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**City of Mineral Wells  
Mineral Wells, Texas**

**Annual Financial Report**

**For the Year Ended September 30, 2008**

**CRAWFORD, CARTER & THOMPSON, L.L.P.**  
Certified Public Accountants  
Mineral Wells, Texas

City of Mineral Wells

Mineral Wells, Texas

Annual Financial Report

For the Year Ended September 30, 2008

City of Mineral Wells, Texas

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March 30, 2009

Independent Auditors' Report

Honorable Mayor and Members of the City Council  
City of Mineral Wells  
Mineral Wells, Texas 76067

Honorable Mayor and Members of the City Council:

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, 2008, which collectively comprise the City's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

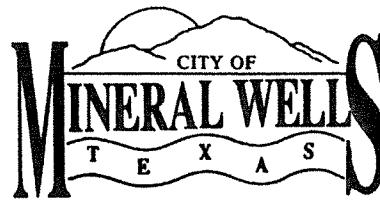
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Crawford, Carter + Thompson, L.L.P.*



Post Office Box 459  
Mineral Wells, Texas 76068

## 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, 2008.

### Financial Highlights

The assets of the City exceeded its liabilities at the close of the fiscal year by \$71,048,393 (net assets). Of this amount, \$9,006,206 (unrestricted net assets) 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 \$5,722,410. Eighty five percent of this total amount, \$4,879,416 is available for spending at the City's discretion (unreserved fund balance).

At the end of the fiscal year, unreserved fund balance for the General Fund is \$4,879,416 or 53.8 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 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 Assets presents information on all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the year. All changes in net assets 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 their audited financial statements.

The government-wide financial statements are presented on pages 9 –10 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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four 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 balances for the General Fund, the Debt Service Fund, and the Streets Capital Projects 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 11 – 15 of this report.

**Proprietary funds.** The City maintains two different 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 Assets, 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 16 – 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22 – 23 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 24 – 54 of this report.

#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Mineral Wells, assets exceeded liabilities by \$71,048,393 at September 30, 2008.

The largest portion of the City's net assets (81 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.

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
<i>Current and Other Assets</i>	\$ 8,457,483	\$ 9,004,565	\$ 6,737,760	\$ 7,372,740	\$ 15,195,243	\$ 16,377,305
<i>Capital Assets</i>	36,716,955	36,098,467	41,216,705	41,032,120	77,933,660	77,103,587
<b>Total Assets</b>	<b>\$ 45,174,438</b>	<b>\$ 45,103,032</b>	<b>\$ 47,954,465</b>	<b>\$ 48,404,860</b>	<b>\$ 93,128,903</b>	<b>\$ 93,507,892</b>
<i>Long-Term Liabilities</i>	\$ 4,534,772	\$ 5,111,272	\$ 14,201,950	\$ 15,781,023	\$ 18,736,722	\$ 20,892,295
<i>Other Liabilities</i>	1,033,933	1,067,500	2,309,855	2,180,835	3,343,788	3,248,335
<b>Total Liabilities</b>	<b>\$ 5,568,705</b>	<b>\$ 6,178,772</b>	<b>\$ 16,511,805</b>	<b>\$ 17,961,858</b>	<b>\$ 22,080,510</b>	<b>\$ 24,140,630</b>
<b>Net Assets</b>						
<i>Capital Assets Net of Related Debt</i>	\$ 33,169,086	\$ 32,058,139	\$ 25,717,354	\$ 24,136,332	\$ 58,886,440	\$ 56,194,471
<i>Restricted</i>	608,370	501,178	2,547,377	2,517,230	3,155,747	3,018,408
<i>Unrestricted</i>	5,828,277	6,364,943	3,177,929	3,789,440	9,006,206	10,154,383
<b>Total Net Assets</b>	<b>\$ 39,605,733</b>	<b>\$ 38,924,260</b>	<b>\$ 31,442,660</b>	<b>\$ 30,443,002</b>	<b>\$ 71,048,393</b>	<b>\$ 69,367,262</b>

An additional portion of the City's net assets (\$3,155,747) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9,006,206) may be used to meet the government's ongoing obligations to citizens and creditors.

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

**Changes in Net Assets**

	<i>Governmental</i>		<i>Business-Type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>		<i>2008</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
<b>Revenues:</b>						
<b>Program revenues:</b>						
<i>Charges for services</i>	\$ 1,949,146	\$ 1,468,068	\$ 11,093,404	\$ 9,996,716	\$ 13,042,550	\$ 11,464,784
<i>Operating grants and contributions</i>	181,485	74,870			181,485	74,870
<i>Capital grants and contributions</i>			24,167	3,191,499	24,167	3,191,499
<b>General revenues:</b>						
<i>Property taxes</i>	2,739,218	2,586,818			2,739,218	2,586,818
<i>Other taxes</i>	6,277,475	5,707,525			6,277,475	5,707,525
<i>Other</i>	197,122	309,988	183,519	287,672	380,641	597,660
<b>Total revenues</b>	<b>\$ 11,344,446</b>	<b>\$ 10,147,269</b>	<b>\$ 11,301,090</b>	<b>\$ 13,475,887</b>	<b>\$ 22,645,536</b>	<b>\$ 23,623,156</b>
<b>Expenses:</b>						
<i>General government</i>	\$ 2,271,903	\$ 1,878,914			\$ 2,271,903	\$ 1,878,914
<i>Public Safety</i>	3,228,833	3,404,278			3,228,833	3,404,278
<i>Highways/streets</i>	2,971,016	2,359,005			2,971,016	2,359,005
<i>Public works</i>	1,230,498	907,702			1,230,498	907,702
<i>Economic development</i>						
<i>Culture and recreation</i>	1,254,588	914,614			1,254,588	914,614
<i>Interest on long-term debt</i>	158,181	184,876			158,181	184,876
<i>Water and Sewer</i>			7,336,119	6,750,712	7,336,119	6,750,712
<i>Airport</i>			1,267,283	973,324	1,267,283	973,324
<i>PPCMWD No 1</i>			1,245,984	1,545,772	1,245,984	1,545,772
<b>Total expenses</b>	<b>\$ 11,115,019</b>	<b>\$ 9,649,389</b>	<b>\$ 9,849,386</b>	<b>\$ 9,269,808</b>	<b>\$ 20,964,405</b>	<b>\$ 18,919,197</b>
<i>Change in net assets before transfers</i>	\$ 229,427	\$ 497,880	\$ 1,451,704	\$ 4,206,079	\$ 1,681,131	\$ 4,703,959
<i>Special Items</i>				\$	-	\$ -
<i>Transfers</i>	452,046	433,284	(452,046)	(433,284)	\$ -	\$ -
<b>Change in net assets</b>	<b>\$ 681,473</b>	<b>\$ 931,164</b>	<b>\$ 999,658</b>	<b>\$ 3,772,795</b>	<b>\$ 1,681,131</b>	<b>\$ 4,703,959</b>
<i>Net assets -Beginning</i>	<b>\$ 38,924,259</b>	<b>\$ 11,131,843</b>	<b>\$ 30,443,003</b>	<b>\$ 25,743,080</b>	<b>\$ 69,367,262</b>	<b>\$ 36,874,923</b>
<i>Prior Period Adjustment</i>						
<i>Net assets - Ending</i>	<b>\$ 39,605,732</b>	<b>\$ 38,924,259</b>	<b>\$ 31,442,661</b>	<b>\$ 30,443,003</b>	<b>\$ 71,048,393</b>	<b>\$ 69,367,262</b>

## 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, unreserved 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, unreserved fund balance of the General Fund is \$4,879,416, while the total fund balance reached \$4,903,478. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved fund balance represents 53.8 percent of total general fund expenditures, while total fund balance represents 54.1 percent of that same amount.

### Other items

The Debt Service Fund has a total fund balance of \$175,223 all of which is reserved 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 assets, at the end of the year for Water/Sewer Operations were \$2,607,922 and \$455,902 for the Water District. Unrestricted net assets in Airport Operations were \$114,106.

### General Fund Budgetary Highlights

It is the practice of the City to budget very conservatively. Revenues in 2007-08 were 14.1 percent higher than budgeted due, primarily, to a 17.3 percent increase in sales tax receipts. Actual operating expenses were 4.9 percent lower than budgeted.

### 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, 2008 amounts to \$77,933,660 (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 City issued contracts for street and water/sewer improvements in 2007-08. Those improvements were not complete at fiscal year end so they were carried as construction-in-progress and fund balance reserved for Capital Projects. Vehicles and equipment were purchased in the General and Water/Sewer Funds.

Additional information on the City's capital assets can be found in Note 3 on pages 35 – 37 of this report.

Long-term debt. At the end of the fiscal year, the City had total outstanding debt of \$21,112,565. Of this amount \$3,530,000 comprises debt backed by the full faith and credit of the City and \$1,581,272 of special assessment debt for which the City has limited liability in the event of default by the property owners subject to the assessment. Included in the City's long term debt are capital leases in the amount of \$456,293 for T-hangars accounted for in the Airport Fund. The T-hangars are collateral for security agreements between the City and the lessors. Principal and interest payments are payable out of current revenues generated by hangar space rentals. The remainder of the debt represents water works/sewer system revenue bonds.

During the fiscal year Standard & Poor's reviewed the underlying ratings of the City's outstanding general obligation bonds and the outstanding water/sewer revenue bonds of the City and the Water District. Standard & Poor's changed the rating to "A+" from "A" on the City's general obligation bonds, and changed the rating to "A" from "BBB+" on the waterworks and sewer system bonds. The City maintained an "A" rating from Fitch Ratings for its general obligation debt and water and sewer revenue bonds. Standard & Poor's changed the rating of the Water District's revenue bonds to "A" from "BBB+".

Additional information on the City's long-term debt can be found in Note 3 on pages 40 – 43 of this report.

#### Economic Factors and Next Year's Budgets and Rates

The City's budget is approved by the City Council in July as required by City Charter. When it was presented the budget reflected the general economic conditions of the area. Sales taxes were increased to reflect the collection history of the last five years. Other revenues were expected to remain about the same for 2008-09 as they were in 2007-08. An ad valorem tax rate slightly below the effective rate was adopted reflecting continuing increases in the City's property values. Overall expenses were increased at inflation adjusted rates, with a significant increase in fuel related costs.

World-wide economic conditions changed in the fourth quarter of 2008. The impact on the City's budget is not fully known. Sales tax and franchise tax collections are expected to be less than budgeted, offset to some degree by decreased expenses for fuel costs. Management will review all expenditures to match the expectations for revenues.

#### 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.

Reference: Gauthier, Stephen J. Governmental Accounting, Auditing, and Financial Reporting, Chicago: Government Finance Officers Association, 2001.

## **BASIC FINANCIAL STATEMENTS**

City of Mineral Wells, Texas  
Statement of Net Assets  
September 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 785,412.63	\$ 130,866.00	\$ 916,278.63
Investments	5,045,106.16	2,057,955.95	7,103,062.11
Accounts Receivable (Net)	307,864.46	688,149.80	996,014.26
Property Taxes Receivable (Net)	51,892.12	529.95	52,422.07
Franchise Fees Receivable	191,957.76		191,957.76
Interest Receivable		7,336.78	7,336.78
Due from Other Governments	383,191.85		383,191.85
Due from Other Funds	1,330.65	42,160.12	43,490.77
Leases Receivable	1,581,272.03		1,581,272.03
Inventories	24,061.89	225,213.63	249,275.52
Restricted Assets:			
Cash and Investments		3,079,533.91	3,079,533.91
Bond Issue Cost (Net)	85,393.57	506,013.98	591,407.55
Capital Assets:			
Land	1,662,550.00	2,506,788.51	4,169,338.51
Buildings	4,397,194.94	4,544,284.28	8,941,479.22
Improvements	1,722,354.29	15,500,453.19	17,222,807.48
Equipment and Vehicles	4,578,299.84	2,823,982.29	7,402,282.13
Furniture and Fixtures	314,851.31	239,712.14	554,563.45
Infrastructure	48,701,688.83	5,043,980.00	53,745,668.83
Distribution System		33,215,633.59	33,215,633.59
Collection System		5,110,684.17	5,110,684.17
Construction-in-Progress	1,749,828.88	1,350,047.69	3,099,876.57
Accumulated Depreciation	(26,409,813.06)	(29,118,860.55)	(55,528,673.61)
<u>Total Capital Assets, Net of Depreciation</u>	<u>36,716,955.03</u>	<u>41,216,705.31</u>	<u>77,933,660.34</u>
<u>Total Assets</u>	<u>45,174,438.15</u>	<u>47,954,465.43</u>	<u>93,128,903.58</u>
<b>Liabilities</b>			
Accounts Payable	2,285.25	79,488.48	81,773.73
Wages and Fringe Benefits Payable	140,242.68	61,823.94	202,066.62
Retainage Payable	103,262.35		103,262.35
Interest Payable	23,296.67	214,833.34	238,130.01
Customer Deposits		148,963.88	148,963.88
Due to Other Governments	71,867.57		71,867.57
Due to Other Funds	42,160.12	1,330.65	43,490.77
Deferred Revenue	74,318.42		74,318.42
Other Current Liabilities		4,071.35	4,071.35
Current Portion:			
Bonds Payable	455,000.00	1,740,000.00	2,195,000.00
Capital Leases Payable		59,342.98	59,342.98
Special Assessment	121,500.12		121,500.12
Long-term Portion:			
Bonds Payable	3,075,000.00	13,805,000.00	16,880,000.00
Capital Leases Payable		396,950.41	396,950.41
Special Assessment	1,459,771.91		1,459,771.91
<u>Total Liabilities</u>	<u>5,568,705.09</u>	<u>16,511,805.03</u>	<u>22,080,510.12</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	33,169,086.25	25,717,354.55	58,886,440.80
Restricted for:			
Debt Service	164,544.96	2,547,376.62	2,711,921.58
Woodland Park Cemetery - Nonexpendable	443,825.21		443,825.21
Unrestricted	5,828,276.64	3,177,929.23	9,006,205.87
<u>Total Net Assets</u>	<u>\$ 39,605,733.06</u>	<u>\$ 31,442,660.40</u>	<u>\$ 71,048,393.46</u>

City of Mineral Wells, Texas  
Statement of Activities  
For the Year Ended September 30, 2008

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets		Total
					Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>							
Administrative	\$ 687,728.10	\$ 190,472.77			\$ (497,255.33)		\$ (497,255.33)
Finance	427,348.94				(427,348.94)		(427,348.94)
Fleet Maintenance	722,694.42				(722,694.42)		(722,694.42)
Police	1,636,923.96	269,386.23	\$ 53,088.33		(1,314,449.40)		(1,314,449.40)
Fire & Emergency Medical Services	1,326,320.87	393,452.42	51,372.18		(881,496.27)		(881,496.27)
Inspections	265,588.34	154,139.32			(111,449.02)		(111,449.02)
Streets	2,971,016.43		977.63		(2,970,038.80)		(2,970,038.80)
Sanitation	197,498.69	92,575.60			(104,923.09)		(104,923.09)
Parks and Recreation	802,657.34	95,216.12	59,000.00		(648,441.22)		(648,441.22)
Cemetery	310,305.10	117,304.87			(193,000.23)		(193,000.23)
Library	330,832.09	6,036.46	17,046.49		(307,749.14)		(307,749.14)
General Gov't. - Internal Service	1,156,825.44	508,855.66			(647,969.78)		(647,969.78)
Hotel/Motel Occupancy	121,098.25	121,706.78			608.53		608.53
Debt Service: Interest and Fiscal Charges	158,181.09				(158,181.09)		(158,181.09)
<b>Total Governmental Activities</b>	<b>11,115,019.06</b>	<b>1,949,146.23</b>	<b>181,484.63</b>		<b>(8,984,388.20)</b>		<b>(8,984,388.20)</b>
<b>Business-type Activities:</b>							
Water and Sewer	5,906,118.29	8,488,587.60				\$ 2,582,469.31	2,582,469.31
Airport	1,267,282.57	1,117,903.13		\$ 24,167.30		(125,212.14)	(125,212.14)
PPCMWD No. 1	1,245,984.79	56,913.70				(1,189,071.09)	(1,189,071.09)
Reciprocal Internal Activity	1,430,000.00	1,430,000.00				0.00	0.00
<b>Total Business-type Activities</b>	<b>9,849,385.65</b>	<b>11,093,404.43</b>		<b>24,167.30</b>		<b>1,268,186.08</b>	<b>1,268,186.08</b>
<b>Total Governmental and Business-type Activities</b>	<b>\$ 20,964,404.71</b>	<b>\$ 13,042,550.66</b>	<b>\$ 181,484.63</b>	<b>\$ 24,167.30</b>	<b>(8,984,388.20)</b>	<b>1,268,186.08</b>	<b>(7,716,202.12)</b>
<b>General Revenues:</b>							
Property Taxes					2,739,217.85		2,739,217.85
Franchise Taxes					1,529,016.49		1,529,016.49
Sales Tax					4,721,539.19		4,721,539.19
Mixed Beverage Taxes					26,919.70		26,919.70
Investment Earnings					211,905.62	179,648.16	391,553.78
Miscellaneous					(14,783.30)	3,870.40	(10,912.90)
Transfers In (Out)					452,046.00	(452,046.00)	0.00
<b>Total General Revenues and Transfers</b>					<b>9,665,861.55</b>	<b>(268,527.44)</b>	<b>9,397,334.11</b>
Change in Net Assets					681,473.35	999,658.64	1,681,131.99
Net Assets - Beginning					38,924,259.71	30,443,001.76	69,367,261.47
Net Assets - Ending					<b>\$ 39,605,733.06</b>	<b>\$ 31,442,660.40</b>	<b>\$ 71,048,393.46</b>

**City of Mineral Wells, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2008**

	General	Debt Service	Streets Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 490,527.53	\$ 10,704.60	\$ 242,892.14	\$ 8,393.13	\$ 752,517.40
Investments	4,025,867.34	163,834.72	53,678.68	442,007.01	4,685,387.75
Receivables (Net of Allowance for Uncollectibles):					
Taxes	39,273.64	12,618.48			51,892.12
Accounts	307,180.62	683.84			307,864.46
Lease		1,581,272.03			1,581,272.03
Due from Other Funds	1,330.65				1,330.65
Due from State	383,191.85				383,191.85
Inventory of Supplies, at Cost	24,061.89				24,061.89
<b>Total Assets</b>	<b>\$ 5,271,433.52</b>	<b>\$ 1,769,113.67</b>	<b>\$ 296,570.82</b>	<b>\$ 450,400.14</b>	<b>\$ 7,787,518.15</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 2,285.25				\$ 2,285.25
Wages and Fringe Benefits Payable	140,242.68				140,242.68
Retainage Payable			\$ 103,262.35		103,262.35
Due to Other Funds	39,967.94				39,967.94
Due to State	71,867.57				71,867.57
Uncompensated Time Payable	113,592.05	\$ 1,593,890.51			1,707,482.56
Deferred Revenue		367,955.49	1,593,890.51	103,262.35	2,065,108.35
<b>Total Liabilities</b>					
<b>Fund Balances:</b>					
Reserved for:					
Retirement of Long-term Debt			175,223.16		175,223.16
Inventory	24,061.89				24,061.89
Unreserved and Undesignated:					
Reported in General Fund		4,879,416.14			4,879,416.14
Reported in Capital Projects Funds			193,308.47		193,308.47
Reported in Special Revenue Funds				\$ 6,574.93	6,574.93
Reported in Permanent Fund				443,825.21	443,825.21
<b>Total Fund Balance</b>	<b>4,903,478.03</b>	<b>175,223.16</b>	<b>193,308.47</b>	<b>450,400.14</b>	<b>5,722,409.80</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 5,271,433.52</b>	<b>\$ 1,769,113.67</b>	<b>\$ 296,570.82</b>	<b>\$ 450,400.14</b>	<b>\$ 7,787,518.15</b>

The Accompanying Notes are an Integral  
 Part of the Financial Statements

City of Mineral Wells, Texas  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2008

Total Fund Balances - Governmental Funds Balance Sheet	\$ 5,722,409.80
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	36,716,955.03
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	51,892.11
The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	390,421.46
Payables for bond principal, capital leases and special revenue notes are not reported in the funds.	(3,530,000.00)
Payables for bond interest, capital lease interest and special revenue note interest are not reported in the funds.	(23,296.67)
Bond issue costs are not reported in the funds.	85,393.57
Franchise fees receivable are not recorded in the funds.	<u>191,957.76</u>
Net Assets of Governmental Activities - Statement of Net Assets	<u>\$ 39,605,733.06</u>

City of Mineral Wells, Texas  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2008

13

	General	Debt Service	Streets Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 8,272,019.82	\$ 655,366.94		\$ 121,706.78	\$ 9,049,093.54
Licenses and Permits	148,844.22				148,844.22
Intergovernmental Revenue	181,484.63				181,484.63
Charges for Services	906,722.22				906,722.22
Fines	252,558.23				252,558.23
Interest Earned	133,210.15	4,305.19	\$ 33,105.62	14,196.15	184,817.11
Special Assessments		121,500.12			121,500.12
Cemetery Lots				10,459.12	10,459.12
Miscellaneous Revenue				15,088.30	15,088.30
<b>Total Revenues</b>	<b>9,894,839.27</b>	<b>781,172.25</b>	<b>33,105.62</b>	<b>161,450.35</b>	<b>10,870,567.49</b>
<b>Expenditures</b>					
Administrative	698,015.15				698,015.15
Finance	451,840.50				451,840.50
Fleet Maintenance	745,346.46				745,346.46
Police	2,177,133.37			8,513.37	2,185,646.74
Fire & Emergency Medical Services	1,314,165.41				1,314,165.41
Inspections	303,750.13				303,750.13
Streets	1,466,753.41		2,092,573.27		3,559,326.68
Sanitation	198,213.69				198,213.69
Parks and Recreation	846,161.75				846,161.75
Cemetery	339,428.74				339,428.74
Library	346,952.22				346,952.22
Hotel/Motel Occupancy				121,098.25	121,098.25
Debt Service:					
Principal	172,365.88	556,500.12			728,866.00
Interest and Fiscal Fees	4,446.70	147,316.75			151,763.45
<b>Total Expenditures</b>	<b>9,064,573.41</b>	<b>703,816.87</b>	<b>2,092,573.27</b>	<b>129,611.62</b>	<b>11,990,575.17</b>
Excess (Deficiency) of Revenues over Expenditures	830,265.86	77,355.38	(2,059,467.65)	31,838.73	(1,120,007.68)

Other Financing Sources (Uses)

Proceeds from Sale of Capital Assets	18,897.99			18,897.99
Transfers In	467,812.66		802,204.00	1,270,016.66
Transfers (Out)	(802,204.00)			(817,970.66)
<b>Total Other Financing Sources (Uses)</b>	<b>(315,493.35)</b>		<b>802,204.00</b>	<b>(15,766.66)</b>
Net Change in Fund Balance	514,772.51	77,355.38	(1,257,263.65)	16,072.07
Fund Balance - Beginning	4,388,705.52	97,867.78	1,450,572.12	434,328.07
Fund Balance - Ending	<b>\$ 4,903,478.03</b>	<b>\$ 175,223.16</b>	<b>\$ 193,308.47</b>	<b>\$ 450,400.14</b>
				<b>\$ 5,722,409.80</b>

City of Mineral Wells, Texas  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ (649,063.69)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital asset additions are expenditures in the funds during the current year.	2,388,745.23
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,770,257.03)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(4,517.28)
Changes in long-term debt balances are recorded as revenue and expenditures in the funds but as increases or reductions of liabilities in the Statement of Activities.	607,365.88
The net revenue (expense) of internal service funds is reported with governmental activities in the funds.	21,794.13
Decrease in accrued interest from beginning of period to end of period.	5,226.92
Net decrease in franchise fees receivable.	93,823.75
Bond issue costs are not amortized in the funds.	<u>(11,644.56)</u>
Change in Net Assets of Governmental Activities - Statement of Activities	<u>\$ 681,473.35</u>

City of Mineral Wells, Texas  
Statement of Net Assets  
Proprietary Funds  
September 30, 2008

	<u>Business-type Activities</u> <u>Enterprise Funds</u>				<u>Governmental Activities</u>	
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds	
<b>Assets</b>						
Current:						
Cash	\$ 108,037.79	\$ 19,480.43	\$ 3,347.78	\$ 130,866.00	\$ 32,895.23	
Investments	1,609,515.45		448,440.50	2,057,955.95	359,718.41	
Receivables (Net of Allowance for Uncollectibles):						
Accounts	644,277.76	42,609.41	1,262.63	688,149.80		
Taxes			529.95	529.95		
Interest			7,336.78	7,336.78		
Due from Other Funds	38,889.40	3,270.72		42,160.12		
Inventory, at Cost	172,469.89	52,743.74		225,213.63		
<b>Total Current Assets</b>	<b>2,573,190.29</b>	<b>118,104.30</b>	<b>460,917.64</b>	<b>3,152,212.23</b>	<b>392,613.64</b>	
Restricted Assets, Cash and Investments:						
Revenue Bond Debt Service	1,017,114.36		341,908.04	1,359,022.40		
Revenue Bond Debt Reserve	1,163,025.87			1,163,025.87		
Revenue Bond Debt Emergency	40,161.69			40,161.69		
Revenue Bond Debt Contingency			200,000.00	200,000.00		
Capital Projects	317,323.95			317,323.95		
Unamortized Bond Discount	35,968.76			35,968.76		
Unamortized Bond Issue Cost	231,640.50		183,517.24	415,157.74		
Unamortized Bond Insurance Premiums	42,009.38		12,878.10	54,887.48		
<b>Total Other Assets</b>	<b>2,847,244.51</b>		<b>738,303.38</b>	<b>3,585,547.89</b>		
Capital Assets:						
Distribution System	11,800,433.92		21,415,199.67	33,215,633.59		
Land	1,155,478.79	194,862.80	1,156,446.92	2,506,788.51		
Buildings and Improvements	1,486,924.15	1,850,149.84	1,207,210.29	4,544,284.28		
Improvements Other than Buildings	15,445,383.11	55,070.08		15,500,453.19		
Infrastructure		5,043,980.00		5,043,980.00		
Collection System	5,110,684.17			5,110,684.17		
Equipment and Vehicles	2,465,358.75	300,019.26	58,604.28	2,823,982.29		
Furniture and Fixtures	239,712.14			239,712.14		
Construction-in-Progress	1,159,752.18		190,295.51	1,350,047.69		
Less: Accumulated Depreciation	(14,422,169.17)	(1,738,338.50)	(12,958,352.88)	(29,118,860.55)		
<b>Total Capital Assets</b>						
(Net of Accumulated Depreciation)	24,441,558.04	5,705,743.48	11,069,403.79	41,216,705.31		
<b>Total Assets</b>	<b>29,861,992.84</b>	<b>5,823,847.78</b>	<b>12,268,624.81</b>	<b>47,954,465.43</b>	<b>392,613.64</b>	

	Business-type Activities <u>Enterprise Funds</u>			Governmental <u>Activities</u>	
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
<b>Liabilities</b>					
Current Liabilities (Payable from Current Assets):					
Accounts Payable	74,472.73		5,015.75	79,488.48	
Wages and Fringe					
Benefits Payable	57,825.20	3,998.74		61,823.94	
Customer Deposits	148,963.88			148,963.88	
Due to other Funds	1,330.65			1,330.65	2,192.18
<b>Total Current Liabilities (Payable from Current Assets)</b>	<b>282,592.46</b>	<b>3,998.74</b>	<b>5,015.75</b>	<b>291,606.95</b>	<b>2,192.18</b>
Current Liabilities (Payable from Restricted Assets):					
Interest Payable	79,904.67		134,928.67	214,833.34	
Current Portion of Revenue Bonds	1,120,000.00		620,000.00	1,740,000.00	
Current Portion of Capital Lease Payable		59,342.98		59,342.98	
<b>Total Other Liabilities</b>	<b>1,199,904.67</b>	<b>59,342.98</b>	<b>754,928.67</b>	<b>2,014,176.32</b>	
Long-term Liabilities:					
Revenue Bonds (Net of Current Portion)	5,490,000.00		8,315,000.00	13,805,000.00	
Capital Lease Payable (Net of Current Portion)		396,950.41		396,950.41	
Bond Premium			4,071.35	4,071.35	
<b>Total Long-term Liabilities</b>	<b>5,490,000.00</b>	<b>396,950.41</b>	<b>8,319,071.35</b>	<b>14,206,021.76</b>	
<b>Total Liabilities</b>	<b>6,972,497.13</b>	<b>460,292.13</b>	<b>9,079,015.77</b>	<b>16,511,805.03</b>	<b>2,192.18</b>
<b>Net Assets</b>					
Invested in Capital Assets Net of Related Debt					
Restricted for:					
Debt Service	18,141,176.68	5,249,450.09	2,326,727.78	25,717,354.55	
Unrestricted	2,140,397.25		406,979.37	2,547,376.62	
	2,607,921.78	114,105.56	455,901.89	3,177,929.23	390,421.46
<b>Total Net Assets</b>	<b>\$ 22,889,495.71</b>	<b>\$ 5,363,555.65</b>	<b>\$ 3,189,609.04</b>	<b>\$ 31,442,660.40</b>	<b>\$ 390,421.46</b>

**City of Mineral Wells, Texas**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2008**

18

	Business-type Activities <u>Enterprise Funds</u>			Governmental Activities  Internal Service Funds
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	
<b><u>Operating Revenues</u></b>				
Water Sales	\$ 5,117,747.62		\$ 1,483,030.15	\$ 6,600,777.77
Connections	24,405.53			24,405.53
Sewer Revenues	3,102,584.79			3,102,584.79
Gasoline and Oil		\$ 928,030.23		928,030.23
Rentals		180,323.55		180,323.55
Miscellaneous Revenues	243,849.66	9,549.35	3,883.55	257,282.56
Other Services				\$ 1,151,531.06
<b>Total Operating Revenues</b>	<b>8,488,587.60</b>	<b>1,117,903.13</b>	<b>1,486,913.70</b>	<b>11,093,404.43</b>
<b><u>Operating Expenses</u></b>				
Public Works Administration	1,854,171.48		194,851.93	2,049,023.41
Water Distribution	1,051,706.55			1,051,706.55
Hilltop Water Treatment	1,438,273.47			1,438,273.47
Wastewater Treatment	1,076,336.32			1,076,336.32
Facility Maintenance	352,659.22			352,659.22
City Utility Service	492,667.55			492,667.55
Airport Operations		985,412.76		985,412.76
Self-Insurance				
Depreciation	769,638.49	260,031.36	609,617.50	1,639,287.35
<b>Total Operating Expenses</b>	<b>7,035,453.08</b>	<b>1,245,444.12</b>	<b>804,469.43</b>	<b>9,085,366.63</b>
<b>Operating Income (Loss)</b>	<b>1,453,134.52</b>	<b>(127,540.99)</b>	<b>682,444.27</b>	<b>2,008,037.80</b>
				(5,294.38)

<u>Nonoperating Revenues (Expenses)</u>					
Interest Earned	144,731.79	4.50	34,911.87	179,648.16	27,088.51
Oil and Gas Leases		3,870.40		3,870.40	
Contribution from Others		24,167.30		24,167.30	
Interest on Capital Leases		(21,838.45)		(21,838.45)	
Interest on Revenue Bonds	(300,665.21)		(441,515.36)	(742,180.57)	
<u>Total Nonoperating Revenues (Expenses)</u>	<u>(155,933.42)</u>	<u>6,203.75</u>	<u>(406,603.49)</u>	<u>(556,333.16)</u>	<u>27,088.51</u>
<u>Income (Loss) Before Operating Transfers</u>					
	1,297,201.10	(121,337.24)	275,840.78	1,451,704.64	21,794.13
Transfers In (Out)					
	(393,695.00)	(58,351.00)		(452,046.00)	
<u>Change in Net Assets</u>	<u>903,506.10</u>	<u>(179,688.24)</u>	<u>275,840.78</u>	<u>999,658.64</u>	<u>21,794.13</u>
Net Assets - Beginning	21,985,989.61	5,543,243.89	2,913,768.26	30,443,001.76	368,627.33
Net Assets - Ending	<u>\$ 22,889,495.71</u>	<u>\$ 5,363,555.65</u>	<u>\$ 3,189,609.04</u>	<u>\$ 31,442,660.40</u>	<u>\$ 390,421.46</u>

## City of Mineral Wells, Texas

## Statement of Cash Flows

## Proprietary Funds

For the Year Ended September 30, 2008

Cash Flows from Operating Activities

Receipts from Customers and Users  
 Receipts from Interfund Services  
 Payments to Suppliers  
 Payments to Employees  
 Payments to Other Governments

Net Cash Provided by Operating ActivitiesCash Flows from Noncapital Financing Activities

Transfers to Other Funds

Net Cash Provided by Noncapital Financing ActivitiesCash Flows from Capital Financing Activities

Principal Paid on Expendable Trust Loan  
 Grant Proceeds  
 Purchase of Capital Assets  
 Principal Paid on Debt  
 Interest Paid on Debt

Net Cash Used by Financing ActivitiesCash Flows from Investing Activities

Proceeds from Oil and Gas Leases  
 Interest Received

Net Cash Provided by Investing Activities

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents October 1, 2007

Cash and Cash Equivalents September 30, 2008

	Water and Sewer	Airport Operations	County Municipal Water District No.1	Palo Pinto Totals	Internal Service
Receipts from Customers and Users	\$ 8,578,645.40	\$ 1,098,208.45	\$ 1,485,968.91	\$ 11,162,822.76	
Receipts from Interfund Services	(4,217,264.26)	(835,536.12)	(189,836.18)	(5,242,636.56)	\$ 1,151,531.06
Payments to Suppliers	(1,855,609.85)	(139,436.31)		(1,995,046.16)	(1,154,633.26)
Payments to Employees	(140,497.26)	(10,781.69)		(151,278.95)	
Payments to Other Governments					
<u>Net Cash Provided by Operating Activities</u>	<u>2,365,274.03</u>	<u>112,454.33</u>	<u>1,296,132.73</u>	<u>3,773,861.09</u>	<u>(3,102.20)</u>
<u>Cash Flows from Noncapital Financing Activities</u>					
Transfers to Other Funds	(393,695.00)	(58,351.00)		(452,046.00)	
<u>Net Cash Provided by Noncapital Financing Activities</u>	<u>(393,695.00)</u>	<u>(58,351.00)</u>		<u>(452,046.00)</u>	
<u>Cash Flows from Capital Financing Activities</u>					
Principal Paid on Expendable Trust Loan		(89.74)		(89.74)	
Grant Proceeds		24,167.30		24,167.30	
Purchase of Capital Assets	(1,369,769.70)	(38,807.88)	(190,295.51)	(1,598,873.09)	
Principal Paid on Debt	(1,080,000.00)	(26,025.20)	(590,000.00)	(1,696,025.20)	
Interest Paid on Debt	(312,265.21)	(21,838.45)	(430,725.00)	(764,828.66)	
<u>Net Cash Used by Financing Activities</u>	<u>(2,762,034.91)</u>	<u>(62,593.97)</u>	<u>(1,211,020.51)</u>	<u>(4,035,649.39)</u>	
<u>Cash Flows from Investing Activities</u>					
Proceeds from Oil and Gas Leases		3,870.40		3,870.40	
Interest Received	144,731.79	4.50	36,375.09	181,111.38	27,088.51
<u>Net Cash Provided by Investing Activities</u>	<u>144,731.79</u>	<u>3,874.90</u>	<u>36,375.09</u>	<u>184,981.78</u>	<u>27,088.51</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(645,724.09)	(4,615.74)	121,487.31	(528,852.52)	23,986.31
Cash and Cash Equivalents October 1, 2007	4,900,903.20	24,096.17	872,209.01	5,797,208.38	368,627.33
Cash and Cash Equivalents September 30, 2008	<u>\$ 4,255,179.11</u>	<u>\$ 19,480.43</u>	<u>\$ 993,696.32</u>	<u>\$ 5,268,355.86</u>	<u>\$ 392,613.64</u>

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities

Operating Income	\$ 1,453,134.52	\$ (127,540.99)	\$ 682,444.27	\$ 2,008,037.80	\$ (5,294.38)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>					
Depreciation	769,638.49	260,031.36	609,617.50	1,639,287.35	
(Increase) Decrease in Accounts Receivable	73,794.49	(16,423.96)	(535.80)	56,834.73	
(Increase) Decrease in Taxes Receivable			(408.99)	(408.99)	
(Increase) Decrease in Due from Other Funds	55,152.71	(3,270.72)		51,881.99	
(Increase) Decrease in Restricted Assets	(38,889.40)			(38,889.40)	
(Increase) Decrease in Inventory	13,706.79	1,652.70		15,359.49	
Increase (Decrease) in Accounts Payable	28,347.45	(1,642.85)	5,015.75	31,720.35	
Increase (Decrease) in Wages/Fringe Benefit Payable	2,485.19	(351.21)		2,133.98	
Increase (Decrease) in Due to Other Funds	1,330.65			1,330.65	
Increase (Decrease) in Customer Deposits	6,573.14			6,573.14	
<u>Total Adjustments</u>	<u>912,139.51</u>	<u>239,995.32</u>	<u>613,688.46</u>	<u>1,765,823.29</u>	<u>2,192.18</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 2,365,274.03</u>	<u>\$ 112,454.33</u>	<u>\$ 1,296,132.73</u>	<u>\$ 3,773,861.09</u>	<u>\$ (3,102.20)</u>

Cash and Cash Equivalents at September 30, 2008

Cash Investments	\$ 108,037.79	\$ 19,480.43	\$ 3,347.78	\$ 130,866.00	\$ 32,895.23
Restricted Investments:	1,609,515.45		448,440.50	2,057,955.95	359,718.41
<u>Revenue Bond Debt Service</u>					
Revenue Bond Debt Service	1,017,114.36		341,908.04	1,359,022.40	
Revenue Bond Debt Reserve	1,163,025.87			1,163,025.87	
Revenue Bond Debt Emergency	40,161.69			40,161.69	
Revenue Bond Contingency			200,000.00	200,000.00	
Capital Projects	317,323.95			317,323.95	
<u>Total Cash and Cash Equivalents at September 30, 2008</u>	<u>\$ 4,255,179.11</u>	<u>\$ 19,480.43</u>	<u>\$ 993,696.32</u>	<u>\$ 5,268,355.86</u>	<u>\$ 392,613.64</u>

**City of Mineral Wells, Texas**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**September 30, 2008**

	<u>Trust</u>	<u>Agency</u>
	Private Purpose Trust Fund	Police Department Seized Fund
<b>Assets</b>		
Cash	\$ 1,860.67	
Investments	\$ 155,557.61	
Due from Airport Fund		
<b>Total Assets</b>	<u><u>\$ 155,557.61</u></u>	<u><u>\$ 1,860.67</u></u>
<b>Liabilities</b>		
Due to Others		\$ 1,860.67
<b>Total Liabilities</b>		<u><u>\$ 1,860.67</u></u>
<b>Net Assets</b>		
Held in Trust	\$ 155,557.61	
<b>Total Net Assets</b>	<u><u>\$ 155,557.61</u></u>	

**City of Mineral Wells, Texas**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended September 30, 2008**

	Trust
	Private Purpose Trust Fund
<b><u>Additions</u></b>	
Interest	\$ 7,551.47
<b><u>Total Additions</u></b>	<b><u>7,551.47</u></b>
<b><u>Deductions</u></b>	
Miscellaneous Services and Charges	112,650.00
Change in Net Assets	(105,098.53)
Net Assets - Beginning	260,656.14
<b><u>Net Assets - Ending</u></b>	<b><u>\$ 155,557.61</u></b>

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

**Note 1: Summary of Significant Accounting Policies**

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.

**A. Reporting Entity**

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" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, 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. The City has elected to report in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2008, in a blended format.

Complete financial statements for the individual component unit 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 assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. 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.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement 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 and fiduciary 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*. Revenues are recognized as soon as they are both 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property 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 assessments 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 cash is received by the government.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The government reports the following major governmental funds:

The *general fund* is the City'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* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the activities associated with the construction and/or acquisition of capital assets including street reconstruction projects and activities funded through Texas Capital grants.

The City reports the following major proprietary funds:

The *water and sewer enterprise fund* accounts for water and sewer operations.

The *airport fund* accounts for the operations of the municipal airport.

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

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

Additionally, the City reports the following fund types:

*Special revenue funds* are established to account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *permanent trust fund* is used to account for the sale of cemetery lots for Woodland Park Cemetery. Once a plot is sold, 75% of the proceeds are transferred to the City of Mineral Wells' general fund; the remaining 25% are recorded in the private purpose trust 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 *private-purpose trust fund* is used to account for money obtained from the sale of a donated building. This account is restricted for industrial recruiting purposes.

The *agency fund* is used to account for money encountered or confiscated by police and cannot be distributed due to lack of knowledge of rightful ownership.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The City has implemented GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. This statement requires the City to apply all FASB Statements and Interpretations, APB Opinions and ARB's issued after November 30, 1989, except those that conflict or contradict GASB pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to 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 include the cost of sales and services, administrative expenses and depreciation on capital assets. Operating expenses for the internal service fund include workers' compensation and health insurance premiums paid. 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 City's policy to use unrestricted resources first, then restricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City of Mineral Wells' 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.

State statutes authorize the City of Mineral Wells and the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and investment pools.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

1. Deposits and Investments (continued)

Investments for the City of Mineral Wells, as well as for its component unit, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due To/From Other Funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "Due To/From Other Funds".

All trade and property tax receivables, including those for the District, are shown net of an allowance for uncollectibles.

Property taxes are levied by October 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed.

3. Inventories

Inventories of materials and supplies are valued using the first-in, first-out (FIFO) method. Items purchased for inventory are expensed at the time of purchase. A physical inventory is taken at the end of the fiscal year. Adjustments to the inventory account are made at that time. The inventories recorded in the governmental fund statements do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000.00. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

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

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

4. Capital Assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs on fixed assets are not capitalized. Interest is charged to the debt service fund for assets acquired with bond funds. For assets purchased under capital lease agreements, interest is expensed in the fund responsible for making the lease payments.

According to the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, prospective reporting of general infrastructure is required at the effective date of Statement No. 34. The City had until the fiscal year beginning after June 15, 2006, to report retroactively all major general infrastructure assets, which they implemented for the year ended September 30, 2007. Effective October 1, 2001, the City began recording infrastructure prospectively as required by GASB Statement No. 34. Palo Pinto County Municipal Water District No. 1 has recorded all general infrastructure acquired, prospectively and retroactively.

Property, plant and equipment recorded in the governmental funds of the City of Mineral Wells are recorded at historical cost and are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	10-50
Public Domain Infrastructure	50
Vehicles	5-10
Equipment	5-10
Furniture and Fixtures	5-10
Other Improvements	10-20

Property, plant and equipment recorded in the enterprise funds of the City of Mineral Wells are recorded at historical cost and are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Distribution System	25-100
Furniture and Fixtures	10
Vehicles and Equipment	5
Improvements Other than Buildings	20-50
Collection System	50
Buildings	50

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

5. Restricted Assets

Certain resources set aside for the repayment of the City's and District's revenue bonds 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. See Note 3 (F) (4) for specific information regarding restricted assets.

6. Compensated and Uncompensated Absences

Full-time City employees receive two weeks paid vacation annually after one year of service and three weeks paid vacation annually after ten years of service, which must be used within the subsequent year. Accumulated vacation is paid upon termination. Sick leave accrues at the rate of one work day for each month of employment after a six month probationary period. Accumulation of sick leave is allowed to a maximum of 120 work days. No benefit or pay is received for unused sick leave upon termination.

Accumulated vacation and sick leave is not considered to be material; therefore, no provision for this has been made in the accompanying financial statements. Full-time employees are allowed to carry over up to five days of compensated absences.

The City's policy is that uncompensated time earned by employees should be taken within two weeks of being earned. Uncompensated time is expected to be liquidated with expendable available financial resources and has therefore been reported as an expenditure and a fund liability of the governmental fund that will pay it.

7. 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

8. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are segregated for a specific purpose. Restrictions of net assets are limited to outside third-party restrictions.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

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 line item 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.

Palo Pinto County Municipal Water District No. 1's official budget for fiscal period ended September 30, 2008, was formally adopted by the Board of Directors at a duly advertised meeting on August 31, 2007, and by the City Council on September 18, 2007, prior to the expenditure of funds. The budget was prepared on a basis consistent with generally accepted accounting principles. The level of budgetary responsibility is by total appropriations. Any revisions that alter the total appropriations of any fund must be approved by the District's Board of Directors.

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 September 30, 2008, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no end of year outstanding encumbrances that were provided for in the subsequent year's budget.

Expenditures exceeded appropriations in the debt service fund due to a decline in projected tax revenues. The deficit was funded by prior year fund balance. Expenditures exceeded appropriations in the capital projects fund due to construction projects which cover more than one fiscal year. The deficit was funded by prior year fund balance and transfers from the general fund.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

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 pledged U.S. Agency Notes. The Agency Notes are held by Texas Independent Bank, Dallas, Texas, the depository's correspondent bank in the name of the depository 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.

At year end, the City's and the component unit's carrying amount of deposits was \$1,093,630.39 and the bank balance was \$1,918,420.53. Of these amounts, \$200,000.00 are restricted certificates of deposit for compliance with the Palo Pinto County Municipal Water District No. 1's debt service requirements.

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. As of September 30, 2008, \$1,651,411.84 of the City's bank balance of \$1,918,420.53 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the government's name. Although the pledged securities are not in the name of the City of Mineral Wells, the deposits are deemed collateralized under Texas Law.

The City's investment policy regarding bank depository services requires the Director of Finance to hold evidence of collateral held by a third party. The Palo Pinto County Municipal Water District No. 1's investment policy regarding bank depository services requires the District's secretary to hold evidence of collateral held by a third party.

Investments

The City maintains cash in investment pools that are available for use by various funds of the primary government. The individual fund's portion of these pools are displayed on the Governmental Fund Balance Sheet as either "Cash and Cash Equivalents" or "Investments" and on the Proprietary Fund Statement of Net Assets as "Cash and Cash Equivalents", "Investments" or "Restricted Cash and Investments". Interest income is allocated on a percentage basis according to the pro rata portion of the balance in the investment accounts.

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

- (1) U.S. Treasury, Agency and Instrumentality securities maturing in less than two years (except reserve, endowment and other long-term capital preservation funds which may be invested up to five years);
- (2) Fully insured or collateralized certificates of deposit from commercial banks and savings and loan associations;

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investments (continued)

- (3) Local government investment pools which adhere to a strategy consistent with this policy;
- (4) Other such securities or obligations approved by the City Council and eligible under the Public Funds Investment Act, as amended.

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 responsibility 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 the 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. TexSTAR was created in April 2002 by contract among its participating governmental units and it is governed by a Board of Directors (the "Board"). JPMorgan Fleming Asset Management (USA), Inc. (JPMFAM) and First Southwest Asset Management, Inc. (FSAM) act as co-administrators, providing investment management services, and participant services and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Inc., provides custodial, transfer agency, fund accounting and depository services. TexSTAR is operated in full compliance with the Texas Public Funds Investment Act.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investments (continued)

The City's and the component unit's investments, carried at fair value, at September 30, 2008 are as follows:

	Fair Value	Effective Duration (in Years)
City of Mineral Wells:		
TexPool	\$ 1,645,194.57	—
TexSTAR	<u>7,732,949.31</u>	—
	<u>9,378,143.88</u>	
Component Unit:		
TexSTAR	<u>790,348.54</u>	—
	<u><u>Total Investments</u></u>	<u><u>\$ 10,168,492.42</u></u>

Interest Rate Risk – In accordance with its investment policy, the City's and the component unit's core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Credit Risk – As of September 30, 2008, the City's and the component unit's investment in TexSTAR was rated AAA by Standard and Poors and the City's investment in TexPool was rated AAA by Standard and Poors.

B. Receivables

Receivables as of year end for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	PP County						Total
	General	Debt Service	Municipal Water District	Water and Sewer	Airport		
Receivables:							
Taxes	\$ 170,754.98	\$ 54,862.95	\$ 10,598.98				\$ 236,216.91
Accounts	307,180.62	683.84	1,262.63	\$ 667,723.75	\$ 42,609.41		1,019,460.25
Franchise Fees	191,957.76						191,957.76
Lease		1,581,272.03					1,581,272.03
Intergovernmental	383,191.85						383,191.85
Gross Receivables	1,053,085.21	1,636,818.82	11,861.61	667,723.75	42,609.41		3,412,098.80
Less: Allowance for Uncollectibles	( 131,481.34)	( 42,244.47)	( 10,069.03)	( 23,445.99)			( 207,240.83)
<u>Net Total Receivables</u>	<u>\$ 921,603.87</u>	<u>\$ 1,594,574.35</u>	<u>\$ 1,792.58</u>	<u>\$ 644,277.76</u>	<u>\$ 42,609.41</u>		<u>\$ 3,204,857.97</u>

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2008, was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,662,550.00			\$ 1,662,550.00
Construction-in-Progress	1,183,153.56	\$ 2,092,573.27	(\$ 1,525,897.95)	1,749,828.88
<b>Total Capital Assets, Not     Being Depreciated</b>	<b>2,845,703.56</b>	<b>2,092,573.27</b>	<b>( 1,525,897.95)</b>	<b>3,412,378.88</b>
Capital Assets, Being Depreciated:				
Buildings	4,347,907.22	448,644.59	( 399,356.87)	4,397,194.94
Improvements Other than Buildings	1,603,670.10	118,684.19		1,722,354.29
Equipment	2,083,621.50	27,649.70		2,111,271.20
Vehicles	2,481,939.49	186,544.66	(201,455.51)	2,467,028.64
Furniture and Fixtures	302,788.31	12,063.00		314,851.31
Infrastructure	47,624,435.47	1,077,253.36		48,701,688.83
<b>Total Capital Assets,     Being Depreciated</b>	<b>58,444,362.09</b>	<b>1,870,839.50</b>	<b>( 600,812.38)</b>	<b>59,714,389.21</b>
Less Accumulated Depreciation for:				
Buildings	( 1,516,894.46)	( 90,016.40)	350,587.28	( 1,256,323.58)
Improvements Other than Buildings	( 691,840.63)	( 86,084.57)		( 777,925.20)
Equipment	( 1,446,376.09)	( 169,223.54)		( 1,615,599.63)
Vehicles	( 1,793,271.54)	( 157,011.90)	201,455.51	( 1,748,827.93)
Furniture and Fixtures	( 229,525.49)	( 25,541.06)		( 255,066.55)
Infrastructure	( 19,513,690.61)	( 1,242,379.56)		( 20,756,070.17)
<b>Total Accumulated     Depreciation</b>	<b>( 25,191,598.82)</b>	<b>( 1,770,257.03)</b>	<b>552,042.79</b>	<b>( 26,409,813.06)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>33,252,763.27</b>	<b>100,582.47</b>	<b>( 48,769.59)</b>	<b>33,304,576.15</b>
<b><u>Governmental Activities</u></b>				
Capital Assets, Net	<b>\$ 36,098,466.83</b>	<b>\$ 2,193,155.74</b>	<b>(\$ 1,574,667.54)</b>	<b>\$ 36,716,955.03</b>

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,506,788.51			\$ 2,506,788.51
Construction-in- Progress	284,549.70	\$ 1,320,467.69	(\$ 254,969.70)	1,350,047.69
<u>Total Capital Assets, Not         Being Depreciated</u>	<u>2,791,338.21</u>	<u>1,320,467.69</u>	<u>( 254,969.70)</u>	<u>3,856,836.20</u>
Capital Assets, Being Depreciated:				
Buildings	4,312,353.74	231,930.54		4,544,284.28
Improvements Other than Buildings	15,468,575.85	31,877.34		15,500,453.19
Infrastructure	5,043,980.00			5,043,980.00
Equipment	186,259.28			186,259.28
Distribution System	32,960,663.89	254,969.70		33,215,633.59
Collection System	5,110,684.17			5,110,684.17
Vehicles	2,476,241.59	223,202.52	(61,721.10)	2,637,723.01
Furniture and Fixtures	223,317.14	16,395.00		239,712.14
<u>Total Capital Assets,         Being Depreciated</u>	<u>65,782,075.66</u>	<u>758,375.10</u>	<u>( 61,721.10)</u>	<u>66,478,729.66</u>
Less Accumulated Depreciation for:				
Buildings	( 2,464,000.77)	( 88,117.79)		( 2,552,118.56)
Improvements Other than Buildings	( 4,478,386.86)	( 319,510.83)		( 4,797,897.69)
Infrastructure	( 727,640.96)	( 220,692.96)		( 948,333.92)
Equipment	( 157,595.23)	( 3,276.00)		( 160,871.23)
Distribution System	( 14,674,707.55)	( 815,735.94)		( 15,490,443.49)
Collection System	( 2,620,945.97)	( 102,213.68)		( 2,723,159.65)
Vehicles	( 2,224,131.12)	( 84,029.46)	61,721.10	( 2,246,439.48)
Furniture and Fixtures	( 193,885.84)	( 5,710.69)		( 199,596.53)
<u>Total Accumulated         Depreciation</u>	<u>( 27,541,294.30)</u>	<u>( 1,639,287.35)</u>	<u>61,721.10</u>	<u>( 29,118,860.55)</u>
<u>Total Capital Assets,         Being Depreciated, Net</u>	<u>38,240,781.36</u>	<u>( 880,912.25)</u>		<u>37,359,869.11</u>
<u>Business-type Activities</u>				
<u>Capital Assets, Net</u>	<u>\$ 41,032,119.57</u>	<u>\$ 439,555.44</u>	<u>(\$ 254,969.70)</u>	<u>\$ 41,216,705.31</u>

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

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

<u>Governmental Activities</u>	
General Administration	\$ 10,472.95
Finance	6,048.44
Fleet Maintenance	1,881.96
Police	61,775.17
Emergency Management System	147,001.41
Streets, Including Infrastructure	1,369,778.43
Parks and Recreation	143,123.48
Cemetery	10,853.11
Library	14,669.87
Inspections	4,652.21
<u>Total Depreciation Expense -</u>	
<u>Governmental Activities</u>	<u>\$ 1,770,257.03</u>
<u>Business-type Activities</u>	
Water and Sewer	\$ 769,638.49
Airport	260,031.36
Palo Pinto County Municipal Water District No. 1	609,617.50
<u>Total Depreciation Expense -</u>	
<u>Business-type Activities</u>	<u>\$ 1,639,287.35</u>

D. Interfund Receivables, Payables and Transfers

Interfund Payables and Receivables:

Fund	Receivable	Payable
<b>Major Fund:</b>		
General Fund	\$ 1,330.65	\$ 39,967.94
Water Fund	38,889.40	1,330.65
Airport Fund	3,270.72	
Insurance Fund		2,192.18
<u>Total</u>	<u>\$ 43,490.77</u>	<u>\$ 43,490.77</u>

Revenues and expenses related to multiple funds are recorded in one fund and allocated to other funds through interfund payable and receivable accounts.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

D. Interfund Receivables, Payables and Transfers (continued)

Interfund Transfers:

	Transfers In:		
	General Fund	Capital Projects Fund - Streets	Total
<b>Transfers Out:</b>			
General Fund		\$ 802,204.00	\$ 802,204.00
Water Fund	\$ 393,695.00		393,695.00
Nonmajor Governmental	15,766.66		15,766.66
Airport Fund	58,351.00		58,351.00
<b>Total</b>	<b>\$ 467,812.66</b>	<b>\$ 802,204.00</b>	<b>\$ 1,270,016.66</b>

The City transferred funds to the capital project fund to finance on-going street and water improvement projects and for the construction of a new animal shelter. Each year the City calculates the water and sewer and the airport fund's portion of administrative costs incurred by the general fund and charges those activities with their pro rata share. Permanent fund transfers to the general fund consist of investment earnings and are used for the operations of the cemetery.

E. Leases

1. 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-hangars at the municipal airport. None of the leases are non-cancelable nor contain contingent rentals.

2. Capital Leases

The City is the lessee of T-hangars with a cost of \$660,249.51 and accounted for in the airport fund. Interest rates range from 3.43% to 6.0%.

On May 1, 2007, the City approved a contract between the Mineral Wells Local Government Corporation (MWLGC) and Bob Sturdivant for the construction of a ten unit airport hangar for \$225,000.00. Upon completion of the project in fiscal year 2008, the MWLGC's rights in the T-hangars were transferred to the City and the City assumed a \$225,000.00 nonrecourse promissory note payable in semi-annual installments over 15 years at 6% per annum interest.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

E. Leases (continued)

2. Capital Leases (continued)

Future minimum lease payments at September 30, 2008 are as follows:

<u>Year Ending September 30</u>	<u>Business-type Activities Airport Fund</u>
2009	\$ 59,342.98
2010	59,342.98
2011	59,342.98
2012	59,342.98
2013	50,946.52
2014-2018	212,750.30
2019-2021	<u>152,292.47</u>
 <u>Total</u>	 653,361.21
 Amount Representing Interest	 ( 197,067.82)
 Present Value of Net Minimum Lease Payments	 <u>\$ 456,293.39</u>

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Business-type Activities</u>
T-hangar	\$ 660,249.51
Less: Accumulated Depreciation	( 58,093.46)
 <u>Total</u>	 <u>\$ 602,156.05</u>

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

**F. Long-term Debt**

**1. General Obligation Bonds**

At year end, the General Obligation Refunding and Improvement Bond, Series 2002 was outstanding. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending Sept. 30	Governmental Activities	
	Principal	Interest
2009	\$ 455,000.00	\$ 131,818.00
2010	475,000.00	114,949.00
2011	490,000.00	96,549.00
2012	505,000.00	77,208.00
2013	465,000.00	58,060.00
2014-2016	<u>1,140,000.00</u>	<u>62,680.00</u>
<b>Total</b>	<b><u>\$ 3,530,000.00</u></b>	<b><u>\$ 541,264.00</u></b>

**2. Revenue Bonds**

The City and its component unit also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

At year end, the water and sewer fund's Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2002; the Waterworks and Sewer Revenue Refunding and Improvements Bonds, Series 2002A; the Waterworks and Sewer Revenue Refunding Bonds, Series 2003 and the Palo Pinto County Municipal Water District No. 1's Revenue Refunding Bonds, Series 2001 and Revenue Refunding Bonds, Series 2002 were outstanding. Revenue bonds outstanding at year end are as follows:

Business-type Activities	2.15% - 5.35%	<u>\$ 15,545,000.00</u>
<b>Total</b>		<b><u>\$ 15,545,000.00</u></b>

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

2. Revenue Bonds (continued)

Revenue bond debt service requirements to maturity are as follows:

Year Ending Sept. 30	Business-type Activities	
	Principal	Interest
2009	\$ 1,740,000.00	\$ 626,042.00
2010	1,805,000.00	559,827.00
2011	1,745,000.00	491,375.00
2012	1,815,000.00	421,117.00
2013	1,735,000.00	352,664.00
2014-2018	4,420,000.00	983,625.00
2019-2023	2,285,000.00	345,698.00
<u>Total</u>	<u>\$ 15,545,000.00</u>	<u>\$ 3,780,348.00</u>

3. Special Assessment Debt

The City obtained six loans in previous fiscal years 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 coincides 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. The debt service fund has been used to record the receivable and deferred revenue from the lease of the facilities and the general long-term debt account group has been used to record the loans payable to the State.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

3. Special Assessment Debt (continued)

Annual debt service requirements to maturity for special assessment debt are as follows:

Year Ending Sept. 30	Principal
2009	\$ 121,500.12
2010	121,500.12
2011	121,500.12
2012	121,500.12
2013	121,500.12
2014-2018	569,583.89
2019-2023	323,063.23
2024-2026	<u>81,124.31</u>
<u>Total</u>	<u>\$ 1,581,272.03</u>

4. Compliance with Debt Service Requirements

The bond resolutions for the City of Mineral Wells relating to the outstanding revenue bonds contain covenants pertaining to the maintenance of a "reserve fund" and an "emergency fund". The City is required to maintain \$1,158,356.34 in the reserve fund, an amount equal to the average annual principal and interest requirements of all outstanding revenue bonds, and \$40,000.00 in the emergency fund. At September 30, 2008, the reserve fund balance was \$1,163,025.87 and the emergency fund balance was \$40,161.69.

The provisions of the bond ordinance resolutions for the Palo Pinto County Municipal Water District No. 1's outstanding revenue bonds require a reserve fund of \$830,464.00 to be maintained. If the balance falls below this threshold, the District is required to deposit \$8,528.00 monthly to replenish the fund or the District can issue a reserve fund obligation. At September 30, 2008, the District's reserve fund obligation was held in the form of a surety bond.

The provisions of the District's bond ordinance resolutions also require a "contingency fund" of \$200,000.00 to be maintained. Monthly deposits of \$3,334.00 are required to be made when the contingency fund falls below the required balance. At September 30, 2008, the contingency fund had a balance of \$200,000.00.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 3: Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

5. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<b>Governmental Activities</b>					
Bonds Payable:					
General Obligation Bonds	\$ 3,965,000.00		(\$ 435,000.00)	\$ 3,530,000.00	\$ 455,000.00
<b>Total Bonds Payable</b>	<b>3,965,000.00</b>		<b>( 435,000.00)</b>	<b>3,530,000.00</b>	<b>455,000.00</b>
Capital Leases	172,365.88		( 172,365.88)		
Special Assessment Debt	1,702,772.15		( 121,500.12)	1,581,272.03	121,500.12
<b>Governmental Activity     Long-term Liabilities</b>	<b>\$ 5,840,138.03</b>	<b>\$ 0.00</b>	<b>(\$ 728,866.00)</b>	<b>\$ 5,111,272.03</b>	<b>\$ 576,500.12</b>
<b>Business-type Activities</b>					
Bonds Payable:					
Revenue Bonds	\$ 17,215,000.00		(\$ 1,670,000.00)	\$ 15,545,000.00	\$ 1,740,000.00
<b>Total Bonds Payable</b>	<b>17,215,000.00</b>		<b>( 1,670,000.00)</b>	<b>15,545,000.00</b>	<b>1,740,000.00</b>
Capital Leases	257,318.59	\$ 225,000.00	( 26,025.20)	456,293.39	59,342.98
<b>Business-type Activity     Long-term Liabilities</b>	<b>\$ 17,472,318.59</b>	<b>\$ 225,000.00</b>	<b>(\$ 1,696,025.20)</b>	<b>\$ 16,001,293.39</b>	<b>\$ 1,799,342.98</b>

6. Interest Expense

Interest expense for the year ended September 30, 2008 is as follows:

Governmental Activities	\$ 158,181.09
Business-type Activities	\$ 764,019.02

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information

A. Major Component Unit

The condensed Statement of Net Assets and Statement of Activities for the Palo Pinto County Municipal Water District No. 1 are as follows:

Statement of Net Assets

	Business-type Activities
<b>Assets</b>	
Cash in Bank	\$ 3,347.78
Investments	448,440.50
Accounts Receivable	1,262.63
Taxes Receivable (Net of Allowance for Uncollectible Property Taxes)	529.95
Interest Receivable	7,336.78
Restricted Assets:	
Cash & Investments	541,908.04
Capital Assets:	
Land and Construction-in-Progress	1,346,742.43
Other Capital Assets (Net of Accumulated Depreciation)	9,722,661.36
Bond Insurance Premium (Net of Accumulated Amortization)	12,878.10
Bond Issuance Costs (Net of Accumulated Amortization)	<u>183,517.24</u>
	<u>12,268,624.81</u>
<b>Total Assets</b>	
<b>Liabilities</b>	
Accounts Payable	5,015.75
Interest Payable	134,928.67
Revenue Bonds Payable:	
Due within One Year	620,000.00
Due in More than One Year	8,315,000.00
Bond Premium (Net of Accumulated Amortization)	<u>4,071.35</u>
	<u>9,079,015.77</u>
<b>Net Assets</b>	
Invested in Capital Assets Net of Related Debt	2,326,727.78
Restricted for:	
Debt Service	406,979.37
Unrestricted	<u>455,901.89</u>
	<u>\$ 3,189,609.04</u>
<b>Total Net Assets</b>	

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

A. Major Component Unit (continued)

	<u>Statement of Activities</u>			Net (Expenses) Revenue and Changes in Net Assets Business-type Activities
			Program Revenue	
	Expenses	Charges for Services		
Business-type Activities:				
Water	\$ 804,469.43	\$ 1,485,005.15	\$ 680,535.72	
Interest on Long-term Debt	441,515.36		( 441,515.36)	
<u>Total Business-type Activities</u>	<u>\$ 1,245,984.79</u>	<u>\$ 1,485,005.15</u>		<u>239,020.36</u>
General Revenue:				
Property Tax			1,908.55	
Investment Earnings			34,911.87	
<u>Total Revenues</u>			<u>36,820.42</u>	
<u>Change in Net Assets</u>				<u>275,840.78</u>
Net Assets - October 1, 2007				<u>2,913,768.26</u>
Net Assets - September 30, 2008			\$ 3,189,609.04	

Water sales to the City amounted to \$1,430,000.00.

B. Employee Retirement Systems

1. Employee Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

1. Employee Retirement Plan (continued)

Plan Description (continued)

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

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

Deposit Rate	5%
Matching Ratio (City to Employee)	2 to 1
A Member is Vested after	5 Years

Members can retire at certain ages, based on the years of service with the City.

The service retirement eligibilities for the City (expressed as years of service/age) are:

5 years/age 60, 20 years/any age

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City's contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

1. Employee Retirement Plan (continued)

Contributions (continued)

one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2006 valuation is effective for rates beginning January 2008).

City of Mineral Wells  
Schedule of Actuarial Liabilities and Funding Progress  
September 30, 2007

Actuarial Valuation Date	12/31/07	12/31/06	12/31/05
Actuarial Value of Assets	\$ 9,909,674.00	\$ 9,596,603.00	\$ 10,103,838.00
Actuarial Accrued Liability	\$ 13,982,856.00	\$ 11,570,038.00	\$ 11,801,489.00
Percentage Funded	70.90%	82.94%	85.60%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	\$ 4,073,182.00	\$ 1,973,435.00	\$ 1,697,651.00
Annual Covered Payroll	\$ 5,916,079.00	\$ 5,379,999.00	\$ 5,023,071.00
UAAL as a Percentage of Covered Payroll	68.80%	36.68%	33.80%
Net Pension Obligation (NPO) at the Beginning of Period	\$ 0.00	\$ 0.00	\$ 0.00
Annual Pension Cost:			
Annual Required Contribution (ARC)	\$ 472,859.73	\$ 435,695.63	\$ 414,759.49
Interest on NPO			
Adjustment to the ARC	\$ 472,859.73	\$ 435,695.63	\$ 414,759.49
Contributions Made	\$ 472,859.73	\$ 435,695.63	\$ 414,759.49
Increase in NPO			
NPO at the End of Period	\$ 0.00	\$ 0.00	\$ 0.00

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

1. Employee Retirement Plan (continued)

Contributions (continued)

Actuarial Valuation Date	12/31/04	12/31/03	12/31/02
Actuarial Value of Assets	\$ 9,851,712.00	\$ 9,819,821.00	\$ 9,772,409.00
Actuarial Accrued Liability	\$ 11,515,720.00	\$ 11,425,381.00	\$ 11,174,291.00
Percentage Funded	85.60%	85.90%	87.50%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	\$ 1,664,008.00	\$ 1,605,560.00	\$ 1,401,882.00
Annual Covered Payroll	\$ 4,684,944.00	\$ 4,732,688.00	\$ 4,689,759.00
UAAL as a Percentage of Covered Payroll	35.50%	33.90%	29.90%
Net Pension Obligation (NPO) at the Beginning of Period	\$ 0.00	\$ 0.00	\$ 0.00
Annual Pension Cost:			
Annual Required Contribution (ARC)	\$ 380,547.70	\$ 376,198.28	\$ 368,715.58
Interest on NPO			
Adjustment to the ARC	\$ 380,547.70	\$ 376,198.28	\$ 368,715.58
Contributions Made	\$ 380,547.70	\$ 376,198.28	\$ 368,715.58
Increase in NPO			
NPO at the End of Period	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

Actuarial Assumptions

Actuarial assumptions for the Plan as of September 30, 2008 are as follows:

Actuarial Cost Method	Projected Unit Credits
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years - Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by Age and Service
Includes Inflation at	3.0%
Cost-of-Living Adjustments	2.1% (3.0% CPI)

The City of Mineral Wells is one of 827 municipalities having the benefit plan administered by TMRS. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12-31-07 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, TX 78714-9153.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

2. Volunteer Fire Fighter's Retirement Fund

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2008, there were 186 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2008, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	1,939
Terminated Participants Entitled to Benefits but Not Yet	
Receiving Them	1,975
Active Participants (Vested and Nonvested)	<u>4,340</u>
 <u>Total</u>	 <u>8,254</u>

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), recodified the provisions and gave 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  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

2. Volunteer Fire Fighter's Retirement Fund (continued)

Funding Policies

Contribution provisions were originally established by S.B. 411, 65<sup>th</sup> 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 to 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, 2008, total contributions (dues and prior service) of \$2,439,339.00 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the State appropriated \$8,800,000.00 for the fiscal year ending August 31, 2008. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2006 actuarial valuation. The City's contribution for fiscal year ended September 30, 2008, amounted to \$8,280.00 for active members and \$16,560.00 for retiree benefits.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2008 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2009 (\$415,405.00 to help pay for TESRS's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years for up to 30 years as is necessary for TESRS to have a 30-year amortization period, and (2) approximately \$425,000.00 each year to help pay for TESRS's administrative expenses. Expected contributions for the fiscal year ending August 31, 2009 are equal to the contributions required.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

2. Volunteer Fire Fighter's Retirement Fund (continued)

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>1</sup> (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/2002 <sup>2</sup>	\$ 32,797,262	\$ 45,976,387	\$ 13,179,125	71.3%	7,669	\$ 1,718
8/31/2004	\$ 38,140,501	\$ 51,567,426	\$ 13,426,925	74.0%	7,994	\$ 1,680
8/31/2006 <sup>2</sup>	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
8/31/2008 <sup>3</sup>	\$ 60,987,157	\$ 64,227,341	\$ 3,240,184	95.0%	8,254	\$ 393

Notes: <sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.

<sup>3</sup> Changes in actuarial assumptions were reflected in this valuation.

Fiscal Year Ending August 31,	Annual Required Contribution	Actual Contributions	Percentage Contributed
2002	\$ 1,768,059	\$ 1,768,059	100%
2003	\$ 2,896,557	\$ 1,833,310	63%
2004	\$ 2,896,557	\$ 1,891,243	65%
2005	\$ 3,206,300	\$ 1,606,759	50%
2006	\$ 2,753,035 <sup>1</sup>	\$ 2,753,035 <sup>3</sup>	100%
2007	\$ 3,162,742 <sup>2</sup>	\$ 3,162,742 <sup>4</sup>	100%
2008	\$ 3,160,764 <sup>3</sup>	\$ 11,239,339 <sup>5</sup>	356%

Notes: <sup>1</sup> Based on the revised August 31, 2004 actuarial valuation.

<sup>2</sup> Based on the August 31, 2006 actuarial valuation.

<sup>3</sup> Includes a state contribution of \$675,307.

<sup>4</sup> Includes a state contribution of \$709,072.

<sup>5</sup> Includes a state contribution of \$8,800,000.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

B. Employee Retirement Systems (continued)

2. Volunteer Fire Fighter's Retirement Fund (continued)

Required Supplementary Information (continued)

Notes to the Required Supplementary Information

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

Valuation Date	August 31, 2008
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	6 Years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value
Actuarial Assumptions:	
Investment Rate of Return*	8.00% Per Year, Net of Investment Expenses
Projected Salary Increases	N/A
*Includes Inflation at	3.50%
Cost-of-Living Adjustments	None

C. 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 Development Corporation had little activity in prior years; however, in April 1997 they issued \$8,000,000.00 of economic development

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 4: Other Information (continued)

C. Related Organizations (continued)

bonds which were approved by the City of Mineral Wells, but which do not constitute a debt or pledge of the faith or credit of the City. The assets of the Development Corporation are immaterial to the financial statements of the City of Mineral Wells. The Development Corporation is not included as a component unit of the City for financial reporting purposes.

D. Risk Management

The City of Mineral Wells is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, injuries to employees and natural disasters; errors and omissions. The City entered into agreements 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. The City entered into the liability coverage pool in February 1985. 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.

As of March 1, 1990, the City of Mineral Wells became self-funded for workers' compensation insurance. 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 \$100,000.00 per occurrence and overall aggregate stop loss of \$300,000.00 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.

Note 5: Subsequent Event

On January 16, 2009, the Palo Pinto County Municipal Water District No. 1 was approved to purchase \$2,400,000 Subordinate Revenue Bonds (Tax Exempt), Proposed Series 2009A and \$3,200,000 Subordinate Revenue Bonds (Taxable) Proposed Series 2009B by the Texas Water Development Board. In addition, the Texas Water Development Board approved a grant of \$2,400,000 from the Economically Distressed Areas Programs. The funds would be used to construct the Turkey Peak Reservoir in Palo Pinto County to meet projected water demands beyond the year 2060. As of the report date, the District has not accepted the financing. The loan commitment is due to expire on January 31, 2010.

Note 6: Commitments

On July 3, 2007, the City awarded a bid for the construction of the 2006-2007 Street Improvement Program to Jay Mills Contracting, Inc. in the amount of \$1,593,051.25. Construction costs, including additional costs on change orders, of \$1,858,217.35 were incurred through September 30, 2008.

City of Mineral Wells  
Notes to Financial Statements  
September 30, 2008

Note 6: Commitments (continued)

On May 6, 2008, the City awarded a bid for the construction of the 2007-2008 Street Improvement Program to Jay Mills Contracting, Inc. in the amount of \$1,038,780.50. Construction costs of \$803,931.78 were incurred through September 30, 2008.

## **REQUIRED SUPPLEMENTARY INFORMATION**

City of Mineral Wells, Texas  
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund  
For the Year Ended September 30, 2008

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 7,325,400.00	\$ 7,325,400.00	\$ 8,272,019.82	\$ 946,619.82
Licenses and Permits	93,400.00	93,400.00	148,844.22	55,444.22
Intergovernmental	271,214.00	271,214.00	181,484.63	(89,729.37)
Charges for Services	690,200.00	690,200.00	906,722.22	216,522.22
Fines	165,000.00	165,000.00	252,558.23	87,558.23
Interest Earned	125,000.00	125,000.00	133,210.15	8,210.15
<b>Total Revenues</b>	<b>8,670,214.00</b>	<b>8,670,214.00</b>	<b>9,894,839.27</b>	<b>1,224,625.27</b>
<b>Expenditures</b>				
Administrative	975,111.00	975,111.00	698,015.15	277,095.85
Finance	475,098.00	475,098.00	451,840.50	23,257.50
Fleet Maintenance	639,771.00	639,771.00	745,346.46	(105,575.46)
Police	2,132,426.00	2,132,426.00	2,177,133.37	(44,707.37)
Fire & Emergency Medical Services	1,650,036.00	1,650,036.00	1,314,165.41	335,870.59
Inspections	387,030.00	387,030.00	303,750.13	83,279.87
Streets	1,457,096.00	1,457,096.00	1,466,753.41	(9,657.41)
Sanitation	109,109.00	109,109.00	198,213.69	(89,104.69)
Parks and Recreation	866,747.00	866,747.00	846,161.75	20,585.25
Cemetery	328,324.00	328,324.00	339,428.74	(11,104.74)
Library	340,586.00	340,586.00	346,952.22	(6,366.22)
Debt Service:				
Principal	172,366.00	172,366.00	172,365.88	0.12
Interest and Fiscal Fees	4,447.00	4,447.00	4,446.70	0.30
<b>Total Expenditures</b>	<b>9,538,147.00</b>	<b>9,538,147.00</b>	<b>9,064,573.41</b>	<b>473,573.59</b>
Excess (Deficiency) of Revenues over Expenditures	(867,933.00)	(867,933.00)	830,265.86	1,698,198.86
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets			18,897.99	18,897.99
Transfers In	472,507.00	472,507.00	467,812.66	(4,694.34)
Transfers (Out)	(1,000,000.00)	(1,000,000.00)	(802,204.00)	197,796.00
Insurance Proceeds	1,000.00	1,000.00		(1,000.00)
<b>Total Other Financing Sources (Uses)</b>	<b>(526,493.00)</b>	<b>(526,493.00)</b>	<b>(315,493.35)</b>	<b>210,999.65</b>
Net Change in Fund Balance	(1,394,426.00)	(1,394,426.00)	514,772.51	1,909,198.51
Fund Balance - Beginning	1,401,861.00	1,401,861.00	4,388,705.52	2,786,055.04
Fund Balance - Ending	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 4,903,478.03</b>	<b>\$ 4,903,478.03</b>

## **OTHER SUPPLEMENTARY INFORMATION**

City of Mineral Wells, Texas  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2008

	<u>Special Revenue Funds</u>		<u>Permanent Fund</u>		Total Nonmajor Governmental Funds
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	Woodland Park		
<u>Assets</u>					
Cash Investments		\$ 6,574.93	\$ 1,818.20 442,007.01		\$ 8,393.13 442,007.01
<u>Total Assets</u>	\$ 0.00	\$ 6,574.93	\$ 443,825.21		\$ 450,400.14
<u>Liabilities</u>					
Accounts Payable Due to Other Funds					
<u>Total Liabilities</u>					
<u>Fund Balance</u>					
Unreserved and Undesignated:					
Reported in Special Revenue Fund		\$ 6,574.93		\$ 6,574.93	
Reported in Permanent Fund			\$ 443,825.21		443,825.21
<u>Total Fund Balance</u>		6,574.93	443,825.21		450,400.14
<u>Total Liabilities and Fund Balances</u>	\$ 0.00	\$ 6,574.93	\$ 443,825.21	\$	450,400.14

City of Mineral Wells, Texas  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2008

	<u>Special Revenue Funds</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Hotel/Motel Occupancy Tax</u>	<u>Police Department Forfeitures</u>	<u>Woodland Park</u>	
<u>Revenues</u>				
Occupancy Taxes	\$ 121,706.78			\$ 121,706.78
Cemetery Lots			\$ 10,459.12	10,459.12
Miscellaneous Revenue		\$ 15,088.30		15,088.30
Interest Earned			14,196.15	14,196.15
<u>Total Revenues</u>	<u>121,706.78</u>	<u>15,088.30</u>	<u>24,655.27</u>	<u>161,450.35</u>
<u>Expenditures</u>				
Hotel/Motel Occupancy	121,098.25			(121,098.25)
Police		8,513.37		(8,513.37)
<u>Total Expenditures</u>	<u>121,098.25</u>	<u>8,513.37</u>		<u>(129,611.62)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	608.53	6,574.93	24,655.27	31,838.73
<u>Other Financing Sources (Uses)</u>				
Transfer to General Fund	(608.53)		(15,158.13)	(15,766.66)
<u>Total Other Financing Sources (Uses)</u>	<u>(608.53)</u>		<u>(15,158.13)</u>	<u>(15,766.66)</u>
Net Change in Fund Balances		6,574.93	9,497.14	16,072.07
Fund Balances - Beginning			434,328.07	434,328.07
Fund Balances - Ending	<u>\$ 0.00</u>	<u>\$ 6,574.93</u>	<u>\$ 443,825.21</u>	<u>\$ 450,400.14</u>

CRAWFORD, CARTER & THOMPSON, L.L.P.

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TEXAS SOCIETY OF CPA'S  
AICPA DIVISION FOR CPA FIRMS

March 30, 2009

**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**

Honorable Mayor and Members of the City Council  
City of Mineral Wells  
Mineral Wells, TX 76067

Honorable Mayor and Members of the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas (the "City"), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control

deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of management, others within the organization, the City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Crawford, Carter + Thompson, L.L.P.*

City of Mineral Wells, Texas  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

**Status of Prior Year Findings**

Prior year finding noted that the City's depository contract had expired in July 2007, and they had not gone out for bids to secure a contract for depository services. During the current year, the City went out for bids and executed a new contract in June 2008. We consider the matter resolved and no additional follow-up is considered necessary.

**Current Year Findings**

There were no current year findings.