



City of Mesquite, Texas

Comprehensive Annual Financial Report

For Fiscal Year Ended September 30, 2010



MESQUITE

About the Cover:

Tripp Road Bridge

Taken on the Tripp Road Bridge, this picture is a representation of all the services provided within the City. The completion of Tripp Road Bridge in November 2008 illustrates the reinvestment the City of Mesquite is making in its community. This is a gateway project as these types of investments will continue to be made in highly visible areas of Mesquite. In a joint venture marketing campaign with the Mesquite Independent School District, the City of Mesquite's Tripp Road Bridge is featured on a billboard located northbound 635.

Real.Texas.Festival

The Real.Texas.Festival. is a signature event held annually at Rodeo Center in Mesquite, TX, 1818 Rodeo Drive. On average, 20,000 attend the festival each year to enjoy the festivities including entertainment from major recording artists, the Mesquite Championship Rodeo, the Midway, crafts, car shows, barbeque competition, Battle of the Bands competition, and much more. This year the City of Mesquite along with its valued sponsors will host the 4th Annual Real.Texas.Festival. on April 23-24, 2010. Information regarding the Real.Texas.Festival. can be found at www.realtexasfestival.com.

CITY OF MESQUITE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

September 30, 2010

Prepared by:

Finance Department

MESQUITE

T E X A S

Real. Texas. Flavor.

City of Mesquite, Texas

Comprehensive Annual Financial Report For the Fiscal Year Ended September 30, 2010

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MESQUITE
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CITY OF MESQUITE, TEXAS

CITY OFFICIALS

SEPTEMBER 30, 2010

CITY COUNCIL

John Monaco, Mayor

Bill Porter, Mayor Pro Tem

Dennis Tarpley, Deputy Mayor Pro Tem

Al Forsythe, Council Member

Brian Hutcheson, Council Member

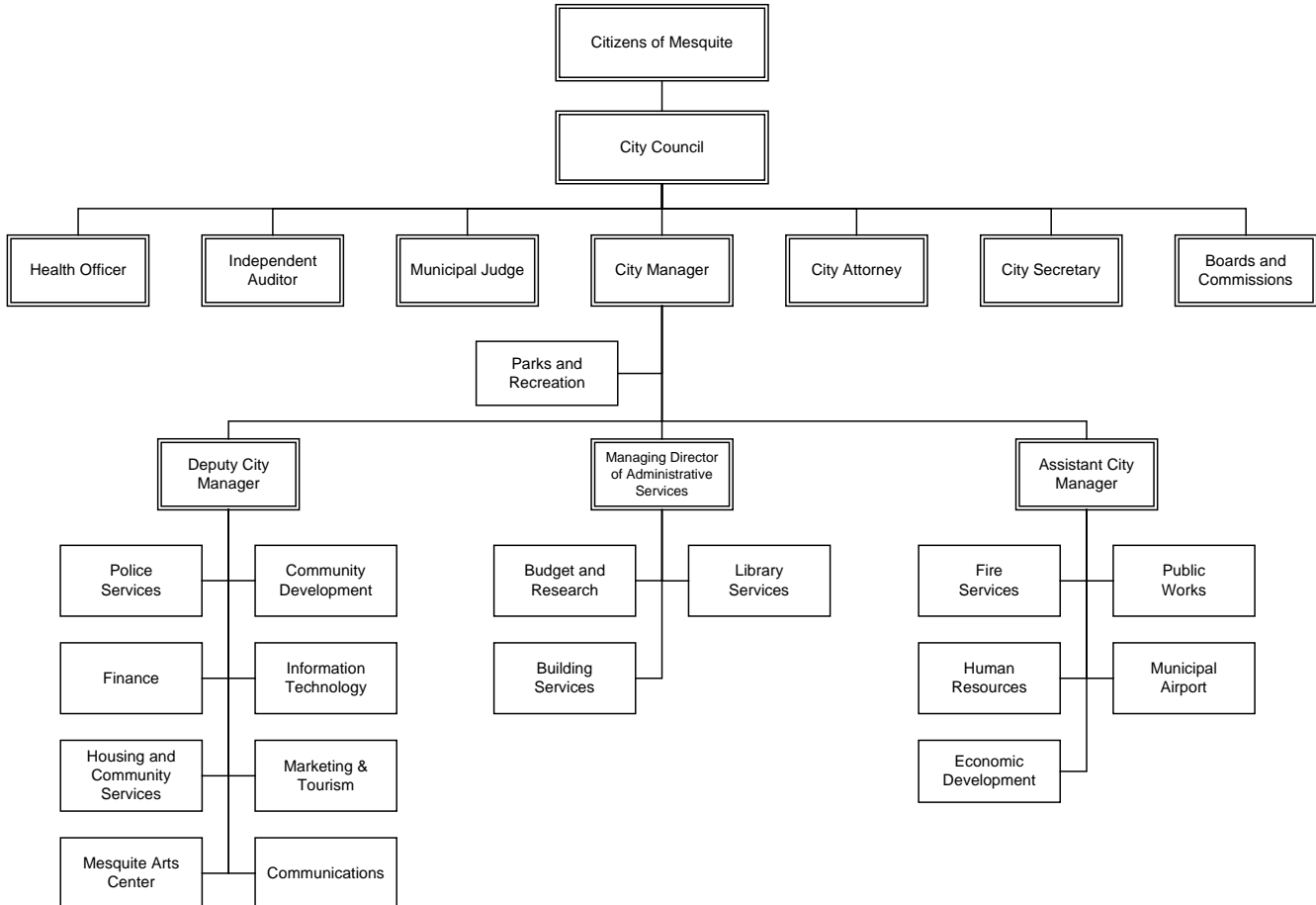
Stan H. Pickett, Council Member

Shirley Roberts, Council Member

Ted Barron, City Manager
Donald W. Simons, Director of Finance
Deborah A. Mol, Accounting Manager

City of Mesquite, Texas

Organizational Chart October 1, 2010





March 23, 2011

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

The Comprehensive Annual Financial Report (“CAFR”) of the City of Mesquite, Texas, for the fiscal year ended September 30, 2010, 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 of Mesquite’s financial statements for the year ending September 30, 2010. 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.

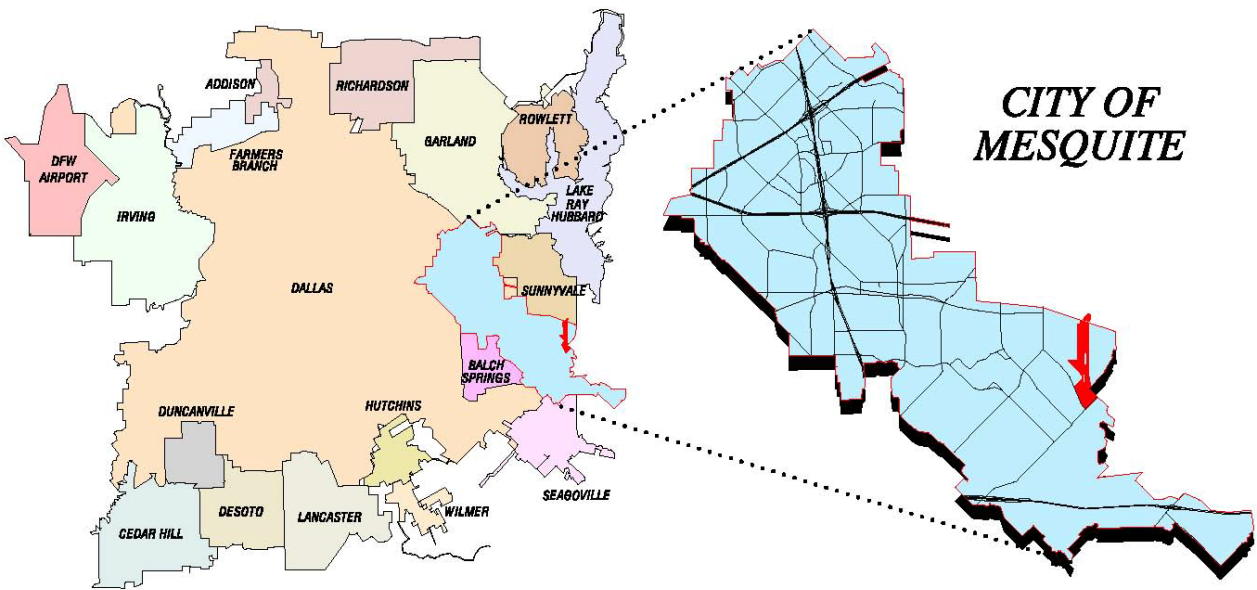
Article IV, Section 32 of the City Charter requires an annual audit of the books of account and transactions of all city departments be conducted by an independent certified public accountant selected by City Council. The City is also required to undergo an annual single audit in conformity with the 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 123rd birthday on December 3, 2010. 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 139,824, 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 has experienced 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 retail, healthcare, education and more. Three years ago the City of Mesquite unveiled its community revitalization initiative called *Project Renewal* which has and continues to produce great results. Economic development efforts resulted in Carrington College taking over the former Circuit City building across from the mall. Mesquite awarded its first Texas Enterprise Zone project to Agape Home Health Services for their expansion and renovation of the former Basset furniture store at Town Center and Interstate 635. Distribution Management Incorporated recently completed occupancy of approximately 70,000 square feet of space in the Mesquite Business Center at Big Town Boulevard and U.S. Highway 80. There is a medical corridor starting to blossom along North Galloway Avenue. Ernest Health opened a new Mesquite Rehabilitation Institute, Dallas Regional Medical Center continues to upgrade their campus with the opening of a state-of-the-art heart center and other significant renovations, and a new pharmacy is under construction across from the hospital which will also provide offices for several physicians. On the retail side Town East Mall completed a \$2.5 million dollar upgrade which included the replacement of the outdoor parking lot lights and security cameras. This improves the look of the mall and more importantly enhances the safety for shoppers. Several retail and restaurant establishments are reporting improved sales and good rankings nationwide in their organizations so far this year.

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 2010 the City continued to be impacted by the downturn in the economy. Property tax revenues were down significantly and only a slight increase in sales tax revenues was experienced 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. Major work was completed on the New City Hall project with an anticipated completion date during fiscal year 2011. The City Hall project is phase two of an overall plan to improve the City's aging municipal facilities with phase one being completion of the new police facility in 2009. The Management's Discussion and Analysis 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 has been given the charge of 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.

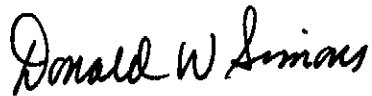
Other Information

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, 2009. This was the thirty-first 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 black ink that reads "Donald W. Simons". The signature is written in a cursive, slightly slanted style.

Director of Finance

A handwritten signature in black ink that reads "Deborah A. Mol". The signature is written in a cursive, slightly slanted style.

Accounting Manager

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, 2009

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.

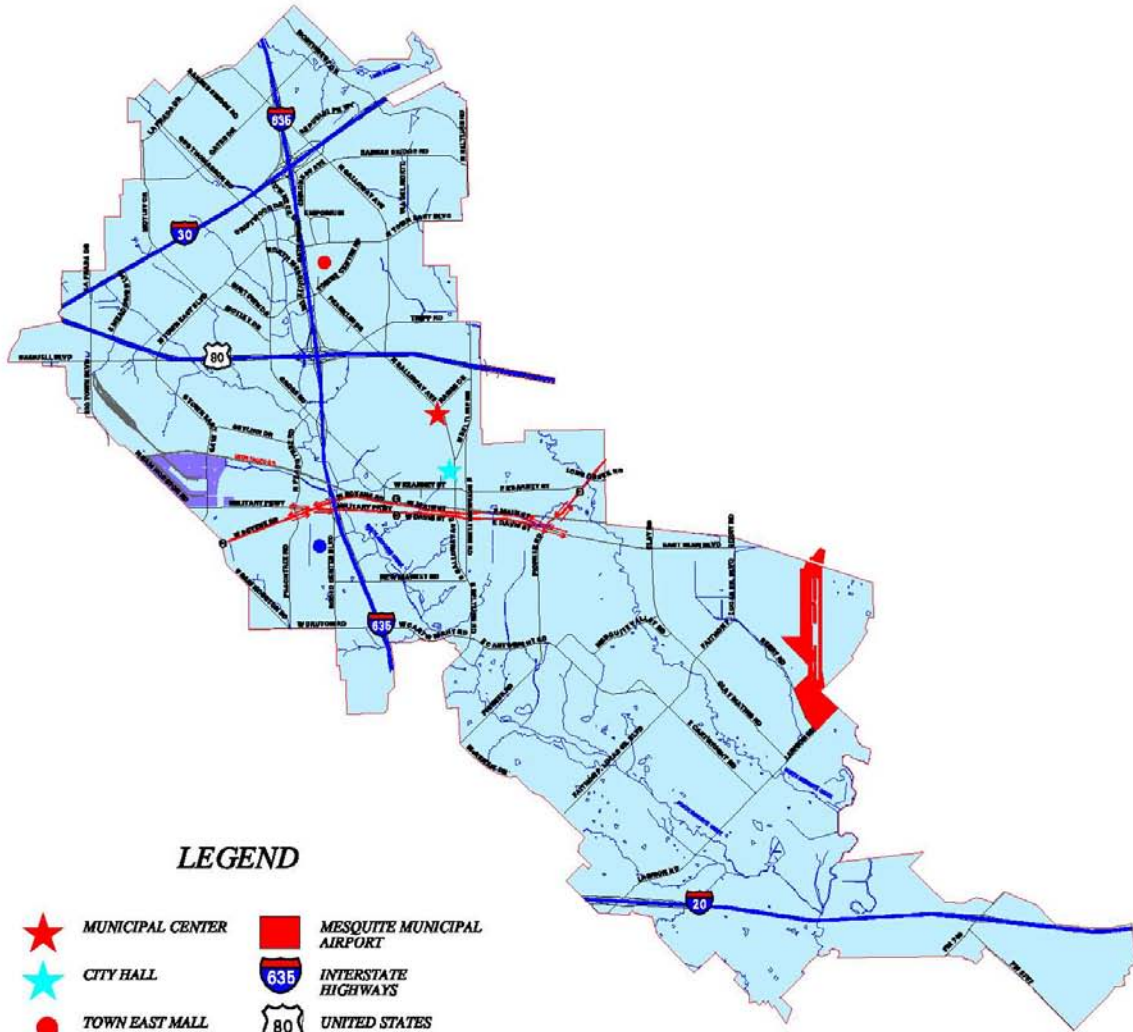


President

Executive Director

MESQUITE

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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



Independent Auditors' Report

Audit • Tax • Advisory

Grant Thornton LLP
1717 Main Street, Suite 1500
Dallas, TX 75201-4667

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F 214.561.2370
www.GrantThornton.com

The Honorable Mayor, City Council and City Manager
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, 2010, 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 as 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and the major special revenue funds 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 23, 2011 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 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.

The management's discussion and analysis on pages 3 through 13 and schedules of Texas Municipal Retirement System Schedule of Funding Progress and the Other Post Employment Benefits Schedule of Funding Progress on page 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining fund financial statements, individual nonmajor fund financial statements, individual fund budget to actual schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas
March 23, 2011

Mesquite, City of Texas
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2010

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, 2010. 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 \$306 million (net assets). Of this amount, approximately \$30 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 \$500 thousand this fiscal year. Governmental activities which receive taxes and other nonexchange revenues decreased \$2.7 million while business type activities increased by \$2.2 million.
- As of the close of the current fiscal year, the City of Mesquite's governmental funds reported combined ending fund balances of \$62 million, an increase of \$1 million from the prior year. Of this amount, \$46 million is unreserved and available for spending subject to the City's self-imposed limitations by management for intended use.
- At year-end, the undesignated and unreserved fund balance for the general fund was \$16.7 million and total fund balance was \$17.7 million. Total fund balance represents over 18.1 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 decreased \$225 thousand which was primarily the result of a few revenue sources coming in lower than budgeted.
- The City's net bonded debt increased by \$8.5 million during this current fiscal year. The City issued general 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 high claims year in its Health Claims Internal Service fund which created a deficit fund balance at the end of the year. The City will eliminate the deficit fund balance through increased premium charges to plan participants. This is the first increase in premium charges in the past three years.

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 fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Housing Grants Special Revenue, Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue and Bond Finance Capital Project funds, all of which are to be considered major funds. The Housing Grants Special Revenue Fund and Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue Fund do not meet the requirements to be considered a major fund however the City has chosen to present them as major funds due to other reporting needs. Data from the other six funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for the following major governmental funds, the General, Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue and the Housing Grants Special Revenue funds 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 government's financial position. In the case of the City of Mesquite, assets exceeded liabilities by \$306 million as of September 30, 2010.

The largest portion of the City's net assets (87.6 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 79,775	\$ 79,682	\$ 41,626	\$ 43,206	\$ 121,401	\$ 122,888
Capital assets	236,424	232,455	179,651	173,381	416,075	405,836
Total assets	<u>316,199</u>	<u>312,137</u>	<u>221,277</u>	<u>216,587</u>	<u>537,476</u>	<u>528,724</u>
Long-term liabilities outstanding	137,433	131,451	78,508	75,292	215,941	206,743
Other liabilities	9,999	9,184	5,477	6,219	15,476	15,403
Total liabilities	<u>147,432</u>	<u>140,635</u>	<u>83,985</u>	<u>81,511</u>	<u>231,417</u>	<u>222,146</u>
Invested in capital assets, net of related debt	147,492	149,214	120,751	118,870	268,243	268,084
Restricted net assets	4,617	6,131	3,042	3,386	7,659	9,517
Unrestricted net assets	16,658	16,157	13,499	12,820	30,157	28,977
Total net assets	<u>\$ 168,767</u>	<u>\$ 171,502</u>	<u>\$ 137,292</u>	<u>\$ 135,076</u>	<u>\$ 306,059</u>	<u>\$ 306,578</u>

An additional portion of the City's net assets (2.5 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$30 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 \$519 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	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 26,080	\$ 27,073	\$ 42,985	\$ 39,220	\$ 69,065	\$ 66,293
Operating grants and contributions	16,184	12,222	-	-	16,184	12,222
Capital grants and contributions	8,075	1,360	1,255	3,110	9,330	4,470
General revenues:						
Ad valorem taxes	38,304	40,791	-	-	38,304	40,791
Gross receipts taxes	7,637	7,617	-	-	7,637	7,617
Sales taxes	34,920	33,348	-	-	34,920	33,348
Sale of capital assets	82	92	5	11	87	103
Investment income	505	1,467	228	668	733	2,135
Total revenues	131,787	123,970	44,473	43,009	176,260	166,979
Expenses:						
General government	23,832	19,888	-	-	23,832	19,888
Fire services	24,541	23,531	-	-	24,541	23,531
Police services	32,280	31,767	-	-	32,280	31,767
Field services	13,499	13,608	-	-	13,499	13,608
Public works	7,802	3,552	-	-	7,802	3,552
Community development	5,736	3,510	-	-	5,736	3,510
Housing & community services	14,146	14,017	-	-	14,146	14,017
Library services	2,034	1,939	-	-	2,034	1,939
Parks and recreation	10,122	12,940	-	-	10,122	12,940
Interest on long-term debt	4,514	4,649	-	-	4,514	4,649
Water and sewer	-	-	34,905	33,431	34,905	33,431
Drainage utility	-	-	1,677	1,714	1,677	1,714
Municipal airport	-	-	1,691	1,602	1,691	1,602
Total expenses	138,506	129,401	38,273	36,747	176,779	166,148
Increase (decrease) in net assets before transfers	(6,719)	(5,431)	6,200	6,262	(519)	831
Transfers	3,984	2,202	(3,984)	(2,202)	-	-
Increase (decrease) in net assets	(2,735)	(3,229)	2,216	4,060	(519)	831
Net assets - October 1, 2009	171,502	174,731	135,076	131,016	306,578	305,747
Net assets - September 30, 2010	\$ 168,767	\$ 171,502	\$ 137,292	\$ 135,076	\$ 306,059	\$ 306,578

Governmental Activities

Governmental activities decreased the City of Mesquite's net assets by \$2.7 million.

The City's program revenues from governmental activities increased approximately \$9.7 million (23.8 percent) during the year. Charges for services decreased approximately \$993 thousand, operating grants and contributions increased approximately \$4 million and capital grants and contributions increased approximately \$6.7 million. The decrease in charges for services is due to less TIF property tax revenues collected in fiscal year 2010 due to lower property values in the TIF districts, less activity in building permits for the year due to less construction throughout the City and a reimbursement received in 2009 that was not

repeated in 2010. Operating grants and contributions increased due to a new Neighborhood Stabilization Program grant received during the year and an increase in the Housing Grants fund contract revenues by approximately \$2.1. In 2009 the Housing Grants contract revenues were down in order to draw down the fund balance to an acceptable level for HUD. Capital grants and contributions increased due to an increase in grants received for emergency management programs and various fire equipment by approximately \$943 thousand, an energy efficiency grant received for approximately \$294 thousand that was used primarily for a signal project, an increase in developer's contributions by approximately \$1.7 million, an increase in reimbursements received for joint venture projects which totaled approximately \$724 thousand in the Mesquite Quality of Life Corporation (4B Sales Tax) fund and a contribution from the Texas Department of Transportation Regional Toll Revenue funds for \$3.1 million that will be used by Parks and Recreation to build a hike and bike trail throughout the city.

General revenues of the City's governmental activities decreased \$1.9 million (2.2 percent) during the year. General revenue from property taxes decreased \$2.5 million due to lower property tax values for the year. Investment income decreased \$1 million due to the continued downturn in the market during the year. The decreases in property tax revenues and investment income were offset by an increase in sales tax revenues received of \$1.6 million.

Expenses for the City's governmental activities experienced a net increase of \$9.1 million (7 percent) compared with the prior fiscal year. The major increases were in General Government (\$3.9 million), Fire Services (\$1 million), Police Services (\$513 thousand), Public Works (\$4.3 million), and Community Development (\$2.2 million). These increases were offset by a decrease in Parks and Recreation (\$2.8 million). For all of the categories that have personal service expenditures for salaries and related benefits there was a 3 percent wage increase which was not given in fiscal year 2009. The increase in General Government and correlating decrease in Parks and Recreation is largely due to a shift in where Building Services costs were recorded from Parks and Recreation to General Government. The increase in Fire Services was largely due to purchases of equipment which were part of the grant revenues discussed above. Public Works expenses increased due to two large projects that were completed in the Mesquite Quality of Life Corporation (4B Sales Tax) Fund – Towne Center Ramp project and the US Highway 80 and State Highway 352 Interchange. The increase in Community Development expenses is a result of the Neighborhood Stabilization Program grant activity discussed above which allowed the City to purchase twenty-two foreclosed homes to be renovated and resold to qualified buyers.

Business-type Activities

Business-type activities increased the City of Mesquite's net assets by \$2.2 million.

The City's overall revenues for business-type activities increased slightly by approximately \$1.5 million (3.4 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 increased by \$3.8 million due to rate increases for both water (\$0.51 per 1,000 gallons) and sewer (\$0.44 per 1,000 gallons) charges. Wholesale water rate increases and wastewater treatment costs from North Texas Municipal Water District (NTMWD), as well as increased insurance requirements, caused the need for a rate increase again in fiscal year 2010. Capital grants and contributions decreased by \$1.9 million due to fewer contributions by developers in the Water and Sewer fund and the Drainage Utility District fund. Overall construction is down in the City due to the slow economy therefore developer's projects are down as well. Interest income continued to decrease in 2010 due to the continued poor condition of the market.

Expenses attributable to the business-type activities increased by approximately \$1.5 million (4.2 percent) this fiscal year. The increase is primarily due to a rate increase from North Texas Municipal Water District for treated water and sewer treatment charges. Net transfers out for 2009/10 were higher than 2008/09 by \$1.8

million as well. In 2008/2009 there was a transfer in to the Airport fund for \$2.5 million for assets purchased by the City's governmental type funds. There was a similar transfer in 2010 but for only \$832 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 \$62.2 million. Approximately 75 percent of this total amount (\$46.4 million) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available to pay for new spending because it has already been committed to pay for encumbrances, prepaids, and inventory of \$15.2 million and debt service of \$563 thousand. The fund balance for all governmental funds increased by \$1.1 million from the previous fiscal year. This increase 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, unreserved fund balance of the General fund was \$16.7 million while the total fund balance was at \$17.7 million. The total fund balance decreased by \$225 thousand. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 17.1 percent of total General Fund expenditures and transfers out, while the total fund balance represents 18.2 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 decreased \$871 thousand from the prior year. Ad valorem taxes decreased \$2.2 million due to a decrease in assessed property values. Sales tax revenue increased almost \$1.4 million as we started to see a slow turn around in the local economy. On the expenditure side, the actual expenditures decreased \$1.7 million. There was an overall effort by the City to reduce spending in every area. General government increased by \$2.1 million which was due to a shift in where building services costs were recorded from Parks and recreation to General government. There is a corresponding decrease in the Parks and recreation expenditures. The remaining reduction in Parks and recreation was due to an increase in the reimbursement from the Mesquite Quality of Life Corporation (4B Sales Tax) Fund for Parks and recreation operations. Under other financing sources (uses), all debt issues were handled through the Bond finance fund since there was not an issuance of Public Property Finance Contractual Obligation type debt this year.

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 approximately \$1 million at the end of the year. Fund balance decreased by \$251 thousand. Program revenues approximated the expenditures for the year with the small difference being covered by available fund balance.

The Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue Fund is used 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. The fund balance at year end is \$3.1 million, \$2.3 million of which is reserved for encumbrances. Fund balance decreased almost \$1.2 million which is the result of capital project spending in 2009/10 on projects funded in the prior year and an increase in the subsidy to Parks and Recreation operations. Sales tax revenues increased for the year by \$461 thousand as the City started to see a slow turn around in the local economy. There were also two large contributions this year from the Texas Department of Transportation for the LBJ Interchange project and Dallas County for the Lawson Road project for their share of the projects.

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 \$22.1 million, \$10.5 million of which is reserved for encumbrances and \$11.6 million is unreserved for capital projects. The fund balance increased slightly by \$182 thousand 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. Investment income was down due to lower yields throughout the year on the various investments held throughout the 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 \$12.3 million and those for the Drainage Utility District amounted to \$1.8 million. The total change in net assets for both funds was \$1.4 million and \$798 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 contributions from developers of \$291 thousand. The decrease in developer's contributions is due to a decrease in overall development throughout the City due to current economic conditions.

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 expenditures from the original budget of \$728 thousand which is less than 1 percent. The main increases were in Parks and recreation (\$404 thousand) and Housing and community services (\$378 thousand). The Parks and recreation increase was due to the City taking over operation of the City golf course during the year which was managed by an outside contractor for the past several years. The increased expenditures here were offset by golf course charges for services. The Housing and community services increase was due to equipment purchases planned in the Mesquite Transportation of Elderly and Disabled (MTED) program as a result of grant money awarded during the year. General fund revenues fluctuated from the original budget to the final budget to actual in ad valorem taxes due to appraised values coming in a little better than originally budgeted, sales tax revenues coming in higher than originally planned due to the economy starting to show improvement, licenses and permits and fines and forfeitures falling short due to less activity in various areas compared to original budget, investment income coming in much lower than originally planned as the market continues to be down, charges for services increasing due to golf course charges for services not in the original budget, and intergovernmental revenues increasing due to additional grant money received for the MTED program.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the City had over \$416 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 2.5 percent for the current fiscal year.

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

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 22,994	\$ 21,701	\$ 9,969	\$ 9,667	\$ 32,963	\$ 31,368
Construction in progress	24,635	60,448	14,993	8,431	39,628	68,879
Buildings	59,319	33,271	4,129	4,256	63,448	37,527
Infrastructure	100,320	89,612	148,777	149,019	249,097	238,631
Improvements	9,523	8,841	255	274	9,778	9,115
Equipment	19,633	18,582	1,528	1,734	21,161	20,316
Totals	\$ 236,424	\$ 232,455	\$ 179,651	\$ 173,381	\$ 416,075	\$ 405,836

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

- Almost \$19 million was expended for capital projects in 2010 and \$48 million was completed and placed in service.
- Over \$8.8 million was expended for transportation and street and alley projects including continuing work on concrete street rehab projects, Forney Road construction, Motley Drive reconstruction, Paddy Heights paving and traffic signal progression.
- Progress continued on upgrading City facilities with over \$7.6 million being expended toward the new City Hall facility. There were other smaller projects completed on various other municipal facilities as well. The new Police building was fully capitalized during the fiscal year.
- Almost \$1.1 million was spent on Parks and Recreation capital projects for items such as City Lake erosion control, various golf course equipment, Evans Recreation Center renovations and parking lot improvements, and various other building renovations and projects.
- Current year outlay for the water and sewer system capital projects was \$8.9 million and \$2.9 million of infrastructure and equipment was completed and placed into service.
- Current year outlay for drainage utility capital projects was \$115 thousand and \$30 thousand of infrastructure was completed and placed into service.
- The Mesquite Municipal Airport acquired land for future expansion in the amount of \$812 thousand. City bond proceeds were made available to the airport to fund this purchase.

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 \$188.7 million in net bonded debt outstanding. Of this total amount, \$111.5 million or 59 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	
	2010	2009	2010	2009	2010	2009
General obligation	\$ 34,008	\$ 36,972	\$ -	\$ -	\$ 34,008	\$ 36,972
Certificates of obligation	72,485	61,560	-	-	72,485	61,560
Public property finance contractual obligations	4,975	7,440	-	-	4,975	7,440
Revenue bonds	-	-	77,224	73,967	77,224	73,967
Totals	\$ 111,468	\$ 105,972	\$ 77,224	\$ 73,967	\$ 188,692	\$ 179,939

During the fiscal year, there were the following debt issuances: \$1.3 million in general obligation debt to advance refund prior tax exempt bonds; \$12.3 million of certificate of obligation debt for constructing and improving streets, roads, and alleys including related drainage, signalization, landscaping, lighting and signage, constructing, improving, equipping and renovating a Police/City Hall facility, constructing and equipping a control tower at the municipal airport, major repairs and renovations to existing municipal buildings including primarily fire department buildings, the Service Center and Arts Center, acquisition of equipment and vehicles for the fire, police, community development, public works, administration and parks and recreation 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; and \$8.3 million of revenue bonds for water and sewer improvements.

Standard and Poor's Rating Services assigned its 'AA' long-term rating to the city's series 2010 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' long-term rating to the city's series 2010 waterworks and sewer system revenue bonds. At the same time, Standard and Poor's affirmed its 'AA' long-term and underlying 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 improvements throughout the City from its emphasis on *Project Renewal*. The goal of *Project Renewal* is to achieve long-term economic vitality through reinvestment and restoration throughout the City. The projects most recently completed through *Project Renewal* positions the City for potential growth in an improved economy.

In the 2010-11 budget General Fund revenues and transfers in are projected to decrease by 0.5 percent from the 2009-10 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 5 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 increase slightly with an approximate 2.2 percent increase over the prior year's receipts. This revenue source comprises almost 27 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 include an increase in the residential solid waste collection fee of \$1.50 per month per household which should generate approximately \$700 thousand in additional revenues. With this increase the City will still have one of the lowest, competitive rates among other comparable cities. The 2010-11 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 0.1 percent decrease over the 2009-10 final budget. The 2010-11 budget does not include any raises for employees other than required step increases for firefighters and police officers with less than five years of service. There are small 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 decrease by \$348 thousand in fiscal year 2011. The projected ending fund balance is approximately 18 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 includes rate increases for both water and sewer charges to cover increased costs for treated water and wastewater treatment charges. The residential rate increases for 2010-11 are \$0.49 per 1,000 gallons for water and \$0.42 per 1,000 gallons for sewer.

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: Accounting Manager, 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, 2010**

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS:			
Pooled cash and investments	\$ 61,350,522	\$ 32,883,032	\$ 94,233,554
Receivables (net of allowance for uncollectibles)	14,790,852	7,708,906	22,499,758
Internal balances	631,736	(631,736)	-
Inventory	763,985	397,224	1,161,209
Prepays and other assets	1,475,563	1,243,189	2,718,752
Accrued interest	145,007	25,696	170,703
Net Other Post Employment Benefit (OPEB) Asset	618,052	-	618,052
Capital assets-			
Land and construction in progress	47,628,950	24,962,060	72,591,010
Other capital assets (net of accumulated depreciation)	<u>188,794,604</u>	<u>154,689,124</u>	<u>343,483,728</u>
Total Assets	<u>316,199,271</u>	<u>221,277,495</u>	<u>537,476,766</u>
LIABILITIES:			
Accounts payable	\$ 8,307,601	\$ 1,817,888	\$ 10,125,489
Accrued interest payable	764,092	281,275	1,045,367
Deposits and other liabilities	927,212	3,378,189	4,305,401
Long-term liabilities:			
Due within one year:			
Capital lease payable	78,907	37,266	116,173
Bonds payable	6,570,000	5,595,000	12,165,000
Notes payable	491,241	-	491,241
Accrued compensated absences	7,066,494	313,596	7,380,090
Estimated claims payable	1,417,169	-	1,417,169
Due in more than one year:			
Capital lease payable	201,327	11,188	212,515
Bonds payable	104,898,023	71,629,019	176,527,042
Notes payable	3,931,712	-	3,931,712
Accrued compensated absences	11,796,306	921,697	12,718,003
Estimated claims payable	<u>982,337</u>	<u>-</u>	<u>982,337</u>
Total Liabilities	<u>147,432,421</u>	<u>83,985,118</u>	<u>231,417,539</u>
NET ASSETS:			
Invested in capital assets, net of related debt	147,492,550	120,750,555	268,243,105
Restricted for:			
Capital projects	3,108,930	-	3,108,930
Housing grants	944,691	-	944,691
Debt service	563,067	3,042,459	3,605,526
Unrestricted	<u>16,657,612</u>	<u>13,499,363</u>	<u>30,156,975</u>
Total Net Assets	<u>\$ 168,766,850</u>	<u>\$ 137,292,377</u>	<u>\$ 306,059,227</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Activities
For the Year Ended September 30, 2010**

	<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	\$ 23,831,578	\$ 5,417,817	\$ -	\$ 50,500
Fire services	24,540,735	1,845,260	15,036	942,831
Police services	32,280,239	4,697,083	468,548	-
Field services	13,499,265	7,053,760	-	4,023,713
Public works	7,802,077	464,788	29,539	-
Community development	5,736,478	4,701,694	2,392,699	-
Housing & community services	14,145,721	276,765	13,019,542	-
Library services	2,034,186	73,857	35,595	-
Parks and recreation	10,122,205	1,549,215	223,408	3,058,131
Interest on long-term debt	4,514,246	-	-	-
Total governmental activities	<u>138,506,730</u>	<u>26,080,239</u>	<u>16,184,367</u>	<u>8,075,175</u>
Business-type activities:				
Water and sewer	34,904,878	39,491,745	-	964,152
Drainage utility	1,677,430	2,165,385	-	291,232
Municipal airport	1,691,187	1,327,635	-	-
Total business-type activities	<u>38,273,495</u>	<u>42,984,765</u>	<u>-</u>	<u>1,255,384</u>
Total function / program activities	<u>\$ 176,780,225</u>	<u>\$ 69,065,004</u>	<u>\$ 16,184,367</u>	<u>\$ 9,330,559</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>
\$ (18,363,261)	\$ -	\$ (18,363,261)
(21,737,608)	-	(21,737,608)
(27,114,608)	-	(27,114,608)
(2,421,792)	-	(2,421,792)
(7,307,750)	-	(7,307,750)
1,357,915	-	1,357,915
(849,414)	-	(849,414)
(1,924,734)	-	(1,924,734)
(5,291,451)	-	(5,291,451)
<u>(4,514,246)</u>	<u>-</u>	<u>(4,514,246)</u>
<u>(88,166,949)</u>	<u>-</u>	<u>(88,166,949)</u>
-	5,551,019	5,551,019
-	779,187	779,187
-	<u>(363,552)</u>	<u>(363,552)</u>
-	<u>5,966,654</u>	<u>5,966,654</u>
<u>(88,166,949)</u>	<u>5,966,654</u>	<u>(82,200,295)</u>
38,304,418	-	38,304,418
7,637,154	-	7,637,154
34,919,663	-	34,919,663
81,969	5,060	87,029
505,124	227,749	732,873
<u>3,983,464</u>	<u>(3,983,464)</u>	<u>-</u>
<u>85,431,792</u>	<u>(3,750,655)</u>	<u>81,681,137</u>
<u>(2,735,157)</u>	<u>2,215,999</u>	<u>(519,158)</u>
<u>171,502,007</u>	<u>135,076,378</u>	<u>306,578,385</u>
<u>\$ 168,766,850</u>	<u>\$ 137,292,377</u>	<u>\$ 306,059,227</u>

City of Mesquite, Texas

**Balance Sheet - Governmental Funds
September 30, 2010**

	<u>General</u>	<u>Housing Grants</u>	<u>Mesquite Quality of Life Corporation (4B Sales Tax)</u>	<u>Bond Finance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Pooled cash and investments	\$ 13,954,559	\$ 960,855	\$ 2,205,556	\$ 23,398,663	\$ 18,972,691	\$ 59,492,324
Receivables (net of allowance):						
Accounts receivable	4,114,761	40,778	-	40,183	-	4,195,722
Ad valorem taxes	1,322,740	-	-	-	-	1,322,740
Other taxes receivable	1,709,989	-	-	-	-	1,709,989
Assessments	-	-	-	331,611	-	331,611
Intergovernmental	4,928,786	-	1,490,943	-	811,061	7,230,790
Due from other funds	884,584	-	-	-	-	884,584
Inventory	763,985	-	-	-	-	763,985
Prepays	12,288	-	-	-	11,442	23,730
Accrued interest	44,100	2,469	20,668	68,977	5,432	141,646
	<u>27,735,792</u>	<u>1,004,102</u>	<u>3,717,167</u>	<u>23,839,434</u>	<u>19,800,626</u>	<u>76,097,121</u>
Total Assets	\$ 27,735,792	\$ 1,004,102	\$ 3,717,167	\$ 23,839,434	\$ 19,800,626	\$ 76,097,121
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	\$ 5,566,671	\$ 27,351	\$ 209,330	\$ 86,491	\$ 187,881	\$ 6,077,724
Contracts payable	-	-	398,907	1,250,452	21,452	1,670,811
Deposits	336,181	-	-	-	591,031	927,212
Due to other funds	-	-	-	-	767,809	767,809
Deferred revenues	4,098,082	32,060	-	358,610	5,000	4,493,752
	<u>10,000,934</u>	<u>59,411</u>	<u>608,237</u>	<u>1,695,553</u>	<u>1,573,173</u>	<u>13,937,308</u>
Total Liabilities	10,000,934	59,411	608,237	1,695,553	1,573,173	13,937,308
Fund Balances:						
Reserved for:						
Encumbrances	286,311	7,803	2,302,521	10,578,388	1,253,264	14,428,287
Prepays	12,288	-	-	-	-	12,288
Inventory	763,985	-	-	-	-	763,985
Debt retirement	-	-	-	-	563,067	563,067
Unreserved reported in:						
General fund	16,672,274	-	-	-	-	16,672,274
Special revenue funds	-	936,888	806,409	-	3,749,928	5,493,225
Capital project funds	-	-	-	11,565,493	12,661,194	24,226,687
	<u>17,734,858</u>	<u>944,691</u>	<u>3,108,930</u>	<u>22,143,881</u>	<u>18,227,453</u>	<u>62,159,813</u>
Total Fund Balances	17,734,858	944,691	3,108,930	22,143,881	18,227,453	62,159,813
Total Liabilities and Fund Balances	\$ 27,735,792	\$ 1,004,102	\$ 3,717,167	\$ 23,839,434	\$ 19,800,626	\$ 76,097,121

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, 2010**

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

Total fund balance per balance sheet	\$ 62,159,813
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.	618,052
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	236,423,554
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.	4,493,752
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.	(191,472)
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.	(764,092)
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	(34,790,000)
Certificate of obligation bonds payable	(72,485,000)
Public property finance contractual obligations payable	(4,975,000)
Notes Payable	(4,422,953)
Capital lease payable	(280,234)
Less: deferred amounts	1,843,230
Accrued compensated absences	<u>(18,862,800)</u>
	<u>(133,972,757)</u>
Net assets of governmental activities	<u>\$ 168,766,850</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, 2010

	General	Housing Grants	Mesquite Quality of Life Corporation (4B Sales Tax)	Bond Finance	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes-						
Ad valorem	\$ 38,333,957	\$ -	\$ -	\$ -	\$ -	\$ 38,333,957
Gross receipts	7,536,602	-	-	-	100,552	7,637,154
Sales	25,626,829	-	8,477,761	-	815,073	34,919,663
Licenses and permits	983,189	-	-	-	1,425	984,614
Fines and forfeitures	2,418,657	-	-	-	946,830	3,365,487
Investment income	224,000	2,652	17,828	157,255	77,949	479,684
Charges for services	11,477,338	-	-	74,496	4,940,622	16,492,456
Intergovernmental	1,005,953	11,848,731	-	-	4,292,663	17,147,347
Contributions and donations	222,357	-	840,140	48,677	3,130,726	4,241,900
Other revenues	704,609	63,622	-	1,200	182,903	952,334
Total Revenues	88,533,491	11,915,005	9,335,729	281,628	14,488,743	124,554,596
EXPENDITURES:						
Current-						
General government	12,388,244	-	40,000	794,756	2,971,633	16,194,633
Fire services	23,214,473	-	-	-	181,691	23,396,164
Police services	29,629,400	-	-	-	809,071	30,438,471
Field services	10,001,089	-	-	-	-	10,001,089
Public works	2,369,258	-	3,951,533	-	297,675	6,618,466
Community development	2,719,091	-	-	-	2,466,608	5,185,699
Library services	1,940,551	-	-	33,158	38,104	2,011,813
Parks and recreation	3,942,893	-	5,418,176	-	9,756	9,370,825
Housing and community services	2,003,069	11,995,704	-	-	474,330	14,473,103
Capital outlay	-	20,699	655,218	9,161,925	1,190,744	11,028,586
Debt service						
Principal	-	-	-	-	7,519,174	7,519,174
Interest and fiscal charges	7,500	-	-	-	4,480,525	4,488,025
Bond issuance costs	-	-	-	125,820	-	125,820
Total Expenditures	88,215,568	12,016,403	10,064,927	10,115,659	20,439,311	140,851,868
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	317,923	(101,398)	(729,198)	(9,834,031)	(5,950,568)	(16,297,272)
OTHER FINANCING SOURCES (USES):						
Transfers in	8,722,929	-	-	-	11,548,804	20,271,733
Transfers out	(9,265,660)	(150,000)	(484,815)	(2,523,702)	(3,031,810)	(15,455,987)
Issuance of debt	-	-	-	12,340,000	-	12,340,000
Issuance of refunding debt	-	-	-	1,320,000	-	1,320,000
Premium on bonds issued	-	-	-	137,183	-	137,183
Payment to refunding bond agent	-	-	-	(1,257,183)	-	(1,257,183)
Total Other Financing Sources (Uses)	(542,731)	(150,000)	(484,815)	10,016,298	8,516,994	17,355,746
NET CHANGE IN FUND BALANCES	(224,808)	(251,398)	(1,214,013)	182,267	2,566,426	1,058,474
FUND BALANCES AT BEGINNING OF YEAR	17,959,666	1,196,089	4,322,943	21,961,614	15,661,027	61,101,339
FUND BALANCES AT END OF YEAR	\$ 17,734,858	\$ 944,691	\$ 3,108,930	\$ 22,143,881	\$ 18,227,453	\$ 62,159,813

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, 2010**

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

Net change in fund balance - total governmental funds	\$ 1,058,474
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,	
	(317,801)
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.	
Capital outlay expenditures	13,051,709
Depreciation expense	<u>(11,974,898)</u>
	1,076,811
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.	
	2,891,360
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.	
	(16,453)
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.	
Principal amount of debt issued	(13,660,000)
Refunded bond debt amortization	(197,614)
Principal amount of debt paid to bondholders	8,290,000
Principal amount of new capital lease obligation	(277,829)
Principal amount of capital lease paid	29,795
Principal amount of notes paid	472,439
Net change in accrued interest payable	(42,306)
Net deferred offering costs and related debt issuance items	<u>(109,668)</u>
	(5,495,183)
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.	
	(297,016)
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.	
	<u>(1,635,349)</u>
Change in net assets of governmental activities	<u>\$ (2,735,157)</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes-				
Ad valorem	\$ 38,029,000	\$ 38,235,000	\$ 38,333,957	\$ 98,957
Gross receipts	7,539,500	7,494,500	7,536,602	42,102
Sales	25,150,000	25,442,000	25,626,829	184,829
Licenses and permits	1,113,900	1,046,650	983,189	(63,461)
Fines and forfeitures	2,601,500	2,601,500	2,418,657	(182,843)
Investment income	1,350,000	325,000	224,000	(101,000)
Charges for services	11,110,169	11,760,050	11,477,338	(282,712)
Intergovernmental	844,553	1,070,857	1,005,953	(64,904)
Contributions and donations	300,000	300,000	222,357	(77,643)
Other revenues	723,750	700,750	704,609	3,859
TOTAL REVENUES	<u>88,762,372</u>	<u>88,976,307</u>	<u>88,533,491</u>	<u>(442,816)</u>
EXPENDITURES:				
General government	12,127,384	12,333,188	12,388,244	(55,056)
Fire services	22,536,770	23,068,447	23,214,473	(146,026)
Police services	29,510,357	29,200,325	29,629,400	(429,075)
Field services	10,652,944	10,625,180	10,001,089	624,091
Public works	2,741,683	2,402,403	2,369,258	33,145
Community development	2,839,656	2,886,655	2,719,091	167,564
Library services	2,082,269	1,913,244	1,940,551	(27,307)
Parks and recreation	3,358,263	3,762,497	3,942,893	(180,396)
Housing and community services	1,719,175	2,096,692	2,003,069	93,623
Debt service	-	7,500	7,500	-
TOTAL EXPENDITURES	<u>87,568,501</u>	<u>88,296,131</u>	<u>88,215,568</u>	<u>80,563</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,193,871</u>	<u>680,176</u>	<u>317,923</u>	<u>(362,253)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	7,846,000	8,697,420	8,722,929	25,509
Transfers out	<u>(9,027,660)</u>	<u>(9,360,660)</u>	<u>(9,265,660)</u>	<u>95,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,181,660)</u>	<u>(663,240)</u>	<u>(542,731)</u>	<u>120,509</u>
NET CHANGE IN FUND BALANCES	<u>\$ 12,211</u>	<u>\$ 16,936</u>	<u>(224,808)</u>	<u>\$ (241,744)</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>17,959,666</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 17,734,858</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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 50,000	\$ 50,000	\$ 2,652	\$ (47,348)
Intergovernmental	11,522,913	11,522,913	11,848,731	325,818
Other revenues	<u>25,240</u>	<u>25,240</u>	<u>63,622</u>	<u>38,382</u>
TOTAL REVENUES	<u>11,598,153</u>	<u>11,598,153</u>	<u>11,915,005</u>	<u>316,852</u>
EXPENDITURES:				
Current-				
Housing and community services	<u>11,448,153</u>	<u>11,448,153</u>	<u>12,016,403</u>	<u>(568,250)</u>
TOTAL EXPENDITURES	<u>11,448,153</u>	<u>11,448,153</u>	<u>12,016,403</u>	<u>(568,250)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>150,000</u>	<u>150,000</u>	<u>(101,398)</u>	<u>(251,398)</u>
OTHER FINANCING USES:				
Transfers out	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>(251,398)</u>	<u>\$ (251,398)</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>1,196,089</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 944,691</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Sales tax	\$ 8,320,000	\$ 8,376,000	\$ 8,477,761	101,761
Investment income	350,000	30,000	17,828	(12,172)
Contributions and donations	960,000	1,370,000	840,140	(529,860)
TOTAL REVENUES	<u>9,630,000</u>	<u>9,776,000</u>	<u>9,335,729</u>	<u>(440,271)</u>
EXPENDITURES:				
Current-				
General government	40,000	40,000	40,000	-
Public works	3,134,000	3,134,000	3,951,533	(817,533)
Parks and recreation	5,532,000	5,532,000	5,418,176	113,824
Capital Projects				
Public safety projects	-	-	446,481	(446,481)
Transportation projects	-	-	(514,274)	514,274
Parks and recreation projects	-	-	723,011	(723,011)
TOTAL EXPENDITURES	<u>8,706,000</u>	<u>8,706,000</u>	<u>10,064,927</u>	<u>(1,358,927)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>924,000</u>	<u>1,070,000</u>	<u>(729,198)</u>	<u>(1,799,198)</u>
OTHER FINANCING USES:				
Transfers out	-	-	(484,815)	(484,815)
TOTAL OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>(484,815)</u>	<u>(484,815)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 924,000</u>	<u>\$ 1,070,000</u>	<u>(1,214,013)</u>	<u>\$ (2,284,013)</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>4,322,943</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 3,108,930</u>	

The accompanying notes are an integral part of this statement.

MESQUITE

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Real. Texas. Flavor.

City of Mesquite, Texas

**Statement of Net Assets
Proprietary Funds
September 30, 2010**

	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	\$ 8,845,662	\$ 1,787,918	\$ 100	\$ 10,633,680	\$ 1,858,198
Restricted pooled cash and investments	21,260,783	338,507	-	21,599,290	-
Restricted accrued interest	7,165	-	-	7,165	-
Receivables (net of allowance for uncollectibles)	7,531,220	141,211	36,475	7,708,906	-
Inventory	364,170	-	33,054	397,224	-
Prepays and other assets	1,193,433	49,756	-	1,243,189	390,579
Accrued interest	16,012	2,519	-	18,531	3,361
Total current assets	<u>39,218,445</u>	<u>2,319,911</u>	<u>69,629</u>	<u>41,607,985</u>	<u>2,252,138</u>
Noncurrent assets:					
Revenue bond reserve-					
Pooled cash and investments	-	650,062	-	650,062	-
Capital assets-					
Land and construction in progress	14,888,311	2,127,569	7,946,180	24,962,060	-
Other capital assets (net of accumulated depreciation)	119,102,472	27,116,966	8,469,686	154,689,124	-
Total noncurrent assets	<u>133,990,783</u>	<u>29,894,597</u>	<u>16,415,866</u>	<u>180,301,246</u>	<u>-</u>
Total Assets	<u>173,209,228</u>	<u>32,214,508</u>	<u>16,485,495</u>	<u>221,909,231</u>	<u>2,252,138</u>
LIABILITIES:					
Current liabilities:					
Accounts payable	1,199,868	38,853	18,230	1,256,951	559,066
Estimated claims payable	-	-	-	-	1,417,169
Due to other funds	-	-	116,774	116,774	-
Deposits and other liabilities	3,349,113	1,056	28,020	3,378,189	-
Capital lease payable	37,266	-	-	37,266	-
Accrued compensated absences	281,680	31,916	-	313,596	-
Total current liabilities	<u>4,867,927</u>	<u>71,825</u>	<u>163,024</u>	<u>5,102,776</u>	<u>1,976,235</u>
Current liabilities payable from restricted assets:					
Accounts payable	560,937	-	-	560,937	-
Accrued interest payable	259,441	21,834	-	281,275	-
Bonds payable	4,635,000	960,000	-	5,595,000	-
Total current liabilities payable from restricted assets	<u>5,455,378</u>	<u>981,834</u>	<u>-</u>	<u>6,437,212</u>	<u>-</u>
Total current liabilities	<u>10,323,305</u>	<u>1,053,659</u>	<u>163,024</u>	<u>11,539,988</u>	<u>1,976,235</u>
Noncurrent liabilities:					
Estimated claims payable	-	-	-	-	982,337
Capital lease payable	11,188	-	-	11,188	-
Bonds payable	66,724,833	4,904,186	-	71,629,019	-
Accrued compensated absences	777,245	97,087	47,365	921,697	-
Total noncurrent liabilities	<u>67,513,266</u>	<u>5,001,273</u>	<u>47,365</u>	<u>72,561,904</u>	<u>982,337</u>
Total Liabilities	<u>77,836,571</u>	<u>6,054,932</u>	<u>210,389</u>	<u>84,101,892</u>	<u>2,958,572</u>
NET ASSETS:					
Invested in capital assets, net of related debt	80,954,341	23,380,349	16,415,865	120,750,555	-
Restricted for debt service	2,075,724	966,735	-	3,042,459	-
Unrestricted	12,342,592	1,812,492	(140,759)	14,014,325	(706,434)
Total Net Assets	<u>\$ 95,372,657</u>	<u>\$ 26,159,576</u>	<u>\$ 16,275,106</u>	<u>\$ 137,807,339</u>	<u>\$ (706,434)</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(514,962)	
Total Net Assets for Business Type Activities				<u>\$ 137,292,377</u>	

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, 2010**

	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	\$ 39,491,745	\$ 2,165,385	\$ 1,326,424	\$ 42,983,554	\$ -
Contributions - City	-	-	-	-	11,188,947
Contributions - other	-	-	-	-	3,296,292
Other Revenues	-	-	1,211	1,211	-
Total operating revenues	39,491,745	2,165,385	1,327,635	42,984,765	14,485,239
Operating expenses:					
Personal services	5,537,881	488,285	274,273	6,300,439	-
Supplies	749,153	25,178	695,017	1,469,348	-
Contractual services	21,379,051	150,267	261,275	21,790,593	16,526,246
Depreciation	3,853,179	696,599	460,622	5,010,400	-
Total operating expenses	31,519,264	1,360,329	1,691,187	34,570,780	16,526,246
Operating income (loss)	7,972,481	805,056	(363,552)	8,413,985	(2,041,007)
Nonoperating revenues (expenses):					
Investment income	208,834	18,915	-	227,749	25,439
Gain on sale of capital assets	5,060	-	-	5,060	-
Interest expense	(2,841,415)	(287,546)	-	(3,128,961)	-
Other nonoperating expenses	(163,980)	(29,555)	-	(193,535)	-
Total nonoperating revenues (expenses)	(2,791,501)	(298,186)	-	(3,089,687)	25,439
Income (loss) before contributions and transfers	5,180,980	506,870	(363,552)	5,324,298	(2,015,568)
Capital contributions	964,152	291,232	832,282	2,087,666	-
Transfers in	-	-	105,000	105,000	-
Transfers out	(4,707,957)	-	(212,789)	(4,920,746)	-
Change in net assets	1,437,175	798,102	360,941	2,596,218	(2,015,568)
Total net assets - beginning	93,935,482	25,361,474	15,914,165		1,309,134
Total net assets - ending	\$ 95,372,657	\$ 26,159,576	\$ 16,275,106		\$ (706,434)
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(514,962)	
Change in net assets of business-type activities				\$ 2,081,256	

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, 2010

	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	\$ 38,079,053	\$ 2,167,431	\$ 1,324,042	\$ 41,570,526	\$ -
Cash received from City funds	-	-	-	-	11,188,947
Cash received from other operating sources	-	-	-	-	3,296,292
Cash paid to suppliers for goods and services	(22,102,853)	(164,159)	(956,573)	(23,223,585)	(4,456,863)
Cash paid to employees for services	(5,525,194)	(476,729)	(272,665)	(6,274,588)	-
Cash paid to claimants	-	-	-	-	(11,815,834)
Net cash provided by (used for) operating activities	<u>10,451,006</u>	<u>1,526,543</u>	<u>94,804</u>	<u>12,072,353</u>	<u>(1,787,458)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in from funds	-	-	105,000	105,000	-
Transfers out to other funds	(4,707,958)	-	(212,789)	(4,920,747)	-
Net cash used for noncapital financing activities	<u>(4,707,958)</u>	<u>-</u>	<u>(107,789)</u>	<u>(4,815,747)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the sale of revenue bonds	8,270,000	-	-	8,270,000	-
Premium from the sale of revenue bonds	60,642	-	-	60,642	-
Proceeds from the sale of capital assets	5,060	-	-	5,060	-
Acquisition and construction of capital assets	(9,923,500)	(114,488)	-	(10,037,988)	-
Principal paid on revenue bond maturities	(4,205,000)	(920,000)	-	(5,125,000)	-
Interest paid on revenue bonds	(2,815,159)	(319,744)	-	(3,134,903)	-
Principal paid on capital lease obligation	(38,965)	-	-	(38,965)	-
Bond issuance costs and other debt related expense	(238,912)	29,554	-	(209,358)	-
Net cash used for capital and related financing activities	<u>(8,885,834)</u>	<u>(1,324,678)</u>	<u>-</u>	<u>(10,210,512)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received on investments	<u>211,196</u>	<u>18,496</u>	<u>-</u>	<u>229,692</u>	<u>24,577</u>
Net cash provided by investing activities	<u>211,196</u>	<u>18,496</u>	<u>-</u>	<u>229,692</u>	<u>24,577</u>
NET INCREASE (DECREASE) IN POOLED CASH AND CASH EQUIVALENTS	(2,931,590)	220,361	(12,985)	(2,724,214)	(1,762,881)
POOLED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>33,038,035</u>	<u>2,556,126</u>	<u>13,085</u>	<u>35,607,246</u>	<u>3,621,079</u>
POOLED CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 30,106,445</u>	<u>\$ 2,776,487</u>	<u>\$ 100</u>	<u>\$ 32,883,032</u>	<u>\$ 1,858,198</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, 2010

	Business-type Activities - Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Major Funds	Drainage Utility District	Non-Major Fund Municipal Airport		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Operating income (loss)	\$ 7,972,481	\$ 805,056	\$ (363,552)	\$ 8,413,985	\$ (2,041,007)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities-					
Depreciation	3,853,179	696,599	460,622	5,010,400	-
Changes in assets and liabilities-					
(Increase)decrease in accounts receivable	(1,404,609)	2,046	45,329	(1,357,234)	-
(Increase)decrease in inventory	(19,320)	-	(4,275)	(23,595)	-
(Increase)decrease in prepaid items	800	260	-	1,060	(69,858)
Increase (decrease) in accounts payable	17,274	12,961	4,996	35,231	(90,210)
Increase(decrease) in estimated claims payable	-	-	-	-	413,617
Increase(decrease) in deposits	42,984	-	1,410	44,394	-
Increase(decrease) in due to other funds	-	-	(50,330)	(50,330)	-
Increase(decrease) in accrued compensated absences	(11,783)	9,621	604	(1,558)	-
Total adjustments	<u>2,478,525</u>	<u>721,487</u>	<u>458,356</u>	<u>3,658,368</u>	<u>253,549</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 10,451,006</u>	<u>\$ 1,526,543</u>	<u>\$ 94,804</u>	<u>\$ 12,072,353</u>	<u>\$ (1,787,458)</u>
NONCASH CAPITAL ACTIVITIES:					
Contribution of capital assets from developers	\$ 964,152	\$ 291,232	\$ -	\$ 1,255,384	\$ -
Contribution of capital assets from government	-	-	832,282	832,282	-
Total noncash capital activities	<u>\$ 964,152</u>	<u>\$ 291,232</u>	<u>\$ 832,282</u>	<u>\$ 2,087,666</u>	<u>\$ -</u>

(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, 2010**

	<u>Agency Fund</u> Tax Clearing Fund
ASSETS:	
Current assets:	
Pooled cash and investments	\$ 134,876
Taxes receivable levied for other government (net of allowance for uncollectibles)	<u>3,692,148</u>
Total Assets	<u>\$ 3,827,024</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 134,876
Due to other governments	<u>3,692,148</u>
Total Liabilities	<u>\$ 3,827,024</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2010**

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City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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, 2010

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, Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue and Bond Finance Capital Project funds, all of which are to be considered major funds. The Housing Grants Special Revenue Fund and Mesquite Quality of Life Corporation (4B Sales Tax) Special Revenue Fund do not meet the requirements to be considered a major fund however the City has chosen to

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

present them as major funds due to other reporting needs. 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 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, 2010

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 Quality of Life (4B Sales Tax) special revenue fund is used 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.
- 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:

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

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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 2009-2010 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 2009-2010 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, and Confiscated Drug 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 reservations of fund balances 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.

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

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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, 2010, 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:

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

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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, 2010 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.

Net Assets- In the government-wide financial statements and the fund level proprietary financial statements, 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.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

New Accounting Pronouncements- GASB has issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (“GASB 54”), which is effective for the City in fiscal year 2011. GASB 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

GASB has issued Statement No. 59 *Financial Instruments Omnibus* (“GASB 59”), which is effective for the City in fiscal year 2011. GASB 59 updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

GASB has issued Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements* (“GASB 60”), which is effective for the City in fiscal year 2012. GASB 60 addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

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. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB 62”), which is effective for the City in fiscal year 2012. GASB 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

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, 2010, the carrying amount of the City's demand deposits was \$(406,428) and the bank balance was \$1,037,116. The demand deposits balance for the blended component units was \$92,855. Cash on hand for the City was \$16,325. The carrying value of the City's investment annuity was \$447,390. The remaining cash balance of \$11,587 represents a recreation cash clearing account.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

Investments

The City's investments at September 30, 2010, are:

Investment type	Fair Value	Weighted Average Maturity (Years)
Managed Pools:		
Texpool	\$32,781,962	0.00096
Texstar	14,730,136	0.00043
Money Market:		
Fidelity Investments	3,577,643	0.00011
US Agency Notes	42,079,844	0.69370
Total	<u>\$93,169,585</u>	<u>0.69370</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, in conjunction with state law, specifies the type of credit rating of all authorized investments. The City's investments in U.S. Agency securities (FHLB and FFCB) are rated AAA 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, 2010. 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, 2010.

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, 2010, the City's total investments are in the following: Agency issues (45.2%) consisting of FHLB (32.3%) and FFCB (12.9%), investment pools (51.0%), and money market funds (3.8%).

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.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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 District and the Kaufman Central Appraisal District at 100% of estimated market value. The total assessed value for the tax roll of January 1, 2009, upon which the 2010 fiscal year levy was based, was \$6,200,269,763. 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, 2010, were \$38,660,470 or 97.83% of the current tax levy and total tax collections (including collections on previous years) were \$38,965,827 or 98.60% 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, 2010, 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, 2010 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, 2010**

	<u>General</u>	<u>Housing Grants</u>	<u>Mesquite Quality of Life Corporation (4B Sales Tax)</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	\$ 8,904,024	\$ 40,778	\$ -	\$ 51,700	\$ 7,804,365	\$ 141,211	\$ 36,475	\$ 16,978,553
Ad valorem taxes	2,227,715	-	-	-	-	-	-	2,227,715
Other taxes	1,709,989	-	-	-	-	-	-	1,709,989
Assessments	-	-	-	331,611	-	-	-	331,611
Intergovernmental	4,928,786	-	1,490,943	-	-	-	870,270	7,289,999
Gross receivables	17,770,514	40,778	1,490,943	383,311	7,804,365	141,211	906,745	28,537,867
Less: allowance for uncollectibles	(5,694,238)	-	-	(11,517)	(273,145)	-	(59,209)	(6,038,109)
Net total receivables	<u>\$12,076,276</u>	<u>\$ 40,778</u>	<u>\$1,490,943</u>	<u>\$ 371,794</u>	<u>\$7,531,220</u>	<u>\$ 141,211</u>	<u>\$ 847,536</u>	<u>\$22,499,758</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	\$ 1,428,786
General fund - ad valorem taxes receivable	1,255,093
General fund - court fines receivable	541,725
General fund - accounts receivable, grass and weed mowing	872,478
Housing Grants fund - HUD vouchers	32,060
Bond Finance capital projects fund - assessments receivable	331,610
Bond Finance capital projects fund - other receivable	27,000
Nonmajor Special Revenue Funds	5,000
Total deferred revenues for governmental funds	<u>\$ 4,493,752</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2010

5. CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended September 30, 2010:

	<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	\$ 21,700,689	\$ 1,293,518	\$ -	\$ 22,994,207
Construction in progress	60,448,237	27,864,544	63,678,038	24,634,743
Total capital assets, not being depreciated	<u>82,148,926</u>	<u>29,158,062</u>	<u>63,678,038</u>	<u>47,628,950</u>
Capital assets, being depreciated:				
Buildings	48,021,152	27,637,407	-	75,658,559
Infrastructure	202,891,326	15,394,994	-	218,286,320
Improvements	14,503,568	1,392,965	-	15,896,533
Equipment	42,718,577	6,070,494	1,086,724	47,702,347
Total capital assets, being depreciated	<u>308,134,623</u>	<u>50,495,860</u>	<u>1,086,724</u>	<u>357,543,759</u>
Less accumulated depreciation for:				
Buildings	14,750,284	1,589,337	-	16,339,621
Infrastructure	113,278,814	4,688,061	-	117,966,875
Improvements	5,662,981	710,331	-	6,373,312
Equipment	24,136,086	4,987,169	1,053,908	28,069,347
Total accumulated depreciation	<u>157,828,165</u>	<u>11,974,898</u>	<u>1,053,908</u>	<u>168,749,155</u>
Total capital assets, being depreciated, net	<u>150,306,458</u>	<u>38,520,962</u>	<u>32,816</u>	<u>188,794,604</u>
Governmental activities capital assets, net	<u>\$ 232,455,384</u>	<u>\$ 67,679,024</u>	<u>\$ 63,710,854</u>	<u>\$ 236,423,554</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,667,279	\$ 301,350	\$ -	\$ 9,968,629
Construction in progress	8,430,793	10,568,113	4,005,475	14,993,431
Total capital assets, not being depreciated	<u>18,098,072</u>	<u>10,869,463</u>	<u>4,005,475</u>	<u>24,962,060</u>
Capital assets, being depreciated:				
Buildings	5,632,642	-	-	5,632,642
Infrastructure	215,289,473	4,201,183	-	219,490,656
Improvements	366,008	-	-	366,008
Equipment	4,900,819	205,939	(10,801)	5,117,559
Total capital assets, being depreciated	<u>226,188,942</u>	<u>4,407,122</u>	<u>(10,801)</u>	<u>230,606,865</u>
Less accumulated depreciation for:				
Buildings	1,376,425	127,053	-	1,503,478
Infrastructure	66,270,783	4,443,087	-	70,713,870
Improvements	91,545	19,721	-	111,266
Equipment	3,167,190	420,539	(1,398)	3,589,127
Total accumulated depreciation	<u>70,905,943</u>	<u>5,010,400</u>	<u>(1,398)</u>	<u>75,917,741</u>
Total capital assets, being depreciated, net	<u>155,282,999</u>	<u>(603,278)</u>	<u>(9,403)</u>	<u>154,689,124</u>
Business-type activities capital assets, net	<u>\$ 173,381,071</u>	<u>\$ 10,266,185</u>	<u>\$ 3,996,072</u>	<u>\$ 179,651,184</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2010**

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

Governmental activities:	
General government	\$ 1,899,245
Fire services	1,299,929
Police services	1,788,405
Field services	4,467,722
Public works	1,187,265
Community development	64,768
Library services	24,610
Parks and recreation	986,961
Housing and community services	255,993
Total governmental activities	<u>\$ 11,974,898</u>
Business-type activities:	
Water and sewer	\$ 3,853,179
Drainage utility	696,599
Municipal airport	460,622
Total business-type activities	<u>\$ 5,010,400</u>

The City has active construction projects as of September 30, 2010. 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, 2010

	<u>Spent-to-date</u>	<u>Construction Commitments</u>
Governmental activities:		
Projects funded by general obligation bonds:		
Street	\$ 4,796,444	\$ 2,125,392
Fire Improvement	-	24,500
Municipal building	7,239,157	8,428,497
Traffic signal	28,026	-
Projects funded by local finance sources:		
Street	169,942	653,994
Municipal building	-	3,431
Traffic Signal	126,395	414
Finance	-	144,901
Projects funded by general sales tax (4B portion):		
Public safety	-	793,601
Transportation	10,753,795	1,321,519
Parks and recreation	1,489,912	187,401
Projects funded by special revenue (Confiscated Drug)		
Public safety	31,072	-
	<u>31,072</u>	<u>-</u>
Total governmental activities	<u>\$ 24,634,743</u>	<u>\$ 13,683,650</u>
Business-type activities:		
Projects funded by revenue bonds:		
Water and sewer	\$ 13,930,533	\$ 2,480,685
Drainage utility district	534,425	24,413
Projects funded by general obligation bonds:		
Municipal airport	<u>528,473</u>	<u>-</u>
Total business-type activities	<u>\$ 14,993,431</u>	<u>\$ 2,505,098</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, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Grants Special Revenue Fund	\$767,809
General Fund	Airport Fund	\$116,774

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2010**

Transfers-

Transfers were as follows for the fiscal year ended September 30, 2010:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 8,722,929	\$ 9,265,660
Housing Grants	-	150,000
4B Sales Tax Special Revenue	-	484,815
Bond Finance	-	2,523,702
Non-Major Governmental Funds	11,548,804	3,031,810
Water and Sewer	-	4,707,957
Non-Major Enterprise Fund	105,000	212,789
	<u>\$ 20,376,733</u>	<u>\$ 20,376,733</u>

The transfers were for the following purposes:

<u>Transfer from Fund / Purpose</u>	<u>Transfer to Fund</u>	<u>Amount</u>
General Fund-		
Property tax debt service levy	Debt Service	\$ 8,960,660
Unreserved Council Funds	Capital Projects- Local Finance	200,000
Airport Subsidy	Airport	105,000
Grants Fund-		
Indirect cost charge	General	150,000
4B Sales Tax Special Revenue -		
Operating Subsidy - Parks & Recreation	General	484,815
Bond Finance Fund-		
Interest Income Allocation	General	194,304
Bond Proceeds	General	2,230,000
Residual Equity Transfer	Debt Service	99,398
Non-Major Governmental Funds-		
Hotel / Motel Tax General Obligation Debt Allocation	Debt service	158,000
Other Special Revenue -		
9-1-1 Operations Subsidy	General	840,000
Local Finance Capital Project -		
Roadway Impact Fees Debt Service	Debt service	1,150,000
Unreserved Council Funds	General	273,810
Operating subsidy	Debt service	610,000
Water and Sewer Enterprise Fund-		
Nonoperating administrative and overhead charge	General	4,550,000
General Obligation Debt Allocation	Debt Service	157,957
Non-Major Enterprise Fund-		
Airport general obligation debt allocation	Debt service	199,804
Airport residual equity transfer from project fund	Debt service	12,985
	Total	<u>\$ 20,376,733</u>

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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 \$832,282. 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 \$1,320,000 was issued to advance refund prior tax-exempt bonds. The City intends to retire this debt, plus interest, from ad valorem taxes.
- 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 May 2010 bond sale was \$12,340,000 for (i) constructing and improving streets, roads, and alleys including related drainage, signalization, landscaping, lighting and signage; (ii) constructing, improving, equipping and renovating a Police/City Hall facility; (iii) constructing and equipping a control tower at the municipal airport; (iv) major repairs and renovations to existing municipal buildings including primarily fire department buildings, the Service Center and Arts Center; (v) acquisition of equipment and vehicles for the fire, police, community development, public works, administration and parks and recreation departments; (vi) acquisition of computer equipment and software for various City departments, and (vii) 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 May 2010 bond sale was \$8,270,000 to provide funds to improve and extend the City's combined waterworks and sewer systems and to fund the Reserve Fund requirement for the bonds.
- Municipal drainage utility system revenue bonds are issued 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, 2010

Long-term bonded debt at September 30, 2010, includes the following individual issues:

<u>Governmental Activities</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
General Obligation Bonds-				
Series 2000 improvements	4.40-5.50	02/15/14	\$ 60,000	\$ -
Series 2001 refunding and improvements	3.00-5.00	02/15/21	1,975,000	410,000
Series 2002 improvements	2.875-4.90	02/15/22	3,340,000	140,000
Series 2004A refunding and improvements	2.50-4.625	02/15/24	7,520,000	830,000
Taxable Series 2004B refunding	1.40-4.65	02/15/15	2,855,000	520,000
Series 2005 refunding and improvement	3.25-5.00	02/15/25	10,210,000	840,000
Series 2006 improvements	4.00-5.00	02/15/26	1,775,000	75,000
Series 2008 refunding and improvements	3.50-3.625	02/15/21	1,575,000	125,000
Series 2009 refunding	2.00-4.60	02/15/29	4,160,000	85,000
Series 2010 refunding	2.00-3.625	2/15/23	1,320,000	-
			<u>34,790,000</u>	<u>3,025,000</u>
Certificate of Obligation Bonds-				
Series 2001	3.00-4.25	02/15/11	35,000	35,000
Series 2002	2.25-4.20	02/15/14	95,000	-
Series 2004	2.00-4.625	02/15/24	4,555,000	265,000
Series 2004A	2.00-5.00	02/15/24	1,660,000	90,000
Series 2005	3.25-5.00	02/15/25	7,215,000	360,000
Series 2006	4.00-5.00	02/15/26	7,760,000	-
Series 2007	4.00-5.00	02/15/27	18,130,000	465,000
Series 2008	3.50-4.00	02/15/28	9,660,000	205,000
Series 2009	2.00-4.60	02/15/29	11,035,000	225,000
Series 2010	3.00-4.5	02/15/30	12,340,000	-
			<u>72,485,000</u>	<u>1,645,000</u>
Public Property Finance Contractual Obligations-				
Series 2006	4.00-4.125	02/15/11	375,000	375,000
Series 2007	3.65-3.75	02/15/12	955,000	470,000
Series 2008	3.50-3.375	02/15/13	2,140,000	690,000
Series 2009	2.00-3.00	02/15/14	1,505,000	365,000
			<u>4,975,000</u>	<u>1,900,000</u>
Total governmental activities long-term bonded debt			112,250,000	6,570,000
Less: deferred loss on refunding			(781,977)	-
Net governmental activities long-term bonded debt			<u>\$111,468,023</u>	<u>\$ 6,570,000</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2010

	<u>Rate (%)</u>	<u>Date</u>	<u>Outstanding</u>	<u>One Year</u>
<u>Business-type Activities-</u>				
Water and Sewer Revenue Bonds-				
Series 2001 refunding and improvements	2.25-5.00	03/01/21	\$ 4,655,000	\$ 710,000
Series 2002 improvements	2.00-5.00	03/01/22	5,240,000	340,000
Series 2004 refunding and improvements	2.625-5.00	03/01/24	9,045,000	845,000
Series 2005 refunding and improvements	3.25-5.25	03/01/25	11,845,000	1,010,000
Series 2006 improvements	4.00-5.00	03/01/26	7,745,000	265,000
Series 2007 improvements	4.00-5.00	03/01/27	7,020,000	265,000
Series 2008 improvements	3.50-4.50	03/01/28	9,600,000	670,000
Series 2009 improvements	2.00-4.60	03/01/29	8,080,000	305,000
Series 2010 improvements	2.00-4.25	03/01/30	8,270,000	225,000
			<u>71,500,000</u>	<u>4,635,000</u>
Drainage Utility System Revenue Bonds-				
Series 1998 refunding and improvements	4.25-5.50	03/01/18	1,315,000	260,000
Series 2000 improvements	4.40-5.50	03/01/20	1,280,000	100,000
Series 2002 improvements	2.00-5.00	03/01/22	2,405,000	155,000
Series 2004 refunding	2.00-5.00	03/01/12	905,000	445,000
			<u>5,905,000</u>	<u>960,000</u>
Total business-type activities long-term debt			77,405,000	5,595,000
Less: premium and deferred loss on refunding			(180,981)	-
Net business-type activities long-term debt			<u>77,224,019</u>	<u>5,595,000</u>
Net long-term bonded debt			<u>\$ 188,692,042</u>	<u>\$ 12,165,000</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>
2011	\$ 6,570,000	\$ 4,713,560	\$ 5,595,000	\$ 3,300,849
2012	5,980,000	4,347,650	5,940,000	2,992,880
2013	6,540,000	4,106,218	5,605,000	2,762,652
2014	6,795,000	3,838,361	5,270,000	2,539,422
2015	7,080,000	3,552,407	4,915,000	2,321,063
2016-2020	31,025,000	13,868,223	23,695,000	8,425,638
2021-2025	32,290,000	7,002,072	17,950,000	3,692,932
2026-2030	15,970,000	1,276,829	8,435,000	682,335
Total	<u>\$ 112,250,000</u>	<u>\$ 42,705,320</u>	<u>\$ 77,405,000</u>	<u>\$ 26,717,771</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2010

Advance Refundings- The May 2010 general obligation bond issue proceeds were used to advance refund and defease in substance certain maturities of its existing outstanding bond issuances. The advance refunding allowed the City to restructure future debt payments in order to extend their maturities. The refunding resulted in an increase in total debt service payments of \$459,935 of the new debt over the old debt therefore an economic loss 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:

	General Obligation Bonds Series 2010
Amount of new debt issue	\$ 1,320,000
Add: Reoffering premium	3,077
Less: Original issue discount	(7,717)
Less: net issuance costs	(53,455)
	<hr/>
Reacquisition price	1,261,905
Net carrying amount of old debt	1,190,000
	<hr/>
Deferred amount on refunding	\$ 71,905
	<hr/> <hr/>
Increase in total debt service payments of new debt over old debt	\$ 459,935
	<hr/> <hr/>
Economic loss on refunding	\$ 459,935
	<hr/> <hr/>

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, 2010 was general obligation \$4,010,000.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2010**

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	\$ 555,150	\$ 382,655
Less: Accumulated depreciation	<u>(210,396)</u>	<u>(237,166)</u>
 Total	 <u>\$ 344,754</u>	 <u>\$ 145,489</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010, were as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2011	\$ 88,576	\$ 38,378
2012	75,277	11,308
2013	75,277	-
2014	<u>62,732</u>	<u>-</u>
 Total minimum future lease payments	 301,862	 49,686
Less: Amount representing interest	<u>(21,628)</u>	<u>(1,232)</u>
 Present value of minimum lease payments	 <u>\$ 280,234</u>	 <u>\$ 48,454</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 \$4,035,072.

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 \$387,881.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2010**

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>
2011	\$ 491,241	\$ 176,461
2012	510,797	156,905
2013	531,136	136,565
2014	552,292	115,410
2015-2018	2,337,487	234,464
Total	<u>\$ 4,422,953</u>	<u>\$ 819,805</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, 2010**

Long-term liabilities activity for the year ended September 30, 2010, 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	\$ 37,880,000	\$ 1,320,000	\$ 4,410,000	\$ 34,790,000	\$ 3,025,000
Certificates of obligation	61,560,000	12,340,000	1,415,000	72,485,000	1,645,000
Public property finance contractual obligations	<u>7,440,000</u>	<u>-</u>	<u>2,465,000</u>	<u>4,975,000</u>	<u>1,900,000</u>
Total bonds payable	106,880,000	13,660,000	8,290,000	112,250,000	6,570,000
Less deferred loss on refunding	<u>(907,687)</u>	<u>(71,905)</u>	<u>(197,615)</u>	<u>(781,977)</u>	<u>-</u>
Net bonds payable	105,972,313	13,588,095	8,092,385	111,468,023	6,570,000
Other General Fund long-term liability:					
Notes payable	4,895,392	-	472,439	4,422,953	491,241
Capital leases	32,200	277,829	29,795	280,234	78,907
Accrued compensated absences	18,565,784	659,473	362,457	18,862,800	7,066,494
Estimated claims payable	<u>1,985,889</u>	<u>10,553,851</u>	<u>10,140,234</u>	<u>2,399,506</u>	<u>1,417,169</u>
Total governmental activities	<u>131,451,578</u>	<u>25,079,248</u>	<u>19,097,310</u>	<u>137,433,516</u>	<u>15,623,811</u>
Business-type activities:					
Bonds payable:					
Revenue bonds -water/sewer	67,435,000	8,270,000	4,205,000	71,500,000	4,635,000
Revenue bonds -drainage	<u>6,825,000</u>	<u>-</u>	<u>920,000</u>	<u>5,905,000</u>	<u>960,000</u>
Total revenue bonds payable	74,260,000	8,270,000	5,125,000	77,405,000	5,595,000
Less premium and deferred loss on refunding	<u>(292,496)</u>	<u>(63,277)</u>	<u>(174,792)</u>	<u>(180,981)</u>	<u>-</u>
Net revenue bonds payable	73,967,504	8,206,723	4,950,208	77,224,019	5,595,000
Capital leases	87,420	-	38,966	48,454	37,266
Accrued compensated absences	<u>1,236,851</u>	<u>84,426</u>	<u>85,984</u>	<u>1,235,293</u>	<u>313,596</u>
Total business-type activities	<u>75,291,775</u>	<u>8,291,149</u>	<u>5,075,158</u>	<u>78,507,766</u>	<u>5,945,862</u>
Total long-term liabilities	<u>\$206,743,353</u>	<u>\$33,370,397</u>	<u>\$24,172,468</u>	<u>\$215,941,282</u>	<u>\$21,569,673</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 837 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. That report may be obtained by writing TMRS, P. O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677.

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 by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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 2010</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 29-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, 2008, valuation is effective for rates beginning January 2010).

Annual Pension Cost- For fiscal year 2010, the City's annual pension cost of \$9,764,622 was based on an actual contribution rate of 15.4% which was more than the City's required contribution rate of 14.89% of covered payroll. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the projected unit credits actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses), (b) salary increases vary by age and service, (c) 2.1% cost of living adjustment, and (d) 3% inflation rate adjustment. The actuarial value of assets is

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

amortized cost. The City's unfunded actuarial accrued liability is being amortized over a 29-year closed period as a level percentage of payroll.

The City's net pension obligation for TMRS for the past three years is calculated as follows:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2010	\$ 9,764,622	104%	-
9/30/2009	\$ 10,081,846	100%	-
9/30/2008	\$ 9,831,841	100%	-

All annual required contributions have been paid; therefore, there is no net pension obligation.

Funding Status and Funding Progress – As of December 31, 2009, the most recent actuarial valuation date, the plan was 76.5% funded. The actuarial accrued liability for benefits was \$235,046,214, and the actuarial value of assets was \$179,836,315, resulting in an unfunded actuarial accrued liability (UAAL) of \$55,209,899. The covered payroll (annual payroll of active employees covered by the plan) was \$60,147,995, and the ratio of the UAAL to the covered payroll was 91.8%

Actuarial methods and assumptions were as follows:

Actuarial Valuation Date	December 31, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years – Closed Period
Asset Valuation Method	10-Year Smoothed Market
Investment Rate of Return	7.5%
Projected Salary Increases	Varies by age and service
Inflation Rate	3%
Cost-of-Living Adjustments	2.1%

Future Funding Requirements- Major changes have occurred at TMRS over the past several years which have caused a significant increase in member cities contribution rates. TMRS has traditionally invested its funds in high-quality long-term bonds which, of course, have seen significant reductions in their rate of return. In addition, TMRS management has undertaken a major study and analysis of actuarial assumptions which resulted in revisions to several of the assumptions. The first set of actuarial changes was implemented in 2007 which created an initial set of increases to member cities in 2009 and additional actuarial changes were approved by the TMRS Board of Directors in 2008 which caused further increases in 2010.

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 Service Credits (USC) and annual Cost of Living Adjustments (COLA). Mesquite has chosen to fund the USC at 100% of the based

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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.

After receiving Mesquite's proposed rates for 2010 and future years, the city concluded that it could reduce the 2010 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 future years, these benefit levels will need to be established during the annual budget process.

For the 2011 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 2011 is 15.77%.

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 \$9.893 million for the fiscal year ended September 30, 2010.

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 proportionate share of operating expenses and debt service of the District. The City's annual payment for the year ended September 30, 2010, was approximately \$5.765 million.

Notes to Basic Financial Statements
September 30, 2010

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 \$260,000 deductible per individual with a \$1,500,000 liability limit per claim. 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 \$1,248,092 in unrestricted net assets after inclusion of \$945,000 of estimated outstanding health claims payable. During the year, operating expenses exceeded operating and non-operating revenues by \$1,634,692 after inclusion of a \$19,000 decrease in estimated claims payable resulting in a (\$386,600) balance in unrestricted net assets at year-end. Actual claims paid totaled \$11,066,049. The decrease in net assets was due to increased claims activity while contributions from the City and from the employees remained about the same. 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 \$926,000 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 2009 and 2010 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2009	\$ 1,009,000	\$ 9,602,152	\$ 9,666,152	\$ 945,000
2010	\$ 945,000	\$ 11,047,049	\$ 11,066,049	\$ 926,000

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 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

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

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 61,042. During the year, operating expenses exceeded operating and non-operating revenues by \$380,876 after inclusion of a \$432,617 increase in estimated claims payable, resulting in a (\$319,834) balance in unrestricted net assets at year-end. Actual claims paid were \$749,785. The estimated claims payable of \$1,473,506 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 2009 and 2010 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Fiscal Year Liability</u>
2009	\$ 1,374,441	\$ 349,721	\$ 683,273	\$ 1,040,889
2010	\$ 1,040,889	\$ 1,182,402	\$ 749,785	\$ 1,473,506

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 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.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2010**

The City paid approximately \$2.3 million in premiums and claims for 272 retired employees and their dependents in fiscal year 2010. 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 2010 were \$3,880 to \$6,440 per year depending on coverage levels selected. In fiscal year 2010, total retiree contributions were \$865,489. The City contributions to the plan for fiscal year 2010, which are equal to claims and premiums paid in excess of premiums collected, were \$2,330,820.

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	\$ 1,679,108
Interest adjustment to net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	<u>1,679,108</u>
Contributions made	<u>(2,330,820)</u>
Increase in net OPEB asset	(651,712)
Net OPEB liability - beginning of year (restated)	<u>33,660</u>
Net OPEB asset - end of year	<u><u>\$ (618,052)</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	OPEB Cost Contributed	% of Cost Contributed	Net OPEB Liability (Asset)
9/30/2010	4.00%	\$ 1,679,108	\$ 2,330,820	138.8%	\$ (618,052)
9/30/2009 <i>restated</i>	4.00%	\$ 1,787,483	\$ 2,112,392	118.2%	\$ 33,660
9/30/2008 <i>restated</i>	6.60%	\$ 2,591,340	\$ 2,232,771	86.2%	\$ 358,569

The City determined in fiscal year 2010 that the “OPEB Cost Contributed” amount reported in the previous two years did not include all of the appropriate elements. The amount for fiscal year 9/30/2009 and 9/30/2008 has been restated and the cumulative effect of the change on the Net OPEB Liability (Asset) has been recorded in the current fiscal year.

Funding Status and Funding Progress – As of October 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$28,789,704, all of which was unfunded. The covered payroll

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2010

(annual payroll of active employees covered by the plan) was \$60,147,995 and the ratio of UAAL to the covered payroll was 47.9%.

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, 2008 actuarial valuation, the entry age cost method was used. The actuarial assumptions included a 4.0% 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 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 on an open basis. The remaining amortization period at October 1, 2008 was thirty years.

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 June 15, 2010. No rebate liability was due to the federal government. Information for the next computation period is due in May of 2011. 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, 2010

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, 2010, is as follows.

<u>Series</u>	<u>Mesquite Industrial Development Corporation</u>	<u>Mesquite Health Facilities Corporation</u>	<u>Total</u>
1995	\$ 135,000	\$ -	\$ 135,000
1997	800,000	-	800,000
2000B	-	2,462,113	2,462,113
2000C	-	6,744,830	6,744,830
2003A	743,206	-	743,206
2003B	600,000	-	600,000
2005	-	18,202,362	18,202,362
2005	-	11,011,795	11,011,795
2005	-	3,589,431	3,589,431
2005	-	610,889	610,889
Total	<u>\$ 2,278,206</u>	<u>\$ 42,621,420</u>	<u>\$ 44,899,626</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. DEFICIT FUND BALANCE

The Internal Service Funds deficit fund balance of \$706,434 will be eliminated through increased premium charges to plan participants. The Other Grants Fund deficit fund balance of \$83,012 will be eliminated through reimbursements for projects in the next fiscal year.

End of Notes to Basic Financial Statements

City of Mesquite, Texas

**Required Supplemental Information (Unaudited)
September 30, 2010**

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

As of <u>12/31</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability (AAL)</u>	Unfunded Actuarial Accrued <u>Liability (UAAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAAL as a Percent of Covered <u>Payroll</u>
2007	\$ 165,879,358	\$ 278,689,637	\$ 112,810,279	59.5%	\$ 59,115,956	190.8%
2008	\$ 172,795,729	\$ 290,437,645	\$ 117,641,916	59.5%	\$ 61,887,949	190.1%
2009	\$ 179,836,315	\$ 235,046,214	\$ 55,209,899	76.5%	\$ 60,147,995	91.8%

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**

As of <u>9/30</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability (AAL)</u>	Unfunded Actuarial Accrued <u>Liability (UAAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAAL as a Percent of Covered <u>Payroll</u>
2008	\$ -	\$ 28,797,834	\$ 28,797,834	0.0%	\$ 42,613,979	67.6%
2009	\$ -	\$ 30,375,813	\$ 30,375,813	0.0%	\$ 55,482,589	54.7%
2010	\$ -	\$ 28,789,704	\$ 28,789,704	0.0%	\$ 60,147,995	47.9%

Source: Actuarial report dated September 30, 2009.

Note: The actuarial accrued liability was calculated using the Entry Age Cost actuarial funding method.

Combining and Individual Fund

Statements and Schedules

MESQUITE

T E X A S

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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.

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.

Capital Project funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds) being financed from bond proceeds, charges for services or other revenue sources. There is one non-major capital project fund:

Local Finance Fund - to account for financial resources generated from local revenue sources to be expended for various capital projects. This fund includes the resources of the three Tax Increment Financing Districts as well as the Housing Finance, Health Facilities and Industrial Development Corporations.

City of Mesquite, Texas

**Combining Balance Sheet
Non-Major Governmental Funds
September 30, 2010**

	Special Revenue			
	Hotel/Motel Tax	Confiscated Drug	Other Grants	Other Special Revenue
ASSETS:				
Pooled cash and investments	\$ 61,731	\$ 3,468,229	\$ -	\$ 1,141,989
Receivables (net of allowance for uncollectibles):				
Intergovernmental	7,260	-	803,801	-
Prepays	11,442	-	-	-
Accrued interest	<u>(1,343)</u>	<u>3,652</u>	<u>-</u>	<u>288</u>
Total Assets	<u>\$ 79,090</u>	<u>\$ 3,471,881</u>	<u>\$ 803,801</u>	<u>\$ 1,142,277</u>
 LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 15,016	\$ 42,471	\$ 104,112	\$ 17,422
Contracts payable	-	-	9,892	-
Deposits	-	308,476	-	18,365
Due to other funds	-	-	767,809	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total Liabilities	<u>15,016</u>	<u>350,947</u>	<u>886,813</u>	<u>35,787</u>
Fund Balances:				
Reserved for:				
Encumbrances	-	30,770	419,756	8,032
Debt retirement	-	-	-	-
Unreserved, reported in:				
Special revenue funds	64,074	3,090,164	(502,768)	1,098,458
Capital project funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>64,074</u>	<u>3,120,934</u>	<u>(83,012)</u>	<u>1,106,490</u>
Total Liabilities and Fund Balances	<u>\$ 79,090</u>	<u>\$ 3,471,881</u>	<u>\$ 803,801</u>	<u>\$ 1,142,277</u>

	<u>Debt Service</u>	<u>Capital Projects Local Finance</u>	<u>Total Other Governmental Funds</u>
\$	563,067	\$ 13,737,675	\$ 18,972,691
	-	-	811,061
	-	-	11,442
	-	<u>2,835</u>	<u>5,432</u>
<u>\$</u>	<u>563,067</u>	<u>\$ 13,740,510</u>	<u>\$ 19,800,626</u>
\$	-	\$ 8,860	\$ 187,881
	-	11,560	21,452
	-	264,190	591,031
	-	-	767,809
	-	-	<u>5,000</u>
	-	<u>284,610</u>	<u>1,573,173</u>
	-	794,706	1,253,264
563,067	-	-	563,067
	-	-	3,749,928
	-	<u>12,661,194</u>	<u>12,661,194</u>
<u>563,067</u>	<u>13,455,900</u>	<u>18,227,453</u>	
<u>\$ 563,067</u>	<u>\$ 13,740,510</u>	<u>\$ 19,800,626</u>	

City of Mesquite, Texas

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended September 30, 2010**

	Special Revenue			
	Hotel/Motel Tax	Confiscated Drug	Other Grants	Other Special Revenue
REVENUES:				
Gross receipts taxes	\$ -	\$ -	\$ -	\$ 100,552
Sales tax	815,073	-	-	-
Licenses and permits	-	-	-	1,425
Fines and forfeitures	-	884,885	-	61,945
Investment income	1,093	24,778	-	2,558
Charges for services	-	-	660	966,359
Intergovernmental	-	-	4,292,663	-
Contributions and donations	-	-	-	72,595
Other revenues	3,560	114,790	-	15,025
Total Revenues	<u>819,726</u>	<u>1,024,453</u>	<u>4,293,323</u>	<u>1,220,459</u>
EXPENDITURES:				
Current-				
General government	593,747	-	-	134,617
Fire services	-	-	161,686	20,005
Police services	-	312,297	322,014	174,760
Public works	-	-	275,127	-
Community development	87,473	-	2,379,135	-
Library services	-	-	32,958	5,146
Parks and recreation	-	-	-	9,756
Housing and community services	105,241	-	279,852	23,791
Capital outlay	-	219,965	841,423	21,358
Debt service-				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	<u>786,461</u>	<u>532,262</u>	<u>4,292,195</u>	<u>389,433</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>33,265</u>	<u>492,191</u>	<u>1,128</u>	<u>831,026</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(158,000)	-	-	(840,000)
Total Other Financing Sources (Uses)	<u>(158,000)</u>	<u>-</u>	<u>-</u>	<u>(840,000)</u>
NET CHANGE IN FUND BALANCES	(124,735)	492,191	1,128	(8,974)
FUND BALANCES AT BEGINNING OF YEAR	<u>188,809</u>	<u>2,628,743</u>	<u>(84,140)</u>	<u>1,115,464</u>
FUND BALANCES AT END OF YEAR	<u>\$ 64,074</u>	<u>\$ 3,120,934</u>	<u>\$ (83,012)</u>	<u>\$ 1,106,490</u>

	<u>Debt Service</u>	<u>Capital Projects Local Finance</u>	<u>Total Other Governmental Funds</u>
\$	-	\$ -	\$ 100,552
	-	-	815,073
	-	-	1,425
	-	-	946,830
	-	49,520	77,949
	-	3,973,603	4,940,622
	-	-	4,292,663
	-	3,058,131	3,130,726
	-	49,528	182,903
	-	<u>7,130,782</u>	<u>14,488,743</u>
	-	2,243,269	2,971,633
	-	-	181,691
	-	-	809,071
	-	22,548	297,675
	-	-	2,466,608
	-	-	38,104
	-	-	9,756
	-	65,446	474,330
	-	107,998	1,190,744
	7,100,000	419,174	7,519,174
	4,297,901	182,624	4,480,525
	<u>11,397,901</u>	<u>3,041,059</u>	<u>20,439,311</u>
	<u>(11,397,901)</u>	<u>4,089,723</u>	<u>(5,950,568)</u>
	11,348,804	200,000	11,548,804
	-	(2,033,810)	(3,031,810)
	<u>11,348,804</u>	<u>(1,833,810)</u>	<u>8,516,994</u>
	(49,097)	2,255,913	2,566,426
	<u>612,164</u>	<u>11,199,987</u>	<u>15,661,027</u>
\$	<u>563,067</u>	<u>\$ 13,455,900</u>	<u>\$ 18,227,453</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, 2010
 With Comparative Actual Totals for the Year Ended September 30, 2009**

	2010				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	<u>Original</u>	<u>Final</u>			
REVENUES:					
Sales tax	\$ 1,065,000	\$ 798,000	\$ 815,073	\$ 17,073	\$ 1,093,137
Investment income	6,500	2,000	1,093	(907)	6,355
Other revenues	-	-	3,560	3,560	-
TOTAL REVENUES	<u>1,071,500</u>	<u>800,000</u>	<u>819,726</u>	<u>19,726</u>	<u>1,099,492</u>
EXPENDITURES:					
Other-					
Administration projects-					
Personal services	22,215	4,000	3,744	256	45,550
Contractual services	169,000	170,000	170,498	(498)	190,405
	<u>191,215</u>	<u>174,000</u>	<u>174,242</u>	<u>(242)</u>	<u>235,955</u>
Convention and Visitor Bureau					
Personal services	200,890	207,303	208,853	(1,550)	203,269
Supplies	12,400	11,290	14,921	(3,631)	29,087
Contractual services	253,567	183,511	195,731	(12,220)	228,001
	<u>466,857</u>	<u>402,104</u>	<u>419,505</u>	<u>(17,401)</u>	<u>460,357</u>
Arts Council projects					
Contractual services	116,714	88,571	87,473	1,098	128,655
	<u>116,714</u>	<u>88,571</u>	<u>87,473</u>	<u>1,098</u>	<u>128,655</u>
Beautification Commission projects-					
Contractual services	22,000	22,000	22,016	(16)	22,000
	<u>22,000</u>	<u>22,000</u>	<u>22,016</u>	<u>(16)</u>	<u>22,000</u>
Historic Commission projects-					
Contractual services	116,714	88,571	83,225	5,346	128,655
	<u>116,714</u>	<u>88,571</u>	<u>83,225</u>	<u>5,346</u>	<u>128,655</u>
TOTAL EXPENDITURES	<u>913,500</u>	<u>775,246</u>	<u>786,461</u>	<u>(11,215)</u>	<u>975,622</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>158,000</u>	<u>24,754</u>	<u>33,265</u>	<u>8,511</u>	<u>123,870</u>
OTHER FINANCING USES:					
Transfers out	(158,000)	(158,000)	(158,000)	-	(158,000)
TOTAL OTHER FINANCING USES	<u>(158,000)</u>	<u>(158,000)</u>	<u>(158,000)</u>	<u>-</u>	<u>(158,000)</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ (133,246)</u>	<u>(124,735)</u>	<u>\$ 8,511</u>	<u>(34,130)</u>
FUND BALANCE AT BEGINNING OF YEAR			188,809		222,939
FUND BALANCE AT END OF YEAR			<u>\$ 64,074</u>		<u>\$ 188,809</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, 2010
 With Comparative Actual Totals for the Year Ended September 30, 2009**

	2010				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	<u>Original</u>	<u>Final</u>			
REVENUES:					
Fines and forfeitures	\$ 500,000	\$ 750,000	\$ 884,885	\$ 134,885	\$ 732,734
Investment income	60,000	30,000	24,778	(5,222)	52,350
Other revenues	<u>50,000</u>	<u>110,000</u>	<u>114,790</u>	<u>4,790</u>	<u>105,034</u>
TOTAL REVENUES	<u>610,000</u>	<u>890,000</u>	<u>1,024,453</u>	<u>134,453</u>	<u>890,118</u>
EXPENDITURES:					
Police services-					
Supplies	155,400	160,000	144,290	15,710	12,256
Contractual services	131,200	154,000	155,323	(1,323)	342,186
Capital outlay	<u>-</u>	<u>290,000</u>	<u>232,649</u>	<u>57,351</u>	<u>-</u>
TOTAL EXPENDITURES	<u>286,600</u>	<u>604,000</u>	<u>532,262</u>	<u>71,738</u>	<u>354,442</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>323,400</u>	<u>286,000</u>	<u>492,191</u>	<u>206,191</u>	<u>535,676</u>
NET CHANGE IN FUND BALANCES	<u>\$ 323,400</u>	<u>\$ 286,000</u>	492,191	<u>\$ 206,191</u>	535,676
FUND BALANCE AT BEGINNING OF YEAR			<u>2,628,743</u>		<u>2,093,067</u>
FUND BALANCE AT END OF YEAR			<u>\$ 3,120,934</u>		<u>\$ 2,628,743</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, 2010
 With Comparative Actual Totals for the Year Ended For the Year Ended September 30, 2009**

	2010				
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	<u>Original</u>	<u>Final</u>			
REVENUES:					
Charges for services	\$ -	\$ -	\$ 660	\$ 660	\$ 701
Intergovernmental	<u>6,914,852</u>	<u>6,914,852</u>	<u>4,292,663</u>	<u>(2,622,189)</u>	<u>1,728,443</u>
TOTAL REVENUES	<u>6,914,852</u>	<u>6,914,852</u>	<u>4,293,323</u>	<u>(2,621,529)</u>	<u>1,729,144</u>
EXPENDITURES:					
Current-					
Fire services	2,127,480	2,127,480	892,082	1,235,398	112,814
Police services	393,431	393,431	433,041	(39,610)	160,924
Public works	375,000	375,000	275,127	99,873	6,622
Community Development	3,417,115	3,417,115	2,379,135	1,037,980	721,220
Library services	32,958	32,958	32,958	-	17,022
Parks and recreation	-	-	-	-	27,280
Housing and community services	543,868	543,868	279,852	264,016	339,995
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>382,242</u>
TOTAL EXPENDITURES	<u>6,889,852</u>	<u>6,889,852</u>	<u>4,292,195</u>	<u>2,597,657</u>	<u>1,768,119</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>25,000</u>	<u>25,000</u>	<u>1,128</u>	<u>(23,872)</u>	<u>(38,975)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>1,128</u>	<u>\$ (23,872)</u>	<u>(38,975)</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>(84,140)</u>		<u>(45,165)</u>
FUND BALANCE AT END OF YEAR			<u>\$ (83,012)</u>		<u>\$ (84,140)</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, 2010**

With Comparative Actual Totals for the Year Ended September 30, 2009

	2010		Actual Amounts	Variance with Final Budget - Positive (Negative)	2009 Actual Amounts
	Budgeted Amounts				
	Original	Final			
EXPENDITURES:					
Debt service-					
Principal	\$ 7,100,000	\$ 7,100,000	\$ 7,100,000	\$ -	\$ 7,720,000
Interest and fiscal charges	<u>4,371,421</u>	<u>4,326,845</u>	<u>4,297,901</u>	<u>28,944</u>	<u>4,154,524</u>
TOTAL EXPENDITURES	<u>11,471,421</u>	<u>11,426,845</u>	<u>11,397,901</u>	<u>28,944</u>	<u>11,874,524</u>
EXCESS (DEFICIENCY) OF EXPENDITURES OVER (UNDER) REVENUES	<u>(11,471,421)</u>	<u>(11,426,845)</u>	<u>(11,397,901)</u>	<u>28,944</u>	<u>(11,874,524)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	11,221,421	11,335,790	11,348,804	13,014	11,949,173
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>11,221,421</u>	<u>11,335,790</u>	<u>11,348,804</u>	<u>13,014</u>	<u>11,949,161</u>
NET CHANGE IN FUND BALANCES	<u>\$ (250,000)</u>	<u>\$ (91,055)</u>	<u>(49,097)</u>	<u>\$ 41,958</u>	<u>74,637</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>612,164</u>		<u>537,527</u>
FUND BALANCE AT END OF YEAR			<u>\$ 563,067</u>		<u>\$ 612,164</u>

City of Mesquite, Texas

Combining Statement of Net Assets

Internal Service Funds

September 30, 2010

With Comparative Totals for September 30, 2009

	Health <u>Claims</u>	General <u>Liability</u>	<u>Totals</u>	
			<u>2010</u>	<u>2009</u>
ASSETS:				
Current assets:				
Pooled cash and investments	\$ 814,998	\$ 1,043,200	\$ 1,858,198	\$ 3,621,079
Prepays and other assets	270,579	120,000	390,579	320,722
Accrued interest	<u>833</u>	<u>2,528</u>	<u>3,361</u>	<u>2,499</u>
Total Assets	<u>1,086,410</u>	<u>1,165,728</u>	<u>2,252,138</u>	<u>3,944,300</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	547,010	12,056	559,066	649,277
Estimated claims payable	<u>926,000</u>	<u>491,169</u>	<u>1,417,169</u>	<u>1,291,963</u>
Total current liabilities	<u>1,473,010</u>	<u>503,225</u>	<u>1,976,235</u>	<u>1,941,240</u>
Noncurrent liabilities:				
Estimated claims payable	-	982,337	982,337	693,926
Total noncurrent liabilities	<u>-</u>	<u>982,337</u>	<u>982,337</u>	<u>693,926</u>
Total Liabilities	<u>1,473,010</u>	<u>1,485,562</u>	<u>2,958,572</u>	<u>2,635,166</u>
NET ASSETS:				
Unrestricted	<u>(386,600)</u>	<u>(319,834)</u>	<u>(706,434)</u>	<u>1,309,134</u>
Total Net Assets	<u>\$ (386,600)</u>	<u>\$ (319,834)</u>	<u>\$ (706,434)</u>	<u>\$ 1,309,134</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, 2010
With Comparative Totals for September 30, 2009**

	Health <u>Claims</u>	General <u>Liability</u>	<u>Totals</u>	
			<u>2010</u>	<u>2009</u>
Operating revenues:				
Contributions - City				
Medical insurance	\$ 8,218,859	\$ -	\$ 8,218,859	\$ 8,180,558
Life and dental insurance	1,060,287	-	1,060,287	1,000,379
General liability	-	1,405,000	1,405,000	1,505,000
Workers' compensation	-	504,801	504,801	542,297
Total contributions - City	<u>9,279,146</u>	<u>1,909,801</u>	<u>11,188,947</u>	<u>11,228,234</u>
Contributions - Other				
Employees - medical insurance	2,134,127	-	2,134,127	2,099,912
Retirees - medical insurance	865,489	-	865,489	785,430
COBRA - medical insurance	11,415	-	11,415	19,264
Stop loss and other contributions	173,264	-	173,264	352,080
Other Revenues	-	111,997	111,997	131,765
Total contributions - other	<u>3,184,295</u>	<u>111,997</u>	<u>3,296,292</u>	<u>3,388,451</u>
Total operating revenues	<u>12,463,441</u>	<u>2,021,798</u>	<u>14,485,239</u>	<u>14,616,685</u>
Operating expenses:				
Claims incurred	11,047,049	1,182,402	12,229,451	9,951,873
Insurance premiums	1,765,129	675,234	2,440,363	2,397,760
Administrative fees	925,618	527,408	1,453,026	1,688,309
Other Expenses	378,758	24,648	403,406	392,805
Total operating expenses	<u>14,116,554</u>	<u>2,409,692</u>	<u>16,526,246</u>	<u>14,430,747</u>
Operating income (loss)	<u>(1,653,113)</u>	<u>(387,894)</u>	<u>(2,041,007)</u>	<u>185,938</u>
Nonoperating revenues:				
Investment income	18,421	7,018	25,439	46,201
Total nonoperating revenues	<u>18,421</u>	<u>7,018</u>	<u>25,439</u>	<u>46,201</u>
Change in net assets	(1,634,692)	(380,876)	(2,015,568)	232,139
Total net assets - beginning	<u>1,248,092</u>	<u>61,042</u>	<u>1,309,134</u>	<u>1,076,995</u>
Total net assets - ending	<u>\$ (386,600)</u>	<u>\$ (319,834)</u>	<u>\$ (706,434)</u>	<u>\$ 1,309,134</u>

City of Mesquite, Texas

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended September 30, 2010

With Comparative Actual Totals for the Year ended September 30, 2009

	Health <u>Claims</u>	General <u>Liability</u>	<u>Totals</u>	
			<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from City funds	\$ 9,279,146	\$ 1,909,801	\$ 11,188,947	\$ 11,228,234
Cash received from other operating sources	3,184,295	111,997	3,296,292	3,388,451
Cash paid to suppliers for goods and services	(3,192,713)	(1,264,150)	(4,456,863)	(4,241,608)
Cash paid to claimants	<u>(11,066,049)</u>	<u>(749,785)</u>	<u>(11,815,834)</u>	<u>(10,349,425)</u>
Net cash provided by (used for) operating activities	<u>(1,795,321)</u>	<u>7,863</u>	<u>(1,787,458)</u>	<u>25,652</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received on investments	<u>17,588</u>	<u>6,989</u>	<u>24,577</u>	<u>52,898</u>
Net cash provided by investing activities	<u>17,588</u>	<u>6,989</u>	<u>24,577</u>	<u>52,898</u>
NET INCREASE (DECREASE) IN POOLED CASH AND INVESTMENTS				
	(1,777,733)	14,852	(1,762,881)	78,550
POOLED CASH AND INVESTMENTS AT BEGINNING OF YEAR				
	<u>2,592,731</u>	<u>1,028,348</u>	<u>3,621,079</u>	<u>3,542,529</u>
POOLED CASH AND INVESTMENTS AT END OF YEAR				
	<u>\$ 814,998</u>	<u>\$ 1,043,200</u>	<u>\$ 1,858,198</u>	<u>\$ 3,621,079</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ (1,653,113)	\$ (387,894)	\$ (2,041,007)	\$ 185,938
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	(69,858)	-	(69,858)	290,082
Increase (decrease) in accounts payable	(53,350)	(36,860)	(90,210)	(52,816)
Increase (decrease) in claims payable	<u>(19,000)</u>	<u>432,617</u>	<u>413,617</u>	<u>(397,552)</u>
Total adjustments	<u>(142,208)</u>	<u>395,757</u>	<u>253,549</u>	<u>(160,286)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
	<u>\$ (1,795,321)</u>	<u>\$ 7,863</u>	<u>\$ (1,787,458)</u>	<u>\$ 25,652</u>

City of Mesquite, Texas

**Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended September 30, 2010**

	Agency Fund - Tax Clearing Fund			
	Balance October 1, <u>2009</u>	Additions	Deductions	Balance September 30, <u>2010</u>
ASSETS:				
Current assets:				
Pooled cash and investments	\$ 185,056	\$ 228,383,598	\$ 228,433,778	\$ 134,876
Taxes receivable levied for other government (net of allowance for uncollectibles)	4,199,892	94,543,414	95,051,158	3,692,148
Total Assets	\$ 4,384,948	\$ 322,927,012	\$ 323,484,936	\$ 3,827,024
 LIABILITIES:				
Current liabilities:				
Accounts payable	\$ 185,056	\$ 228,383,598	\$ 228,433,778	\$ 134,876
Due to other governments	4,199,892	94,543,414	95,051,158	3,692,148
Total Liabilities	\$ 4,384,948	\$ 322,927,012	\$ 323,484,936	\$ 3,827,024

MESQUITE

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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	80
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	92
These schedules contain information to help the reader assess the city's most significant local revenue source, the property tax.	
Debt Capacity	97
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	102
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	106
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 Nine Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

(Unaudited)

	Fiscal Year			
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Governmental activities:				
Invested in capital assets, net of related debt	\$ 78,839	\$ 95,809	\$ 105,798	\$ 117,266
Restricted	9,719	4,561	7,644	7,774
Unrestricted	<u>16,284</u>	<u>18,814</u>	<u>17,757</u>	<u>18,531</u>
Total governmental activities net assets	<u>\$ 104,842</u>	<u>\$ 119,184</u>	<u>\$ 131,199</u>	<u>\$ 143,571</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 82,804	\$ 90,629	\$ 99,992	\$ 104,206
Restricted	5,296	5,847	6,067	6,685
Unrestricted	<u>18,051</u>	<u>14,579</u>	<u>12,492</u>	<u>13,430</u>
Total business-type activities net assets	<u>\$ 106,151</u>	<u>\$ 111,055</u>	<u>\$ 118,551</u>	<u>\$ 124,321</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 161,643	\$ 186,438	\$ 205,790	\$ 221,472
Restricted	15,015	10,408	13,711	14,459
Unrestricted	<u>34,335</u>	<u>33,393</u>	<u>30,249</u>	<u>31,961</u>
Total primary government net assets	<u>\$ 210,993</u>	<u>\$ 230,239</u>	<u>\$ 249,750</u>	<u>\$ 267,892</u>

Note: The City implemented GASB Statement No. 34 in fiscal year 2002, thus ten years of data is not available.

Fiscal Year				
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 128,362	\$ 137,669	\$ 155,270	\$ 149,214	\$ 147,492
10,914	19,717	13,775	6,131	4,617
<u>16,147</u>	<u>14,429</u>	<u>16,856</u>	<u>16,157</u>	<u>16,658</u>
<u>\$ 155,423</u>	<u>\$ 171,815</u>	<u>\$ 185,901</u>	<u>\$ 171,502</u>	<u>\$ 168,767</u>
\$ 114,583	\$ 122,377	\$ 128,354	\$ 118,870	\$ 120,751
7,124	7,484	4,300	3,386	3,042
<u>15,232</u>	<u>12,526</u>	<u>13,390</u>	<u>12,820</u>	<u>13,499</u>
<u>\$ 136,939</u>	<u>\$ 142,387</u>	<u>\$ 146,044</u>	<u>\$ 135,076</u>	<u>\$ 137,292</u>
\$ 242,945	\$ 260,046	\$ 283,624	\$ 268,084	\$ 268,243
18,038	27,201	18,075	9,517	7,659
<u>31,378</u>	<u>26,955</u>	<u>30,246</u>	<u>28,977</u>	<u>30,157</u>
<u>\$ 292,361</u>	<u>\$ 314,202</u>	<u>\$ 331,945</u>	<u>\$ 306,578</u>	<u>\$ 306,059</u>

City of Mesquite, Texas

**Change in Net Assets
Last Nine Fiscal Years**

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

	Fiscal Year			
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Expenses				
Governmental activities:				
General government	\$ 8,029	\$ 8,652	\$ 9,783	\$ 18,739
Fire services	16,636	17,517	18,805	19,636
Police services	22,862	23,595	24,982	26,336
Field services	12,402	12,660	13,449	12,670
Public works	2,125	2,450	2,752	2,974
Community development	2,755	2,734	3,133	3,375
Housing and community services	8,095	10,019	12,098	12,039
Library services	1,885	2,049	2,080	2,052
Parks and recreation	7,378	7,933	8,834	8,135
Other	4,766	6,720	7,228	-
Interest on long-term debt	2,700	2,727	2,617	2,478
Total governmental activities expenses	<u>89,633</u>	<u>97,056</u>	<u>105,761</u>	<u>108,434</u>
Business-type activities:				
Water and sewer	21,948	24,961	25,604	26,230
Drainage utility	1,339	1,515	1,606	1,616
Municipal airport	964	958	1,130	1,297
Total business-type activities expenses	<u>24,251</u>	<u>27,434</u>	<u>28,340</u>	<u>29,143</u>
Total primary government expenses	<u>\$ 113,884</u>	<u>\$ 124,490</u>	<u>\$ 134,101</u>	<u>\$ 137,577</u>
Program Revenues				
Governmental activities:				
Charges for services				
Field Services	\$ 5,394	\$ 5,217	\$ 5,447	\$ 5,526
Community Development	1,992	7,809	3,924	6,007
General Government	2,673	2,110	2,945	4,270
Other Charges for services	6,563	5,930	9,467	8,741
Operating grants and contributions	8,152	10,446	11,852	12,561
Capital grants and contributions	2,257	2,987	5,943	1,693
Total governmental activities program revenues	<u>27,031</u>	<u>34,499</u>	<u>39,578</u>	<u>38,798</u>
Business-type activities:				
Charges for services:				
Water and sewer	25,830	27,739	27,761	31,219
Drainage utility	2,026	2,157	2,078	2,098
Municipal airport	514	461	673	814
Capital grants and contributions	5,246	5,862	9,413	4,659
Total business-type activities program revenues	<u>33,616</u>	<u>36,219</u>	<u>39,925</u>	<u>38,790</u>
Total primary government program revenues	<u>\$ 60,647</u>	<u>\$ 70,718</u>	<u>\$ 79,503</u>	<u>\$ 77,588</u>

Note: The City implemented GASB Statement No. 34 in fiscal year 2002, thus ten years of data is not available.

Fiscal Year				
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 16,796	\$ 18,562	\$ 19,410	\$ 19,888	\$ 23,832
21,186	22,245	24,670	23,531	24,541
28,156	30,850	32,265	31,767	32,280
6,629	13,424	13,970	13,608	13,499
15,381	3,539	4,529	3,552	7,802
3,302	3,731	3,637	3,510	5,737
11,866	10,883	12,684	14,017	14,146
2,137	2,198	2,127	1,939	2,034
10,538	10,993	9,446	12,940	10,122
-	-	-	-	-
3,312	3,740	4,519	4,649	4,514
<u>119,303</u>	<u>120,165</u>	<u>127,257</u>	<u>129,401</u>	<u>138,507</u>
27,468	29,341	31,939	33,431	34,905
1,550	1,736	1,817	1,714	1,677
1,537	1,521	1,721	1,602	1,691
<u>30,555</u>	<u>32,598</u>	<u>35,477</u>	<u>36,747</u>	<u>38,273</u>
<u>\$ 149,858</u>	<u>\$ 152,763</u>	<u>\$ 162,734</u>	<u>\$ 166,148</u>	<u>\$ 176,780</u>
\$ 5,950	\$ 5,951	\$ 6,591	\$ 6,992	\$ 7,054
4,988	6,314	6,942	5,438	4,702
3,882	5,271	8,177	5,214	5,418
8,803	8,283	6,084	9,429	8,907
12,439	13,351	12,603	12,222	16,184
7,433	7,934	6,977	1,360	8,075
<u>43,495</u>	<u>47,104</u>	<u>47,374</u>	<u>40,655</u>	<u>50,340</u>
32,682	29,833	35,396	35,714	39,492
2,129	2,142	2,143	2,170	2,165
1,098	1,110	1,317	1,336	1,328
10,532	7,221	6,018	3,110	1,255
<u>46,441</u>	<u>40,306</u>	<u>44,874</u>	<u>42,330</u>	<u>44,240</u>
<u>\$ 89,936</u>	<u>\$ 87,410</u>	<u>\$ 92,248</u>	<u>\$ 82,985</u>	<u>\$ 94,580</u>

(Continued Next Page)

City of Mesquite, Texas

Change in Net Assets Last Nine Fiscal Years

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

	Fiscal Year			
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net (Expenses)/Program Revenues				
Governmental activities	\$ (62,602)	\$ (62,557)	\$ (66,183)	\$ (69,636)
Business-type activities	<u>9,365</u>	<u>8,785</u>	<u>11,585</u>	<u>9,647</u>
Total primary government net expenses	<u>\$ (53,237)</u>	<u>\$ (53,772)</u>	<u>\$ (54,598)</u>	<u>\$ (59,989)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Ad valorem taxes	\$ 26,219	\$ 28,555	\$ 29,946	\$ 33,073
Gross receipts taxes	7,516	7,580	7,137	7,416
Sales taxes	35,578	35,292	36,136	35,663
Investment income	1,260	791	547	1,343
Sale of capital assets	-	-	-	-
Transfers	<u>4,437</u>	<u>4,402</u>	<u>4,431</u>	<u>4,514</u>
Total governmental activities	<u>75,010</u>	<u>76,620</u>	<u>78,197</u>	<u>82,009</u>
Business-type activities:				
Investment income	842	520	343	636
Sale of capital assets	-	-	-	-
Transfers	<u>(4,437)</u>	<u>(4,402)</u>	<u>(4,431)</u>	<u>(4,514)</u>
Total business-type activities	<u>(3,595)</u>	<u>(3,882)</u>	<u>(4,088)</u>	<u>(3,878)</u>
Total primary government	<u>\$ 71,415</u>	<u>\$ 72,738</u>	<u>\$ 74,109</u>	<u>\$ 78,131</u>
Change in Net Assets				
Governmental activities	\$ 12,408	\$ 14,064	\$ 12,014	\$ 12,373
Business-type activities	<u>5,770</u>	<u>4,903</u>	<u>7,497</u>	<u>5,769</u>
Total primary government	<u>\$ 18,178</u>	<u>\$ 18,967</u>	<u>\$ 19,511</u>	<u>\$ 18,142</u>

Schedule 2
(Continued)

Fiscal Year				
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ (75,808)	\$ (73,061)	\$ (79,883)	\$ (88,746)	\$ (88,167)
<u>15,886</u>	<u>7,708</u>	<u>9,397</u>	<u>5,583</u>	<u>5,967</u>
<u>\$ (59,922)</u>	<u>\$ (65,353)</u>	<u>\$ (70,486)</u>	<u>\$ (83,163)</u>	<u>\$ (82,200)</u>
\$ 35,505	\$ 37,705	\$ 40,577	\$ 40,791	\$ 38,304
7,551	7,333	7,677	7,617	7,637
36,880	35,996	35,339	33,348	34,920
3,204	4,397	3,402	1,467	505
-	80	2	92	82
<u>4,519</u>	<u>3,943</u>	<u>6,971</u>	<u>2,202</u>	<u>3,983</u>
<u>87,659</u>	<u>89,454</u>	<u>93,968</u>	<u>85,517</u>	<u>85,431</u>
1,251	1,660	1,220	668	228
-	23	11	11	5
<u>(4,519)</u>	<u>(3,943)</u>	<u>(6,971)</u>	<u>(2,202)</u>	<u>(3,983)</u>
<u>(3,268)</u>	<u>(2,260)</u>	<u>(5,740)</u>	<u>(1,523)</u>	<u>(3,750)</u>
<u>\$ 84,391</u>	<u>\$ 87,194</u>	<u>\$ 88,228</u>	<u>\$ 83,994</u>	<u>\$ 81,681</u>
\$ 11,851	\$ 16,393	\$ 14,085	\$ (3,229)	\$ (2,735)
<u>12,618</u>	<u>5,448</u>	<u>3,657</u>	<u>4,060</u>	<u>2,216</u>
<u>\$ 24,469</u>	<u>\$ 21,841</u>	<u>\$ 17,742</u>	<u>\$ 831</u>	<u>\$ (519)</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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund:					
Reserved	\$ 618	\$ 192	\$ 1,848	\$ 1,674	\$ 732
Unreserved	<u>14,061</u>	<u>15,148</u>	<u>14,712</u>	<u>14,840</u>	<u>16,644</u>
Total General Fund	<u>\$ 14,679</u>	<u>\$ 15,340</u>	<u>\$ 16,560</u>	<u>\$ 16,514</u>	<u>\$ 17,376</u>
All other governmental funds:					
Reserved for:					
Encumbrances	\$ 3,748	\$ 5,895	\$ 3,342	\$ 3,284	\$ 5,673
Debt service	295	327	337	417	531
Unreserved, reported in:					
Special revenue funds	6,476	6,084	5,063	7,071	9,148
Capital projects	<u>8,576</u>	<u>8,871</u>	<u>9,868</u>	<u>17,107</u>	<u>23,896</u>
Total of all other governmental funds	<u>\$ 19,095</u>	<u>\$ 21,177</u>	<u>\$ 18,610</u>	<u>\$ 27,879</u>	<u>\$ 39,248</u>

Schedule 3

Fiscal Year				
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 637	\$ 1,286	\$ 3,140	\$ 1,440	\$ 1,063
<u>18,884</u>	<u>16,760</u>	<u>14,223</u>	<u>16,520</u>	<u>16,672</u>
<u>\$ 19,521</u>	<u>\$ 18,046</u>	<u>\$ 17,363</u>	<u>\$ 17,960</u>	<u>\$ 17,735</u>
\$ 4,359	\$ 25,061	\$ 10,011	\$ 7,482	\$ 14,142
584	919	538	612	563
13,071	14,374	15,257	6,848	5,493
<u>30,225</u>	<u>26,302</u>	<u>28,511</u>	<u>28,200</u>	<u>24,227</u>
<u>\$ 48,239</u>	<u>\$ 66,656</u>	<u>\$ 54,317</u>	<u>\$ 43,142</u>	<u>\$ 44,425</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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues					
Taxes	\$ 68,171	\$ 69,195	\$ 71,352	\$ 73,146	\$ 76,238
Licenses and permits	1,475	1,487	1,418	1,347	1,249
Fines and forfeitures	2,551	2,524	3,092	3,278	2,997
Investment income	2,245	1,096	700	492	1,242
Charges for services	9,529	9,590	12,599	12,509	13,212
Intergovernmental	7,009	8,513	10,589	11,997	14,611
Contributions and donations	77	63	119	86	107
Other revenues	1,986	1,715	2,462	2,014	3,860
Total revenues	<u>93,043</u>	<u>94,183</u>	<u>102,331</u>	<u>104,869</u>	<u>113,516</u>
Expenditures					
General government	6,033	5,927	6,118	6,752	6,649
Fire services	15,245	16,306	17,200	18,142	18,951
Police services	21,352	22,662	23,254	24,245	25,647
Field services	7,684	8,738	8,764	9,222	8,794
Public works	1,925	1,988	2,268	2,387	2,384
Community development	2,637	2,733	2,715	3,193	3,278
Housing services	5,519	7,194	8,848	11,063	10,774
Library services	1,826	1,841	1,982	2,071	2,011
Parks and recreation	7,257	7,151	7,563	8,612	7,542
Community services	695	837	1,186	974	1,087
Other	3,702	4,190	9,612	7,589	8,269
Capital outlay	9,445	10,174	16,240	11,407	17,347
Debt service - principal	6,568	7,960	7,805	7,830	8,350
Debt service - interest	4,960	2,734	2,727	2,656	2,605
Total expenditures	<u>94,848</u>	<u>100,435</u>	<u>116,282</u>	<u>116,143</u>	<u>123,688</u>
Deficiency of revenues under expenditures	<u>(1,805)</u>	<u>(6,252)</u>	<u>(13,951)</u>	<u>(11,274)</u>	<u>(10,172)</u>
Other financing sources (uses)					
Transfer in	18,232	17,571	17,248	16,704	18,154
Transfers out	(13,491)	(13,133)	(12,845)	(11,933)	(13,640)
Capital lease proceeds	-	-	-	203	-
Bond proceeds	3,690	4,500	8,480	15,255	17,550
Notes Payable Proceeds	-	-	-	-	-
Proceeds of refunding bonds	-	6,850	-	14,795	5,965
Premium on debt	-	-	-	-	433
Payment to refunded bond agent	-	(6,793)	-	(14,805)	(6,059)
Total other financing sources (uses)	<u>8,431</u>	<u>8,995</u>	<u>12,883</u>	<u>20,219</u>	<u>22,403</u>
Net change in fund balances	<u>\$ 6,626</u>	<u>\$ 2,743</u>	<u>\$ (1,068)</u>	<u>\$ 8,945</u>	<u>\$ 12,231</u>
Debt service as a percentage of noncapital expenditures	16.07%	13.43%	12.34%	12.48%	11.63%

Schedule 4

Fiscal Year				
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 79,822	\$ 81,064	\$ 83,518	\$ 81,535	\$ 80,891
1,661	1,396	1,294	1,108	985
2,929	2,517	3,273	3,401	3,365
3,006	4,255	3,271	1,421	480
14,064	15,568	17,126	17,104	16,492
13,491	13,459	12,146	12,229	17,147
104	185	3,432	297	4,242
<u>1,641</u>	<u>2,716</u>	<u>1,664</u>	<u>1,134</u>	<u>952</u>
<u>116,718</u>	<u>121,160</u>	<u>125,724</u>	<u>118,229</u>	<u>124,554</u>
17,958	12,667	14,502	15,032	16,195
20,871	22,172	24,025	23,989	23,396
27,346	30,464	31,453	30,284	30,438
9,240	9,531	10,593	10,136	10,001
2,763	2,589	3,677	2,800	6,618
3,296	3,680	3,616	3,433	5,186
10,345	8,808	10,357	11,587	11,996
2,086	2,176	2,212	1,949	2,012
9,853	10,106	8,831	12,122	9,371
1,650	2,120	2,395	2,401	2,477
-	-	-	-	-
12,918	16,327	35,618	20,218	11,029
7,480	7,147	8,012	8,123	7,519
<u>3,056</u>	<u>4,026</u>	<u>4,508</u>	<u>4,645</u>	<u>4,614</u>
<u>128,862</u>	<u>131,813</u>	<u>159,799</u>	<u>146,719</u>	<u>140,852</u>
<u>(12,144)</u>	<u>(10,653)</u>	<u>(34,075)</u>	<u>(28,490)</u>	<u>(16,298)</u>
18,655	20,202	24,192	20,575	20,272
(14,136)	(15,621)	(16,705)	(15,830)	(15,456)
-	74	-	-	-
18,760	22,805	13,566	13,125	12,340
-	135	-	-	-
-	-	-	4,245	1,320
-	-	-	-	137
-	-	-	(4,203)	(1,257)
<u>23,279</u>	<u>27,595</u>	<u>21,053</u>	<u>17,912</u>	<u>17,356</u>
<u>\$ 11,135</u>	<u>\$ 16,942</u>	<u>\$ (13,022)</u>	<u>\$ (10,578)</u>	<u>\$ 1,058</u>
11.78%	11.47%	10.38%	10.16%	9.49%

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>
2001	68,171	24,589	34,993	170	953
% Total	100.00	36.1	51.3	0.2	1.4
2002	69,195	26,101	34,519	172	887
% Total	100.00	37.7	49.9	0.2	1.3
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	40.8	0.3	1.3
2009	81,535	40,571	32,063	191	1,093
% Total	100.00	49.8	39.3	0.2	1.3
2010	80,891	38,334	33,911	194	815
% Total	100.00	47.4	41.9	0.2	1.0

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>
4,235	1,000	812	742	654	23
6.2	1.5	1.2	1.1	1.0	0.0
4,558	590	827	847	670	24
6.6	0.9	1.2	1.2	1.0	0.0
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

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	
2001	3,042,793	939,537	159,058	96,716	662,920	4,901,024
2002	3,295,142	1,004,351	155,286	100,687	594,885	5,150,351
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

Source: Dallas Central Appraisal District for all years shown plus Kaufman Central Appraisal District beginning in 2009.

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 \$156,261. 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 \$3,876 ($\$6,047,885 + \$156,261 - \$3,876 = \$6,200,270$).
- (4) Tax rate is per \$100 assessed valuation.

Schedule 6

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>
382,240	684	27,989	410,913	4,490,111	.54148
325,168	6,635	56,811	388,614	4,761,737	.54148
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

**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	
2001	.32717	.21431	.54148	.1960	.254	.05000	.00567	1.58	2.62715
2002	.35991	.18157	.54148	.1960	.254	.06000	.00553	1.58	2.63701
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

Source: (1) Tax Division, Finance Department

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	2010			2001		
	Taxable Assessed Value	Rank	Percent of Total Taxable Assessed Valuation	Taxable Assessed Value	Rank	Percent of Total Taxable Assessed Valuation
Town East Mall PS	\$ 123,465,240	1	2.04%	\$ 98,262,500	1	2.19%
Oncor Electric Delivery	45,105,440	2	0.75%	-		-
Pepsi Cola	42,592,800	3	0.70%	22,301,720	8	0.50%
Sun Life Asur Co of Canada	37,295,640	4	0.62%	-		-
Barons Investors II LP	27,500,000	5	0.45%	-		-
Alliance WE LP	25,225,000	6	0.42%	-		-
American Multicinema Inc	23,828,740	7	0.39%	-		-
CURI Mesquite Prop LP	22,084,590	8	0.37%	-		-
Southwestern Bell	21,508,710	9	0.36%	35,549,740	5	0.79%
DDR MDT Marketplace	21,234,720	10	0.35%	-		-
Lucent Technologies	-		-	78,239,883	2	1.74%
Texas Utilities Services	-		-	49,017,130	3	1.09%
Market East Associates, Ltd. Inc	-		-	37,557,390	4	0.84%
EPT Downreit Inc.	-		-	25,531,710	6	0.57%
Pep Boys	-		-	24,753,079	7	0.55%
Camden Property Trust	-		-	20,663,000	9	0.46%
Sears & Roebuck	-		-	19,996,710	10	0.45%
Total	<u>\$ 389,840,880</u>		6.45%	<u>\$ 411,872,862</u>		9.17%
Total Taxable Assessed Valuation	<u>\$6,047,885,000</u>			<u>\$4,490,111,000</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>
2001	24,388,207	24,206,183	99.25	108,505	24,314,688	99.70
2002	25,855,016	25,656,864	99.23	136,972	25,793,836	99.76
2003	28,861,973	27,873,063	96.57	916,547	28,789,610	99.75
2004	30,501,206	29,200,767	95.74	1,216,391	30,417,158	99.72
2005	33,124,683	32,151,536	97.06	860,258	33,011,794	99.66
2006	35,132,527	34,433,390	98.01	509,034	34,942,424	99.46
2007	37,446,166	36,659,819	97.90	632,527	37,292,346	99.59
2008	40,274,065	39,602,124	98.33	432,331	40,034,455	99.41
2009	40,414,901	39,752,647	98.36	304,423	40,057,070	99.11
2010	38,362,233	37,683,829	98.23	-	37,683,829	98.23

Note: Collections do not include penalty and interest on delinquent taxes.
 Current year collections for fiscal year 2010 are net of the amount collected for the Tax
 Incentive Financing District (TIF) in the amount of \$976,641.
 (\$37,683,829 + \$976,641 = \$38,660,470; see amount in Note 3)

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

(Unaudited)

Fiscal Year	Governmental Activities						Total
	General Obligation Bonds	Certificates of Obligations	Public Property Finance Contractual Obligations	Notes Payable	Capital Lease Obligations		
2001	37,720,000	17,300,000	4,105,000	-	-	-	59,125,000
2002	36,000,000	15,585,000	4,390,000	-	-	-	55,975,000
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

Fiscal Year	Business-Type Activities				Total Primary Government	Percentage of Effective Buying Income (1)	Per Capita (1)
	Water/Sewer Revenue Bonds	Drainage Utility District Revenue Bonds	Water/Sewer Capital Lease Obligations	Total			
2001	31,845,000	9,260,000	-	41,105,000	100,230,000	3.96%	791.89
2002	35,040,000	8,745,000	-	43,785,000	99,760,000	3.83%	780.59
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

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>
2001	126,570	4,490,111	59,125,000	295,125	58,829,875	1.31%	464.80
2002	127,800	4,761,737	55,975,000	327,063	55,647,937	1.17%	435.43
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

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, 2010**

(Unaudited)

<u>Taxing Jurisdiction</u>	Total Outstanding Bonded Debt (1)	Estimated Percent Applicable	Direct and Estimated Overlapping Bonded Debt
Direct- City of Mesquite	\$ 112,250,000	100.00%	\$ 112,250,000
Overlapping-			
Dallas County	151,065,325	4.33	6,541,129
Dallas County Community College District	440,536,227	4.33	19,075,219
Mesquite Independent School District	448,635,708	90.40	405,566,680
Dallas Independent School District	1,728,665,000	0.26	4,494,529
Garland Independent School District	<u>384,154,245</u>	0.04	<u>153,662</u>
Total overlapping	<u>3,153,056,505</u>		<u>435,831,218</u>
Total direct and estimated overlapping bonded debt	<u>\$ 3,265,306,505</u>		<u>\$ 548,081,218</u>

Ratio, direct and estimated overlapping debt to fiscal 2009 taxable assessed valuation (2) 9.06%

Per capita direct and estimated overlapping bonded debt (3) \$3,920

Notes:

- (1) Excluding self-supporting debt. Source is most recent Texas Municipal Reports, publication of the Municipal Advisory Council of Texas
- (2) Fiscal 2010 taxable assessed valuation (Net of TIF): \$6,047,885,145
- (3) Based on 2010 population of 139,824

**Computation of Legal Debt Margin
September 30, 2010**

(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, 2010, is \$.64000 per \$100 of assessed valuation with assessed valuation being 100% of market value.

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

(Unaudited)

<u>Year Ended September</u>	<u>Operating Revenue and Other (1)</u>	<u>Less: Operating Expense and Other (2)</u>	<u>Net Available Revenue</u>	<u>Total Debt Payments Required (3)</u>	<u>Years Remaining</u>	<u>Average Annual Debt Payment</u>	<u>Coverage (4)</u>
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WATER AND SEWER BONDS

2001	27,937,940	16,658,800	11,279,140	45,897,895	19	2,415,679	4.7
2002	26,606,963	17,761,766	8,845,197	49,394,233	19	2,599,696	3.4
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

DRAINAGE UTILITY DISTRICT BONDS

2001	2,261,103	477,777	1,783,326	12,887,403	19	678,284	2.6
2002	2,090,833	524,966	1,565,867	11,920,786	18	662,266	2.4
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

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 (3)</u>	<u>Number of Households (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2001	126,570	2,192,171	2,533,442	51,412	42,300	33,094	4.4%
2002	127,800	2,082,581	2,602,498	50,656	45,115	33,808	5.7%
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%

- Sources:
- (1) Population estimates were prepared by North Central Texas Council of Governments, except 2000 and 2010 official U.S. Census Bureau count.
 - (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
 - (3) U.S. Census Bureau
 - (4) Mesquite Independent School District
 - (5) Texas Workforce Commission

Principal Employers
Current Year
(Unaudited)

<u>Employer</u>	<u>2010</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percent of Total City Employment</u>
United Parcel Service Inc.	2,670	1	3.81%
Dallas Regional Medical Center (Formerly Mesquite Community Hospital)	1,150	2	1.64%
City of Mesquite	1,142	3	1.63%
Eastfield College	1,006	4	1.44%
Walmart Supercenter	480	5	0.68%
Integra Color	459	6	0.65%
Texas Dept of Transportation - Dallas District	425	7	0.61%
Christian Care Center	338	8	0.48%
Macy's (Formerly Foley's)	310	9	0.44%
Dillards	<u>250</u>	10	<u>0.36%</u>
Total	<u>8,230</u>		<u>11.74%</u>
Total Estimated City Employment	<u>70,100</u>		<u>100.00%</u>

Source: Texas Workforce Commission and North Central Texas Council of Governments.
Information from nine years ago, not available.

City of Mesquite, Texas

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

(Unaudited)

	Fiscal Year				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
By Functions					
General government	84.25	84.25	90.00	85.48	85.00
Fire services	187.00	187.00	187.00	192.00	197.00
Police services	276.50	278.50	279.50	282.50	293.50
Field services	128.95	128.00	125.00	130.00	130.00
Public works	25.50	25.00	24.00	24.00	24.00
Community development	41.85	43.85	45.00	47.00	50.00
Housing services	6.75	8.75	8.75	8.75	9.00
Library services	36.57	35.55	35.55	35.55	35.55
Parks and recreation	123.85	124.85	122.85	122.85	130.09
Community services	20.65	20.40	19.25	20.75	20.70
Water and Sewer	95.57	101.07	101.57	103.57	103.57
Drainage utility district	7.00	7.00	7.00	7.00	7.00
Municipal airport	<u>7.88</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
Total employees by function	<u>1,042.32</u>	<u>1,051.60</u>	<u>1,052.85</u>	<u>1,066.83</u>	<u>1,092.79</u>
By Departments					
Administration	8.00	8.00	10.00	10.00	9.00
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	15.00	15.00	14.00	14.48	14.00
Budget and Research	2.00	2.00	2.00	2.00	2.00
Finance	69.25	69.25	68.50	68.50	68.50
Information Technology	-	-	-	-	-
Fire service	187.00	187.00	187.00	192.00	197.00
Police Service	276.50	278.50	279.50	282.50	293.50
Public Works	238.02	242.07	244.07	248.07	248.07
Housing and community service	28.40	30.85	30.95	33.45	37.00
Community development	40.85	42.15	42.05	42.05	42.70
Parks/ Recreation/Building service	123.85	124.85	122.85	122.85	130.09
Library service	36.57	35.55	35.55	34.55	34.55
Airport service	<u>7.88</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
Total employees by department	<u>1,042.32</u>	<u>1,051.60</u>	<u>1,052.85</u>	<u>1,066.83</u>	<u>1,092.79</u>
By Fund					
General	920.47	916.30	916.60	932.58	955.19
Grants	11.40	19.85	20.30	16.30	19.65
Water and Sewer	95.57	101.07	101.57	103.57	103.57
Drainage Utility District	7.00	7.00	7.00	7.00	7.00
Municipal Airport	<u>7.88</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
Total employees by fund	<u>1,042.32</u>	<u>1,051.60</u>	<u>1,052.85</u>	<u>1,066.83</u>	<u>1,092.79</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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
87.00	92.00	100.50	102.00	102.00
197.00	202.50	206.00	206.50	206.50
299.50	299.50	310.50	314.50	315.50
130.00	129.00	130.00	130.00	130.00
24.00	21.00	21.00	22.00	21.00
43.70	44.20	35.70	35.70	37.50
10.00	18.70	22.30	21.30	20.50
34.55	34.55	34.93	34.93	31.45
130.09	130.09	130.09	129.59	128.59
27.00	17.35	29.00	28.00	28.00
102.57	103.57	104.57	104.57	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>1,099.79</u>	<u>1,106.84</u>	<u>1,138.97</u>	<u>1,143.47</u>	<u>1,142.49</u>
10.00	11.00	12.00	14.00	14.00
3.00	3.00	3.00	3.00	3.00
6.00	6.00	7.00	7.00	7.00
14.00	14.00	15.00	15.00	15.00
2.00	2.00	2.00	2.00	2.00
68.50	68.50	55.00	54.50	55.00
-	-	19.00	19.00	19.00
197.00	202.50	206.00	206.50	206.50
299.50	299.50	310.50	314.50	315.50
247.07	248.07	250.07	251.07	252.07
37.00	36.05	51.30	49.30	48.50
43.70	44.20	35.70	35.70	37.50
130.09	130.09	130.09	129.59	128.59
34.55	34.55	34.93	34.93	31.45
<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>	<u>7.38</u>
<u>1,099.79</u>	<u>1,106.84</u>	<u>1,138.97</u>	<u>1,143.47</u>	<u>1,142.49</u>
963.19	970.19	997.72	1,002.72	1,000.04
19.65	18.70	22.30	21.80	21.00
102.57	103.57	104.57	104.57	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>1,099.79</u>	<u>1,106.84</u>	<u>1,138.97</u>	<u>1,143.47</u>	<u>1,142.49</u>

City of Mesquite, Texas

Operating Indicators by Function Last Ten Fiscal Years

(Unaudited)

	Fiscal Year			
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Functions				
Fire services				
Number of calls answered	13,647	14,390	14,063	10,661
Inspections	5,317	3,948	4,070	2,647
Police services				
Reported index crimes	6,059	6,542	6,480	6,652
Criminal arrests - index crimes	1,606	2,105	1,632	1,590
Criminal arrests - non-index crimes	4,922	4,821	3,106	3,555
Traffic citations	39,261	35,552	33,261	42,587
Field services				
Residential solid waste customers	34,100	34,491	34,077	34,477
Annual tons recycled	17,771	19,280	19,770	20,430
Work hours per mile of streets and alleys	83.07	82.25	84.24	84.24
Public works				
Traffic studies conducted	128	145	454	332
Engineering Information requests	1,450	949	1,010	1,245
Housing services				
Number of HUD allocated unit months	12,250	15,060	15,708	15,258
Community development				
Residential building permits	2,050	2,133	2,192	2,196
Commercial building permits	723	750	554	601
Environmental code violations	37,856	35,012	47,593	32,839
Food inspections conducted	1,352	1,239	1,033	1,374
Library services				
Library visits per capita	2.60	2.76	2.90	3.11
Registered borrowers per capita	0.29	0.31	0.27	0.28
Parks and recreation				
Work hours per acre of park land	32.34	36.48	37.01	46.12
Athletic program participants	20,730	19,731	21,535	18,325
Aquatic program participants	58,619	67,380	79,078	62,432
Tennis program participants	8,000	7,450	7,315	7,525
Recreation centers programs offered	567	678	764	800
Community services				
Number of health clinic clients	7,265	7,128	5,445	4,845
Number of transportation service trips	39,223	36,623	35,202	36,900
Number of volunteer hours	19,849	19,133	15,517	18,274
Arts center events	1,162	1,174	752	920
Arts center participants	92,300	93,997	61,732	70,267
Animals processed by animal shelter	10,714	10,489	10,491	10,164
Water and Sewer				
Number of gallons of water pumped (000s)	7,228,597	6,511,114	6,929,350	6,223,119
Water main breaks	340	325	300	177
Miles of sewer mains cleaned	151	170	150	115

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

Schedule 18

Fiscal Year					
<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
12,945	11,746	11,898	13,156	14,048	14,058
5,841	6,736	6,800	8,811	7,916	8,461
6,582	5,554	6,118	6,120	6,149	7,273
1,561	1,198	1,535	1,492	1,535	1,532
3,400	3,262	3,508	3,294	3,360	3,256
42,523	36,372	35,620	36,563	36,810	31,254
34,830	36,000	37,000	37,500	37,900	38,000
20,520	23,678	22,608	29,000	28,500	33,850
73.88	81.85	81.19	80.19	74.43	77.38
333	346	327	328	190	201
995	85,146	75,846	86,603	98,000	16,988
16,308	16,308	16,308	16,308	16,380	16,190
2,053	2,175	1,635	1,394	1,260	1,208
566	738	294	316	215	197
46,980	31,553	67,793	33,488	18,184	18,012
1,193	1,407	998	1,417	1,759	1,868
3.13	3.00	2.65	2.97	2.91	2.78
0.29	0.28	0.40	0.31	0.30	0.30
50.50	52.15	55.02	56.95	58.54	59.84
18,700	13,527	16,276	16,500	16,500	13,054
63,000	82,605	65,000	61,500	61,500	79,678
7,800	7,700	7,964	7,800	7,800	7,437
803	838	904	824	835	854
5,000	5,534	5,624	5,573	6,274	4,850
32,318	39,700	38,130	39,580	40,239	40,770
20,000	30,093	22,324	25,209	45,000	46,250
717	757	575	611	611	516
68,463	104,128	130,229	105,951	92,000	80,530
11,873	13,141	14,474	9,705	8,363	7,896
6,500,000	6,800,000	5,641,217	6,521,600	6,346,928	6,312,198
170	360	240	190	198	225
155	130	130	130	134	120

City of Mesquite, Texas

Capital Asset Statistics by Function Last Ten Fiscal Years

(Unaudited)

	Fiscal Year			
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Functions				
Police services				
Police vehicles (sedans)	163	164	168	166
Field services				
Miles of streets	428	428	432	432
Miles of alleys	212	212	213	213
Number of vehicles in City fleet	588	592	601	600
Parks and recreation				
Parks acreage	1,371	1,373	1,373	1,422
Number of parks	62	63	63	66
Water and Sewer				
Water system miles	437	440	445	448
Water system connections	47,822	48,747	48,885	49,136
Sewer system miles	480	484	488	491
Sewer system connections	36,022	36,077	36,311	36,564

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

Schedule 19

Fiscal Year					
<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
184	192	196	218	223	220
435	400	440	440	440	440
215	220	220	220	220	220
624	636	651	677	677	681
1,422	1,422	1,422	1,422	1,430	1,430
66	67	67	67	68	69
450	538	566	567	567	567
50,313	50,598	51,903	53,109	51,709	54,828
492	476	492	492	493	493
36,756	36,900	50,658	50,658	51,500	54,674

MESQUITE
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**Report of Independent Certified Public Accountants
on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based On An Audit Of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

Audit • Tax • Advisory

Grant Thornton LLP
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Dallas, TX 75201-4667

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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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 23, 2011. 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 City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GRANT THORNTON LLP

Dallas, Texas
March 23, 2011



**Report of Independent Certified Public Accountants on
Compliance with Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

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

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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* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 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 programs for the year ended September 30, 2010. However, the results of our audit procedures disclosed an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2 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 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 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 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 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.

Our audit was also not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1, that we consider to be a significant deficiency in the City's internal control over compliance.

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 City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GRANT THORNTON LLP

Dallas, Texas
March 23, 2011

City of Mesquite, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2010

<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		\$ 839,356
Neighborhood Stabilization Program (NSP 1)	14.218		<u>1,888,408</u>
			2,727,764
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)	14.253		<u>36,733</u>
Total CDBG - Entitlement Grants Cluster			2,764,497
Housing Choice Voucher Program (HCVP)			
Section 8 Housing Choice Vouchers	14.871		<u>12,160,136</u>
Total Department of Housing and Urban Development			<u>\$14,924,633</u>
Department of Homeland Security			
Direct Programs:			
Disaster Housing Assistance Grant	97.109		\$ 6,266
Staffing for Adequate Fire and Emergency Response	97.067		<u>57,960</u>
			64,226
Federal Emergency Management Agency			
Passed Through from:			
The North Central Texas Council of Governments			
Homeland Security Grant Program			
Urban Areas Security Initiative	97.008	2007GET70024	122,715
Urban Areas Security Initiative	97.008	2009SST90064	37,960
State Homeland Security Program (SHSP)	97.073	2007GET70024	419,955
State Homeland Security Program (SHSP)	97.073	2008GET80034	213,954
State Homeland Security Program (SHSP)	97.073	2009SST90064	38,100
State Homeland Security Program (SHSP)	97.073	2009SST90064	<u>991</u>
Total Homeland Security Grant Program			<u>833,675</u>
Total Department of Homeland Security			<u>\$ 897,901</u>
Department of Transportation			
Direct Programs:			
ARRA - Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		\$ 311,932
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		<u>292,615</u>
Total Department of Transportation			<u>\$ 604,547</u>

The accompanying notes are an integral part of this schedule.

City of Mesquite, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year ended September 30, 2010

<u>Grant Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grant Number</u>	<u>Expenditures</u>
Department Of Justice			
Passed through from:			
The City of Dallas			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1444	\$ 20,813
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	2009-SB-B9-0969	<u>241,680</u>
Total Department of Justice			\$ <u>262,493</u>
Department of Energy			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) Recovery	81.128		<u>\$ 248,077</u>
Total Department of Energy			\$ <u>248,077</u>
Total Federal Financial Assistance			\$ <u>16,937,652</u>

The accompanying notes are an integral part of this schedule.

City of Mesquite, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2010

NOTE A - GENERAL

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

NOTE B - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the 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 agency, or federal loans and/or loan guarantees.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended September 30, 2010

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? None reported

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? Yes

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

The accompanying notes are an integral part of this schedule.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218 and 14.253	CDBG - Entitlement Grants Cluster
14.871	Section 8 Housing Choice Vouchers
20.507	Federal Transit - Formula Grants (Urbanized Area Formula Program)/ARRA - Federal Transit - Formula Grants (Urbanized Area Formula Program)
97.008 and 97.073	Homeland Security Grant Program
Dollar threshold used to distinguish between type A and type B programs:	\$508,130
Auditee qualified as low-risk auditee?	No

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

The results of our procedures disclosed no findings to be reported for the year ended September 30, 2010.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #:	2010-1
CFDA Titles:	Homeland Security Grant Program Federal Transit - Formula Grants (Urbanized Area Formula Program) ARRA - Federal Transit - Formula Grants (Urbanized Area Formula Program) Community Development Block Grant ARRA Entitlement Grants (CDBG-R)
CFDA Numbers:	97.008/97.073 20.507 14.218/14.253
Federal Award Numbers:	2007GET70024/2009SST90064/2007GET70024/2007GET70024/ 2008GET80034/2009SST90064/2009SST90064 TX-96-X006-00/TX-90-X784-00/TX-90-X820-00/TX-90-X864-00/ TX-90-X910-00 B-08-MC-48-0014
Federal Award Years:	2007 - 2010
Federal Agencies:	Department of Homeland Security - Federal Emergency Management Agency Department of Transportation U.S. Department of Housing and Urban Development
Pass-through Entity:	North Central Texas Council of Governments (97.008 and 97.073)
Type of Finding:	Significant Deficiency
Compliance Requirement:	Procurement and Suspension and Debarment

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

Criteria or Specific Requirement:

Non-Federal entities are prohibited from contracting with or making sub awards 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:

Four of four vendor files selected for the Homeland Security Cluster; one of one vendor files selected for the Federal Transit — Formula Grants (Urbanized Area Formula Program); and six of the seven vendors files selected for CDBG did not contain either debarment certification from the vendor or evidence that the City performed a full search of the EPLS.

Questioned Costs:

None.

Context:

No documentation of search of EPLS or debarment certification on file at the time of award.

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 transaction with that entity. Per discussion with the City's purchasing department and grant officials, it was assumed by both departments that staff from the other department or a third party organization had performed the verification procedures; when in fact, no verification check was performed.

Effect:

The City did subsequently perform a proper EPLS search for all applicable transactions and found that none of the vendors were suspended or debarred. However, 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, 2010

Recommendation: We recommend that the City update its purchasing procedures that address controls related to suspension and debarment to include policies to verify vendors are not suspended or debarred prior to contracting with vendors. We also 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 individuals 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 will update its purchasing manual to clearly explain the requirements related to suspension and debarment. The purchasing manual will also identify that each department is responsible for performing EPLS verification and for including the documentation of the search results in the appropriate files related to the purchase. The City will also add a clause to its contracts, where appropriate, whereby a contractor will certify that they are not on the suspended or debarred list. The procedures related to procurement, suspension and debarment will also be reviewed each year at an annual grant accounting meeting and with any new employees responsible for grant accounting hired throughout the year.

Finding #: 2010-2

CFDA Titles: Federal Transit - Formula Grants (Urbanized Area Formula Program)

CFDA Numbers: 20.507

Federal Award Numbers: TX-96-X006-00/TX-90-X784-00/TX-90-X820-00/TX-90-X864-00/
TX-90-X910-00

Federal Award Years: 2008 - 2010

Federal Agency: Department of Transportation

Pass-through Entity: N/A

Type of Finding: Deficiency and Noncompliance

Compliance Requirement: Equipment and Real Property Management

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

Criteria or Specific Requirement:	For local governments receiving awards directly from a Federal agency, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.
Condition:	The City did not have documentation evidencing the performance and results of a physical inventory taken within the last two years.
Questioned Costs:	None
Context:	No documentation of physical inventory on file at the time of award.
Cause:	Grant officials were not aware of the requirement to maintain documentation of the physical inventory.
Effect:	The City does not have documentation evidencing a physical inventory of equipment was taken at least once within the last two years that is reconciled to the equipment records in compliance with program requirements.
Recommendation:	We recommend that the City revise its equipment and real property management policies and procedures to include the performance of a physical inventory or equipment at least once every two years, which includes adequate documentation of the results of the physical inventory. We also recommend that the City provide adequate training to all personnel responsible for equipment management in regard to this requirement to enforce procedures and ensure compliance with this requirement.
Views of Responsible Officials and Planned Corrective Action:	The City maintains detailed fixed asset records for all City departments and performs fixed asset inventories on a periodic basis. The City will update its fixed asset procedures to ensure that a physical inventory for each department is conducted at least once every two years. The City will also ensure that documentation of each physical inventory is kept on file in the department as well as with the Senior Financial Analyst in the Finance Department who is responsible for the fixed asset system. The procedures related to equipment and real property management will also be reviewed each year at an annual grant accounting meeting and with any new employees responsible for grant accounting hired throughout the year.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

SECTION IV - SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Finding #:	2009-01
Type:	Material weakness
Criteria:	The underlying support should be examined and reviewed by management to ensure proper accounting and reporting of all capital asset projects, including both City-funded projects, as well as contributed by developers.
Condition:	The City's system of internal controls over financial reporting and capital asset management did not identify errors in recording City-funded projects as developer contributions.
Context:	City management determined that current year developer contributions appeared to be higher than expectations. Upon further examination, the City determined that developer contributions and capital assets were overstated by \$25,788,964 (net of depreciation) cumulatively from 2005 through 2008.
Effect:	The City incorrectly double recorded certain City-funded construction projects between 2005-2009 as developer contributions, resulting in an adjustment to fiscal year 2009 financial statements and a restatement of previously issued financial statements.
Recommendation:	We recommend that the City create a new form for City projects that would easily distinguish them from those contributed by developers. In addition, we recommend that management review the listing of projects contributed by developers and compare the list to the underlying support to ensure that capital assets were properly recorded.
Management's Response:	The City will create a new form for City projects that are included in the developer's acceptance letters at year end in order to easily distinguish them from those truly contributed by developers. The City will incorporate a detailed management review of all fixed asset entries at year end in order to ensure that capital assets and developer's contributions were properly recorded.
Status of Corrective Actions:	The Accounting and Finance staff met with the Engineering staff that prepares the letters of acceptance to establish a way to clearly identify City projects verses developer projects. It was determined that City projects always have a City project number referenced at the top of the letter and do not include a detail section that is part of the regular letters of acceptance for developers. This difference will make it easier to identify the City projects. The Accounting Manager will also complete a detailed review of all fixed asset entries made by the Senior Financial Analyst including those for recording developer's contributions.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

Finding #: 2009-02

CFDA Title: Community Development Block Grants/ Entitlement Grants (CDBG)

CFDA Number: 14.218

Federal Award Number: B-08-MC-48-0014

Federal Award Year: 2009

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Control Deficiency and Noncompliance

Compliance Requirement: Suspension and Debarment Certification

Criteria or Specific Requirement: Non-Federal entities are prohibited from contracting with or making sub awards 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 and Context: For five out of the five contractors, the City did not have documented evidence as to whether they verified that the parties to which they had contracted with were not suspended or debarred by performing one of the three procedures noted above.

Questioned Costs: None

Cause: The City's policy for reviewing the eligibility of bidders is to review the EPLS at various times throughout the year. As the City only uses a very small number of contractors, who perform all of the projects, the City does not document review of the EPLS for each bid.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

Effect: There is risk that the City may be contracting with suspended or debarred individuals or contractors which could lead to loss or return of funding.

Recommendation: We recommend that the City create procedures to ensure that the City is not contracting with entities that are suspended or debarred and document the results.

Prior Year Views of Responsible Officials and Planned Corrective Action:

The City will add a checklist item to review the Excluded Parties List System to verify that a contractor is not suspended or debarred prior to a contractor being selected for a CDBG project. The checklist and result of the review of the list will be placed in the project file. The City will also add a clause to our contract whereby a contractor will certify that they are not on the suspended or debarred list.

Status of Corrective Actions:

The City has designed a form that is being included in the bid document for grant funded projects that require the contractor to certify that they are not on the debarred or suspended list. A copy of a print-out from the EPLS Web site showing that the contractor is not listed at the time of executing the contract has also been placed in each project file since this finding last year.

Finding #: 2009-03

CFDA Title: Community Development Block Grants/ Entitlement Grants (CDBG)

CFDA Number: 14.218

Federal Award Number: B-08-MC-48-0014

Federal Award Year: 2009

Federal Agency: U.S. Department of Housing and Urban Development

Pass-through Entity: N/A

Type of Finding: Control Deficiency and Noncompliance

Compliance Requirement: Subrecipient monitoring

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

Criteria or Specific Requirement:

As required by 31 USC 7502(f)(2), a pass-through entity is responsible for:
-Award Identification - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.

-During-the-Award Monitoring - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

-Subrecipient Audits - (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

-Pass-Through Entity Impact - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Condition:

This program involves funds passed through to subrecipients known as participating jurisdictions. The City monitors these subrecipients through desk reviews; however, these reviews are not documented.

Questioned Costs:

None

Context:

Management does conduct on a periodic basis, reviews on its subrecipients. However, there was no formal documentation of these reviews noted.

Cause:

The City does not properly document review of its subrecipients.

Effect:

The City's failure to adhere to program subrecipient monitoring requirements could potentially result in questioned costs and instances of noncompliance.

Recommendation:

We recommend that the City begin following the requirements regarding subrecipient monitoring and documenting the results of their subsequent monitoring activities.

City of Mesquite, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended September 30, 2010

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

The City will provide written documentation of the monitoring steps taken during the year for each subrecipient. The written documentation will be placed in the subrecipient file.

**Status of Corrective
Actions:**

The City now provides written documentation of the monitoring steps taken during the year for each subrecipient and places the documentation in the subrecipient's file since the finding last year.

MESQUITE

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