods and services	(2,904,031)	(1,297,757)	(4,201,788)	(4,668,379)
Cash paid to claimants	<u>(10,301,100)</u>	<u>(890,886)</u>	<u>(11,191,987)</u>	<u>(11,283,213)</u>
Net cash provided by (used for) operating activities	<u>480,060</u>	<u>(181,622)</u>	<u>298,438</u>	<u>81,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	<u>4,119</u>	<u>3,226</u>	<u>7,345</u>	<u>10,977</u>
Net cash provided by investing activities	<u>4,119</u>	<u>3,226</u>	<u>7,345</u>	<u>10,977</u>
 NET INCREASE (DECREASE) IN POOLED CASH AND INVESTMENTS	 484,179	 (178,396)	 305,783	 92,492
 POOLED CASH AND INVESTMENTS AT BEGINNING OF YEAR	 <u>441,781</u>	 <u>1,508,909</u>	 <u>1,950,690</u>	 <u>1,858,198</u>
 POOLED CASH AND INVESTMENTS AT END OF YEAR	 <u>\$ 925,960</u>	 <u>\$ 1,330,513</u>	 <u>\$ 2,256,473</u>	 <u>\$ 1,950,690</u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 161,819	\$ (615,732)	\$ (453,913)	\$ 1,232,538
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities-				
Changes in assets and liabilities-				
(Increase) decrease in prepaid items	(30,153)	(8,000)	(38,153)	(50,386)
Increase (decrease) in accounts payable	274,095	86,464	360,558	(364,796)
Increase (decrease) in claims payable	<u>74,300</u>	<u>355,646</u>	<u>429,946</u>	<u>(735,841)</u>
Total adjustments	<u>318,241</u>	<u>434,110</u>	<u>752,351</u>	<u>(1,151,023)</u>
 NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	 <u>\$ 480,060</u>	 <u>\$ (181,622)</u>	 <u>\$ 298,438</u>	 <u>\$ 81,515</u>

City of Mesquite, Texas

**Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended September 30, 2012**

	Agency Fund - Tax Clearing Fund			
	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
ASSETS:				
Current assets:				
Pooled cash and investments	\$ 110,310	\$ 214,052,093	\$ 214,059,286	\$ 103,117
Taxes receivable levied for other government (net of allowance for uncollectibles)	3,804,210	89,032,654	89,213,656	3,623,208
Total Assets	\$ 3,914,520	\$ 303,084,747	\$ 303,272,942	\$ 3,726,325
 LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 110,310	\$ 214,052,093	\$ 214,059,286	\$ 103,117
Due to other governments	3,804,210	89,032,654	89,213,656	3,623,208
Total Liabilities	\$ 3,914,520	\$ 303,084,747	\$ 303,272,942	\$ 3,726,325

City of Mesquite, Texas

Statistical Section (Unaudited)

This part of the City of Mesquite's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	82
These schedules contain trend information to help the readers understand how the city's financial performance and well-being have changed over time.	
Revenue Capacity	94
These schedules contain information to help the reader assess the city's most significant local revenue source, the property tax.	
Debt Capacity	99
These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	
Demographic and Economic Information	104
These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.	
Operating Information	108
These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB 34 in Fiscal Year 2002; schedules presenting government-wide information include information beginning in that year.

City of Mesquite, Texas

Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

(Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities:				
Invested in capital assets, net of related debt	\$ 95,809	\$ 105,798	\$ 117,266	\$ 128,362
Restricted	4,561	7,644	7,774	10,914
Unrestricted	<u>18,814</u>	<u>17,757</u>	<u>18,531</u>	<u>16,147</u>
Total governmental activities net assets	<u>\$ 119,184</u>	<u>\$ 131,199</u>	<u>\$ 143,571</u>	<u>\$ 155,423</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 90,629	\$ 99,992	\$ 104,206	\$ 114,583
Restricted	5,847	6,067	6,685	7,124
Unrestricted	<u>14,579</u>	<u>12,492</u>	<u>13,430</u>	<u>15,232</u>
Total business-type activities net assets	<u>\$ 111,055</u>	<u>\$ 118,551</u>	<u>\$ 124,321</u>	<u>\$ 136,939</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 186,438	\$ 205,790	\$ 221,472	\$ 242,945
Restricted	10,408	13,711	14,459	18,038
Unrestricted	<u>33,393</u>	<u>30,249</u>	<u>31,961</u>	<u>31,378</u>
Total primary government net assets	<u>\$ 230,239</u>	<u>\$ 249,750</u>	<u>\$ 267,892</u>	<u>\$ 292,361</u>

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 137,669	\$ 155,270	\$ 149,214	\$ 147,492	\$ 141,703	\$ 136,034
19,717	13,775	6,131	4,617	5,683	7,702
<u>14,429</u>	<u>16,856</u>	<u>16,157</u>	<u>16,658</u>	<u>20,945</u>	<u>19,458</u>
<u>\$ 171,815</u>	<u>\$ 185,901</u>	<u>\$ 171,502</u>	<u>\$ 168,767</u>	<u>\$ 168,331</u>	<u>\$ 163,194</u>
\$ 122,377	\$ 128,354	\$ 118,870	\$ 120,751	\$ 116,898	\$ 125,070
7,484	4,300	3,386	3,042	3,121	3,064
<u>12,526</u>	<u>13,390</u>	<u>12,820</u>	<u>13,499</u>	<u>20,925</u>	<u>17,090</u>
<u>\$ 142,387</u>	<u>\$ 146,044</u>	<u>\$ 135,076</u>	<u>\$ 137,292</u>	<u>\$ 140,944</u>	<u>\$ 145,224</u>
\$ 260,046	\$ 283,624	\$ 268,084	\$ 268,243	\$ 258,601	\$ 261,104
27,201	18,075	9,517	7,659	8,804	10,766
<u>26,955</u>	<u>30,246</u>	<u>28,977</u>	<u>30,157</u>	<u>41,870</u>	<u>36,548</u>
<u>\$ 314,202</u>	<u>\$ 331,945</u>	<u>\$ 306,578</u>	<u>\$ 306,059</u>	<u>\$ 309,275</u>	<u>\$ 308,418</u>

City of Mesquite, Texas

Change in Net Assets Last Ten Fiscal Years

(accrual basis of accounting)
(amounts expressed in thousands)
(Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental activities:				
General government	\$ 8,652	\$ 9,783	\$ 18,739	\$ 16,796
Fire services	17,517	18,805	19,636	21,186
Police services	23,595	24,982	26,336	28,156
Field services	12,660	13,449	12,670	6,629
Public works	2,450	2,752	2,974	15,381
Community development	2,734	3,133	3,375	3,302
Housing and community services	10,019	12,098	12,039	11,866
Library services	2,049	2,080	2,052	2,137
Parks and recreation	7,933	8,834	8,135	10,538
Other	6,720	7,228	-	-
Interest on long-term debt	2,727	2,617	2,478	3,312
Total governmental activities expenses	<u>97,056</u>	<u>105,761</u>	<u>108,434</u>	<u>119,303</u>
Business-type activities:				
Water and sewer	24,961	25,604	26,230	27,468
Drainage utility	1,515	1,606	1,616	1,550
Municipal airport	958	1,130	1,297	1,537
Total business-type activities expenses	<u>27,434</u>	<u>28,340</u>	<u>29,143</u>	<u>30,555</u>
Total primary government expenses	<u>\$ 124,490</u>	<u>\$ 134,101</u>	<u>\$ 137,577</u>	<u>\$ 149,858</u>
Program Revenues				
Governmental activities:				
Charges for services				
Field Services	\$ 5,217	\$ 5,447	\$ 5,526	\$ 5,950
Community Development	7,809	3,924	6,007	4,988
General Government	2,110	2,945	4,270	3,882
Other Charges for services	5,930	9,467	8,741	8,803
Operating grants and contributions	10,446	11,852	12,561	12,439
Capital grants and contributions	2,987	5,943	1,693	7,433
Total governmental activities program revenues	<u>34,499</u>	<u>39,578</u>	<u>38,798</u>	<u>43,495</u>
Business-type activities:				
Charges for services:				
Water and sewer	27,739	27,761	31,219	32,682
Drainage utility	2,157	2,078	2,098	2,129
Municipal airport	461	673	814	1,098
Capital grants and contributions	5,862	9,413	4,659	10,532
Total business-type activities program revenues	<u>36,219</u>	<u>39,925</u>	<u>38,790</u>	<u>46,441</u>
Total primary government program revenues	<u>\$ 70,718</u>	<u>\$ 79,503</u>	<u>\$ 77,588</u>	<u>\$ 89,936</u>

Schedule 2

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 18,562	\$ 19,410	\$ 19,888	\$ 23,832	\$ 22,552	\$ 26,028
22,245	24,670	23,531	24,541	24,532	25,330
30,850	32,265	31,767	32,280	31,965	31,995
13,424	13,970	13,608	13,499	21,767	14,348
3,539	4,529	3,552	7,802	(569)	3,766
3,731	3,637	3,510	5,737	3,020	3,706
10,883	12,684	14,017	14,146	14,159	14,900
2,198	2,127	1,939	2,034	2,137	1,942
10,993	9,446	12,940	10,122	10,510	10,475
-	-	-	-	-	-
<u>3,740</u>	<u>4,519</u>	<u>4,649</u>	<u>4,514</u>	<u>5,010</u>	<u>5,032</u>
<u>120,165</u>	<u>127,257</u>	<u>129,401</u>	<u>138,507</u>	<u>135,083</u>	<u>137,522</u>
29,341	31,939	33,431	34,905	38,216	37,665
1,736	1,817	1,714	1,677	2,436	1,806
<u>1,521</u>	<u>1,721</u>	<u>1,602</u>	<u>1,691</u>	<u>1,766</u>	<u>1,922</u>
<u>32,598</u>	<u>35,477</u>	<u>36,747</u>	<u>38,273</u>	<u>42,418</u>	<u>41,393</u>
<u>\$ 152,763</u>	<u>\$ 162,734</u>	<u>\$ 166,148</u>	<u>\$ 176,780</u>	<u>\$ 177,501</u>	<u>\$ 178,915</u>
\$ 5,951	\$ 6,591	\$ 6,992	\$ 7,054	\$ 7,612	\$ 7,670
6,314	6,942	5,438	4,702	4,790	4,361
5,271	8,177	5,214	5,418	7,131	6,048
8,283	6,084	9,429	8,907	11,140	13,178
13,351	12,603	12,222	16,184	15,791	14,616
<u>7,934</u>	<u>6,977</u>	<u>1,360</u>	<u>8,075</u>	<u>2,735</u>	<u>960</u>
<u>47,104</u>	<u>47,374</u>	<u>40,655</u>	<u>50,340</u>	<u>49,199</u>	<u>46,833</u>
29,833	35,396	35,714	39,492	45,965	44,231
2,142	2,143	2,170	2,165	2,153	2,196
1,110	1,317	1,336	1,328	1,609	1,568
<u>7,221</u>	<u>6,018</u>	<u>3,110</u>	<u>1,255</u>	<u>1,149</u>	<u>1,874</u>
<u>40,306</u>	<u>44,874</u>	<u>42,330</u>	<u>44,240</u>	<u>50,876</u>	<u>49,869</u>
<u>\$ 87,410</u>	<u>\$ 92,248</u>	<u>\$ 82,985</u>	<u>\$ 94,580</u>	<u>\$ 100,075</u>	<u>\$ 96,702</u>

(Continued Next Page)

City of Mesquite, Texas

Change in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)
 (amounts expressed in thousands)
 (Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Net (Expenses)/Program Revenues				
Governmental activities	\$ (62,557)	\$ (66,183)	\$ (69,636)	\$ (75,808)
Business-type activities	<u>8,785</u>	<u>11,585</u>	<u>9,647</u>	<u>15,886</u>
Total primary government net expenses	<u>\$ (53,772)</u>	<u>\$ (54,598)</u>	<u>\$ (59,989)</u>	<u>\$ (59,922)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Ad valorem taxes	\$ 28,555	\$ 29,946	\$ 33,073	\$ 35,505
Gross receipts taxes	7,580	7,137	7,416	7,551
Sales taxes	35,292	36,136	35,663	36,880
Investment income	791	547	1,343	3,204
Sale of capital assets	-	-	-	-
Transfers	<u>4,402</u>	<u>4,431</u>	<u>4,514</u>	<u>4,519</u>
Total governmental activities	<u>76,620</u>	<u>78,197</u>	<u>82,009</u>	<u>87,659</u>
Business-type activities:				
Investment income	520	343	636	1,251
Sale of capital assets	-	-	-	-
Transfers	<u>(4,402)</u>	<u>(4,431)</u>	<u>(4,514)</u>	<u>(4,519)</u>
Total business-type activities	<u>(3,882)</u>	<u>(4,088)</u>	<u>(3,878)</u>	<u>(3,268)</u>
Total primary government	<u>\$ 72,738</u>	<u>\$ 74,109</u>	<u>\$ 78,131</u>	<u>\$ 84,391</u>
Change in Net Assets				
Governmental activities	\$ 14,064	\$ 12,014	\$ 12,373	\$ 11,851
Business-type activities	<u>4,903</u>	<u>7,497</u>	<u>5,769</u>	<u>12,618</u>
Total primary government	<u>\$ 18,967</u>	<u>\$ 19,511</u>	<u>\$ 18,142</u>	<u>\$ 24,469</u>

Schedule 2
(Continued)

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ (73,061)	\$ (79,883)	\$ (88,746)	\$ (88,167)	\$ (85,884)	\$ (90,689)
<u>7,708</u>	<u>9,397</u>	<u>5,583</u>	<u>5,967</u>	<u>8,458</u>	<u>8,476</u>
<u>\$ (65,353)</u>	<u>\$ (70,486)</u>	<u>\$ (83,163)</u>	<u>\$ (82,200)</u>	<u>\$ (77,426)</u>	<u>\$ (82,213)</u>
\$ 37,705	\$ 40,577	\$ 40,791	\$ 38,304	\$ 36,572	\$ 35,787
7,333	7,677	7,617	7,637	7,931	7,760
35,996	35,339	33,348	34,920	36,154	37,440
4,397	3,402	1,467	505	245	145
80	2	92	82	(327)	109
<u>3,943</u>	<u>6,971</u>	<u>2,202</u>	<u>3,983</u>	<u>4,873</u>	<u>4,310</u>
<u>89,454</u>	<u>93,968</u>	<u>85,517</u>	<u>85,431</u>	<u>85,448</u>	<u>85,551</u>
1,660	1,220	668	228	113	73
23	11	11	5	(45)	41
<u>(3,943)</u>	<u>(6,971)</u>	<u>(2,202)</u>	<u>(3,983)</u>	<u>(4,873)</u>	<u>(4,310)</u>
<u>(2,260)</u>	<u>(5,740)</u>	<u>(1,523)</u>	<u>(3,750)</u>	<u>(4,805)</u>	<u>(4,196)</u>
<u>\$ 87,194</u>	<u>\$ 88,228</u>	<u>\$ 83,994</u>	<u>\$ 81,681</u>	<u>\$ 80,643</u>	<u>\$ 81,355</u>
\$ 16,393	\$ 14,085	\$ (3,229)	\$ (2,735)	\$ (436)	\$ (5,136)
<u>5,448</u>	<u>3,657</u>	<u>4,060</u>	<u>2,216</u>	<u>3,653</u>	<u>4,279</u>
<u>\$ 21,841</u>	<u>\$ 17,742</u>	<u>\$ 831</u>	<u>\$ (519)</u>	<u>\$ 3,217</u>	<u>\$ (857)</u>

City of Mesquite, Texas

**Fund Balances of Governmental funds
Last Ten Fiscal Years**

(modified accrual basis of accounting)
(amounts expressed in thousands)
(Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund:				
Reserved	\$ 1,848	\$ 1,674	\$ 732	\$ 637
Nonspendable				
Restricted				
Assigned				
Unreserved/Unassigned	<u>14,712</u>	<u>14,840</u>	<u>16,644</u>	<u>18,884</u>
Total General Fund	<u>\$ 16,560</u>	<u>\$ 16,514</u>	<u>\$ 17,376</u>	<u>\$ 19,521</u>
All other governmental funds:				
Reserved for:				
Encumbrances	\$ 3,342	\$ 3,284	\$ 5,673	\$ 4,359
Debt service	337	417	531	584
Unreserved, reported in:				
Special revenue funds	5,063	7,071	9,148	13,071
Capital projects	9,868	17,107	23,896	30,225
Nonspendable for:				
Prepays	-	-	-	-
Restricted for:				
Debt Retirement	-	-	-	-
Purpose of grantors, trustees, and donors	-	-	-	-
4B Sales Tax projects	-	-	-	-
Law Enforcement	-	-	-	-
Capital Projects	-	-	-	-
Community Access Projects	-	-	-	-
Road Surface Repairs	-	-	-	-
Tax Increment Financing Districts	-	-	-	-
Hike and Bike Trail	-	-	-	-
Developer's Deposits	-	-	-	-
Capital Replacement	-	-	-	-
Other Purposes	-	-	-	-
Assigned to:				
Promotion of Tourism	-	-	-	-
Other Capital Projects	-	-	-	-
Other Purposes	-	-	-	-
Total of all other governmental funds	<u>\$ 18,610</u>	<u>\$ 27,879</u>	<u>\$ 39,248</u>	<u>\$ 48,239</u>

Note: The City implemented GASB Statetment No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

Schedule 3

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 1,286	\$ 3,140	\$ 1,440	\$ 1,063	\$ -	\$ -
				858	962
				-	-
				6	50
<u>16,760</u>	<u>14,223</u>	<u>16,520</u>	<u>16,672</u>	<u>16,153</u>	<u>16,026</u>
<u>\$ 18,046</u>	<u>\$ 17,363</u>	<u>\$ 17,960</u>	<u>\$ 17,735</u>	<u>\$ 17,017</u>	<u>\$ 17,038</u>
\$ 25,061	\$ 10,011	\$ 7,482	\$ 14,142	\$ -	\$ -
919	538	612	563	-	-
14,374	15,257	6,848	5,493	-	-
26,302	28,511	28,200	24,227	-	-
-	-	-	-	866	-
-	-	-	-	61	56
-	-	-	-	1,141	1,844
-	-	-	-	3,905	6,283
-	-	-	-	5,024	5,294
-	-	-	-	12,256	11,056
-	-	-	-	258	164
-	-	-	-	290	97
-	-	-	-	8,224	3,961
-	-	-	-	3,583	3,603
-	-	-	-	1,511	1,505
-	-	-	-	212	84
-	-	-	-	373	374
-	-	-	-	102	52
-	-	-	-	729	2,099
-	-	-	-	185	194
<u>\$ 66,656</u>	<u>\$ 54,317</u>	<u>\$ 43,142</u>	<u>\$ 44,425</u>	<u>\$ 38,720</u>	<u>\$ 36,666</u>

City of Mesquite, Texas

**Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years**

(modified accrual basis of accounting)

(amounts expressed in thousands)

(Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Taxes	\$ 71,352	\$ 73,146	\$ 76,238	\$ 79,822
Licenses and permits	1,418	1,347	1,249	1,661
Fines and forfeitures	3,092	3,278	2,997	2,929
Investment income	700	492	1,242	3,006
Charges for services	12,599	12,509	13,212	14,064
Intergovernmental	10,589	11,997	14,611	13,491
Contributions and donations	119	86	107	104
Other revenues	2,462	2,014	3,860	1,641
Total revenues	<u>102,331</u>	<u>104,869</u>	<u>113,516</u>	<u>116,718</u>
Expenditures				
General government	6,118	6,752	6,649	17,958
Fire services	17,200	18,142	18,951	20,871
Police services	23,254	24,245	25,647	27,346
Field services	8,764	9,222	8,794	9,240
Public works	2,268	2,387	2,384	2,763
Community development	2,715	3,193	3,278	3,296
Housing services	8,848	11,063	10,774	10,345
Library services	1,982	2,071	2,011	2,086
Parks and recreation	7,563	8,612	7,542	9,853
Community services	1,186	974	1,087	1,650
Other	9,612	7,589	8,269	-
Capital outlay	16,240	11,407	17,347	12,918
Debt service - principal	7,805	7,830	8,350	7,480
Debt service - interest	2,727	2,656	2,605	3,056
Total expenditures	<u>116,282</u>	<u>116,143</u>	<u>123,688</u>	<u>128,862</u>
Deficiency of revenues under expenditures	<u>(13,951)</u>	<u>(11,274)</u>	<u>(10,172)</u>	<u>(12,144)</u>
Other financing sources (uses)				
Transfer in	17,248	16,704	18,154	18,655
Transfers out	(12,845)	(11,933)	(13,640)	(14,136)
Capital lease proceeds	-	203	-	-
Bond proceeds	8,480	15,255	17,550	18,760
Notes Payable Proceeds	-	-	-	-
Proceeds of refunding bonds	-	14,795	5,965	-
Premium on debt	-	-	433	-
Payment to refunded bond agent	-	(14,805)	(6,059)	-
Total other financing sources (uses)	<u>12,883</u>	<u>20,219</u>	<u>22,403</u>	<u>23,279</u>
Net change in fund balances	<u>\$ (1,068)</u>	<u>\$ 8,945</u>	<u>\$ 12,231</u>	<u>\$ 11,135</u>
Debt service as a percentage of noncapital expenditures	12.34%	12.48%	11.63%	11.78%

Fiscal Year						
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	81,064	\$ 83,518	\$ 81,535	\$ 80,891	\$ 80,656	\$ 81,028
	1,396	1,294	1,108	985	1,159	1,090
	2,517	3,273	3,401	3,365	4,358	4,522
	4,255	3,271	1,421	480	236	138
	15,568	17,126	17,104	16,492	17,064	17,089
	13,459	12,146	12,229	17,147	15,743	14,794
	185	3,432	297	4,242	2,771	779
	2,716	1,664	1,134	952	2,425	3,219
	<u>121,160</u>	<u>125,724</u>	<u>118,229</u>	<u>124,554</u>	<u>124,412</u>	<u>122,659</u>
	12,667	14,502	15,032	16,195	14,883	18,845
	22,172	24,025	23,989	23,396	23,540	23,608
	30,464	31,453	30,284	30,438	30,474	30,936
	9,531	10,593	10,136	10,001	13,864	10,967
	2,589	3,677	2,800	6,618	2,586	2,711
	3,680	3,616	3,433	5,186	3,711	3,665
	8,808	10,357	11,587	11,996	11,543	12,406
	2,176	2,212	1,949	2,012	2,089	1,927
	10,106	8,831	12,122	9,371	9,752	9,614
	2,120	2,395	2,401	2,477	2,327	2,252
	-	-	-	-	-	-
	16,327	35,618	20,218	11,029	20,970	7,812
	7,147	8,012	8,123	7,519	7,006	6,314
	4,026	4,508	4,645	4,614	4,924	5,323
	<u>131,813</u>	<u>159,799</u>	<u>146,719</u>	<u>140,852</u>	<u>147,669</u>	<u>136,380</u>
	<u>(10,653)</u>	<u>(34,075)</u>	<u>(28,490)</u>	<u>(16,298)</u>	<u>(23,257)</u>	<u>(13,721)</u>
	20,202	24,192	20,575	20,272	18,875	19,056
	(15,621)	(16,705)	(15,830)	(15,456)	(13,834)	(13,998)
	74	-	-	-	-	-
	22,805	13,566	13,125	12,340	11,575	7,235
	135	-	-	-	-	-
	-	-	4,245	1,320	12,715	3,765
	-	-	-	137	1,163	236
	-	-	(4,203)	(1,257)	(13,660)	(3,724)
	<u>27,595</u>	<u>21,053</u>	<u>17,912</u>	<u>17,356</u>	<u>16,834</u>	<u>12,570</u>
\$	<u>16,942</u>	<u>(13,022)</u>	<u>(10,578)</u>	<u>1,058</u>	<u>(6,423)</u>	<u>(1,151)</u>
	11.47%	10.38%	10.16%	9.49%	9.60%	9.17%

City of Mesquite, Texas

**General Governmental Tax Revenues By Source
Last Ten Fiscal Years**

(modified accrual basis of accounting)
(amounts expressed in thousands)
(Unaudited)

Year Ended <u>September</u>	<u>Total</u>	Ad Valorem <u>Taxes</u>	<u>Sales Taxes</u>		
			<u>General</u>	<u>Liquor</u>	<u>Hotel/Motel</u>
2003	71,352	28,480	34,270	169	853
% Total	100.00	39.9	48.0	0.2	1.2
2004	73,146	29,874	35,075	164	897
% Total	100.00	40.8	48.0	0.2	1.2
2005	76,238	33,159	34,518	174	972
% Total	100.00	43.5	45.3	0.2	1.3
2006	79,823	35,392	35,631	177	1,072
% Total	100.00	44.3	44.6	0.2	1.3
2007	80,972	37,735	34,616	235	1,145
% Total	100.00	46.6	42.7	0.3	1.4
2008	83,518	40,502	34,032	188	1,119
% Total	100.00	48.5	40.7	0.2	1.3
2009	81,535	40,571	32,063	191	1,093
% Total	100.00	49.8	39.4	0.3	1.3
2010	80,891	38,334	33,911	194	815
% Total	100.00	47.4	41.9	0.2	1.0
2011	80,656	36,571	35,069	194	891
% Total	100.00	45.3	43.5	0.2	1.1
2012	81,028	35,828	36,357	173	910
% Total	100.00	44.2	44.9	0.2	1.1

Notes:

(1) A settlement was received for prior years' electric and gas gross receipts.

Schedule 5

Gross Receipts Taxes						
<u>Electrical</u>	<u>Gas</u>	<u>Telephone</u>	<u>Cable TV</u>	<u>Sanitation</u>	<u>Other</u>	
4,153	868	826	740	683	310	(1)
5.8	1.2	1.2	1.0	1.0	0.4	
4,057	818	787	753	695	26	
5.5	1.1	1.1	1.0	1.0	0.0	
4,061	1,104	784	754	692	20	
5.3	1.4	1.0	1.0	0.9	0.0	
4,170	1,133	780	757	691	20	
5.2	1.4	1.0	0.9	0.9	0.0	
4,082	1,088	585	770	701	15	
5.0	1.3	0.7	0.9	0.9	0.0	
4,188	1,185	650	934	697	23	
5.0	1.4	0.8	1.1	0.8	0.0	
4,022	1,161	606	1,092	706	30	
4.9	1.4	0.7	1.3	0.9	0.0	
3,905	1,175	566	1,264	693	34	
4.8	1.5	0.7	1.6	0.9	0.0	
4,483	1,020	550	1,182	662	34	
5.6	1.3	0.7	1.5	0.8	0.0	
4,138	845	526	1,518	698	35	
5.1	1.0	0.6	1.9	0.9	0.0	

City of Mesquite, Texas

Assessed Value and Actual Value of Taxable Property Last Ten Fiscal Years

(amounts expressed in thousands)
(Unaudited)

Fiscal Year	Assessed and Actual Value of Property (1)					Total Assessed Value
	Real Property Residential	Real Property Commercial	Real Property Other	Utilities Real and Personal	Personal Property	
2003	3,795,150	1,101,811	146,711	104,321	642,527	5,790,520
2004	3,965,188	1,152,940	148,834	101,967	702,998	6,071,927
2005	4,091,199	1,159,083	141,971	101,599	682,109	6,175,961
2006	4,208,193	1,203,737	147,740	107,156	711,994	6,378,820
2007	4,367,859	1,344,688	154,227	107,582	676,953	6,651,309
2008	4,472,212	1,540,270	182,901	108,586	723,343	7,027,312
2009	4,513,702	1,917,171	221,125	111,020	817,121	7,580,139
2010	4,310,504	1,804,704	217,121	107,363	736,717	7,176,409
2011	4,059,862	1,735,638	225,977	105,015	714,087	6,840,579
2012	3,990,016	1,754,347	231,151	102,613	746,505	6,824,632

Source: Dallas Central Appraisal District for all years shown plus Kaufman Central Appraisal District beginning in 2010.

Notes:

- (1) Assessed value is 100% of estimated actual value for all years as determined by the appraisal districts. Values are as of January 1 of the calendar year prior to the fiscal year-end date.
- (2) Exemptions are granted by the City within the constraints of Texas Constitutional law.
- (3) Total taxable valuation here is based on the certified roll and is net of Tax Incentive Financing Districts (TIF) in the amount of \$121,721. The taxable value upon which the tax levy was based, noted in footnote 3 in the Notes to Basic Financial Statements, includes the TIF value. Subsequent adjustments to the certified roll reduced the taxable value used for the levy by \$376 ($\$5,627,571 + \$121,721 - \$376 = \$5,748,916$).
- (4) Tax rate is per \$100 assessed valuation.

Less: Exemptions, Abatements, and TIFs (2)

<u>Exemptions Granted</u>	<u>Tax Abatements</u>	<u>Tax Incentive Financing Districts (TIF)</u>	<u>Total Exemptions</u>	<u>Total Taxable Valuation (3)</u>	<u>Tax Rate (4)</u>
425,066	9,201	81,160	515,427	5,275,093	.54148
430,846	26,110	91,203	548,159	5,523,768	.54148
435,502	37,838	98,351	571,691	5,604,270	.58148
402,275	24,191	108,179	534,645	5,844,175	.60148
425,235	25,111	146,325	596,671	6,054,638	.62000
486,038	17,724	189,109	692,871	6,334,441	.64000
960,711	18,695	198,648	1,178,054	6,402,085	.64000
967,223	5,040	156,261	1,128,524	6,047,885	.64000
990,882	10,199	129,621	1,130,702	5,709,877	.64000
1,065,133	10,207	121,721	1,197,061	5,627,571	.64000

**Property Tax Rates –
Direct and Overlapping Governments
(Per \$100 Assessed Valuation)
Last Ten Fiscal Years
(Unaudited)**

Fiscal Year	City of Mesquite			Overlapping Rates (1)					Total Direct & Overlapping Rates
	General	Debt Service	Total	Dallas County	Dallas Hospital District	Dallas Community College District	Dallas County School Equalization	Mesquite Independent School District	
2003	.38571	.15577	.54148	.1960	.254	.06000	.00550	1.62	2.67698
2004	.38833	.15315	.54148	.2039	.254	.07780	.00546	1.67	2.75264
2005	.42325	.15823	.58148	.2039	.254	.08030	.00546	1.76	2.88514
2006	.44090	.16058	.60148	.2139	.254	.08100	.00503	1.67	2.82541
2007	.46246	.15754	.62000	.2281	.254	.08040	.00471	1.37	2.55721
2008	.48716	.15284	.64000	.2281	.254	.08940	.00493	1.40	2.61643
2009	.48727	.15273	.64000	.2281	.274	.09490	.00521	1.42	2.66221
2010	.48443	.15557	.64000	.2431	.271	.09923	.01000	1.42	2.68333
2011	.47076	.16924	.64000	.2431	.271	.09967	.01000	1.42	2.68377
2012	.46859	.17141	.64000	.2431	.271	.119375	.009937	1.42	2.70341

Source: (1) Budget Department and Dallas Central Appraisal District, Tax Unit Rates

Notes: Overlapping rates are those of local and county governments that apply to property owners within the city. Not all overlapping rates apply to all city property owners (e.g., the rates for the Mesquite Independent School District apply only to the proportion of the city's property owners whose property is located within the Mesquite I.S.D. geographical boundaries.) A small percent of city property owners are within the boundaries of the Dallas I. S. D. or Garland I. S. D.

**Principal Property Taxpayers
Current Year and Nine Years Ago**

(Unaudited)

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percent of Total Taxable Assessed Valuation	Taxable Assessed Value	Rank	Percent of Total Taxable Assessed Valuation
Town East Mall PS	\$ 124,935,240	1	2.22%	\$ 106,285,790	1	1.99%
Pepsi Cola	50,121,945	2	0.89%	35,746,510	4	0.67%
Oncor Electric Delivery	44,741,820	3	0.80%	-	-	-
Sun Life Asur Co of Canada	33,555,990	4	0.60%	-	-	-
Barons Investors	27,000,000	5	0.48%	-	-	-
Alliance WE LP	24,463,000	6	0.43%	-	-	-
DDR MDT Marketplace	22,758,010	7	0.40%	-	-	-
IRIS USA	20,267,036	8	0.36%	-	-	-
CNC - Swagat Nine LTD	19,150,000	9	0.34%	-	-	-
Virtu Mission Ranch	18,750,000	10	0.33%	-	-	-
TU Services	-	-	-	51,151,660	2	0.96%
Market East Associates, Ltd, Inc.	-	-	-	40,902,680	3	0.77%
Southwestern Bell	-	-	-	33,784,700	5	0.63%
Calwest Ind Holdings (Icon)	-	-	-	29,502,760	6	0.55%
EPT Downreit Inc.	-	-	-	28,918,840	7	0.54%
BRH Prescott II Ltd PS	-	-	-	22,200,000	8	0.42%
Home Depot Inc	-	-	-	21,809,560	9	0.41%
Pep Boys	-	-	-	21,705,445	10	0.41%
Total	<u>\$ 385,743,041</u>		6.85%	<u>\$ 392,007,945</u>		7.36%
Total Taxable Assessed Valuation	<u>\$ 5,627,570,577</u>			<u>\$ 5,327,918,086</u>		

Source: Tax Division, Finance Department
Total Taxable Assessed Valuation from Schedule 6

**Property Tax Levies and Collections
Last Ten Fiscal Years**

(Unaudited)

<u>Fiscal Year Ended September 30</u>	<u>Adjusted Current Tax Levy</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percent of Levy</u>		<u>Amount</u>	<u>Percent of Levy</u>
2003	28,861,973	27,873,063	96.57	920,969	28,794,032	99.76
2004	30,501,206	29,200,767	95.74	1,222,957	30,423,724	99.75
2005	33,124,683	32,151,536	97.06	874,963	33,026,499	99.70
2006	35,132,527	34,433,390	98.01	530,725	34,964,115	99.52
2007	37,446,166	36,659,819	97.90	573,326	37,233,145	99.43
2008	40,274,065	39,602,124	98.33	505,428	40,107,552	99.59
2009	40,414,901	39,752,647	98.36	471,269	40,223,916	99.53
2010	38,362,233	37,683,829	98.23	436,136	38,119,965	99.37
2011	36,392,283	35,761,897	98.27	271,873	36,033,770	99.01
2012	35,677,427	35,225,462	98.73	-	35,225,462	98.73

Note: Collections do not include penalty and interest on delinquent taxes.

Current year collections for fiscal year 2012 are net of the amount collected for the Tax Incentive Financing District (TIF) in the amount of \$779,016.

(\$35,225,462 + \$779,016 = \$36,004,478; see amount in Note 3)

**Ratio of Outstanding Debt by Type
Last Ten Fiscal Years**

(Unaudited)

Governmental Activities						
<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Certificates of Obligations</u>	<u>Public Property Finance Contractual Obligations</u>	<u>Notes Payable</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
2003	37,420,000	14,600,000	4,630,000	-	-	56,650,000
2004	45,340,000	14,775,000	4,535,000	-	191,215	64,841,215
2005	47,525,000	21,570,000	4,835,000	-	153,545	74,083,545
2006	45,590,000	28,495,000	5,090,000	6,035,453	114,144	85,324,597
2007	41,820,000	47,540,000	5,845,000	5,786,733	141,259	101,132,992
2008	38,320,000	55,250,000	7,610,000	5,349,753	80,424	106,610,177
2009	37,880,000	61,560,000	7,440,000	4,895,392	32,200	111,807,592
2010	34,790,000	72,485,000	4,975,000	4,422,953	280,234	116,953,187
2011	37,180,000	77,115,000	3,075,000	3,931,712	238,445	121,540,157
2012	37,545,000	79,950,000	1,505,000	3,420,916	160,428	122,581,344

Business-Type Activities							
<u>Fiscal Year</u>	<u>Water/Sewer Revenue Bonds</u>	<u>Drainage Utility District Revenue Bonds</u>	<u>Water/Sewer Capital Lease Obligations</u>	<u>Total</u>	<u>Total Primary Government</u>	<u>Percentage of Effective Buying Income (1)</u>	<u>Per Capita (1)</u>
2003	40,340,000	11,565,000	-	51,905,000	108,555,000	4.54%	837.29
2004	45,715,000	11,015,000	196,565	56,926,565	121,767,780	5.03%	925.29
2005	47,635,000	10,225,000	157,841	58,017,841	132,101,386	5.29%	988.78
2006	53,225,000	9,405,000	117,338	62,747,338	148,071,935	5.50%	1,089.61
2007	57,945,000	8,565,000	236,159	66,746,159	167,879,151	6.69%	1,227.64
2008	62,795,000	7,710,000	155,645	70,660,645	177,270,822	6.76%	1,288.88
2009	67,435,000	6,825,000	87,420	74,347,420	186,155,012	7.34%	1,350.42
2010	71,500,000	5,905,000	48,455	77,453,455	194,406,642	7.84%	1,390.37
2011	72,615,000	5,010,000	71,294	77,696,294	199,236,451	7.96%	1,424.44
2012	72,445,000	3,950,000	56,700	76,451,700	199,033,044	7.85%	1,422.17

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule 15 - Demographic and Economic Statistics for effective buying income and population data.

**Ratios of Net General Bonded Debt
Last Ten Fiscal Years**

(Unaudited)

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Taxable Assessed Value (in 000s) (2)</u>	<u>General Bonded Debt</u>	<u>Less: Amounts Available in Debt Service Fund</u>	<u>Net General Bonded Debt</u>	<u>Percentage of Taxable Value of Property</u>	<u>Net General Bonded Debt Per Capita</u>
2003	129,650	5,275,093	56,650,000	336,646	56,313,354	1.07%	434.35
2004	131,582	5,523,768	64,650,000	416,834	64,233,166	1.16%	488.16
2005	133,605	5,604,270	73,930,000	530,789	73,399,211	1.31%	549.37
2006	135,894	5,844,175	79,175,000	583,706	78,591,294	1.34%	578.33
2007	136,750	6,054,638	95,205,000	918,369	94,286,631	1.56%	689.48
2008	137,550	6,334,441	101,180,000	537,527	100,642,473	1.59%	731.68
2009	137,850	6,402,085	106,880,000	612,164	106,267,836	1.66%	770.89
2010	139,824	6,047,885	112,250,000	563,067	111,686,933	1.85%	798.77
2011	139,870	5,709,877	117,370,000	61,150	117,308,850	2.05%	838.70
2012	139,950	5,627,571	119,000,000	56,293	118,943,707	2.11%	849.90

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

Sources: (1) See Schedule 15
(2) See Schedule 6

**Direct And Overlapping Governmental Activities Debt
September 30, 2012**

(Unaudited)

<u>Taxing Jurisdiction</u>	Total Outstanding Debt (1)	Estimated Percent Applicable (2)	Direct and Estimated Overlapping Debt
Direct-			
City of Mesquite	\$ 122,581,343	100.00%	\$ 122,581,343
Overlapping-			
Dallas County	121,605,000	3.34	4,061,607
Dallas County Community College District	374,265,000	3.34	12,500,451
Dallas County Hospital District	705,000,000	3.34	23,547,000
Dallas County Schools	45,300,000	3.34	1,513,020
Kaufman County	13,960,000	0.43	60,028
Mesquite Independent School District	399,335,667	87.23	348,340,502
Dallas Independent School District	2,534,240,000	0.11	2,787,664
Garland Independent School District	<u>398,649,242</u>	0.04	<u>159,460</u>
 Total overlapping	 <u>4,592,354,909</u>		 <u>392,969,732</u>
 Total direct and estimated overlapping bonded debt	 <u>\$ 4,714,936,252</u>		 <u>\$ 515,551,075</u>

Ratio, direct and estimated overlapping debt to fiscal 2012 taxable assessed valuation (3) 9.16%

Per capita direct and estimated overlapping bonded debt (4) \$3,684

Notes:

- (1) Including bonds payable, notes payable and capital leases. Source is most recent Texas Municipal Reports, publication of the Municipal Advisory Council of Texas
- (2) The methodology for deriving overlapping percentages is to determine the estimated shared assessed valuation of the overlapping taxing body(s) and the City's; divide the shared value by the total assessed value of the overlapping taxing body.
- (3) Fiscal 2012 taxable assessed valuation (Net of TIF): \$5,627,570,577
- (4) Based on 2012 population of 139,950

**Computation of Legal Debt Margin
September 30, 2012**

(Unaudited)

As a home rule city, the City of Mesquite is not limited by law in the amount of debt it may issue. The City's charter (Article 5, Section 2) states:

"The city council shall have the power and is hereby authorized and made its duty to levy, assess, and collect annually for general purposes authorized by laws and for the purpose of paying the interest and providing the sinking fund on the bonded indebtedness of the City of Mesquite now in existence or which may hereafter be created an ad valorem tax on real, personal or mixed property in such amounts and at such rates as shall be determined by the city council subject to applicable limitations and prohibitions now or hereafter contained in the Constitution of the State of Texas."

Article 11, Section 5 of the State of Texas Constitution states in part:

"but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city."

The tax rate at September 30, 2012, is \$.64000 per \$100 of assessed valuation with assessed valuation being 100% of market value.

**Pledged-Revenue Coverage
Last Ten Fiscal Years**

(Unaudited)

Year Ended <u>September</u>	Operating Revenue and Other (1)	Less: Operating Expense and Other (2)	Net Available Revenue	Total Debt Payments Required (3)	Years Remaining	Average Annual Debt Payment	Coverage (4)
<u>WATER AND SEWER BONDS</u>							
2003	28,191,024	20,107,684	8,083,340	56,560,247	19	2,976,855	2.7
2004	28,057,312	20,975,204	7,082,108	63,294,441	20	3,164,722	2.2
2005	31,775,214	21,144,536	10,630,678	69,214,508	20	3,460,725	3.1
2006	33,798,839	21,259,997	12,538,842	73,841,441	20	3,692,072	3.4
2007	31,363,451	24,220,549	7,142,902	80,115,266	20	4,005,763	1.8
2008	36,536,774	25,384,450	11,152,324	86,091,447	20	4,304,572	2.6
2009	36,344,387	26,806,906	9,537,481	92,010,474	20	4,600,524	2.1
2010	39,705,639	27,830,065	11,875,574	96,880,248	20	4,844,012	2.5
2011	46,068,546	31,283,576	14,784,970	97,779,815	20	4,888,991	3.0
2012	44,339,863	30,452,086	13,887,777	95,751,908	20	4,787,595	2.9
<u>DRAINAGE UTILITY DISTRICT BONDS</u>							
2003	2,225,070	513,581	1,711,489	15,914,476	18	884,138	1.9
2004	2,124,677	595,083	1,529,594	14,513,632	17	853,743	1.8
2005	2,177,952	592,580	1,585,372	13,297,478	17	782,205	2.0
2006	2,262,875	570,903	1,691,972	12,079,052	16	754,941	2.2
2007	2,294,313	715,195	1,579,118	10,862,710	15	724,181	2.2
2008	2,238,126	760,017	1,478,109	9,656,911	14	689,779	2.1
2009	2,219,139	705,047	1,514,092	8,450,808	13	650,062	2.3
2010	2,184,301	693,285	1,491,016	7,242,523	12	603,544	2.5
2011	2,162,146	869,181	1,292,965	5,666,423	11	515,129	2.5
2012	2,201,193	943,626	1,257,567	4,481,859	10	448,186	2.8

Notes:

- (1) Includes operating and nonoperating revenues.
- (2) Includes operating and non-operating expenses exclusive of depreciation and interest expense.
- (3) Includes principal and interest of revenue bonds only. Principal and interest amounts represent the amounts payable in subsequent fiscal years.
- (4) The Water and Sewer Bond coverage requirement is 1.5 and the Drainage Utility District Bond coverage requirement is 1.25. The coverage calculation is Net Revenue Available divided by the Average Annual Debt Payment.

Demographic and Economic Statistics Last Ten Fiscal Years

(Unaudited)

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Total Retail Sales (in thousands of dollars) (2)</u>	<u>Effective Buying Income (EBI) (in thousands of dollars) (2)</u>	<u>Median Household EBI (2)</u>	<u>Number of Households (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
2003	129,650	2,261,111	2,390,723	51,338	48,210	34,368	5.8%
2004	131,600	2,301,891	2,421,215	52,750	49,051	34,181	5.2%
2005	133,600	2,362,311	2,497,456	50,424	49,559	35,451	5.9%
2006	135,894	N/A	2,690,272	50,424	53,353	34,318	4.7%
2007	136,750	N/A	2,508,204	50,134	50,030	34,408	3.8%
2008	137,539	N/A	2,623,330	51,780	50,663	34,786	4.0%
2009	137,850	N/A	2,537,530	50,043	50,707	35,381	7.0%
2010	139,824	N/A	2,478,391	51,217	48,390	36,687	8.7%
2011	139,870	N/A	2,503,265	51,368	48,732	37,137	8.5%
2012	139,950	N/A	2,536,152	51,773	48,986	38,118	6.8%

Sources: (1) Population estimates were prepared by North Central Texas Council of Governments for 2009 and prior; 2010 population count was from the official US Census Bureau; 2011 forward were determined by official ordinance adopted by City Council as of Oct 1 of each year.
(2) Sales and Marketing Magazine, Survey Buying Power (Not Available after 2005).
Effective Buying Income for 2006 and later estimated based on median household EBI and number of households; information obtained from the City Economic Development Department.
(3) Mesquite Independent School District
(4) Texas Workforce Commission

Principal Employers
Current Year
(Unaudited)

<u>Employer</u>	<u>2012</u> <u>Range</u>
Mesquite Independent School District	1,000 +
United Parcel Service Inc.	1,000 +
City of Mesquite	1,000 +
Dallas Regional Medical Center (Formerly Mesquite Community Hospital)	500 - 999
Pepsi Beverages Co	500 - 999
Walmart Supercenter	500 - 999
Texas Dept of Transportation - Dallas District	500 - 999
American Marazzi Tile Inc	500 - 999
Fritz Industries	200 - 999
Eastfield College	100 - 599
<hr/>	
Total Estimated City Employment	70,360

Source: Texas Workforce Commission.
Information from nine years is ago not available.

City of Mesquite, Texas

**Full-time Equivalent City Government Employees
Last Ten Fiscal Years**

(Unaudited)

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
By Functions					
General government	90.00	85.48	85.00	87.00	92.00
Fire services	187.00	192.00	197.00	197.00	202.50
Police services	279.50	282.50	293.50	299.50	299.50
Field services	125.00	130.00	130.00	130.00	129.00
Public works	24.00	24.00	24.00	24.00	21.00
Community development	45.00	47.00	50.00	43.70	44.20
Housing services	8.75	8.75	9.00	10.00	18.70
Library services	35.55	35.55	35.55	34.55	34.55
Parks and recreation	122.85	122.85	130.09	130.09	130.09
Community services	19.25	20.75	20.70	27.00	17.35
Water and Sewer	101.57	103.57	103.57	102.57	103.57
Drainage utility district	7.00	7.00	7.00	7.00	7.00
Municipal airport	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
Total employees by function	<u>1,052.85</u>	<u>1,066.83</u>	<u>1,092.79</u>	<u>1,099.79</u>	<u>1,106.84</u>
By Departments					
Administration	10.00	10.00	9.00	10.00	11.00
City Secretary	3.00	3.00	3.00	3.00	3.00
City Attorney	6.00	6.00	6.00	6.00	6.00
Human Resources	14.00	14.48	14.00	14.00	14.00
Budget and Research	2.00	2.00	2.00	2.00	2.00
Finance	68.50	68.50	68.50	68.50	68.50
Information Technology	-	-	-	-	-
Fire service	187.00	192.00	197.00	197.00	202.50
Police Service	279.50	282.50	293.50	299.50	299.50
Public Works	244.07	248.07	248.07	247.07	248.07
Housing and community service	30.95	33.45	37.00	37.00	36.05
Community development	42.05	42.05	42.70	43.70	44.20
Parks/ Recreation/Building service	122.85	122.85	130.09	130.09	130.09
Library service	35.55	34.55	34.55	34.55	34.55
Airport service	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
Total employees by department	<u>1,052.85</u>	<u>1,066.83</u>	<u>1,092.79</u>	<u>1,099.79</u>	<u>1,106.84</u>
By Fund					
General	916.60	932.58	955.19	963.19	970.19
Grants	20.30	16.30	19.65	19.65	18.70
Water and Sewer	101.57	103.57	103.57	102.57	103.57
Drainage Utility District	7.00	7.00	7.00	7.00	7.00
Municipal Airport	7.38	7.38	7.38	7.38	7.38
Hotel/Motel	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total employees by fund	<u>1,052.85</u>	<u>1,066.83</u>	<u>1,092.79</u>	<u>1,099.79</u>	<u>1,106.84</u>

Source: Current and prior year City of Mesquite Annual Operating Budget documents

Note: Information Technology was split out from Finance Department in 2008

Schedule 17

Fiscal Year				
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
100.50	102.00	102.00	112.00	111.13
206.00	206.50	206.50	207.00	207.00
310.50	314.50	315.50	315.50	315.00
130.00	130.00	130.00	129.00	129.00
21.00	22.00	21.00	24.00	24.00
35.70	35.70	37.50	37.60	37.40
22.30	21.30	20.50	21.40	21.60
34.93	34.93	31.45	31.45	32.08
130.09	129.59	128.59	120.66	123.68
29.00	28.00	28.00	28.00	28.10
104.57	104.57	107.07	107.07	107.07
7.00	7.00	7.00	7.00	7.00
<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
<u>1,138.97</u>	<u>1,143.47</u>	<u>1,142.49</u>	<u>1,148.06</u>	<u>1,150.44</u>
12.00	14.00	14.00	29.50	28.50
3.00	3.00	3.00	3.00	3.00
7.00	7.00	7.00	7.00	7.00
15.00	15.00	15.00	14.00	14.00
2.00	2.00	2.00	2.00	2.00
55.00	54.50	55.00	54.50	54.63
19.00	19.00	19.00	15.00	15.00
206.00	206.50	206.50	207.00	207.00
310.50	314.50	315.50	315.50	315.00
250.07	251.07	252.07	254.07	254.07
51.30	49.30	48.50	49.40	49.70
35.70	35.70	37.50	37.60	37.40
130.09	129.59	128.59	120.66	123.68
34.93	34.93	31.45	31.45	32.08
<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
<u>1,138.97</u>	<u>1,143.47</u>	<u>1,142.49</u>	<u>1,148.06</u>	<u>1,150.44</u>
997.72	1,002.72	1,000.04	1,002.21	1,004.39
22.30	21.80	21.00	22.40	22.60
104.57	104.57	107.07	107.07	107.07
7.00	7.00	7.00	7.00	7.00
7.38	7.38	7.38	7.38	7.38
<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2.00</u>	<u>2.00</u>
<u>1,138.97</u>	<u>1,143.47</u>	<u>1,142.49</u>	<u>1,148.06</u>	<u>1,150.44</u>

City of Mesquite, Texas

Operating Indicators by Function Last Ten Fiscal Years

(Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Functions				
Fire services				
Number of calls answered	14,063	10,661	12,945	11,746
Inspections	4,070	2,647	5,841	6,736
Police services				
Reported index crimes	6,480	6,652	6,582	5,554
Criminal arrests - index crimes	1,632	1,590	1,561	1,198
Criminal arrests - non-index crimes	3,106	3,555	3,400	3,262
Traffic citations	33,261	42,587	42,523	36,372
Field services				
Residential solid waste customers	34,077	34,477	34,830	36,000
Annual tons recycled	19,770	20,430	20,520	23,678
Work hours per mile of streets and alleys	84.24	84.24	73.88	81.85
Public works				
Traffic studies conducted	454	332	333	346
Engineering Information requests	1,010	1,245	995	85,146
Housing services				
Number of HUD allocated unit months	15,708	15,258	16,308	16,308
Community development				
Residential building permits	2,192	2,196	2,053	2,175
Commercial building permits	554	601	566	738
Environmental code violations	47,593	32,839	46,980	31,553
Food inspections conducted	1,033	1,374	1,193	1,407
Library services				
Library visits per capita	2.90	3.11	3.13	3.00
Registered borrowers per capita	0.27	0.28	0.29	0.28
Parks and recreation				
Work hours per acre of park land	37.01	46.12	50.50	52.15
Athletic program participants	21,535	18,325	18,700	13,527
Aquatic program participants	79,078	62,432	63,000	82,605
Tennis program participants	7,315	7,525	7,800	7,700
Recreation centers programs offered	764	800	803	838
Community services				
Number of health clinic clients	5,445	4,845	5,000	5,534
Number of transportation service trips	35,202	36,900	32,318	39,700
Number of volunteer hours	15,517	18,274	20,000	30,093
Arts center events	752	920	717	757
Arts center participants	61,732	70,267	68,463	104,128
Animals processed by animal shelter	10,491	10,164	11,873	13,141
Water and Sewer				
Number of gallons of water pumped (000s)	6,929,350	6,223,119	6,500,000	6,800,000
Water main breaks	300	177	170	360
Miles of sewer mains cleaned	150	115	155	130

Source: Prior and Current year City of Mesquite Annual Operating Budget

Schedule 18

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
11,898	13,156	14,048	14,058	12,151	15,247
6,800	8,811	7,916	8,461	4,151	4,784
6,118	6,120	6,149	7,273	6,997	6,940
1,535	1,492	1,535	1,532	1,525	1,562
3,508	3,294	3,360	3,256	3,682	3,754
35,620	36,563	36,810	31,254	36,745	38,477
37,000	37,500	37,900	38,000	37,500	37,500
22,608	29,000	28,500	33,850	31,268	32,124
81.19	80.19	74.43	77.38	81.51	80.62
327	328	190	201	355	314
75,846	86,603	98,000	16,988	52,845	55,998
16,308	16,308	16,380	16,190	15,156	16,848
1,635	1,394	1,260	1,208	1,375	1,272
294	316	215	197	252	147
67,793	33,488	18,184	18,012	12,791	20,205
998	1,417	1,759	1,868	1,949	1,806
2.65	2.97	2.91	2.78	2.61	2.52
0.40	0.31	0.30	0.30	0.28	0.33
55.02	56.95	58.54	59.84	59.84	59.84
16,276	16,500	16,500	13,054	20,417	15,020
65,000	61,500	61,500	79,678	99,350	92,738
7,964	7,800	7,800	7,437	7,200	6,000
904	824	835	854	850	1,010
5,624	5,573	6,274	4,850	3,709	3,787
38,130	39,580	40,239	40,770	45,739	39,636
22,324	25,209	45,000	46,250	49,483	54,622
575	611	611	516	489	601
130,229	105,951	92,000	80,530	95,002	67,227
14,474	9,705	8,363	7,896	6,605	7,419
5,641,217	6,521,600	6,346,928	6,312,198	6,893,829	6,164,038
240	190	198	225	334	237
130	130	134	120	167	129

City of Mesquite, Texas

Capital Asset Statistics by Function Last Ten Fiscal Years

(Unaudited)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Functions				
Police services				
Police vehicles (sedans)	168	166	184	192
Field services				
Miles of streets	432	432	435	400
Miles of alleys	213	213	215	220
Number of vehicles in City fleet	601	600	624	636
Parks and recreation				
Parks acreage	1,373	1,422	1,422	1,422
Number of parks	63	66	66	67
Water and Sewer				
Water system miles	445	448	450	538
Water system connections	48,885	49,136	50,313	50,598
Sewer system miles	488	491	492	476
Sewer system connections	36,311	36,564	36,756	36,900

Source: Current and prior year City of Mesquite Annual Operating Budget documents

Schedule 19

Fiscal Year					
<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
196	218	223	220	233	223
440	440	440	440	440	440
220	220	220	220	220	220
651	677	677	681	715	702
1,422	1,422	1,430	1,430	1,430	1,430
67	67	68	69	68	68
566	567	567	567	567	567
51,903	53,109	51,709	54,828	54,921	54,961
492	492	493	493	493	493
50,658	50,658	51,500	54,674	53,677	53,750

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**Report of Independent Certified Public Accountants on Internal Control Over
Financial Reporting and on Compliance and Other Matters**

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The Honorable Mayor, City Council and City Manager
City of Mesquite, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mesquite, Texas (the “City”) as of and for the year ended September 30, 2012, which collectively comprise the City’s basic financial statements and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we express no such opinion.

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

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

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

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

GRANT THORNTON LLP

Dallas, Texas
March 26, 2013



Report of Independent Certified Public Accountants on Compliance Related to Major Programs (OMB Circular A-133 and State of Texas Single Audit) and on Internal Control Over Compliance

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The Honorable Mayor, City Council and City Manager
City of Mesquite, Texas

Compliance

We have audited the compliance of the City of Mesquite, Texas (the “City”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State of Texas *Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2012. The City’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

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

In our opinion, the City of Mesquite, Texas complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2012. However, the results of our audit procedures disclosed an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1, that is required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the City's internal control over compliance. Accordingly, we express no such opinion.

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

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the City's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

We did not audit the City's written response to the matters described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

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

GRANT THORNTON LLP

Dallas, Texas
March 26, 2013

City of Mesquite, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2012

<u>Grant Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grant Number</u>	<u>Expenditures</u>
Federal Financial Assistance			
Department of Housing and Urban Development			
Direct Programs:			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218		\$ 848,954
Neighborhood Stabilization Program (NSP1)	14.218		<u>129,865</u>
			978,819
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		<u>165,481</u>
Total CDBG - Entitlement Grants Cluster			1,144,300
Housing Choice Voucher Program (HCVP) Section 8 Housing Choice Vouchers	14.871		<u>12,557,054</u>
Total Department of Housing and Urban Development			<u>13,701,354</u>
Department of Homeland Security			
Federal Emergency Management Agency			
Passed through from:			
The North Central Texas Council of Governments			
Homeland Security Grant Program			
Urban Areas Security Initiative	97.008	2009SST90064	212,989
Urban Areas Security Initiative	97.008	2010SST00008	80,668
State Homeland Security Program (SHSP)	97.073	2009SST90064	44,727
State Homeland Security Program (SHSP)	97.073	2009SST90064	7,844
State Homeland Security Program (SHSP)	97.073	2010SST00008	158
State Homeland Security Program (SHSP)	97.067	EMW-2011-SS-00019	<u>32,390</u>
Total Homeland Security Grant Program Cluster			<u>378,776</u>
Total Department of Homeland Security			<u>378,776</u>
Department of Transportation			
Direct Programs:			
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		<u>295,357</u>
Total Department of Transportation			<u>295,357</u>

City of Mesquite, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2012

Grant Program Title	CFDA Number	Pass-through Grant Number	Expenditures
Department of Justice			
Passed through from:			
The City of Dallas			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1444	\$ <u>16,157</u>
Total Department of Justice			<u>16,157</u>
Department of Energy			
Direct Programs:			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	81.128		<u>294,170</u>
Total Department of Energy			<u>294,170</u>
Department of Health and Human Services			
Passed through from:			
Dallas Area Agency on Aging Special Programs for the Aging Title III, Part C Nutrition Services			
	93.045		<u>91,764</u>
Total Department of Health and Human Services			<u>91,764</u>
Total Federal Financial Assistance			<u>\$14,777,578</u>

The accompanying notes are an integral part of this schedule.

City of Mesquite, Texas

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended September 30, 2012

<u>State Grantor/Program</u>	<u>Grant Number</u>	<u>Expenditures</u>
State Financial Assistance		
Texas Department of Transportation		
Mesquite Transportation of Elderly and Disabled (MTED)	URB-0004(18)	\$142,455
STEPS Coit Grant	585XXF6001	<u>52,035</u>
Total Texas Department of Transportation		<u>194,490</u>
Texas Department of Transportation – Aviation Division		
Routine Airport Maintenance Program (RAMP) Grant	M118MSQTE	<u>28,463</u>
Total Texas Department of Transportation – Aviation Division		<u>28,463</u>
North Central Texas Council of Governments		
2009 Sustainable Development Grant	0918-47-020	<u>286,607</u>
Total North Central Texas Council of Governments		<u>286,607</u>
Texas Department of State Health Services		
Animal Friendly Grant	2011-37927	<u>19,955</u>
Total Department of State Health Services		<u>19,955</u>
Total State Financial Assistance		<u>\$529,515</u>

The accompanying notes are an integral part of this schedule.

City of Mesquite, Texas

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year ended September 30, 2012

NOTE A - GENERAL

The accompanying Schedules of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards of the City of Mesquite, Texas (the City). Direct federal and state awards and those federal and state awards passed through other government agencies are included in the Schedule of Expenditures of Federal and State Awards.

NOTE B - BASIS OF PRESENTATION

The accompanying Schedules of Expenditures of Federal and State Awards are presented using the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. The information in the schedule of expenditures of state awards is presented in accordance with the requirements of the State of Texas *Single Audit Circular* included in the *Uniform Grant Management Standards* issued by the Governor's Office of Budget and Planning of the State of Texas. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE C - NON-CASH ASSISTANCE

The City has not received any non-cash assistance, such as commodities, food stamps, or surplus property; insurance provided by a federal or state agency, or federal or state loans and/or loan guarantees.

NOTE D - SUBRECIPIENTS

The City provided \$27,500 to subrecipients from the Community Development Block Grant program as follows:

New Beginning Center	\$20,000
Mission East Dallas	2,500
Sharing Life Community Outreach	2,500
Mesquite Social Services	<u>2,500</u>
Total	<u>\$27,500</u>

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal and State Awards

Internal control over major programs:

- Material weakness identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS - Continued

Identification of major programs:

<u>CFDA/Grant Number</u>	<u>Name of Program</u>
Major Federal Programs:	
14.871	Section 8 Housing Choice Vouchers
81.128	ARRA- Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery
Major State Program:	
0918-47-020	2009 Sustainable Development Program Grant
Dollar threshold used to distinguish between type A and type B programs:	\$443,327 for federal programs \$300,000 for state programs
Auditee qualified as low-risk auditee?	No

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

The audit disclosed no findings required to be reported.

SECTION III - FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS

Finding #:	2012-1
CFDA Title:	ARRA- Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery
CFDA Number:	81.128
Federal Award Number:	DE – SC0003094
Federal Award Years:	2009 - 2012
Federal Agency:	Department of Energy
Pass-through Entity:	N/A
Type of Finding:	Control Deficiency and Noncompliance
Compliance Requirement:	Reporting
Criteria or Specific Requirements:	Per the terms of the grant agreement, the City is required to submit Quarterly SF-425 Federal Financial Reports to the Department of Energy.
Condition/Context:	It was noted that in one of eight reports judgmentally selected for testing, the cash disbursement amount was incorrectly reported.
Questioned Costs:	None
Cause:	Proper controls are not in place to ensure accurate reporting
Effect:	The City’s submission of inaccurate federal reports could lead to inquiries and increased oversight by the grantor agency, as well as penalties or loss of funding and questioned costs.
Recommendation:	We recommend adequate controls be established to ensure accurate reporting occurs. Additionally, the reports prepared should be reviewed by an appropriate level of supervisory management prior to submitting and filing such reports.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION III - FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS - Continued

**Views of Responsible
Officials and Planned
Corrective Action:**

The Community Services Department understands that accurate and timely reporting of all grant activity is paramount to ensuring accountability to taxpayers. In the future, prior to the City submitting any federal reports, staff will be required to produce documentation (both hard copy and electronic) to substantiate the statistics included in each report. The documentation shall include calculations that correspond to the City's general ledger and shall be approved by the Department Director and the Accounting Department's grant personnel prior to submission.

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Finding #: 2011-1

Type of Finding: Significant Deficiency

Context: The City switched third party healthcare administrators during fiscal year 2011. Upon switching, the process in which claims were paid was also changed. Subsequent to the transition, the reconciliation of the claims payment account was not performed accurately in a timely manner. As a result, the administrative fees were inadvertently recorded twice subsequent to the change in administrators.

Cause: Proper controls were not in place to ensure that accurate and timely monthly bank reconciliations were performed subsequent to the change in processing of claim payments, including ensuring that administrative fees were correctly recorded.

Effect: Although pooled cash was accurate in total, inaccurate bank reconciliations led to the incorrect reporting of cash balances within the internal service fund. Additionally, expenses within the internal service fund were overstated.

Recommendation: We recommend the City ensure that controls are in place to perform accurate and complete bank reconciliations on a monthly basis, including a review of expenses.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

**Views of Responsible
Officials and Planned
Corrective Action:**

The City completed monthly bank reconciliations for the Health Claims Fund outstanding checks account throughout the year however, the reconciliation did not include a second account that the reconciliation process needed to balance to. In setting up the process for the new account with the new healthcare administrator the second account was overlooked. During preparation of the year-end financial statements and regular year-end reconciliation of health claims expenses the administrative fees that were recorded twice were identified by City staff and corrected. The amount of the double administrative fees was not a large enough amount to raise questions throughout the year during regular month end financial statement review. The administrative fees with the new healthcare administrator were less than the previous healthcare administrator therefore the fees were reasonable when compared to the prior year as well. The City has added the second account to the monthly reconciliation process for the Health Claims Fund outstanding checks account to ensure a complete reconciliation is accomplished. All bank reconciliations will be reviewed and signed by the Manager of Accounting Services.

**Status of Corrective
Actions:**

The City completed monthly bank reconciliations for the Health Claims Fund outstanding checks account throughout the year which included a second account that the reconciliation process needed to balance to. All bank reconciliations were reviewed and signed by the Manager of Accounting Services.

Finding #:

2011-2

CFDA Title:

ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery

CFDA Number:

81.128

Federal Award Number:

DE – SC0003094

Federal Award Years:

2009 - 2012

Federal Agency:

Department of Energy

Pass-through Entity:

N/A

Type of Finding:

Material Weakness and Material Noncompliance

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Compliance Requirement: Procurement, Suspension and Debarment

Criteria or Specific Requirement:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300). In addition, grantees are required to obtain a certification regarding debarment and suspension from all parties with whom they contract for goods or services when the amount of the contract is \$100,000 or more.

Condition: For three (3) of three (3) contracts selected for testing (100% of population), the City did not perform a verification check for the covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity prior to contracting with the vendor.

Questioned Costs: None

Context: The City is unable to provide evidence that the vendor was not suspended or debarred at the time of contract award. The City did subsequently perform a proper EPLS search for all applicable transactions and found that none of the vendors were suspended or debarred.

Cause: While the City's purchasing policies do address the requirement to perform a verification check by checking the EPLS, this procedure was not completed. The City did not collect a certification from the entity or add a clause or condition to the covered transactions with these entities.

Effect: There is the potential that the City may be contracting with individuals or subcontractors that are suspended or debarred, thus causing the City to be ineligible to receive federally reimbursed funds due to a lack of adherence to policies surrounding suspension and debarment.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Recommendation:

We recommend that the City include a clause in all vendor contracts for vendors to certify that they are not suspended or debarred. The City should designate specific individual to perform EPLS verification and include the documentation of the search results in the vendor's file and provide adequate training to all purchasing personnel in regard to this requirement to enforce procedures and ensure compliance with this requirement.

**Views of Responsible
Officials and Planned
Corrective Action:**

The City fully understands the importance of not working with suspended or debarred contractors or vendors. Over the past two years the City has worked to improve procurement procedures to address checking for suspension and debarment prior to executing agreements or contracts. The first year a checklist was developed and a clause was added to CDBG contracts requiring a contractor to certify that they are not on the suspended or debarred list. The second year wording was added to the City's purchasing manual to clearly explain the requirements related to suspension and debarment and identify that each department is responsible for performing EPLS verification with the appropriate documentation maintained on file. The City also held a grant meeting for all City employees involved in grant spending to review all requirements of grant programs including the requirements for procurement, suspension and debarment. The City will continue to hold a grant meeting like this at least annually.

The contracts found without documentation of checking for suspension and debarment in the fiscal year 2011 Single Audit were signed just prior to and around the time the City was working through the above changes. As an immediate response to this issue, the City added a certification form in all bid documents requiring potential vendors and contractors to sign the form certifying that they are not on the suspended or debarred list.

While the City has responded and reacted appropriately to each finding, a comprehensive solution is still needed since the City's grant spending covers multiple grant areas and is handled by different employees throughout various departments of the City. In order to accomplish a more comprehensive solution the City is planning to add overall grant monitoring responsibilities to a position within the City's accounting department; therefore, creating work flow procedures that are imbedded in the grant approval, grant expenditure and grant reporting processes. Grant monitoring responsibilities will be developed to ensure key grant requirements are followed prior to, during and after grant spending has taken place, as appropriate.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

**Status of Corrective
Actions:**

Over the past two years the City has worked to improve procurement procedures to address checking for suspension and debarment prior to executing agreements or contracts. The first year a checklist was developed and a clause was added to CDBG contracts requiring a contractor to certify that they are not on the suspended or debarred list. The second year wording was added to the City's purchasing manual to clearly explain the requirements related to suspension and debarment and identify that each department is responsible for performing EPLS verification with the appropriate documentation maintained on file. The City also added EPLS certification requirements to all of its formal bid documents requiring potential vendors to certify that they are not on the debarred and suspended list when they place a bid.

Finding #: 2011-3

CFDA Title: ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery

CFDA Number: 81.128

Federal Award Number: DE – SC0003094

Federal Award Years: 2009 - 2012

Federal Agency: Department of Energy

Pass-through Entity: N/A

Type of Finding: Control Deficiency and Noncompliance

Compliance Requirement: Cash Management

Criteria or Specific Requirement: Per OMB Circular A-133, *Compliance Supplement*, “when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.”

Condition: It was noted that the City requested funds eight months in advance of disbursing the funds.

Questioned Costs: None.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Context: For one (1) out of the eight (8) non-payroll expenditures tested, the City made a draw request 8 months in advance of payment of the invoice. There were a total of 45 total EECBG expenditures in the current year.

Cause: The City requested a cash draw for the expenditure approximately 8 months in advance of the payment of the expenditure. The draw was made based on an encumbrance.

Effect: When a long period of time elapses between the drawdown of funds and disbursement by the City, it may cause the City to be in noncompliance of specific grant requirements, which could potentially lead to loss or return of funding.

Recommendation: We recommend that the City ensure controls are in place to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

**Views of Responsible
Officials and Planned
Corrective Action:**

The Community Services Department's standard operating procedure is to drawdown funds from grants awarded by federal and state agencies only after those funds are expended. This drawdown from encumbered funds was completed in error. The Department has ensured additional controls by requiring that all future drawdown requests be approved by the Director or Community Services, even if a secondary approver is not required by the granting agency. Additionally, the City is planning to add overall grant monitoring responsibilities to a position within the City's accounting department. Grant monitoring responsibilities will be developed to ensure key grant requirements are followed prior to, during and after grant spending has taken place as appropriate.

**Status of Corrective
Actions:**

The Community Services Department's standard operating procedure is to drawdown funds from grants awarded by federal and state agencies only after those funds are expended. This drawdown from encumbered funds was completed in error. The Department has ensured additional controls by requiring that all future drawdown requests be approved by the Director of Community Services, even if a secondary approver is not required by the granting agency.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

Finding #: 2011-4

CFDA Title: ARRA- Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery

CFDA Number: 81.128

Federal Award Number: DE – SC0003094

Federal Award Years: 2009 - 2012

Federal Agency: Department of Energy

Pass-through Entity: N/A

Type of Finding: Control Deficiency and Noncompliance

Compliance Requirement: Reporting

Criteria or Specific Requirement: Grantees are required to submit financial reports timely to the grant agency.

Condition: The City did not submit reports within the required deadlines.

Questioned Costs: None

Context: It was noted that one (1) of eight (8) reports selected for testing was not submitted to the Federal or State agency within the required deadlines (SF-425 Quarterly Report). It was noted, however, that the financial information included in the report was accurate.

Cause: Proper controls are not in place to ensure timely compliance with reporting requirements.

Effect: Untimely reporting to the Federal or State agency causes the City to be in noncompliance of specific grant requirements, which could potentially lead to loss or return of funding.

Recommendation: We recommend adequate controls be put in place to ensure timely reporting occurs.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2012

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS - Continued

**Views of Responsible
Officials and Planned
Corrective Action:**

The Community Services Department understands that accurate and timely reporting of all grant activity is paramount to ensuring accountability to taxpayers. While there were challenges on the City's part with the Department of Energy's Web site, those problems were resolved prior to the reporting deadline and the City failed to finalize the report on time. Even though this delay has never occurred before, the Community Services Department has added a second layer of oversight of the reporting deadlines for all grants.

**Status of Corrective
Actions:**

The Community Services Department has added a second layer of oversight of the reporting deadlines for all grants.

**Overall Corrective
Action to PY Findings:**

In order to accomplish a more comprehensive solution to recent Single Audit findings the City added overall grant monitoring responsibilities to a Senior Accountant position within the City's accounting department. Steps are being taken now to create work flow procedures that are imbedded in the grant approval, grant expenditure and grant reporting processes. Grant monitoring responsibilities are also being developed to ensure key grant requirements are followed prior to, during and after grant spending has taken place, as appropriate.

The City also held a second annual grant training for all City employees involved in grant spending to review all requirements of grant. The City will continue to hold a grant training like this at least annually.



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