

CITY OF MINERAL WELLS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2013



CITY OF MINERAL WELLS, TEXAS

Annual Financial Report

For the Year Ended September 30, 2013

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FINANCIAL SECTION

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GEORGE | MORGAN | SNEED

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Mineral Wells, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9 and budgetary comparison schedule - general fund, Texas Municipal Retirement System Pension Schedule of Funding Progress, and Texas Emergency Services Retirement System Statewide Schedule of Funding Progress on pages 46-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

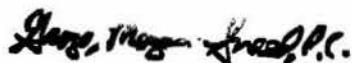
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Weatherford, Texas
February 27, 2014

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Management's Discussion and Analysis

As management of the City of Mineral Wells ("City"), we offer readers of the City's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2013.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the fiscal year by \$79,178,448 (net position). Of this amount, \$13,840,532 (unrestricted net position) may be used to meet the City's ongoing obligations.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$5,870,275. \$4,252,866 is available for spending at the City's discretion (unassigned fund balance).

At the end of the fiscal year, unassigned fund balance for the General Fund is \$4,252,866 or 43 percent of total General Fund expenditures.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Mineral Wells' basic financial statements. The City of Mineral Wells basic financial statements comprise 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 a broad overview of the City's finances, in a manner similar to private sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the City's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the year. All changes in net position are reported as soon as the event causing 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 result in cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statements consist of the City of Mineral Wells (known as the primary government) and the Palo Pinto County Municipal Water District No. 1 ("Water District") for which the City of Mineral Wells is accountable. The Water District, although legally separate, functions for all practical purposes as a department of the City of Mineral Wells, and therefore has been included as an integral part of the primary government. Additional information about the Water District is available in its audited financial statements.

The government-wide financial statements are presented on pages 10 – 12 of this report.

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 two categories: governmental funds and proprietary 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 focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources 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 the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for 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 City's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual 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 balance for the General Fund, the Debt Service Fund and Texas Capital Fund, which are considered to be major funds. Individual fund data for the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriations budget for its General Fund. A budgetary comparison statement has been provided for the General Fund.

The basic governmental financial statements can be found on pages 13 – 16 of this report.

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/Sewer Operations, for Airport Operations, and for the Water District. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for worker's compensation self-insurance and employee health, dental and life insurance. The City does not offer post-employment benefits other than pension benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net position, while the net revenue (expenses) of the internal service fund is reported with governmental activities in the funds.

The Proprietary Fund Financial Statements provide information for the Water/Sewer Enterprise Fund, the Airport Operations Enterprise Fund and the Water District as business-type activities. The information provided is the same type as the information in the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 17 – 20 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the audited financial statements.

The notes can be found on pages 21 – 45 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Mineral Wells, assets exceed liabilities by \$79,178,448 at September 30, 2013.

The largest portion of the City's net position (79 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future 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.

\$2,766,615 of the City's net position represents resources that are subject to external restrictions on how they may be used. The \$13,840,532 balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. The following is a summary of the City's Statement of Net Position.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<i>Current and Other Assets</i>	\$ 9,741,620	\$ 8,467,266	\$ 12,671,825	13,302,350	22,413,445	21,769,616
<i>Capital Assets</i>	30,690,349	32,001,484	43,108,665	43,431,458	73,799,014	75,432,942
Total Assets	\$ 40,431,969	\$ 40,468,750	\$ 55,780,490	\$ 56,733,808	\$ 96,212,459	\$ 97,202,558
<i>Long-Term Liabilities</i>	\$ 4,089,111	\$ 3,632,006	\$ 11,824,246	13,923,510	15,913,357	17,555,516
<i>Other Liabilities</i>	522,583	315,883	508,696	485,418	1,031,279	801,301
Total Liabilities	\$ 4,611,694	\$ 3,947,889	\$ 12,332,942	\$ 14,408,928	\$ 16,944,636	\$ 18,356,817
Deferred Inflows of Resources	\$ -	\$ -	\$ 89,375	\$ 89,375	\$ 89,375	\$ 89,375
Net Position						
<i>Capital Assets Net of Related Debt</i>	\$ 29,364,231	\$ 30,196,612	\$ 33,207,070	31,802,547	62,571,301	61,999,159
<i>Restricted</i>	1,080,248	847,381	1,686,367	1,679,385	2,766,615	2,526,766
<i>Unrestricted</i>	5,375,796	5,476,868	8,464,736	8,753,573	13,840,532	14,230,441
Total Net Position	\$ 35,820,275	\$ 36,520,861	\$ 43,358,173	\$ 42,235,505	\$ 79,178,448	\$ 78,756,366

At the end of the fiscal year, the City was able to report positive balances in net position, for the government as a whole, as well as for its separate governmental and business-type activities.

The following is a summary of the City's Statement of Activities.

Changes in Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
<i>Charges for services</i>	\$ 1,366,903	\$ 1,198,178	\$11,763,117	\$11,641,614	\$13,130,020	\$12,839,792
<i>Operating grants and contributions</i>	1,529,585	55,000	-	-	1,529,585	55,000
<i>Capital grants and contributions</i>	-	42,175	189,063	145,678	189,063	187,853
General revenues:						
<i>Property taxes</i>	3,086,479	3,107,083	-	-	3,086,479	3,107,083
<i>Other taxes</i>	5,071,040	5,213,164	-	-	5,071,040	5,213,164
<i>Other</i>	399,592	87,297	16,808	16,099	416,400	103,396
Total revenues	11,453,599	9,702,897	11,968,988	11,803,391	23,422,587	21,506,288
Expenses:						
<i>Administrative</i>	1,559,451	1,114,324	-	-	1,559,451	1,114,324
<i>Public safety</i>	4,481,399	4,380,831	-	-	4,481,399	4,380,831
<i>Highways/streets</i>	2,616,469	2,306,166	-	-	2,616,469	2,306,166
<i>Public works</i>	1,207,690	1,120,375	-	-	1,207,690	1,120,375
<i>Economic development</i>	1,277,500	211,044	-	-	1,277,500	211,044
<i>Culture and recreation</i>	1,491,950	1,437,611	-	-	1,491,950	1,437,611
<i>Interest on long-term debt</i>	25,278	65,111	-	-	25,278	65,111
<i>Water and sewer</i>	-	-	7,971,890	7,461,319	7,971,890	7,461,319
<i>Airport</i>	-	-	1,086,590	1,002,398	1,086,590	1,002,398
<i>PPCMWD No. 1</i>	-	-	813,520	1,029,274	813,520	1,029,274
Total expenses	12,659,737	10,635,462	9,872,000	9,492,991	22,531,737	20,128,453
<i>Change in net position before transfers</i>						
	(1,206,138)	(932,565)	2,096,988	2,310,400	890,850	1,377,835
<i>Transfers</i>	502,713	343,000	(502,713)	(343,000)	-	-
<i>Change in net position</i>						
	(703,425)	(589,565)	1,594,275	1,967,400	890,850	1,377,835
<i>Prior Period Adjustments</i>	2,839	-	(471,607)	-	(468,768)	-
<i>Net position - Beginning</i>	36,520,861	37,110,426	42,235,505	40,268,105	78,756,366	77,378,531
<i>Net position - 09/30/13</i>	\$35,820,275	\$36,520,861	\$43,358,173	\$42,235,505	\$79,178,448	\$78,756,366

Financial Analysis of the Government's Funds

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

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balances of the General Fund is \$4,252,866 while total fund balance reached \$4,852,166. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 43 percent of total general fund expenditures, while total fund balance represents 49 percent of that same amount.

Other Items

The Debt Service Fund has a total fund balance of \$210,443 all of which is restricted for the payment of debt service.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year for Water/Sewer Operations are \$4,900,354 and \$3,043,030 for the Water District. Unrestricted net position in Airport Operations is \$482,499.

General Fund Budgetary Highlights

It is the practice of the City to budget very conservatively. Revenues in 2012-13 were 2 percent higher than budgeted with actual operating expenses being 1 percent lower than budgeted. While the City budgeted \$688,716 of appropriated fund balance, only \$17,513 was spent.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013 amounts to \$73,799,014 (net of depreciation). This investment in capital assets includes land, buildings, equipment, streets and water/sewer systems, airport runways, and improvements other than buildings.

The General Fund acquired six new police vehicles with a capital lease, a police reporting system, an ambulance and made improvements to the City Park.

The Water/Sewer Fund acquired a dump truck, backhoe and skid loader. The Water/Sewer fund also acquired easements along Highway 180 West for the 16' water line project.

Additional information on the City's capital assets can be found in Note 5 of this report.

Long-Term Debt. At the end of the fiscal year, the City had total outstanding debt of \$15,830,720. Of this amount, \$2,260,000 is general obligation refunding bonds, split between governmental and business-type activities, \$882,037 and \$1,377,963 respectively. In addition, the City has \$230,000 Limited Tax Notes to purchase a pumper truck for the fire department. Also included in the City's long-term debt are capital leases in the amount of \$567,164. \$179,163 of the capital leases are in the governmental activities for police vehicles and \$388,001 are in the business-type activities for T-hangars and a refueling truck. \$2,709,202 of the long-term debt is in the form of loans from the Texas Capital Fund that were used to acquire and/or rehabilitate facilities

to attract and/or retain businesses. The remainder of the debt, \$9,960,000, represents Palo Pinto County Municipal Water District No. 1 revenue bonds.

The City maintains an "A+" rating from Standard & Poor's and "AA-" from Fitch Ratings for its general obligation refunding bonds. The Water District has an "A" rating from Standard and Poor's and "AA-" from Fitch Ratings for its revenue bonds.

Additional information on the City's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Mineral Wells has demonstrated initial signs of recovery from the recent economic recession. As a result, the City has experienced some development and business/industry expansions. Local sales tax receipts have also started to gradually trend upward. Moreover, the City has been able to accumulate and retain General Fund balances of more than \$4 million, providing financial reserves far in excess of the reserve funds recommended by accepted governmental accounting standards. Ad valorem tax rates and collections have remained steady over the past few years.

In response to the recent increases in the General Fund revenues, the City has undertaken some additional activities that were deferred in previous years. Several personnel-related initiatives were funded, as well as the acquisition of capital equipment, several facility improvements and the resumption of several street reconstruction projects.

Relative to the Water/Sewer Utility Fund, the City has continued funding the Turkey Peak Reservoir Project by implementing a series of water rate increases. Additionally, largely due to the closure of the CCA prison facility, a modest water and sewer rate increase was implemented for the 2013-2014 budget year. A comprehensive water/sewer rate study is being considered to ensure proper future funding for the Turkey Peak Reservoir Project, as well as adequately supporting the associated water/sewer utility departments.

In regards to the Airport Fund, fuel sales will remain below historical averages but sales will be sufficient to support Airport operations. Specific improvements to the Airport have largely been funded by grant funds, and these improvements are intended to increase usage of the Airport which will in turn lead to increased revenues generated by the Airport.

The City has maintained basic service levels during the past period of uncertainty and diminished resources. Going forward, as the economy continues to improve and revenues return to their pre-recession levels, the City is poised to grow and expand in a conservatively managed and fiscally-responsible manner.

Requests for Information

This financial report is designed to provide a general overview of the City of Mineral Wells' finances. Questions concerning information in this report should be addressed to the Finance Director, City of Mineral Wells, P.O. Box 459, Mineral Wells, Texas 76068.

BASIC FINANCIAL STATEMENTS

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EXHIBIT A-1

CITY OF MINERAL WELLS, TEXAS
Statement of Net Position
September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 1,186,005	\$ 581,816	\$ 1,767,821
Investments	4,826,920	8,599,720	13,426,640
Receivables (Net of allowances for uncollectibles)			
Property taxes	78,286	-	78,286
Sales taxes	638,575	-	638,575
Franchise taxes	167,363	-	167,363
Accounts	217,369	973,583	1,190,952
Leases	2,709,202	-	2,709,202
Miscellaneous	44,296	2,863	47,159
Due from Texas Water Development Board	-	70,331	70,331
Inventory	26,531	296,248	322,779
Internal Balances	(152,927)	152,927	-
Restricted Assets, Cash and Investments:			
Investments	-	1,994,337	1,994,337
Capital assets (net of accumulated depreciation):			
Land	1,845,102	2,740,872	4,585,974
Construction in progress	137,673	5,244,410	5,382,083
Buildings and improvements	2,794,755	1,550,091	4,344,846
Improvements other than buildings	546,277	9,019,421	9,565,698
Infrastructure	24,154,257	3,054,717	27,208,974
Distribution System	-	17,881,744	17,881,744
Collection System	-	2,969,560	2,969,560
Equipment and Vehicles	984,733	631,511	1,616,244
Furniture and Fixtures	227,552	16,339	243,891
Total Assets	40,431,969	55,780,490	96,212,459
LIABILITIES:			
Accounts Payable	287,378	103,439	390,817
Wages and fringe benefits payable	192,581	91,101	283,682
Due to other governments	37,576	-	37,576
Current Liabilities Payable from Restricted Assets:			
Interest payable	5,048	83,992	89,040
Customer deposits	-	230,164	230,164
Noncurrent liabilities:			
Due within one year	957,251	2,084,022	3,041,273
Due in more than one year	3,131,860	9,740,224	12,872,084
Total Liabilities	4,611,694	12,332,942	16,944,636
DEFERRED INFLOWS OF RESOURCES:			
Deferred revenue	-	89,375	89,375
Total Deferred Inflows	-	89,375	89,375
NET POSITION:			
Investments in Capital Assets, Net of Debt	29,364,231	33,207,070	62,571,301
Restricted Net Position (Expendable)	585,175	1,686,367	2,271,542
Restricted Net Position (Nonexpendable)	495,073	-	495,073
Unrestricted Net Position	5,375,796	8,464,736	13,840,532
Total Net Position	\$ 35,820,275	\$ 43,358,173	\$ 79,178,448

The notes to the financial statements are an integral part of this statement.

CITY OF MINERAL WELLS, TEXAS
 Statement of Activities
 For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Administrative	\$ 810,880	\$ 63,917	\$ -	\$ -
Finance	453,517	-	-	-
Fleet Maintenance	757,267	-	-	-
Police	2,603,075	256,013	69,446	-
Fire & Emergency Medical Services	1,552,895	564,028	57,639	-
Inspections	325,429	240,747	-	-
Information technology	295,054	-	-	-
Streets	2,616,469	-	-	-
Sanitation	159,965	55,643	-	-
Parks & Recreation	928,651	89,451	-	-
Cemetery	290,458	89,447	-	-
Library	361,405	7,657	30,000	-
Economic Development	1,277,500	-	1,372,500	-
Hotel/Motel Occupancy	201,894	-	-	-
Interest and fiscal charges	25,278	-	-	-
Total governmental activities	<u>12,659,737</u>	<u>1,366,903</u>	<u>1,529,585</u>	<u>-</u>
Business-type activities:				
Water and Sewer	7,971,890	8,258,178	-	-
Airport	1,086,590	972,126	-	-
PPCMWD No. 1	813,520	2,532,813	-	189,063
Total business-type activities	<u>9,872,000</u>	<u>11,763,117</u>	<u>-</u>	<u>189,063</u>
Total primary government	<u>\$ 22,531,737</u>	<u>\$ 13,130,020</u>	<u>\$ 1,529,585</u>	<u>\$ 189,063</u>

General Revenues:

Taxes:

- Property Taxes, levied for general purposes
- Property Taxes, levied for debt service
- Property Taxes, levied for TIF Zone #2
- Sales and Use Taxes
- Franchise Taxes
- Hotel Motel Taxes
- Investment Earnings
- Gain of Sale of Capital Assets
- Insurance recoveries
- Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Prior period adjustment

Net Position October 1, 2012

Net Position September 30, 2013

The notes to the financial statements are an integral part of this statement.

EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Position

Primary Government				
Governmental Activities		Business-type Activities		Total
\$	(746,963)	\$	(746,963)	
	(453,517)		(453,517)	
	(757,267)		(757,267)	
	(2,277,616)		(2,277,616)	
	(931,228)		(931,228)	
	(84,682)		(84,682)	
	(295,054)		(295,054)	
	(2,616,469)		(2,616,469)	
	(104,322)		(104,322)	
	(839,200)		(839,200)	
	(201,011)		(201,011)	
	(323,748)		(323,748)	
	95,000		95,000	
	(201,894)		(201,894)	
	(25,278)		(25,278)	
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	
	(9,763,249)		-	(9,763,249)
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	
	286,288		286,288	
	(114,464)		(114,464)	
	1,908,356		1,908,356	
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	
	-		2,080,180	2,080,180
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	
\$	(9,763,249)	\$	2,080,180	\$
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
\$	2,334,093	\$	-	\$
	719,441		-	719,441
	32,945		-	32,945
	3,628,132		-	3,628,132
	1,240,000		-	1,240,000
	202,908		-	202,908
	5,485	10,015		15,500
	102,349		-	102,349
	202,581			202,581
	89,177	6,793		95,970
	502,713	(502,713)		-
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	9,059,824	(485,905)		8,573,919
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	(703,425)	1,594,275		890,850
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	2,839	(471,607)		(468,768)
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	36,520,861	42,235,505		78,756,366
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
\$	35,820,275	\$	43,358,173	\$
	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>		<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	79,178,448			

EXHIBIT C-1

CITY OF MINERAL WELLS, TEXAS
Balance Sheet
Governmental Funds
September 30, 2013

	General	Debt Service	Texas Capital Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Assets:					
Cash and cash equivalents	\$ 92,140	\$ 722,248	\$ -	\$ 273,637	\$ 1,088,025
Investments	3,687,876	162,265	-	497,601	4,347,742
Receivables (Net of allowances)					
Property Taxes	40,071	12,072	-	26,143	78,286
Sales Taxes	638,575	-	-	-	638,575
Franchise Taxes	167,363	-	-	-	167,363
Accounts	217,369	-	-	-	217,369
Lease	-	2,709,202	-	-	2,709,202
Miscellaneous	44,296	-	-	-	44,296
Inventory Supplies, at Cost	26,531	-	-	-	26,531
Due from other funds	670,341	-	-	10,285	680,626
Total assets	<u>\$ 5,584,562</u>	<u>\$ 3,605,787</u>	<u>\$ -</u>	<u>\$ 807,666</u>	<u>\$ 9,998,015</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 151,123	\$ -	\$ -	\$ -	\$ 151,123
Wages and Fringe Benefits Payable	192,581	-	-	-	192,581
Due to other funds	124,359	662,133	-	-	786,492
Due to State	24,427	13,149	-	-	37,576
Total liabilities	<u>492,490</u>	<u>675,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,167,772</u>
Deferred inflows of resources:					
Deferred revenue	239,906	2,720,062	-	-	2,959,968
Fund Balances:					
Nonspendable	26,531	-	-	495,073	521,604
Restricted	56,327	210,443	-	312,593	579,363
Assigned	516,442	-	-	-	516,442
Unassigned	4,252,866	-	-	-	4,252,866
Total fund balances	<u>4,852,166</u>	<u>210,443</u>	<u>\$ -</u>	<u>\$ 807,666</u>	<u>5,870,275</u>
Total liabilities, deferred inflows and fund balance:	<u>\$ 5,584,562</u>	<u>\$ 3,605,787</u>	<u>\$ -</u>	<u>\$ 807,666</u>	<u>\$ 9,998,015</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MINERAL WELLS, TEXAS
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2013

Total Fund Balances - Governmental Funds	\$ 5,870,275
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$66,168,801 and the accumulated depreciation was \$35,478,452.	30,690,349
Long-term liabilities, including \$882,037 bonds payable, \$230,000 tax notes, \$34,918 bond premiums, \$179,163 capital leases payable and \$53,791 compensated absenses payable are not due and payable in the current period and, therefore are not reported as liabilities in the fund financial statements.	(1,379,909)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(5,048)
Property taxes, franchise taxes, emergency medical services and cemetery receivables are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.	250,766
The City uses an internal service fund to charge the costs of insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	393,842
Net Position of Governmental Activities	<u>\$ 35,820,275</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-3

CITY OF MINERAL WELLS, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2013

	General	Debt Service	Texas Capital Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Property taxes	\$ 2,348,992	\$ 724,115	\$ -	\$ 32,945	\$ 3,106,052
Sales and use tax	3,628,132	-	-	-	3,628,132
Franchise	1,244,716	-	-	-	1,244,716
Hotel motel taxes	-	-	-	202,908	202,908
Licenses and Permits	240,747	-	-	-	240,747
Intergovernmental Revenue	189,447	-	1,272,500	-	1,461,947
Charges for service	829,821	-	-	-	829,821
Fines	194,971	-	-	-	194,971
Interest income	4,642	365	-	478	5,485
Special Assessments	-	284,530	-	-	284,530
Cemetery	93,382	-	-	10,285	103,667
Miscellaneous revenues	59,226	-	-	126,843	186,069
Total revenues	8,834,076	1,009,010	1,272,500	373,459	11,489,045
Expenditures:					
Current					
Administrative	809,245	-	-	-	809,245
Finance	456,533	-	-	-	456,533
Fleet Maintenance	760,258	-	-	-	760,258
Police	2,715,851	-	-	5,865	2,721,716
Fire & Emergency Medical Services	1,552,436	-	-	-	1,552,436
Inspections	327,474	-	-	-	327,474
Information technology	335,762	-	-	-	335,762
Streets	1,205,917	-	-	-	1,205,917
Sanitation	159,965	-	-	-	159,965
Parks & Recreation	852,195	-	-	-	852,195
Cemetery	289,774	-	-	-	289,774
Library	373,241	-	-	-	373,241
Economic Development	-	-	1,272,500	5,000	1,277,500
Hotel/Motel Occupancy	-	-	-	201,894	201,894
Debt service:					
Principal	35,837	926,245	-	-	962,082
Interest and fiscal charges	759	40,707	-	-	41,466
Total expenditures	9,875,247	966,952	1,272,500	212,759	12,327,458
Excess (deficiency) of revenue over (under) expenditures	\$ (1,041,171)	\$ 42,058	\$ -	\$ 160,700	\$ (838,413)
Other financing sources (uses):					
Proceeds from sale of general capital assets	102,349	-	-	-	102,349
Insurance recoveries	202,581	-	-	-	202,581
Issuance of capital lease	215,000	-	-	-	215,000
Transfers in	503,728	-	-	-	503,728
Transfers out	-	-	-	(1,015)	(1,015)
Total other financing sources (uses)	1,023,658	-	-	(1,015)	1,022,643
Net change in fund balances	(17,513)	42,058	\$ -	159,685	184,230
Fund balance, October 1, 2012	4,869,679	168,385	\$ -	647,981	5,686,045
Fund balance, September 30, 2013	\$ 4,852,166	\$ 210,443	\$ -	\$ 807,666	\$ 5,870,275

The notes to the financial statements are an integral part of this statement.

CITY OF MINERAL WELLS, TEXAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of
The Governmental Funds to the Statement of Activities
For the year ended September 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ 184,230
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$471,777 of capital outlays and \$680,660 of debt principal payments is to increase net position.	1,152,437
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,848,341)
Current year capital leases are other financing sources in the fund financial statements. The increase in long-term debt is a decrease in net position.	(215,000)
Current year interest payable, bond premiums and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The \$3,094 decrease in interest payable, \$13,094 decrease in bond premiums, and \$7,279 increase in compensated absences increase net position.	8,909
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(58,954)
The City uses an internal service fund to charge the costs of insurance to individual funds. The adjustment to reflect the consolidation of the internal service fund activities related to governmental activities increases net position.	73,294
Change in Net Position of Governmental Activities	<u>\$ (703,425)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MINERAL WELLS, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2013

	Business-Type Activities				Governmental Activities	
	Enterprise Funds					
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds	
ASSETS:						
Current Assets:						
Cash and cash equivalents	\$ 142,689	\$ 55,704	\$ 383,423	\$ 581,816	\$ 97,980	
Investments	3,709,830	346,695	4,543,195	8,599,720	479,178	
Receivables (Net of allowances):						
Accounts	956,958	14,005	2,620	973,583	-	
Miscellaneous	2,863	-	-	2,863	-	
Due from Texas Water Development Board	-	-	70,331	70,331	-	
Inventory	190,926	58,681	46,641	296,248	-	
Due from other funds	96,186	17,888	-	114,074	-	
Restricted Assets, Cash and Investments:						
Investments	230,164	-	1,764,173	1,994,337	-	
Total current assets	<u>5,329,616</u>	<u>492,973</u>	<u>6,810,383</u>	<u>12,632,972</u>	<u>577,158</u>	
Noncurrent Assets:						
Capital assets, at cost:						
Land	1,353,114	194,863	1,192,895	2,740,872	-	
Buildings and improvements	1,685,934	1,814,164	98,455	3,598,553	-	
Improvements other than Buildings	14,974,365	55,070	-	15,029,435	-	
Infrastructure	-	5,087,401	-	5,087,401	-	
Distribution System	13,334,803	-	22,019,830	35,354,633	-	
Collection System	6,303,437	-	-	6,303,437	-	
Equipment & Vehicles	949,295	352,405	542,175	1,843,875	-	
Furniture & Fixtures	58,897	-	-	58,897	-	
Construction-in-Progress	-	10,170	5,234,240	5,244,410	-	
Less: accumulated depreciation	<u>(15,998,809)</u>	<u>(2,916,238)</u>	<u>(13,237,801)</u>	<u>(32,152,848)</u>	-	
Capital assets, net	<u>22,661,036</u>	<u>4,597,835</u>	<u>15,849,794</u>	<u>43,108,665</u>	-	
Total noncurrent assets	<u>22,661,036</u>	<u>4,597,835</u>	<u>15,849,794</u>	<u>43,108,665</u>	-	
Total assets	<u>27,990,652</u>	<u>5,090,808</u>	<u>22,660,177</u>	<u>55,741,637</u>	<u>577,158</u>	

CITY OF MINERAL WELLS, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2013

	Business-Type Activities			Governmental Activities	
	Enterprise Funds				
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
LIABILITIES:					
Current Liabilities:					
Accounts payable	81,456	1,983	20,000	103,439	136,255
Wages and Fringe Benefits Payable	84,832	6,269	-	91,101	-
Compensated absences payable	26,624	2,222	-	28,846	-
Due to other funds	-	-	-	-	8,208
Customer Deposits	230,164	-	-	230,164	-
Current Liabilities Payable from Restricted Assets:					
Current portion of Bonds	844,449	-	1,155,000	1,999,449	-
Current portion of Capital Lease Payable	-	55,727	-	55,727	-
Interest payable	6,186	-	77,806	83,992	-
Total current liabilities	<u>1,273,711</u>	<u>66,201</u>	<u>1,252,806</u>	<u>2,592,718</u>	<u>144,463</u>
Noncurrent Liabilities:					
Long-term Liabilities (Net of Current Portion)					
Bonds (Net of Current portion)	533,514	-	8,805,000	9,338,514	-
Capital Lease Payable (Net of current portion)	-	332,274	-	332,274	-
Bond Premium	46,426	-	23,010	69,436	-
Total noncurrent liabilities	<u>579,940</u>	<u>332,274</u>	<u>8,828,010</u>	<u>9,740,224</u>	<u>-</u>
Total liabilities	<u>1,853,651</u>	<u>398,475</u>	<u>10,080,816</u>	<u>12,332,942</u>	<u>144,463</u>
DEFERRED INFLOWS OF RESOURCES:					
Deferred revenue	-	-	89,375	89,375	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>89,375</u>	<u>89,375</u>	<u>-</u>
NET POSITION:					
Investment in capital assets, net of debt	21,236,647	4,209,834	7,760,589	33,207,070	-
Restricted for debt service (Expendable)	-	-	1,686,367	1,686,367	-
Unrestricted	4,900,354	482,499	3,043,030	8,425,883	432,695
Total net position	<u>\$ 26,137,001</u>	<u>\$ 4,692,333</u>	<u>\$ 12,489,986</u>	<u>\$ 43,319,320</u>	<u>\$ 432,695</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				38,853	
Net position of business-type activities				<u>\$ 43,358,173</u>	

Exhibit D-2

CITY OF MINERAL WELLS, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the year ended September 30, 2013

	Business-Type Activities				Governmental Activities	
	Enterprise Funds					
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals		
Operating revenues:						
Charges for sales and services:						
Water Sales	\$ 5,087,145	\$ -	\$ 2,531,313	\$ 7,618,458	\$ -	
Connections	33,583	-	-	33,583	-	
Sewer Revenues	2,825,963	-	-	2,825,963	-	
Gasoline and Oil	-	741,363	-	741,363	-	
Rentals	-	224,725	-	224,725	-	
Miscellaneous Revenues	311,487	6,038	1,500	319,025		
Other Services	-	-	-	-	1,829,747	
Total operating revenue	<u>8,258,178</u>	<u>972,126</u>	<u>2,532,813</u>	<u>11,763,117</u>	<u>1,829,747</u>	
Operating expenses:						
Public Works Administration	2,611,634	-	143,281	2,754,915	-	
Water Distribution	1,246,228	-	-	1,246,228	-	
Hilltop Water Treatment	1,283,663	-	-	1,283,663	-	
Wastewater Treatment	1,162,218	-	-	1,162,218	-	
Facility Maintenance	404,901	-	-	404,901	-	
City Utility Service	432,493	-	-	432,493	-	
Airport Operations	-	784,906	-	784,906	-	
Self-Insurance	-	-	-	-	1,718,016	
Depreciation	840,739	283,529	425,081	1,549,349	-	
Total operating expenses	<u>7,981,876</u>	<u>1,068,435</u>	<u>568,362</u>	<u>9,618,673</u>	<u>1,718,016</u>	
Operating income	<u>276,302</u>	<u>(96,309)</u>	<u>1,964,451</u>	<u>2,144,444</u>	<u>111,731</u>	
Nonoperating revenues (expenses):						
Interest Earned	3,569	142	6,304	10,015	416	
Oil & Gas Leases	-	6,793	-	6,793	-	
Interest on Capital Leases	-	(20,906)	-	(20,906)	-	
Interest on Bonds	(26,116)	-	(245,158)	(271,274)	-	
Total nonoperating revenues (expenses)	<u>(22,547)</u>	<u>(13,971)</u>	<u>(238,854)</u>	<u>(275,372)</u>	<u>416</u>	
Income before contributions and transfers	<u>253,755</u>	<u>(110,280)</u>	<u>1,725,597</u>	<u>1,869,072</u>	<u>112,147</u>	
Contributions and transfers (to) from other funds:						
Capital Grants & Contributions	-	-	189,063	189,063	-	
Transfers Out	(475,842)	(26,871)	-	(502,713)	-	
Change in Net Position	(222,087)	(137,151)	1,914,660	1,555,422	112,147	
Prior period adjustment	(219,001)	-	(252,606)	(471,607)		
Net Position, October 1, 2012	<u>26,578,089</u>	<u>4,829,484</u>	<u>10,827,932</u>	<u>42,235,505</u>	<u>320,548</u>	
Net Position, September 30, 2013	<u>\$ 26,137,001</u>	<u>\$ 4,692,333</u>	<u>\$ 12,489,986</u>	<u>\$ 43,319,320</u>	<u>\$ 432,695</u>	
Reconciliation to government-wide statement of activities:						
Change in Net Position				\$ 1,555,422		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				38,853		
				<u>\$ 1,594,275</u>		

CITY OF MINERAL WELLS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the year ended September 30, 2013

	Business-Type Activities				Governmental Activities	
	Enterprise Funds					
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals		
Cash flows from operating activities:						
Cash received from customers	\$ 8,439,772	\$ 972,538	\$ 2,531,844	\$ 11,944,154	\$ -	
Cash received for interfund services provided	-	-	-	-	1,829,747	
Cash paid to suppliers	(5,215,876)	(652,129)	(123,281)	(5,991,286)	(1,582,446)	
Cash paid to employees	(1,866,783)	(145,004)	-	(2,011,787)	-	
Net cash provided by operating activities	<u>1,357,113</u>	<u>175,405</u>	<u>2,408,563</u>	<u>3,941,081</u>	<u>247,301</u>	
Cash flow from noncapital financing activities:						
Transfers out	(475,842)	(26,871)	-	(502,713)	-	
Net cash provided (used) by noncapital financing activities	<u>(475,842)</u>	<u>(26,871)</u>	<u>-</u>	<u>(502,713)</u>	<u>-</u>	
Cash flow from capital and related financing activities:						
Capital expenditures	(405,538)	(10,170)	(810,849)	(1,226,557)	-	
Capital grants received	-	31,796	156,337	188,133	-	
Principal payments on long-term debt	(890,177)	(61,810)	(1,125,000)	(2,076,987)	-	
Interest paid on long-term debt	(50,468)	(20,905)	(254,598)	(325,971)	-	
Net cash (used) by capital and related financing activities	<u>(1,346,183)</u>	<u>(61,089)</u>	<u>(2,034,110)</u>	<u>(3,441,382)</u>	<u>-</u>	
Cash flow from investing activities:						
Interest received	3,569	142	6,304	10,015	416	
Income from oil and gas leases	-	6,793	-	6,793	-	
Net cash provided by investing activities	<u>3,569</u>	<u>6,935</u>	<u>6,304</u>	<u>16,808</u>	<u>416</u>	
Net increase (decrease) in cash and cash equivalents	(461,343)	94,380	380,757	13,794	247,717	
Cash and cash equivalents, September 30, 2012	<u>4,544,026</u>	<u>308,019</u>	<u>6,310,034</u>	<u>11,162,079</u>	<u>329,441</u>	
Cash and cash equivalents, September 30, 2013	<u>\$ 4,082,683</u>	<u>\$ 402,399</u>	<u>\$ 6,690,791</u>	<u>\$ 11,175,873</u>	<u>\$ 577,158</u>	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities						
Operating income (loss)	<u>\$ 276,302</u>	<u>\$ (96,309)</u>	<u>\$ 1,964,451</u>	<u>\$ 2,144,444</u>	<u>\$ 111,731</u>	
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	840,739	283,529	425,081	1,549,349	-	
(Increase) decrease in accounts receivable	171,567	412	(969)	171,010	-	
(Increase) decrease in miscellaneous receivables	180	-	-	180	-	
(Increase) decrease in supplies inventory	27,765	(14,671)	-	13,094	-	
(Increase) decrease in due from other funds	27,131	1,657	-	28,788	-	
Increase (decrease) in accounts payable	(923)	188	20,000	19,265	136,255	
Increase (decrease) in wages and fringe benefits payable	4,505	1,177	-	5,682	-	
Increase (decrease) in due to other funds	-	(578)	-	(578)	(685)	
Increase (decrease) in customer meter deposits	9,847	-	-	9,847	-	
Total adjustments	<u>1,080,811</u>	<u>271,714</u>	<u>444,112</u>	<u>1,796,637</u>	<u>135,570</u>	
Net cash provided by operating activities	<u>\$ 1,357,113</u>	<u>\$ 175,405</u>	<u>\$ 2,408,563</u>	<u>\$ 3,941,081</u>	<u>\$ 247,301</u>	

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Mineral Wells, Texas (the "City") was first incorporated in 1884 and adopted the Home Rule Charter (Vernon's Ann. Civ. St. art. et. seq.) on July 25, 1966. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety – police, fire, animal control and emergency medical services; street and drainage, water and sewer, sanitation, public health, parks and recreation, library, planning and zoning and general administrative services.

The City of Mineral Wells is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the City and its blended component unit, an entity 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.

Blended Component Unit.

The Palo Pinto County Municipal Water District No. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" due to the financial accountability of the City of Mineral Wells for the District, and because the District provides services almost entirely for the benefit of the City of Mineral Wells. Approximately 85% of the District's water sales were to the City of Mineral Wells. The City has reported in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2013, in a blended format.

Complete financial statements for the District may be obtained at the District's administrative offices:

Palo Pinto County Municipal Water District No. 1
P.O. Box 387
Mineral Wells, TX 76068

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are 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 activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Property taxes, sales and use taxes, hotel/motel occupancy taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives payment.

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

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

The *Debt Service Fund* is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Texas Capital Fund* is used to account for the revenues and expenditures of the Texas Capital Fund projects.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the operation of the water and sewer systems of the City.

The *Airport Operations Fund* accounts for the operations of the municipal airport.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Palo Pinto County Municipal Water District No. 1* fund accounts for the water supply operations of the blended component unit.

Additionally, the government reports the following fund and fund types:

The *special revenue funds* are governmental funds that account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specific purposes.

The *permanent fund* is used to account for 25% of the proceeds from the sale of cemetery lots for Woodland Park Cemetery. Once a lot is sold, 75% of the proceeds are deposited in the City of Mineral Wells' general fund; the remaining 25% are recorded in the permanent fund. The proceeds are invested and any earnings on invested resources are transferred to the City's general fund to be used for perpetual care and maintenance of the cemetery. Principal amounts are permanently restricted.

The *internal service fund* accounts for workers' compensation premiums and health insurance premiums paid on behalf and reimbursed by other departments or agencies of the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 enterprise funds are charges to customers for sales and services. The principal operating revenues of the internal service fund are reimbursements from other departments for allocated workers' compensation and health insurance premiums. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use unrestricted resources first, and then restricted resources as they are needed.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, including restricted assets. Amounts invested in Tex-Pool and TexStar public investment pools are considered cash and cash equivalents. The following is a reconciliation of cash and cash equivalents reported in the statement of net assets to the cash and cash equivalents reported in the statement of cash flows.

	Water and Sewer	Airport Operations	Municipal Water District No. 1	Palo Pinto County	Total
Cash and cash equivalents	\$ 142,689	\$ 55,704	\$ 383,423	\$ 581,816	
Investments	3,709,830	346,695	4,543,195	8,599,720	
Restricted Investments	230,164		1,764,173	1,994,337	
Total cash and cash equivalents	<u>\$ 4,082,683</u>	<u>\$ 402,399</u>	<u>\$ 6,690,791</u>	<u>\$ 11,175,873</u>	

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in the enterprise fund that are delinquent for more than two months at year-end comprise the trade accounts receivable allowance for uncollectible accounts of \$146,769. The property tax receivable allowance is based upon historical experience and is equal to approximately 70% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$102,599 in the general fund and \$30,702 in the debt service fund.

3. Property Tax

Ad valorem property taxes are levied each October 1, in conformity with Subtitle E, Texas Property Tax Code. The taxes are levied from valuations assessed as of the prior January 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1. Tax liens are automatic on January 1 each year.

4. Inventory

All inventories are valued at the lower of cost or market on the first-in, first-out method. The City's inventory is recorded under the purchase method. Under the purchase method the inventory is first recorded as an expense when purchased. A physical inventory is taken at the end of the fiscal year and the inventory is adjusted to reflect the value of inventory at that date. The inventories are recorded in the governmental fund statements do not reflect current appropriate resources therefore an equivalent portion of fund balance is nonspendable.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary funds financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two years or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the enterprise funds during the current fiscal year was \$292,180. Of this amount, \$0 was included as part of the cost of capital assets under construction.

The City has reported infrastructure capital assets acquired prior to the implementation of GASB Statement No. 34 at estimated historical cost.

Property, plant and equipment of the governmental activities, business-type activities and enterprise funds are depreciated using the straight-line method over the following estimated useful lives.

Building and improvements	10 - 50 years
Improvements other than buildings	20 - 50 years
Infrastructure	10 - 50 years
Distribution system	25 - 100 years
Collection system	50 years
Equipment and vehicles	5 -10 years
Furniture and fixtures	5 -10 years
Other improvements	10 - 20 years

6. Restricted Assets

Certain resources set aside for the repayment of the City's and District's debt are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

7. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. 5 days of vacation and 120 days of sick leave may be accumulated and carried forward. Accumulated vacation is paid upon separation from service; however sick leave is not paid upon separation from service. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Balance – Governmental Fund

The City implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted – includes amounts constrained for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of another government.

Committed – includes amounts constrained to specific purposes by the City's highest decision-making authority. The City Council is the City's highest decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City's Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.

Assigned – includes amounts for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance.

Unassigned – All amounts not included in other spendable classifications.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The details of the fund balances of the governmental funds are as follows:

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 26,531	\$ -	\$ -	\$ 26,531
Woodland Park Permanent Fund			495,073	495,073
Restricted:				
Debt Service		210,443		210,443
Police			27,606	27,606
TIF Zone #2			113,144	113,144
Economic Development			171,108	171,108
Community Services	56,327		1	56,328
Woodland Park Cemetery			734	734
Assigned				
Subsequent year budget deficit	516,442			516,442
Unassigned	4,252,866			4,252,866
	<hr/> <u>\$ 4,852,166</u>	<hr/> <u>\$ 210,443</u>	<hr/> <u>\$ 807,666</u>	<hr/> <u>\$ 5,870,275</u>

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

The City Council adopted a minimum fund balance policy for the General Fund. The policy requires the City strive to maintain an unassigned fund balance equal to 25% of the General Fund annual operating expenditures. The City considers a balance of less than 16.67% as cause for concern, barring unusual or deliberate circumstances. The unassigned fund balance of the general fund at year end was 43% of expenditures.

10. Net Position

Net position represent the difference between assets and liabilities. Net position 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 improvements of those assets, and adding back unspent proceeds. Net position 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 Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following is a reconciliation of restricted fund balance reported in the governmental fund financial statements to restricted net position of the governmental activities reported in the government-wide financial statements.

Restricted Fund Balance (Exhibit C-1)	\$ 579,363
Adjustments	
Accrued interest payable restricted for debt service	(5,048)
Deferred property tax revenue restricted for debt service	10,860
Total adjustments	<u>5,812</u>
Restricted Net Position (Exhibit A-1)	<u>\$ 585,175</u>

11. Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

A. Deposits

As required by the City's investment policy, deposits were with the contracted depository bank in interest bearing accounts that are secured by FDIC coverage and by pledge us U.S. Agency Notes. The Agency Notes are held by Texas Independent Bank, Dallas, Texas, and the depository's correspondent bank. The City's and the component unit's deposits were fully secured at the balance sheet date by FDIC coverage and by pledged securities.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's funds are required to be deposited and invested under the terms of a depository contract. At September 30, 2013, the City's deposits were fully insured or collateralized as required by the City's investment policy.

B. Investments

The City and its component unit may invest its funds in the following:

- (1) U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations maturing in less than two years (except reserve, endowment and other long-term capital preservation funds which may invest up to five years);
- (2) Certificates of deposit issued by state or national banks domiciled in Texas, guaranteed or insured by FDIC and/or fully collateralized in accordance with applicable law.
- (3) Statewide public fund investment pools that are authorized and properly rated per applicable state law; as provided by Council resolution authorizing participation in such investment pool.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

The City invests in the Texas Local Government Investment Pool (TexPool) and the Texas Short Term Asset Reserve Fund (TexSTAR), which are public funds investment pools. The Palo Pinto County Municipal Water District No. 1 invests in TexSTAR. All deposits are secured by the underlying assets of the pool. The carrying amounts approximate the market values. Interest income is allocated on a percentage basis according to the pro rata portion of the balances in the investment account.

The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. As a requirement to maintain its rating, weekly portfolio information must be submitted to Standard and Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940. The Pool is required to maintain a market value of its underlying investment portfolio within one half of one percent of the values of its shares.

Credit Risk– Investments

The City controls credit risk by limiting its investments to those described above which are permitted by the Texas Public Funds Investment Act.

Interest Rate Risk – Investments

The City manages interest rate risk by diversifying its portfolio and limiting its investments to the relatively low risk investments described above.

The City's investments at September 30, 2013 included the following:

Investment	Credit Rating	Average Maturities	Percentage of Total Investments	Cost	Fair Value
City of Mineral Wells					
Tex-Pool	AAAm	81 days	10.81%	\$ 1,667,475	\$ 1,667,475
TexSTAR Pool	AAAm	52 days	48.29%	7,446,134	7,446,134
				9,113,609	9,113,609
Component Unit					
TexSTAR Pool	AAAm	52 days	40.90%	6,306,851	6,307,368
Total Investments			100.00%	\$ 15,420,460	\$ 15,420,977

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 3: DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the statement of financial position and governmental funds balance sheet report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items in this category: unavailable revenues for the governmental funds and unearned revenue in the proprietary funds. At the end of the fiscal year, the various components of deferred inflows of resources were as follows:

	Governmental Funds			Enterprise Fund	
			Total		PPCMWD No. 1
	Debt	Governmental	Funds		
	General	Service			
Deferred property taxes receivable	\$ 36,141	\$ 10,860	\$ 47,001	\$	-
Deferred franchise taxes receivable	108,151		108,151		
Deferred EMS receivable	47,110		47,110		
Deferred Cemetery receivable	26,245		26,245		
Deferred municipal court receivable	22,259		22,259		
Deferred leases receivable		2,709,202	2,709,202		
Unearned water sales		-	-		89,375
Total deferred inflows of resources	\$ 239,906	\$ 2,720,062	\$ 2,959,968	\$	89,375

NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2013, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Debt Service Fund	\$ 662,133
General Fund	Internal Service Funds	8,208
Nonmajor governmental funds	General Fund	10,285
 Total Governmental Funds		\$ 680,626
 Water and Sewer	General Fund	\$ 96,186
Airport Operations	General Fund	17,888
 Total Proprietary Funds		\$ 114,074

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2013, is as follows:

Transfer In	Transfer Out	Amount
General Fund	Nonmajor Governmental Funds	\$ 1,015
General Fund	Water and Sewer	475,842
General Fund	Airport Operations	26,871
Total Governmental Funds Transfers In		<u><u>\$ 503,728</u></u>

Transfers to the general fund from nonmajor governmental funds consist of its share of hotel motel occupancy taxes. The transfers from the water and sewer fund and airport operations fund to the general fund are to fund various programs accounted for in the general fund in accordance with budgetary authorizations.

NOTE 5: CAPITAL ASSETS

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

Governmental activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	\$ 1,845,102	\$ -	\$ -	\$ -	\$ 1,845,102
Construction in Progress	196,596	-	(43,772)	(15,151)	137,673
Total non-depreciable assets	2,041,698	-	(43,772)	(15,151)	1,982,775
Depreciable Assets:					
Buildings and improvements	4,419,695	91,119	(28,456)	-	4,482,358
Improvements other than buildings	1,798,308	-	-	-	1,798,308
Infrastructure	51,547,076	-	-	-	51,547,076
Equipment and vehicles	5,179,805	323,506	(789,442)	1,044,016	5,757,885
Furniture and fixtures	553,750	100,924	(74,543)	20,267	600,398
Total capital assets being depreciated	63,498,634	515,549	(892,441)	1,064,283	64,186,025
Accumulated Depreciation:					
Buildings and improvements	(1,615,161)	(100,898)	28,456	-	(1,687,603)
Improvements other than buildings	(1,157,816)	(94,215)	-	-	(1,252,031)
Infrastructure	(26,048,486)	(1,344,333)	-	-	(27,392,819)
Equipment and vehicles	(4,339,999)	(264,101)	789,442	(958,494)	(4,773,152)
Furniture and fixtures	(377,386)	(44,794)	74,543	(25,209)	(372,846)
Total accumulated depreciation	(33,538,848)	(1,848,341)	892,441	(983,703)	(35,478,451)
Governmental activities capital assets, net	\$ 32,001,484	\$ (1,332,792)	\$ (43,772)	\$ 65,429	\$ 30,690,349

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 5: CAPITAL ASSETS (Continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	\$ 2,544,237	\$ 196,635	\$ -	\$ -	\$ 2,740,872
Construction in Progress	4,639,563	821,018	(216,171)		5,244,410
Total non-depreciable assets	7,183,800	1,017,653	(216,171)	-	7,985,282
Depreciable Assets:					
Buildings and improvements	3,305,326	-	(60,773)	354,000	3,598,553
Improvements other than buildings	15,489,841	-	(460,406)	-	15,029,435
Infrastructure	5,110,090	-	(22,689)	-	5,087,401
Distribution System	35,322,587	186,171	(154,125)	-	35,354,633
Collection System	6,303,437	-	-	-	6,303,437
Equipment and Vehicles	3,708,964	238,903	(2,107,016)	3,024	1,843,875
Furniture and Fixtures	252,432	-	(193,535)	-	58,897
Total capital assets being depreciated	69,492,677	425,074	(2,998,544)	357,024	67,276,231
Accumulated Depreciation:					
Buildings and improvements	(1,678,533)	(76,702)	60,773	(354,000)	(2,048,462)
Improvements other than buildings	(6,145,100)	(325,320)	460,406	-	(6,010,014)
Infrastructure	(1,831,375)	(223,998)	22,689	-	(2,032,684)
Distribution System	(16,986,936)	(640,078)	154,125	-	(17,472,889)
Collection System	(3,206,582)	(127,295)	-	-	(3,333,877)
Equipment and Vehicles	(3,166,898)	(149,458)	2,107,016	(3,024)	(1,212,364)
Furniture and Fixtures	(229,595)	(6,498)	193,535	-	(42,558)
Total accumulated depreciation	(33,245,019)	(1,549,349)	2,998,544	(357,024)	(32,152,848)
Business-type activities capital assets, net	\$ 43,431,458	\$ (106,622)	\$ (216,171)	\$ -	\$ 43,108,665

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 5: CAPITAL ASSETS (Continued)

Depreciation expense was charged as a direct expense to programs of the primary government as follows:

Governmental activities:

Administrative	\$ 4,386
Police	117,169
Fire & Emergency Medical Services	116,995
Inspections	1,393
Streets, including infrastructure	1,419,201
Parks & Recreation	154,615
Cemetery	3,435
Library	31,147
Total depreciation expense - governmental activities	<u><u>\$ 1,848,341</u></u>

Business-type activities:

Water and Sewer	\$ 840,739
Airport	283,529
PPCMWD No. 1	425,081
Total depreciation expense - business-type activities	<u><u>\$ 1,549,349</u></u>

NOTE 6: LEASES

A. Operating Leases – Lessor

The City is the lessor under operating leases of several pieces of property under various terms and expiration dates including many month-to-month rentals, such as T-hangers at the municipal airport. None of these leases are non-cancelable nor contain contingent rentals.

B. Capital Leases - Lessee

The City has committed under various noncancelable lease/purchase agreements for vehicles and airport T-hangers. Future minimum lease/purchase commitments are as follows:

	Governmental Activities	Business-type Activities
2014	\$ 73,193	\$ 74,318
2015	73,193	74,318
2016	36,596	74,317
2017	-	58,423
2018	-	42,551
2019-2023	-	152,294
Total debt service requirements	<u><u>182,982</u></u>	<u><u>476,221</u></u>
Less: Interest Portion	3,819	88,220
Debt Principal	<u><u>\$ 179,163</u></u>	<u><u>\$ 388,001</u></u>

The City rents the airport T-hangers to individuals on a monthly basis for approximately \$150 per unit per month.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 6: LEASES (Continued)

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities	Business-type Activities
Buildings	\$ -	\$ 660,250
Equipment and vehicles	204,122	129,477
Less: Accumulated depreciation	(23,614)	(141,338)
Net	<u><u>\$ 180,508</u></u>	<u><u>\$ 648,389</u></u>

NOTE 7: LONG-TERM LIABILITIES

A. General Obligation Bonds

April 1, 2011, the City issued the \$5,355,000 General Obligation Refunding Bonds, Series 2011 with interest rates ranging between 2% and 3%. The bonds are split between the governmental and business-type activities approximately 39% and 61% respectively. The bonds were issued to refund the outstanding balances of the General Obligation Refunding and Improvement Bonds, Series 2002, Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2002, Waterworks and Sewer System Revenue Refunding Bonds, Series 2002-A and Waterworks and Sewer System Revenue Refunding Bonds Series 2003.

The aggregate debt service payments to maturity of the general obligation bonds are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 540,551	\$ 17,002	\$ 557,553	\$ 844,449	\$ 26,561	\$ 871,010
2015	257,591	6,381	263,972	402,409	9,969	412,378
2016	83,895	1,259	85,154	131,105	1,966	133,071
Total	<u><u>\$ 882,037</u></u>	<u><u>\$ 24,642</u></u>	<u><u>\$ 906,679</u></u>	<u><u>\$ 1,377,963</u></u>	<u><u>\$ 38,496</u></u>	<u><u>\$ 1,416,459</u></u>

B. Tax Notes

April 1, 2011, the City issued the \$375,000 Limited Tax Notes, Series 2011 for the purpose of acquiring a pumper truck for the fire department and to pay the costs incurred with the issuance of the notes. The notes are due in annual principal and semiannual interest payments from 2/1/2012 to 2/1/2016 at 1% to 3%.

The aggregate debt service payments to maturity of the tax notes are as follows:

	Governmental Activities		
	Principal	Interest	Total
2014	\$ 75,000	\$ 5,588	\$ 80,588
2015	75,000	3,525	78,525
2016	80,000	1,200	81,200
Total	<u><u>\$ 230,000</u></u>	<u><u>\$ 10,313</u></u>	<u><u>\$ 240,313</u></u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOT 7 : LONG-TERM LIABILITIES (Continued)

C. Special Assessment Debt

The City has obtained loans in the form of grants from the Texas Capital Fund administered by the Texas Department of Agriculture through the Office of Rural Community Affairs. The purpose of the grants are for capital acquisition and/or rehabilitation of facilities needed for new manufacturing entities who relocated to Mineral Wells or existing manufacturing or service companies who expand operations in Mineral Wells. The loans will be repaid to the State by the City from lease revenues received from the companies who lease the facilities from the City.

The term of the leases coincide with the loans which are amortized over 20 years at 0.00% interest payable in monthly installments. The City is obligated in some manner to the State for the repayment of the loans; however, should the business default on its obligation to the City, the State shall suspend the repayment terms until another occupant for the facility can be found. Due to the nature of the loan, the City has accounted for the loans as special assessment debt in the governmental activities column of the statement of net assets. The debt service fund has been used to record the receivable and deferred revenue from the lease of the facilities.

The tenants of the facilities have options to purchase the facilities at any time after the expiration of five years from the date the State contract is closed-out. The purchase price is the original amount of the loan less the sum of (a) the full amount of all fixed rental payments actually received by the City; and (b) any and all amounts actually paid by the tenant to the City under the project agreement as a result of recoupment of Texas Capital Fund grant by the Texas Department of Agriculture.

The annual debt service requirements to maturity for the special assessment debt are as follows:

	<u>Principal</u>
2014	\$ 217,000
2015	217,000
2016	217,000
2017	227,833
2018	168,250
2019-2023	798,897
2024-2028	558,625
2029-2033	304,597
Total	<u>\$ 2,709,202</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 7: LONG-TERM LIABILITIES (Continued)

D. Revenue Bonds

The Palo Pinto County Municipal Water District No. 1 has issued revenue bonds that are secured solely by net revenues of the District. At year end the following revenue bonds were outstanding:

\$2,400,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009A - due in annual installments at 0% to 6/1/2029.	1,920,000
\$3,200,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009B - due in annual installments at 2.63% to 3.68% to 6/1/2028.	2,710,000
\$6,990,000; Palo Pinto County Muni Water District #1 Revenue Refunding Bonds Series 2011 - due in annual installments at 2.00% to 3.375% to 6/1/2023.	5,330,000
	<hr/>
Total Palo Pinto Municipal Water District No. 1	9,960,000
Total Revenue Bonds	<u>\$ 9,960,000</u>

The aggregate debt service payments to maturity of the revenue bonds are as follows:

Business-type Activities				
	Principal	Interest	Total	
2014	\$ 1,155,000	233,419	\$ 1,388,419	
2015	1,185,000	206,964	1,391,964	
2016	1,215,000	179,667	1,394,667	
2017	615,000	151,523	766,523	
2018	630,000	139,928	769,928	
2019-2023	3,355,000	469,882	3,824,882	
2024-2028	1,685,000	121,418	1,806,418	
2029-2032	120,000	-	120,000	
Total	<u>\$ 9,960,000</u>	<u>\$ 1,502,801</u>	<u>\$ 11,462,801</u>	

**City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013**

NOTE 7: LONG-TERM LIABILITIES (Continued)

E. Compliance with Debt Service Requirements

Palo Pinto County Municipal Water District No. 1

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2009A and 2009 B resolutions require a "Reserve Fund" be established for the bonds issued by the District depositing \$5,877 on the 25th of each month beginning July 25, 2009 and continuing each subsequent month until a balance of \$352,626 is obtained. The District is in compliance with requirements. The balance in the reserve at September 30, 2013 was \$364,000.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was \$639,595 and the balance in the reserve was \$678,000 at September 30, 2013.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 require a "Contingency Fund" of \$250,000 to be maintained. Monthly deposits of \$3,334 are required to be made when the "Contingency Fund" falls below the required balance. At September 30, 2013, the "Contingency Fund" had a balance of \$250,000.

The following is a summary of the restricted cash and investments of the business-type activities.

	<u>Investments</u>
Water and sewer fund	
Customer deposits	\$ 230,164
PPCMWD No. 1	
Interest and Sinking Funds	472,173
Contingency Funds	250,000
Reserve Funds	<u>1,042,000</u>
Total PPCMWD No. 1	<u>1,764,173</u>
Total Business-type activities	<u><u>\$ 1,994,337</u></u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 7: LONG-TERM LIABILITIES (Continued)

F. Changes in Long-term Liabilities

The following is a summary of long-term liability transactions of the city for the year ended September 30, 2013.

	9/30/2012	Additions	Retirements	9/30/2013	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 1,451,860	\$ -	\$ 569,823	\$ 882,037	\$ 540,551
Tax Note	305,000	-	75,000	230,000	75,000
Bond Premiums	48,012	-	13,094	34,918	-
Capital Leases	-	215,000	35,837	179,163	70,909
Special Assessment Debt	1,780,622	1,210,000	281,420	2,709,202	217,000
Compensated Absences Payable	46,512	53,791	46,512	53,791	53,791
Total Governmental Activities	3,632,006	1,478,791	1,021,686	4,089,111	957,251
Business-type Activities:					
General Obligation Bonds	2,268,140	-	890,177	1,377,963	844,449
Revenue Bonds	11,085,000	-	1,125,000	9,960,000	1,155,000
Bond Premium	91,713	-	22,277	69,436	-
Capital Leases	449,811	-	61,810	388,001	55,727
Compensated Absences Payable	28,846	28,846	28,846	28,846	28,846
Total Business-type Activities	13,923,510	28,846	2,128,110	11,824,246	2,084,022
Total Long-Term Debt	\$ 17,555,516	\$ 1,507,637	\$ 3,149,796	\$ 15,913,357	\$ 3,041,273

The compensated absences payable were earned in the funds as follows: general fund \$53,791, water and sewer fund \$26,624 and airport operations fund \$2,222.

NOTE 8: RELATED ORGANIZATIONS

The Industrial Development Corporation of Mineral Wells (the "Development Corporation") – organized pursuant to the Development Corporation Act of 1979, 1979 Tex. Gen. Laws, Chapter 700, Section 1, at 1675, was created February 11, 1980 to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises and to promote and encourage employment and the public welfare. The Development Corporation is a nonprofit corporation governed by a ten member Board of Directors each of whom is appointed by the City. In addition, the City is entitled to approve all programs and expenditures of the Development Corporation including the issuance of debt obligations, acquiring, leasing and/or the selling of or conveying certain properties and the making of loans, for the above stated purpose. The Develop Corporation's assets are immaterial to the financial statements of the City of Mineral Wells and, therefore, the Development Corporation has not been included as a component unit of the City for financial reporting purposes.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 9: RISK MANAGEMENT

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. The City entered into an agreement with the Texas Municipal League (TML-IRP) for risk management services. These services include a sharing of risk pool, claims administration and loss control services. TML-IRP is a public entity risk pool currently operating as a common risk management and insurance program for the City of Mineral Wells. The City pays contributions or premiums to the pool for insurance coverage. All risk is then shared among members of the pool. Members of the pool are not subject to additional assessments in the event losses exceed contributions.

The City participates in the Texas Municipal League Joint Self-Insurance Fund for workers compensation coverage. The Texas Municipal League Joint Self-Insurance Fund assesses its members a contribution or premium based on a funding plan developed by the account for workers' compensation. The plan has a stop loss of \$100,000 per occurrence and overall aggregate stop loss of \$300,000 per year for the City. All risk is shared among members of the pool. Members of the pool are not subject to additional assessments in the event losses exceed contributions. Premiums are expensed by the insurance fund when incurred.

There has been no reduction in coverage and the amount of settlements during the past three years has not exceeded the insurance coverage.

NOTE 10: EMPLOYEE RETIREMENT PLAN

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 10: EMPLOYEE RETIREMENT PLAN (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the projected unit credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases.

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

Fiscal Year	2013	2012	2011
Annual required contribution (ARC)	\$ 732,663	\$ 719,111	\$ 777,825
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Total annual pension cost	732,663	719,111	777,825
Contributions Made	732,663	719,111	777,825
Increase (decrease) in Net Pension Obligation	-	-	-
Net Pension Obligation/(Asset), beginning of year	-	-	-
Net Pension Obligation/(Asset), end of year	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

General System-wide Actuarial Assumptions

Actuarial Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	26.8 Years-Closed	25.8 Years-Closed	24.9 Years-Closed
Amortization period for new gains/losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed	10-year smoothed	10-year smoothed
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	varies by age and service	varies by age and service	varies by age and service
Includes Inflation At	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 10: EMPLOYEE RETIREMENT PLAN (Continued)

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial			UAAL as a Percentage of Covered Payroll	
		Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	(6)
	(1)	(2)	(3)	(4)	(5)	(4) / (5)
12/31/2012	\$22,773,480	\$24,908,442	91.4%	\$ 2,134,962	\$ 6,407,737	33.3%

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

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

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The city's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$14,682, \$15,393, and \$18,300, respectively, which equaled the required contributions each year.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (Continued)

Schedule of Contribution Rates:
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.05%	0.05%	100.0%
2012	0.06%	0.06%	100.0%
2013	0.06%	0.06%	100.0%

NOTE 12: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement Systems (TESRS), a cost-sharing multiple employer pension systems established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2012, there were 188 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2012, TESRS membership consisted of:

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

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 12: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND (Continued)

Funding Policy

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up a limited amount to make TESRS actuarially sound.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2012 total contributions (dues and prior service) of \$3,517,455 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2012 and 2013. Total contributions made were less than the contributions required by the state statute and required based on the August 31, 2010 actuarial valuation. The City's contributions for the years ended September 30, 2013, 2012, and 2011 were \$17,886, \$26,076, and \$25,948 respectively.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2012 revealed the inadequacy of the expected contributions from the political subdivisions (dues and prior service contributions) even together with the actual state appropriations for the fiscal year ending August 31, 2013 (\$528,538 to pay for part of the System's administrative expenses) and with the assumed legislative appropriations of (1) the maximum state contribution amount in future years for up to 30 years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$530,000 each year to pay for part of the System's administrative expenses. On August 31, 2012 the actuarial liabilities exceeded the actuarial assets by \$33,868,555.

NOTE 13: HAIL DAMAGE AND INSURANCE RECOVERIES

In May 2013, a hail storm directly impacted the City causing significant damage to City owned property. Management expects insurance to cover the cost to repair the property less the City's deductible. Insurance received in 2013 related to the hail damage was \$171,908. The insurance recoveries were reported as other financing sources in the general fund and general revenues in the government-wide statement of activities.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 14: CONTINGENT LIABILITIES

A. Federal and State Programs

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the grantor agency.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the City's administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

NOTE 15: CONTRACTS AND COMMITMENTS

A. Turkey Peak Project

In 2009, the Palo Pinto County Municipal Water District No. 1 issued \$5,600,000 Subordinate Revenue Bonds, \$2,400,000 from the Texas Water Development Board's Economically Distressed Areas Program and \$3,200,000 from the Texas Water Development Board's Water Infrastructure Fund for the Turkey Peak Project.

The District also received a grant of \$2,400,000 from the Texas Water Development Board's Economically Distressed Areas Program for the Turkey Peak Project. The total amount budgeted for the project is \$8,000,000. As of September 30, 2013, expenditures for the project totaled \$5,203,608 with a remaining budget of \$2,796,392.

NOTE 16: EVALUATION OF SUBSEQUENT EVENTS

Subsequent events were evaluated through February 27, 2014, which is the date the financial statements were available to be issued.

NOTE 17: NEW ACCOUNTING PRONOUNCEMENTS

The City of Mineral Wells and its component units implemented GASB Statement No 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities during the year. GASB Statement No. 63 changed the name of Exhibits A-1 and D-1 to the Statement of Net Position and net assets were changed to net position. GASB Statement No. 65 changed the classification of deferred revenues in Exhibits A-1, C-1 and D-1 from liabilities to deferred inflows of resources and changed the accounting for bond issuance costs in the government-wide and proprietary fund financial statements. As a result of the change in accounting for bond issuance costs, the beginning net position of the governmental activities, business-type activities, water and sewer fund and Palo Pinto County Municipal Water District No. 1 fund were reduced.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2013

NOTE 18: PRIOR PERIOD ADJUSTMENTS

During 2013 the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which changed the accounting for bond issuance costs. Bond issuance costs are no longer capitalized and amortized over the life of the bonds but are expensed when incurred. The change resulted in a decrease to beginning net position of the governmental activities, business-type activities, water and sewer fund and Palo Pinto County Municipal Water District No. 1 (PPCMWD No. 1).

During 2013 the City performed a physical inventory of capital assets. Assets were identified that were not capitalized in previous years. The effect of reporting these assets is to increase net position of the governmental activities by \$65,429.

The following summarizes the prior period adjustments reported in the financial statements.

	Exhibit B-1	Exhibit B-1	Exhibit D-2	Exhibit D-2
	Governmental Activities	Business-type Activities	Water and Sewer Fund	PPCMWD No. 1
Bond issuance costs	\$ (62,590)	\$ (471,607)	\$ (219,001)	\$ (252,606)
Capital assets	65,429	-	-	-
Prior Period Adjustment	\$ 2,839	\$ (471,607)	\$ (219,001)	\$ (252,606)

NOTE 19: FUTURE ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement is to improve the accounting and financial reporting by state and local governments for pensions. This Statement will require government-wide and proprietary fund statements to recognize a liability equal to the net pension liability and that changes in the net pension liability be included in pension expense in the period of change. The Statement is effective for fiscal years beginning after June 15, 2014. The City has not yet determined the effect this Statement will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT F-1

CITY OF MINERAL WELLS, TEXAS

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended September 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes:				
Property taxes	\$ 2,350,000	\$ 2,350,000	\$ 2,348,992	(1,008)
Sales and use tax	3,720,000	3,720,000	3,628,132	(91,868)
Franchise	1,245,000	1,245,000	1,244,716	(284)
Licenses and Permits	67,000	67,000	240,747	173,747
Intergovernmental Revenue	196,000	196,000	189,447	(6,553)
Charges for service	729,500	729,500	829,821	100,321
Fines	225,000	225,000	194,971	(30,029)
Interest income	5,000	5,000	4,642	(358)
Cemetery	63,000	63,000	93,382	30,382
Miscellaneous revenues	33,000	33,000	59,226	26,226
Total revenues	8,633,500	8,633,500	8,834,076	200,576
Expenditures:				
Current				
Administrative	882,023	882,023	809,245	72,778
Finance	454,138	454,138	456,533	(2,395)
Fleet Maintenance	757,629	757,629	760,258	(2,629)
Police	2,685,792	2,685,792	2,715,851	(30,059)
Fire & Emergency Medical Services	1,462,122	1,462,122	1,552,436	(90,314)
Inspections	331,943	331,943	327,474	4,469
Information Technology	325,013	325,013	335,762	(10,749)
Streets	1,242,197	1,242,197	1,205,917	36,280
Sanitation	160,078	160,078	159,965	113
Parks & Recreation	879,351	879,351	852,195	27,156
Cemetery	311,543	311,543	289,774	21,769
Library	426,075	426,075	373,241	52,834
Debt Service:				
Principal	35,000	35,000	35,837	(837)
Interest and fiscal charges	3,150	3,150	759	2,391
Total expenditures	9,956,054	9,956,054	9,875,247	80,807
Excess (deficiency) of revenue over (under) expenditures	\$ (1,322,554)	\$ (1,322,554)	\$ (1,041,171)	281,383
Other financing sources (uses):				
Proceeds from sale of general fixed assets	20,000	20,000	102,349	82,349
Insurance proceeds	-	-	202,581	202,581
Issuance of capital lease	210,000	210,000	215,000	5,000
Transfers in	503,838	503,838	503,728	(110)
Transfers out	(100,000)	(100,000)	-	100,000
Net change in fund balances	(688,716)	(688,716)	(17,513)	671,203
Fund balance, October 1, 2012	4,869,679	4,869,679	4,869,679	-
Fund balance, September 30, 2013	\$ 4,180,963	\$ 4,180,963	\$ 4,852,166	671,203

The accompanying notes to required supplementary information are an integral part of this schedule

EXHIBIT F-2

CITY OF MINERAL WELLS, TEXAS
Required Supplementary Information
Texas Municipal Retirement System Pension
Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1)/(2)	(4) (UAAL) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4)/(5)
12/31/10	19,745,779	22,908,869	86.2%	3,163,090	6,521,882	48.5%
12/31/11	21,302,176	24,182,390	88.1%	2,880,214	6,476,112	44.5%
12/31/12	22,773,480	24,908,442	91.4%	2,134,962	6,407,737	33.3%

The accompanying notes to required supplementary information are an integral part of this schedule

EXHIBIT F-3

CITY OF MINERAL WELLS, TEXAS
Required Supplementary Information
Texas Emergency Services Retirement System
Statewide Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ¹ (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/2008 ²	60,987,157	64,227,341	3,240,184	95.0%	8254	393
8/31/2010 ³	64,113,803	81,264,230	17,150,427	78.9%	8644	1,984
8/31/2012 ²	67,987,487	101,856,042	33,868,555	66.7%	9448	3,585

Notes:

¹ The actuarial accrued liability is based upon the entry age actuarial cost method.

² Changes in actuarial assumptions were reflected in this valuation.

³ Changes in actuarial assumption and method were reflected in this valuation.

Schedule of Employer Contributions

Fiscal Year End in August 31,	Required Contributions	Actual Contributions	Percentage Contributed
2007	3,162,742 ¹	3,162,742 ⁵	100%
2008	3,160,764 ¹	11,239,339 ⁶	356%
2009	2,698,271 ²	2,698,271	100%
2010	2,875,103 ²	2,875,103	100%
2011	3,125,329 ³ \$	3,125,329	100%
2012	4,423,898 ^{3,4}	3,517,455	100%

Notes:

¹ Based on the original August 31, 2006 actuarial valuation.

² Based on the revised August 31, 2008 actuarial valuation.

³ Based on the revised August 31, 2012 actuarial valuation.

⁴ Includes a state contribution of \$906,443

⁵ Includes a state contribution of \$709,072

⁶ Includes a state contribution of \$8,800,000

The accompanying notes to required supplementary information are an integral part of this schedule

City of Mineral Wells
Notes to the Required Supplementary Information
For the Year Ended September 30, 2013

Note 1: Budget

As set forth in the City Charter, the City Council adopted an annual appropriated budget for the general fund, significant special revenue funds, debt service fund and enterprise funds. The budget is prepared by fund, department and object, with the legal level of budgetary control being the object level. An annual appropriated budget for the capital projects fund was adopted at the project level, with the legal level of budgetary control being at the project level. The City Manager is authorized to transfer budget amounts between object levels within a department during the budget year, with Council approval, and between departments within a fund during the last three months of the fiscal year by resolution of the City Council.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund, water and sewer fund, debt service fund, hotel/motel fund, capital projects fund and airport fund. Appropriations lapse at year end and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There was no end of year outstanding encumbrances that were provided for in the subsequent year's budget.

Total general fund expenditures were less than appropriations by \$80,807. The following general fund departments had expenditures in excess of appropriations.

Department	Amount	Primary Cause
Finance	\$ 2,395	Miscellaneous Services & Charges
Fleet Maintenance	2,629	Fuel
Police	30,059	Overtime
Fire and EMS	90,314	Ambulance budgeted in prior year
Information technology	10,749	Tech services and computer support

Note 2: Texas Emergency Services Retirement System

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. The actuarial assumptions and methods for the most recent biennial valuations are shown below.

Valuation Date	August 31, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar, open
Amortization Period	Infinity
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80% / 120% corridor on market value.

Actuarial Assumptions:

Investment Rate of Return *	7.75% per year, net of investment expenses
Projected Salary Increases	N/A
* Includes Inflation at	3.50%
Cost of Living Adjustments	None

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF MINERAL WELLS, TEXAS
 Nonmajor Governmental Funds
 Combining Balance Sheet
 September 30, 2013

	Special Revenue					
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds	
Assets:						
Cash	\$ 1	\$ 27,606	\$ 87,001	\$ 121,500	\$ 236,108	
Investments	-	-	-	49,608	49,608	
Due from other funds	-	-	-	-	-	
Taxes receivable	-	-	26,143	-	26,143	
Total assets	\$ 1	\$ 27,606	\$ 113,144	\$ 171,108	\$ 311,859	
Liabilities and fund balance:						
Liabilities:						
Deferred tax revenue	\$ -	\$ -	\$ -	\$ -	\$ -	
Total liabilities	-	-	-	-	-	
Fund Balance:						
Nonspendable	-					
Restricted	1	27,606	113,144	171,108	311,859	
Total fund balance	1	27,606	113,144	171,108	311,859	
Total liabilities and fund balances	\$ 1	\$ 27,606	\$ 113,144	\$ 171,108	\$ 311,859	

EXHIBIT G-1

Permanent Fund		Total
Woodland Park		Nonmajor Funds
\$ 37,529	\$ 273,637	
447,993		497,601
10,285		10,285
-		26,143
<u>\$ 495,807</u>	<u>\$ 807,666</u>	
\$ -	\$ -	
-	-	
495,073		495,073
734		312,593
<u>495,807</u>	<u>807,666</u>	
<u>\$ 495,807</u>	<u>\$ 807,666</u>	

CITY OF MINERAL WELLS, TEXAS
 Nonmajor Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 For the fiscal year ended September 30, 2013

	Special Revenue					
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds	
Revenues:						
Property taxes	\$ -	\$ -	\$ 32,945	\$ -	\$ 32,945	
Occupancy taxes	202,908	-	-	-	202,908	
Interest	2	-	-	50	52	
Cemetery	-	-	-	-	-	
Miscellaneous revenues	-	26,843	-	100,000	126,843	
 Total revenue	 202,910	 26,843	 32,945	 100,050	 362,748	
Expenditures:						
Current:						
Police	-	5,865	-	-	5,865	
Economic Development	-	-	-	5,000	5,000	
Hotel/Motel Occupancy	201,894	-	-	-	201,894	
 Total expenditures	 201,894	 5,865	 -	 5,000	 212,759	
Excess (deficiency) of revenue over (under) expenditures	1,016	20,978	32,945	95,050	149,989	
Other financing sources (uses):						
Transfers out	(1,015)	-	-	-	(1,015)	
Net change in fund balances	1	20,978	32,945	95,050	148,974	
Fund balance, October 1, 2012	-	6,628	80,199	76,058	162,885	
Fund balance, September 30, 2013	\$ 1	\$ 27,606	\$ 113,144	\$ 171,108	\$ 311,859	

EXHIBIT G-2

<u>Permanent Fund</u>		<u>Total Nonmajor Funds</u>
<u>Woodland Park</u>		
\$	-	\$ 32,945
	-	202,908
426		478
10,285		10,285
-		126,843
<u>10,711</u>		<u>373,459</u>
-		5,865
-		5,000
-		201,894
	-	<u>212,759</u>
<u>10,711</u>		<u>160,700</u>
	-	(1,015)
10,711		159,685
<u>485,096</u>		<u>647,981</u>
<u>\$ 495,807</u>	<u>\$</u>	<u>807,666</u>

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OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

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**INDEPENDENT AUDITOR'S REPORT 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***

To the Honorable Mayor and City Council
City of Mineral Wells, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* 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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

George, Maynor & Freas, P.C.

Weatherford, Texas
February 27, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Honorable Mayor and City Council
City of Mineral Wells, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Mineral Wells' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Mineral Wells' major federal programs for the year ended September 30, 2013. The City of Mineral Wells' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Mineral Wells' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 of Mineral Wells' 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Mineral Wells' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Mineral Wells complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

Management of the City of Mineral Wells is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Mineral Wells' internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mineral Wells' internal control over compliance.

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 in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* 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 in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Weatherford, Texas
February 27, 2014

CITY OF MINERAL WELLS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? Yes No

Significant deficiency identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted Yes No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(s) identified that are not considered to be material weaknesses? Yes None Reported

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 No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program And Non-entitlement Grants in Hawaii

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF MINERAL WELLS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2013

None.

**CITY OF MINERAL WELLS, TEXAS
CORRECTIVE ACTION PLAN
YEAR ENDED SEPTEMBER 30, 2013**

Federal Award Findings

None.

CITY OF MINERAL WELLS, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-through from Office of Rural Community Affairs - State of Texas:			
Community Development Block Grant	14.228	711012	\$ 555,000
Community Development Block Grant	14.228	712032	717,500
Total CFDA Number 14.228			<u>1,272,500</u>
Total U.S. Department of Housing and Urban Development			<u>1,272,500</u>
Department of Homeland Security Direct Programs			
Assistance to Firefighters Grant	97.044	EMW-2010-FO-07291	<u>42,639</u>
Total Department of Homeland Security			<u>42,639</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			
			<u>\$ 1,315,139</u>

The accompanying notes are an integral part of this schedule.

CITY OF MINERAL WELLS, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Reporting Entity

The City of Mineral Wells, Texas (the “City”) was first incorporated in 1884 and adopted the Home Rule Charter (Vernon’s Ann. Civ. St. art. et. seq.) on July 25, 1966. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety – police, fire, animal control and emergency medical services; street and drainage, water and sewer, sanitation, public health, parks and recreation, library, planning and zoning and general administrative services.

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal program activity of the City of Mineral Wells, Texas and is presented on the modified 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*.