

City of Mineral Wells

Annual Financial Report

September 30, 2009



CERTIFIED PUBLIC ACCOUNTANTS

CITY OF MINERAL WELLS, TEXAS

ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended
September 30, 2009**

CITY OF MINERAL WELLS, TEXAS
Annual Financial Report
For the Fiscal Year Ended September 30, 2009

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FINANCIAL SECTION

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Mineral Wells, Texas (the "City"), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2009, 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.

As discussed in Note 15 to the financial statements, certain errors of previously reported information as of September 30, 2008, were discovered by management of the City during the current year. Accordingly, adjustments have been made to equity as of September 30, 2008 to correct the errors.

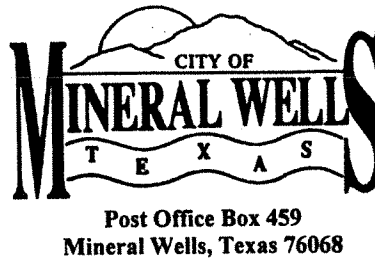
In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 – 8, the budgetary comparison schedule – general fund on page 45, Texas Municipal Retirement System Pension Schedule of Funding Progress on page 46 and Texas Emergency Services Retirement System Schedule of Funding Progress on page 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, and is not a required part of the basic financial statements. In addition, the combining nonmajor funds financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subject 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.

George, Morgan & Sneed, P.C.

George, Morgan & Sneed, P.C.
Weatherford, Texas
March 4, 2010



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, 2009.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the fiscal year by \$72,018,907 (net assets). Of this amount, \$8,994,886 (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 \$5,009,001. Eighty-two percent of this total amount, \$4,102,310 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 \$4,102,310 or 45.11 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 its audited financial statements.

The government-wide financial statements are presented on pages 9 – 11 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 seven 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, and the Debt Service 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 funds financial statements can be found on pages 12 – 15 of this report.

Proprietary funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer Operations, for Airport Operations, and for the Water District. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for worker's compensation self insurance and employee health, dental and life insurance. The City does not offer post employment benefits other than pension benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets, while the net revenue (expenses) of the internal service fund is reported with governmental activities in the Statement of Activities.

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 – 19 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 20-21 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 22-44 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 \$72,018,907 at September 30, 2009.

The largest portion of the City's net assets (82 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.

An additional portion of the City's net assets (\$3,646,479) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$8,994,886) may be used to meet the government's ongoing obligations to citizens and creditors.

Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and Other Assets	\$8,265,523	\$8,457,483	\$12,177,753	\$6,737,760	\$20,443,276	\$15,195,243
Capital Assets	35,997,303	36,716,955	41,655,921	41,216,705	77,653,224	77,933,660
Total Assets	\$44,262,826	\$45,174,438	\$53,833,674	\$47,954,465	\$98,096,500	\$93,128,903
 Long-Term Liabilities	 \$4,603,272	 \$4,534,772	 \$17,757,991	 \$14,201,950	 \$22,361,263	 \$18,736,722
Other Liabilities	1,014,244	1,033,933	2,702,086	2,309,855	3,716,330	3,343,788
Total Liabilities	\$5,617,516	\$5,568,705	\$20,460,077	\$16,511,805	\$26,077,593	\$22,080,510
 Net Assets						
Capital Assets Net of Related Debt	\$32,922,303	\$33,169,086	\$26,455,239	\$25,717,354	\$59,377,542	\$58,886,440
Restricted	688,102	608,370	2,958,377	2,547,377	3,646,479	3,155,747
Unrestricted	5,034,905	5,828,277	3,959,981	3,177,929	8,994,886	9,006,206
Total Net Assets	\$38,645,310	\$39,605,733	\$33,373,597	\$31,442,660	\$72,018,907	\$71,048,393

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 Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$1,458,118	\$1,949,146	\$10,894,394	\$11,093,404	\$12,352,512	\$13,042,550
Operating grants and contributions	761,564	181,485	18,870		780,434	181,485
Capital grants and contributions			491,856	24,167	491,856	24,167
General revenues:					-	-
Property taxes	2,664,472	2,739,218			2,664,472	2,739,218
Other taxes	5,115,935	6,277,475			5,115,935	6,277,475
Other	94,483	197,122	53,018	183,519	147,501	380,641
Total revenues	10,094,572	11,344,446	11,458,138	11,301,090	21,552,710	22,645,536
Expenses:						
Administrative	1,299,758	2,271,903			1,299,758	2,271,903
Public Safety	4,138,803	3,228,833			4,138,803	3,228,833
Highways/streets	2,874,008	2,971,016			2,874,008	2,971,016
Public works	1,139,100	1,230,498			1,139,100	1,230,498
Economic development	700,000				700,000	-
Culture and recreation	1,404,937	1,254,588			1,404,937	1,254,588
Interest on long-term debt	140,163	158,181			140,163	158,181
Water and Sewer			7,452,165	7,336,119	7,452,165	7,336,119
Airport			1,018,005	1,267,283	1,018,005	1,267,283
PPCMWD No 1			1,130,768	1,245,984	1,130,768	1,245,984
Total expenses	11,696,769	11,115,019	9,600,938	9,849,386	21,297,707	20,964,405
Change in net assets before transfers	(1,602,197)	229,427	1,857,200	1,451,704	255,003	1,681,131
Special Items						
Transfers	208,000	452,046	(208,000)	(452,046)	-	-
Change in net assets	(1,394,197)	681,473	1,649,200	999,658	255,003	1,681,131
Net assets – Beginning	39,605,733	38,924,260	31,442,660	30,443,002	71,048,393	69,367,262
Prior Period Adjustments	433,774		281,737		715,511	-
Net assets – 09/30/09	\$38,645,310	\$39,605,733	\$33,373,597	\$31,442,660	\$72,018,907	\$71,048,393

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 \$4,102,310, while the total fund balance reached \$4,117,722. 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 45.11 percent of total general fund expenditures, while total fund balance represents 45.28 percent of that same amount.

Other items

The Debt Service Fund has a total fund balance of \$240,437 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 are \$2,629,061 and \$1,161,725 for the Water District. Unrestricted net assets in Airport Operations are \$169,195.

General Fund Budgetary Highlights

It is the practice of the City to budget very conservatively. Revenues in 2008-09 were 11.3 percent lower than budgeted primarily due to a 22.1 percent decrease in sales tax receipts. Actual operating expenses were 25.1 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, 2009 amounts to \$77,653,224 (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 2008-09. 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, but not all funds budgeted for acquisition of vehicles and equipment were spent.

Additional information on the City's capital assets can be found in Note 4 on pages 30-31 of this report.

Long-term debt. At the end of the fiscal year, the City had total outstanding debt of \$25,067,210. Of this amount, \$3,075,000 comprises debt backed by the full faith and credit of the City. Included in the City's long term debt are capital leases in the amount of \$423,818 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.

The City maintains an "A+" rating from Standard & Poor's for its general obligation bonds, and an "A" rating on its water and sewer revenue bonds. From Fitch Ratings, the City maintains an "A" rating for its general obligation debt, and water and sewer revenue bonds. The Water District maintains an "A" rating from Standard & Poor's on its revenue bonds.

Additional information on the City's long-term debt can be found in Note 7 on pages 33 – 37 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 tax revenue was decreased to reflect the sharp decline experienced during the latter half of FY 2009. This decline can be attributed to the ongoing nationwide economic downturn. Other revenues are expected to remain about the same for 2009-10 as they were in 2008-09 with the exception of franchise tax collections. A substantial decline in the price of natural gas and local industries' slowed production is expected to impact energy-related franchise taxes negatively. While the City experienced modest growth in property values, an ad valorem tax rate slightly above the effective rate was adopted to generate additional revenue to partially offset the aforementioned revenue losses.

The City is also proposing an increase in water and sewer rates to offset weak water sales in prior years and an aggressive program of capital projects. This will allow the City to accumulate funds to continue to pursue capital improvements in the water/sewer systems.

Overall expenses were unchanged or decreased from 2008-09 to offset revenue losses. The majority of the decrease is in capital projects and capital acquisitions, as well as, a decrease in fuel related costs.

World-wide economic conditions continue to be volatile with the impact on the City's budget not fully known. Sales tax and franchise tax collections are expected to be less than budgeted, being offset to some degree by the deferral of the street capital project program. 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

EXHIBIT A-1

CITY OF MINERAL WELLS, TEXAS
Statement of Net Assets
September 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 390,280	\$ 673,787	\$ 1,064,067
Investments	4,184,170	6,533,159	10,717,329
Receivables (Net of allowances for uncollectibles)			
Property taxes	53,900	252	54,152
Sales taxes	575,317		575,317
Franchise taxes	168,490	-	168,490
Accounts	348,729	823,343	1,172,072
Leases	2,159,772		2,159,772
Fines and fees receivable	51,453		51,453
Miscellaneous	3,655	4,093	7,748
Due from Texas Water Development Board		258,356	258,356
Internal Balances	(10)	10	-
Inventory	15,412	219,745	235,157
Restricted Assets, Cash and Investments:			
Cash and cash equivalents	30,085	28,371	58,456
Investments	209,551	3,206,812	3,416,363
Deferred Charges	74,719	429,825	504,544
Capital assets (net of accumulated depreciation):			
Land	1,845,102	2,506,789	4,351,891
Construction in progress	481,113	1,453,734	1,934,847
Buildings and improvements	3,050,855	1,905,125	4,955,980
Improvements other than buildings	851,421	10,383,406	11,234,827
Infrastructure	28,817,805	3,874,953	32,692,758
Distribution System	-	17,814,879	17,814,879
Collection System	-	3,315,315	3,315,315
Equipment and Vehicles	892,966	363,296	1,256,262
Furniture and Fixtures	58,041	38,424	96,465
Total Assets	44,262,826	53,833,674	98,096,500
LIABILITIES:			
Accounts Payable	81,564	71,347	152,911
Wages and fringe benefits payable	165,506	72,501	238,007
Retainage payable	16,598	15,315	31,913
Due to other governments	50,172	-	50,172
Deferred revenue		89,375	89,375
Current Liabilities Payable from Restricted Assets:			
Interest payable	20,643	193,345	213,988
Customer deposits	-	155,721	155,721
Noncurrent liabilities:			
Due within one year	679,761	2,104,482	2,784,243
Due in more than one year	4,603,272	17,757,991	22,361,263
Total Liabilities	5,617,516	20,460,077	26,077,593
NET ASSETS:			
Investments in Capital Assets, Net of Debt	32,922,303	26,455,239	59,377,542
Restricted for debt service (Expendable)	233,213	2,958,377	3,191,590
Restricted for Woodland Park (Nonexpendable)	454,889	-	454,889
Unrestricted Net Assets	5,034,905	3,959,981	8,994,886
Total Net Assets	\$ 38,645,310	\$ 33,373,597	\$ 72,018,907

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

CITY OF MINERAL WELLS, TEXAS
Statement of Activities
For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Administrative	\$ 765,910	\$ 53,067	\$	\$
Finance	533,848	-		
Fleet Maintenance	637,241	-		
Police	2,320,440	493,420	3,647	
Fire & Emergency Medical Services	1,469,308	528,785	22,310	
Inspections	349,055	82,761		
Streets	2,874,008	-		
Sanitation	191,073	64,428		
Parks & Recreation	906,142	88,890		
Cemetery	310,786	140,880		
Library	352,568	5,887	35,607	
Economic Development	700,000		700,000	
Hotel/Motel Occupancy	146,227			
Interest and fiscal charges	140,163			
Total governmental activities	<u>11,696,769</u>	<u>1,458,118</u>	<u>761,564</u>	<u>-</u>
Business-type activities:				
Water and Sewer	7,452,165	8,195,830		233,500
Airport	1,018,005	840,964	18,870	
PPCMWD No. 1	1,130,768	1,857,600		258,356
Total business-type activities	<u>9,600,938</u>	<u>10,894,394</u>	<u>18,870</u>	<u>491,856</u>
Total primary government	\$ <u>21,297,707</u>	\$ <u>12,352,512</u>	\$ <u>780,434</u>	\$ <u>491,856</u>

General Revenues:

Taxes:

Property Taxes, levied for general purposes

Property Taxes, levied for debt service

Sales and Use Taxes

Franchise Taxes

Hotel Motel Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Assets

Prior period adjustment

Net Assets October 1, 2008

Net Assets September 30, 2009

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

EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (712,843)	\$	\$ (712,843)
(533,848)		(533,848)
(637,241)		(637,241)
(1,823,373)		(1,823,373)
(918,213)		(918,213)
(266,294)		(266,294)
(2,874,008)		(2,874,008)
(126,645)		(126,645)
(817,252)		(817,252)
(169,906)		(169,906)
(311,074)		(311,074)
-		-
(146,227)		(146,227)
(140,163)		(140,163)
<u>(9,477,087)</u>	<u>-</u>	<u>(9,477,087)</u>
	977,165	977,165
	(158,171)	(158,171)
	985,188	985,188
<u>-</u>	<u>1,804,182</u>	<u>1,804,182</u>
\$ <u>(9,477,087)</u>	\$ <u>1,804,182</u>	\$ <u>(7,672,905)</u>
\$ 2,014,032	\$ 702	\$ 2,014,734
650,440		650,440
3,690,925		3,690,925
1,278,048		1,278,048
146,962		146,962
40,795	49,963	90,758
53,688	2,353	56,041
208,000	(208,000)	-
<u>8,082,890</u>	<u>(154,982)</u>	<u>7,927,908</u>
(1,394,197)	1,649,200	255,003
433,774	281,737	715,511
<u>39,605,733</u>	<u>31,442,660</u>	<u>71,048,393</u>
\$ <u>38,645,310</u>	\$ <u>33,373,597</u>	\$ <u>72,018,907</u>

CITY OF MINERAL WELLS, TEXAS

Balance Sheet
Governmental Funds
September 30, 2009

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Assets:				
Cash and cash equivalents	\$ 101,462	\$ -	\$ 221,822	\$ 323,284
Investments	3,416,094	-	445,618	3,861,712
Receivables (Net of allowances)				
Property Taxes	40,482	13,418	-	53,900
Sales Taxes	575,317			575,317
Franchise Taxes	168,490			168,490
Accounts	348,729	-	-	348,729
Lease	-	2,159,772	-	2,159,772
Miscellaneous	2,853	802		3,655
Inventory Supplies, at Cost	15,412			15,412
Restricted Assets:				
Cash and cash equivalents		30,085		30,085
Investments		209,551		209,551
Total assets	<u>\$ 4,668,839</u>	<u>\$ 2,413,628</u>	<u>\$ 667,440</u>	<u>\$ 7,749,907</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 81,564	\$ -	\$ -	\$ 81,564
Wages and Fringe Benefits Payable	165,506	-	-	165,506
Retainage Payable	-	-	16,598	16,598
Due to other funds	10	-	-	10
Due to State	50,172			50,172
Deferred revenue	<u>253,865</u>	<u>2,173,191</u>	<u>-</u>	<u>2,427,056</u>
Total liabilities	<u>551,117</u>	<u>2,173,191</u>	<u>16,598</u>	<u>2,740,906</u>
Fund Balances:				
Reserved for:				
Retirement of Long-term Debt		240,437		240,437
Inventory	15,412			15,412
Unreserved and Undesignated:				
Reported in General Fund	4,102,310			4,102,310
Reported in Special Revenue Fund			3,844	3,844
Reported in Capital Projects Fund			192,109	192,109
Reported in Permanent Fund			454,889	454,889
Total fund balances	<u>4,117,722</u>	<u>240,437</u>	<u>650,842</u>	<u>5,009,001</u>
Total liabilities and fund balances	<u>\$ 4,668,839</u>	<u>\$ 2,413,628</u>	<u>\$ 667,440</u>	<u>\$ 7,749,907</u>

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

EXHIBIT C-2

CITY OF MINERAL WELLS, TEXAS
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
September 30, 2009

Total Fund Balances - Governmental Funds	5,009,001
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$64,275,057 and the accumulated depreciation was \$28,277,754.	35,997,303
Capitalized bond issuance costs related to governmental activity debt are not financial resources and therefore are not reported in the governmental funds.	74,719
Long-term liabilities, including \$3,075,000 bonds payable and \$48,261 compensated absences payable are not due and payable in the current period and, therefore are not reported as liabilities in the fund financial statements.	(3,123,261)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(20,643)
Property taxes, franchise taxes, emergency medical services and cemetery receivables are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.	267,284
Fines and fees receivable are not available soon enough to pay for the current period's expenditures and therefore are not reported in the fund financial statements.	51,453
The City uses an internal service fund to charge the costs of insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.	389,454
Net Assets of Governmental Activities	<u><u>38,645,310</u></u>

CITY OF MINERAL WELLS, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended September 30, 2009

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 2,012,824	\$ 649,639	\$ -	2,662,463
Sales and use tax	3,690,925		-	3,690,925
Franchise	1,367,103		-	1,367,103
Hotel motel taxes	-		146,962	146,962
Licenses and Permits	82,761		-	82,761
Intergovernmental Revenue	225,432		700,000	925,432
Charges for service	719,679		-	719,679
Fines	241,965		-	241,965
Interest income	33,489	2,716	4,590	40,795
Special Assessments		121,500	-	121,500
Cemetery	76,075		11,837	87,912
Miscellaneous revenues	50,135		3,553	53,688
Total revenues	<u>8,500,388</u>	<u>773,855</u>	<u>866,942</u>	<u>10,141,185</u>
Expenditures:				
Current				
Administrative	750,868	-	-	750,868
Finance	543,038	-	-	543,038
Fleet Maintenance	631,567	-	-	631,567
Police	2,250,796	-	6,284	2,257,080
Fire & Emergency Medical Services	1,311,848	-	-	1,311,848
Inspections	341,429	-	-	341,429
Streets	1,680,862	-	-	1,680,862
Sanitation	191,073	-	-	191,073
Parks & Recreation	760,779	-	-	760,779
Cemetery	295,786	-	-	295,786
Library	335,244	-	-	335,244
Economic Development			700,000	700,000
Hotel/Motel Occupancy	-		146,227	146,227
Debt service:				
Principal	-	576,500	-	576,500
Interest and fiscal charges	-	132,141	-	132,141
Capital Outlay			841,925	841,925
Total expenditures	<u>9,093,290</u>	<u>708,641</u>	<u>1,694,436</u>	<u>11,496,367</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(592,902)</u>	\$ <u>65,214</u>	\$ <u>(827,494)</u>	<u>(1,355,182)</u>
Other financing sources (uses):				
Transfers in	213,120	-	839,748	1,052,868
Transfers out	<u>(839,748)</u>	<u>-</u>	<u>(5,120)</u>	<u>(844,868)</u>
Net change in fund balances	(1,219,530)	65,214	7,134	(1,147,182)
Prior period adjustment	433,774			433,774
Fund balance, October 1, 2008	<u>4,903,478</u>	<u>175,223</u>	<u>643,708</u>	<u>5,722,409</u>
Fund balance, September 30, 2009	<u>\$ 4,117,722</u>	<u>\$ 240,437</u>	<u>\$ 650,842</u>	<u>5,009,001</u>

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

CITY OF MINERAL WELLS, TEXAS
 Reconciliation of Statement of Revenues,
 Expenditures and Changes in Fund Balances of
 The Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2009

Total Net Change in Fund Balances - Governmental Funds	(1,147,182)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$1,148,289 of capital outlays and \$455,000 of debt principal payments is to increase net assets.	1,603,289
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(1,867,941)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period and debt issuance costs are not financial resources of the current period, and, therefore are not reported as liabilities or assets in the funds. The \$2,654 decrease in interest payable, \$48,261 increase in compensated absences and \$10,675 amortization of bond issuance costs decrease net assets.	(56,283)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	74,887
The City uses an internal service fund to charge the costs of insurance to individual funds. The adjustment to reflect the consolidation of the internal service fund activities related to governmental activities decreases net assets.	(967)
Change in Net Assets of Governmental Activities	<u>(1,394,197)</u>

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

CITY OF MINERAL WELLS, TEXAS
Statement of Net Assets
Proprietary Funds
September 30, 2009

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 361,485	\$ 88,103	\$ 224,199	\$ 673,787	\$ 66,996
Investments	1,248,411	-	5,284,748	6,533,159	322,458
Receivables (Net of allowances):					
Property taxes	-	-	252	252	-
Accounts	774,547	44,374	4,422	823,343	-
Miscellaneous	426	-	3,667	4,093	-
Due from Texas Water Development Board			258,356	258,356	-
Due from other funds	10	-	-	10	-
Inventory	174,109	45,636	-	219,745	-
Restricted Assets, Cash and Investments:					
Cash and cash equivalents	28,371	-		28,371	
Investments	2,302,827		903,985	3,206,812	
Total current assets	<u>4,890,186</u>	<u>178,113</u>	<u>6,679,629</u>	<u>11,747,928</u>	<u>389,454</u>
Noncurrent Assets:					
Deferred Charges	254,467		175,358	429,825	
Capital assets, at cost:					
Land	1,155,479	194,863	1,156,447	2,506,789	-
Buildings and improvements	1,486,924	1,850,150	1,207,210	4,544,284	-
Improvements other than Buildings	15,445,383	55,070	0	15,500,453	-
Infrastructure	-	5,043,980	0	5,043,980	-
Distribution System	12,629,156	-	21,473,370	34,102,526	-
Collection System	6,145,271	-		6,145,271	-
Equipment & Vehicles	2,503,739	311,953	58,605	2,874,297	-
Furnitures & Fixtures	244,889	-	-	244,889	-
Construction-in-Progress	338,459	-	1,115,275	1,453,734	-
Less: accumulated depreciation	<u>(15,220,897)</u>	<u>(2,001,655)</u>	<u>(13,537,750)</u>	<u>(30,760,302)</u>	-
Capital assets, net	<u>24,728,403</u>	<u>5,454,361</u>	<u>11,473,157</u>	<u>41,655,921</u>	-
Total assets	<u>29,873,056</u>	<u>5,632,474</u>	<u>18,328,144</u>	<u>53,833,674</u>	<u>389,454</u>

CITY OF MINERAL WELLS, TEXAS
Statement of Net Assets
Proprietary Funds
September 30, 2009

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
LIABILITIES:					
Current Liabilities:					
Accounts payable	69,776	1,571	-	71,347	-
Wages and Fringe Benefits Payable	67,570	4,931	-	72,501	-
Retainage Payable	15,315			15,315	
Compensated absences payable	27,619	2,416		30,035	
Deferred Revenue			89,375	89,375	
Customer Deposits	155,721	-	-	155,721	-
Current Liabilities Payable from Restricted Assets:					
Current portion of Revenue Bonds	1,160,000	-	880,000	2,040,000	-
Current portion of Capital Lease Payable	-	34,447		34,447	-
Interest payable	67,598	-	125,747	193,345	-
Total current liabilities	<u>1,563,599</u>	<u>43,365</u>	<u>1,095,122</u>	<u>2,702,086</u>	<u>-</u>
Noncurrent Liabilities:					
Long-term Liabilities (Net of Current Portion)					
Revenue Bonds (Net of Current portion)	4,330,000		13,035,000	17,365,000	-
Capital Lease Payable (Net of current portion)	-	389,371		389,371	-
Bond Premium	-		3,620	3,620	-
Total noncurrent liabilities	<u>4,330,000</u>	<u>389,371</u>	<u>13,038,620</u>	<u>17,757,991</u>	<u>-</u>
Total liabilities	<u>5,893,599</u>	<u>432,736</u>	<u>14,133,742</u>	<u>20,460,077</u>	<u>-</u>
NET ASSETS:					
Investment in capital assets, net of debt	19,170,257	5,030,543	2,254,439	26,455,239	-
Restricted for debt service (Expendable)	2,180,139	-	778,238	2,958,377	-
Unrestricted	2,629,061	169,195	1,161,725	3,959,981	389,454
Total net assets	<u>\$ 23,979,457</u>	<u>\$ 5,199,738</u>	<u>\$ 4,194,402</u>	<u>\$ 33,373,597</u>	<u>\$ 389,454</u>

CITY OF MINERAL WELLS, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended September 30, 2009

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
Operating revenues:					
Charges for sales and services:					
Water Sales	\$ 4,929,547	\$ -	\$ 1,856,100	\$ 6,785,647	\$ -
Connections	23,305	-	-	23,305	-
Sewer Revenues	3,002,235	-	-	3,002,235	-
Gasoline and Oil	-	591,053	-	591,053	-
Rentals	-	241,454	-	241,454	-
Miscellaneous Revenues	240,743	8,457	1,500	250,700	-
Other Services	-	-	-	-	1,183,393
Total operating revenue	<u>8,195,830</u>	<u>840,964</u>	<u>1,857,600</u>	<u>10,894,394</u>	<u>1,183,393</u>
Operating expenses:					
Public Works Administration	1,971,360	-	135,179	2,106,539	-
Water Distribution	1,036,340	-	-	1,036,340	-
Hilltop Water Treatment	1,384,920	-	-	1,384,920	-
Wastewater Treatment	1,098,292	-	-	1,098,292	-
Facility Maintenance	379,983	-	-	379,983	-
City Utility Service	518,443	-	-	518,443	-
Airport Operations	-	726,620	-	726,620	-
Self-Insurance	-	-	-	-	1,187,100
Depreciation	798,728	264,517	579,397	1,642,642	-
Total operating expenses	<u>7,188,066</u>	<u>991,137</u>	<u>714,576</u>	<u>8,893,779</u>	<u>1,187,100</u>
Operating income	<u>1,007,764</u>	<u>(150,173)</u>	<u>1,143,024</u>	<u>2,000,615</u>	<u>(3,707)</u>
Nonoperating revenues (expenses):					
Property taxes			702	702	
Interest Earned	31,060	-	18,903	49,963	2,740
Intergovernmental Revenue		18,870	-	18,870	
Oil & Gas Leases		2,353	-	2,353	-
Interest on Capital Leases		(26,868)	-	(26,868)	-
Interest on Revenue Bonds	<u>(264,099)</u>	<u>-</u>	<u>(416,192)</u>	<u>(680,291)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(233,039)</u>	<u>(5,645)</u>	<u>(396,587)</u>	<u>(635,271)</u>	<u>2,740</u>
Income before contributions and transfers	<u>774,725</u>	<u>(155,818)</u>	<u>746,437</u>	<u>1,365,344</u>	<u>(967)</u>
Contributions and transfers (to) from other funds:					
Capital Grants & Contributions	233,500		258,356	491,856	
Transfers out	<u>(200,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>(208,000)</u>	<u>-</u>
Change in Net Assets	808,225	(163,818)	1,004,793	1,649,200	(967)
Prior period adjustment	281,737			281,737	
Net Assets, October 1, 2008	<u>22,889,495</u>	<u>5,363,556</u>	<u>3,189,609</u>	<u>31,442,660</u>	<u>390,421</u>
Net Assets, September 30, 2009	<u>\$ 23,979,457</u>	<u>\$ 5,199,738</u>	<u>\$ 4,194,402</u>	<u>\$ 33,373,597</u>	<u>\$ 389,454</u>

CITY OF MINERAL WELLS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended September 30, 2009

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 8,353,629	\$ 839,199	\$ 1,943,815	\$ 11,136,643	\$ -
Cash received for interfund services provided				-	1,183,393
Cash paid to suppliers	(4,430,705)	(572,654)	(140,195)	(5,143,554)	(1,189,293)
Cash paid to employees	(1,874,742)	(138,668)	-	(2,013,410)	-
Net cash provided by operating activities	<u>2,048,182</u>	<u>127,877</u>	<u>1,803,620</u>	<u>3,979,679</u>	<u>(5,900)</u>
Cash flow from noncapital financing activities:					
Property taxes	-	-	980	980	-
Grants and contributions	-	18,870		18,870	-
Transfers out	(200,000)	(8,000)		(208,000)	-
Net cash provided (used) by noncapital financing activities	<u>(200,000)</u>	<u>10,870</u>	<u>980</u>	<u>(188,150)</u>	<u>-</u>
Cash flow from capital and related financing activities:					
Capital expenditures	(1,085,573)	(13,134)	(983,150)	(2,081,857)	-
Capital grants and contributions	233,500			233,500	-
Bond Proceeds			5,600,000	5,600,000	-
Principal payments on long-term debt	(1,120,000)	(32,475)	(620,000)	(1,772,475)	-
Interest paid on long-term debt	(221,254)	(26,868)	(404,787)	(652,909)	-
Net cash (used) by capital and related financing activities	<u>(2,193,327)</u>	<u>(72,477)</u>	<u>3,592,063</u>	<u>1,326,259</u>	<u>-</u>
Cash flow from investing activities:					
Interest received	31,060	-	22,573	53,633	2,740
Income from oil and gas leases		2,353		2,353	
Net cash provided by investing activities	<u>31,060</u>	<u>2,353</u>	<u>22,573</u>	<u>55,986</u>	<u>2,740</u>
Net increase (decrease) in cash and cash equivalents	(314,085)	68,623	5,419,236	5,173,774	(3,160)
Cash and cash equivalents, October 1, 2008	<u>4,255,179</u>	<u>19,480</u>	<u>993,696</u>	<u>5,268,355</u>	<u>392,614</u>
Cash and cash equivalents, September 30, 2009	<u>\$ 3,941,094</u>	<u>\$ 88,103</u>	<u>\$ 6,412,932</u>	<u>\$ 10,442,129</u>	<u>\$ 389,454</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income	\$ 1,007,764	\$ (150,173)	\$ 1,143,024	\$ 2,000,615	\$ (3,707)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	798,728	264,517	579,397	1,642,642	
(Increase) decrease in accounts receivable	151,468	(1,765)	(3,160)	146,543	
(Increase) decrease in miscellaneous receivables	(426)			(426)	
(Increase) decrease in supplies inventory	(1,639)	7,108	-	5,469	
(Increase) decrease in due from other funds	38,879	3,271		42,150	
Increase (decrease) in accounts payable	(4,697)	1,571	(5,016)	(8,142)	
Increase (decrease) in wages and fringe benefits payable	9,745	932	-	10,677	
Increase (decrease) in retainage payable	15,315			15,315	
Increase (decrease) in compensated absences payable	27,619	2,416	89,375	119,410	
Increase (decrease) in due to other funds	(1,331)			(1,331)	(2,193)
Increase (decrease) in customer meter deposits	6,757	-	-	6,757	
Total adjustments	<u>1,040,418</u>	<u>278,050</u>	<u>660,596</u>	<u>1,979,064</u>	<u>(2,193)</u>
Net cash provided by operating activities	<u>\$ 2,048,182</u>	<u>\$ 127,877</u>	<u>\$ 1,803,620</u>	<u>\$ 3,979,679</u>	<u>\$ (5,900)</u>

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

CITY OF MINERAL WELLS, TEXAS
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2009

	<u>Trust</u> Private Purpose Trust Fund	<u>Agency</u> Police Department Seized Fund
ASSETS:		
Cash and cash equivalents	\$ -	\$ 2,461
Investments	<u>156,748</u>	<u>-</u>
Total assets	\$ <u>156,748</u>	\$ <u>2,461</u>
LIABILITIES:		
Due to Others	\$ <u> </u>	\$ <u>2,461</u>
Total Liabilities	<u>-</u>	<u><u>2,461</u></u>
NET ASSETS:		
Held in trust	<u>156,748</u>	
Total net assets	\$ <u><u>156,748</u></u>	

CITY OF MINERAL WELLS, TEXAS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the fiscal year ended September 30, 2009

	Trust Private Purpose Trust Fund
Additions:	
Interest	\$ 1,190
Total additions	1,190
Deductions:	
Miscellaneous Services & Charges	-
Total deductions	-
Change in Net Assets	1,190
Net Assets, October 1, 2008	155,558
Net Assets, September 30, 2009	\$ 156,748

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The City of Mineral Wells is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the City and its blended component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Blended Component Unit.

The Palo Pinto County Municipal Water District No. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" 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. Approximately 77% of the District's water sales were to the City of Mineral Wells. The City has reported in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2009, in a blended format.

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

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for the operation of the water and sewer systems of the City.

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The *private purpose trust fund* is used to account for the 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.

The government applies all GASB pronouncements as well as FASB Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its government-wide and proprietary fund financial statements, unless those FASB Statements and Interpretations conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected to follow subsequent private-sector guidance.

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds, distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The principal operating revenues of the internal service fund are reimbursements from other departments for allocated workers' compensation and health insurance premiums. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. *Assets, Liabilities and Net Assets or Equity*

1. *Deposits and Investments*

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

2. *Receivables and Payables*

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in the enterprise fund that are delinquent for more than two months at year-end comprise the trade accounts receivable allowance for uncollectible accounts of \$23,446. The property tax receivable allowance is based upon historical experience and is equal to 77% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$135,527 in the general fund and \$44,924 in the debt service fund.

3. *Property Tax*

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

4. *Inventory*

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. *Capital Assets*

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the enterprise funds during the current fiscal year was \$707,159. Of this amount \$0 was included as part of the cost of capital assets under construction.

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

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

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

6. *Restricted Assets*

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

7. *Compensated Absences*

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are 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 are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Fund Equity*

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by an outside party for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. *Use of Estimates*

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

NOTE 2: DEPOSITS AND INVESTMENTS

A. *Deposits*

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's funds are required to be deposited and invested under the terms of a depository contract. At September 30, 2009, the City's deposits were fully insured or collateralized as required by the City's investment policy.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

B. Investments

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

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

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

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

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

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexStar was created in April 2002 by contract among its participating government 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 account and depository services. TexSTAR is operated in full compliance with the Texas Public Funds Investment Act.

Credit Risk— Investments

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk – Investments

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

The City's investments at September 30, 2009 included the following:

<u>Investment</u>	<u>Credit Rating</u>	<u>Average Maturities</u>	<u>Percentage of Total Investments</u>	<u>Cost</u>	<u>Fair Value</u>
City of Mineral Wells					
Tex-Pool	AAAm	68 days	11.77%	\$ 1,658,636	\$ 1,658,636
TexSTAR Pool	AAAm	48 days	45.73%	6,443,071	6,443,071
				<u>8,101,707</u>	<u>8,101,707</u>
Component Unit					
TexSTAR Pool	AAAm	48 days	42.50%	5,986,224	5,988,733
Total Investments			100.00%	<u>\$ 14,087,931</u>	<u>\$ 14,090,440</u>
Reconciliation to financial statements					
Investments from Exhibit A-1					\$ 14,133,692
Investments from Exhibit E-1					156,748
Less Certificate of Deposit					(200,000)
					<u>\$ 14,090,440</u>

NOTE 3: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenue were as follows:

	<u>Governmental Funds</u>			<u>Enterprise Fund</u>
	<u>Total</u>			
	<u>General</u>	<u>Debt Service</u>	<u>Governmental Funds</u>	<u>PPCMWD No. 1</u>
Deferred property taxes receivable	\$ 40,482	\$ 13,419	\$ 53,901	\$ -
Deferred franchise taxes receivable	102,903		102,903	
Deferred EMS receivable	57,512		57,512	
Deferred Cemetery receivable	52,968		52,968	
Deferred leases receivable		2,159,772	2,159,772	
Unearned water sales		-	-	89,375
Total deferred revenue	<u>\$ 253,865</u>	<u>\$ 2,173,191</u>	<u>\$ 2,427,056</u>	<u>\$ 89,375</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Non - Depreciable Assets:				
Land	\$ 1,662,550	\$ 182,552	\$ -	\$ 1,845,102
Construction in Progress	1,749,829	(1,268,716)		481,113
Total non-depreciable assets	3,412,379	(1,086,164)	-	2,326,215
Depreciable Assets:				
Buildings and improvements	4,397,195			4,397,195
Improvements other than buildings	1,722,354			1,722,354
Infrastructure	48,701,689	2,165,241		50,866,930
Equipment and vehicles	4,578,300	36,128		4,614,428
Furniture and fixtures	314,851	33,084		347,935
Total capital assets being depreciated	59,714,389	2,234,453	-	61,948,842
Accumulated Depreciation:				
Buildings and improvements	(1,256,324)	(90,016)		(1,346,340)
Improvements other than buildings	(777,925)	(93,008)		(870,933)
Infrastructure	(20,756,070)	(1,293,055)		(22,049,125)
Equipment and vehicles	(3,364,428)	(357,034)		(3,721,462)
Furniture and fixtures	(255,066)	(34,828)		(289,894)
Total accumulated depreciation	(26,409,813)	(1,867,941)	-	(28,277,754)
Governmental activities capital assets, net	\$ 36,716,955	\$ (719,652)	\$ -	\$ 35,997,303

Depreciation expense was charged as a direct expense to programs of the governmental activities as follows:

Governmental activities:	
Administrative	\$ 10,473
Finance	6,048
Fleet Maintenance	3,613
Police	83,777
Fire & Emergency Medical Services	149,972
Inspections	6,034
Streets, including infrastructure	1,425,047
Parks & Recreation	153,887
Cemetery	12,333
Library	16,757
Total depreciation expense - governmental activities	<u>\$ 1,867,941</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 4: CAPITAL ASSETS - (Continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Non - Depreciable Assets:				
Land	\$ 2,506,789	\$ -	\$ -	\$ 2,506,789
Construction in Progress	1,350,048	103,686		1,453,734
Total non-depreciable assets	3,856,837	103,686	-	3,960,523
Depreciable Assets:				
Buildings and improvements	4,544,284			4,544,284
Improvements other than buildings	15,500,453			15,500,453
Infrastructure	5,043,980			5,043,980
Distribution System	33,215,634	886,892		34,102,526
Collection System	5,110,684	1,034,587		6,145,271
Equipment and Vehicles	2,823,982	51,515	(1,200)	2,874,297
Furniture and Fixtures	239,712	5,177		244,889
Total capital assets being depreciated	66,478,729	1,978,171	(1,200)	68,455,700
Accumulated Depreciation:				
Buildings and improvements	(2,552,119)	(87,040)		(2,639,159)
Improvements other than buildings	(4,797,898)	(319,149)		(5,117,047)
Infrastructure	(948,334)	(220,693)		(1,169,027)
Distribution System	(15,490,442)	(797,205)		(16,287,647)
Collection System	(2,723,160)	(106,796)		(2,829,956)
Equipment and Vehicles	(2,407,310)	(104,891)	1,200	(2,511,001)
Furniture and Fixtures	(199,597)	(6,868)		(206,465)
Total accumulated depreciation	(29,118,860)	(1,642,642)	1,200	(30,760,302)
Business-type activities capital assets, net	\$ 41,216,706	\$ 439,215	\$ -	\$ 41,655,921

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:	
Water and Sewer	\$ 798,728
Airport	264,517
PPCMWD No. 1	579,397
Total depreciation expense - business-type activities	\$ 1,642,642

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 5: INTERFUND TRANSFERS

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2009, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 5,120
	Water and Sewer	200,000
	Airport Operations	8,000
Nonmajor Governmental Funds	General	839,748
Total Governmental Funds Transfers In		\$ <u>1,052,868</u>

Transfers to the general fund from nonmajor governmental funds consist of its share of hotel motel occupancy taxes and investment earnings to be used for maintenance of the cemetery. The transfers from the water and sewer fund and airport operations fund are for each fund's share of administrative costs incurred by the general fund.

Transfers from the general fund to the nonmajor governmental funds were to finance on-going street improvement projects.

NOTE 6: LEASES

A. Operating Leases – Lessor

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

B. Capital Leases - Lessee

The City has committed under various noncancelable lease/purchase agreements for airport T-hangers. These capital leases are accounted for in the Airport Operations Fund. Future minimum lease/purchase commitments are as follows:

	<u>Business-type Activities</u>
2010	\$ 59,343
2011	59,343
2012	59,341
2013	50,947
2014	42,550
2015-2019	212,749
2020-2023	109,741
Total debt service requirements	594,014
Less: Interest Portion	170,196
Debt Principal	\$ <u>423,818</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 6: LEASES – (Continued)

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

Assets under lease and related accumulated depreciation are as follows:

	<u>Business-type Activities</u>
Buildings	\$ 660,250
Less: Accumulated depreciation	<u>(71,298)</u>
Net	<u><u>\$ 588,952</u></u>

NOTE 7: LONG-TERM LIABILITIES

A. General Obligation Bonds

At year end the Texas General Obligation Refunding and Improvement Bonds Series 2002 were outstanding. Annual principal and semi-annual interest payments are due February 1 and August 1 through February 1, 2016 at 3.00% to 4.40% interest.

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

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 475,000	\$ 114,949	\$ 589,949
2011	490,000	96,549	586,549
2012	505,000	77,208	582,208
2013	465,000	58,060	523,060
2014	490,000	38,470	528,470
2015-2016	<u>650,000</u>	<u>24,210</u>	<u>674,210</u>
Total debt service requirements	\$ <u>3,075,000</u>	\$ <u>409,446</u>	\$ <u>3,484,446</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 7: LONG-TERM LIABILITIES - (continued)

B. Special Assessment Debt

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

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

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

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

	<u>Principal</u>
2010	\$ 156,500
2011	156,500
2012	156,500
2013	156,500
2014	156,500
2015-2019	695,833
2020-2024	463,564
2025-2029	<u>217,875</u>
Total debt service requirements	\$ <u><u>2,159,772</u></u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 7: LONG-TERM LIABILITIES - (continued)

C. Revenue Bonds

The City's water and sewer fund and the Palo Pinto County Municipal Water District No. 1 have issued revenue bonds that are secured solely by net revenues of the funds. At year end the following revenue bonds were outstanding:

\$3,910,000; Water and Sewer System Revenue Refunding and Improvement Bonds Series 2002 - due in annual installments at 3.00% to 4.50% to 12/1/2014	\$ 1,305,000
\$5,445,000; Waterworks and Sewer System Revenue Refunding Bonds - Series 2002-A due in annual installments at 3.00% to 3.875% to 12/1/2014	2,740,000
\$2,435,000; Waterworks and Sewer System Revenue Refunding Bonds - Series 2003 due in annual installments at 2.50% to 3.75% to 12/1/2015	1,445,000
Total Water and Sewer Fund	<u>5,490,000</u>
\$5,370,000; Palo Pinto County Muni Water District #1 Revenue Refunding Bonds Series 2001 - due in annual installments at 3.00% to 4.50% to 6/1/2016	2,935,000
\$6,645,000; Palo Pinto County Muni Water District #1 Revenue Bonds - Series 2002 due in annual installments at 4.00% to 5.25% to 6/1/2023	5,380,000
\$2,400,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009A - due in annual installments at 0% to 6/1/2029.	2,400,000
\$3,200,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009B - due in annual installments at 2.63% to 3.68% to 6/1/2028.	3,200,000
Total Palo Pinto Municipal Water District No. 1	<u>13,915,000</u>
Total Revenue Bonds	<u><u>\$ 19,405,000</u></u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 7: LONG-TERM LIABILITIES - (continued)

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

	Business-type Activities		
	Principal	Interest	Total
2010	\$ 2,040,000	\$ 612,557	\$ 2,652,557
2011	1,985,000	593,810	2,578,810
2012	2,060,000	520,336	2,580,336
2013	1,985,000	448,471	2,433,471
2014	1,945,000	377,618	2,322,618
2015-2019	4,510,000	1,206,537	5,716,537
2020-2024	3,395,000	493,997	3,888,997
2025-2029	1,485,000	82,222	1,567,222
Total debt service requirements	\$ 19,405,000	\$ 4,335,548	\$ 23,740,548

D. Compliance with Debt Service Requirements

City of Mineral Wells water and sewer fund

The bond resolutions for the City of Mineral Wells relating to 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 in the reserve fund, an amount equal to the average annual principal and interest requirements of all outstanding revenue bonds, and \$40,000 in the emergency fund. At September 30, 2009 the reserve fund balance was \$1,172,528 and the emergency fund balance was \$40,490.

The revenue bonds of the water and sewer fund require that the net revenues for the year shall be at least 1.10 times the aggregate required to be paid each year. During the year the City's net revenues were 1.36 times its principal and interest requirements.

Palo Pinto County Municipal Water District No. 1

The provisions of the bond ordinance resolutions require a "Reserve Fund" of \$830,464 to be maintained. If the balance falls below this threshold, the District is required to deposit \$8,528 monthly to replenish the fund or the District can issue a reserve fund obligation. The District purchased two surety bonds to comply with the reserve fund requirement. The ordinance has a provision where the District has to fund the reserve in cash within 6 months if the credit rating of the issuer of the surety bond falls below the highest available rating. The issuer's credit rating has been downgraded and the District has begun funding the reserve in cash, however, the District is funding the reserve over 60 months instead of 6 months. The balance in the reserve at September 30, 2009 was \$247,860.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 7: LONG-TERM LIABILITIES - (continued)

The provisions of the bond ordinance require a "Contingency Fund" of \$200,000 to be maintained. Monthly deposits of \$3,334 are required to be made when the "Contingency Fund" falls below the required balance. At September 30, 2009, the "Contingency Fund" had a balance of \$200,000.

The provisions of the bond ordinance resolutions require a "Reserve Fund" be established for the newly issued bonds by the District depositing \$5,877 on the 25th of each month beginning July 25, 2009 and continuing each subsequent month until a balance of \$352,626 is obtained. At September 30, 2009, the district had \$17,631 in the fund which constitutes three payments of \$5,877.

For the newly issued debt, the provisions of the District's bond ordinance resolutions require a "Contingency Fund" of \$50,000 be established and maintained. Monthly deposits of \$417 are required to be made when the contingency fund falls below the required balance. At September 30, 2009, the "Contingency Fund" had a balance of \$1,251 which constitutes three payments of \$417.

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

	<u>Cash</u>	<u>Investments</u>
Water and Sewer Fund		
Capital Projects	\$ 28,371	\$ 55,090
Interest and Sinking Funds		1,034,719
Emergency Fund		40,490
Reserve Fund		1,172,528
Total Water and Sewer Fund	<u>28,371</u>	<u>2,302,827</u>
PPCMWD No. 1		
Interest and Sinking Funds		437,243
Contingency Funds		201,251
Reserve Funds		265,491
Total PPCMWD No. 1	<u>-</u>	<u>903,985</u>
Total Business-type activities	<u>\$ 28,371</u>	<u>\$3,206,812</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 7: LONG-TERM LIABILITIES - (continued)

E. Changes in Long-term Liabilities

The following is a summary of long-term liability transactions of the city for the year ended September 30, 2009.

	<u>9/30/2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2009</u>	<u>Due Within One Year</u>
Governmental Activities.:					
General Obligation Bonds	\$ 3,530,000		\$ 455,000	\$ 3,075,000	\$ 475,000
Special Assessment Debt	1,581,272	700,000	121,500	2,159,772	156,500
Compensated Absences Payable	-	48,261		48,261	48,261
Total Governmental Activities	<u>5,111,272</u>	<u>748,261</u>	<u>576,500</u>	<u>5,283,033</u>	<u>679,761</u>
Business-type Activities:					
Revenue Bonds	15,545,000	5,600,000	1,740,000	19,405,000	2,040,000
Bond Premium	4,071		451	3,620	-
Capital Leases	456,293		32,475	423,818	34,447
Compensated Absences Payable	-	30,035		30,035	30,035
Total Business-type Activities	<u>16,005,364</u>	<u>5,630,035</u>	<u>1,772,926</u>	<u>19,862,473</u>	<u>2,104,482</u>
Total Long-Term Debt	<u>\$ 21,116,636</u>	<u>\$ 6,378,296</u>	<u>\$ 2,349,426</u>	<u>\$ 25,145,506</u>	<u>\$ 2,784,243</u>

The compensated absences payable were earned in the funds as follows: general fund \$48,261, water and sewer fund \$27,619 and airport operations fund \$2,416.

NOTE 8: RELATED ORGANIZATIONS

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

In 1996 the Development Corporation authorized the issuance of \$7.2 million in Industrial Development Bonds for the benefit of a manufacturing entity. Subject to the terms of a loan agreement, the manufacturing entity is responsible for the repayment of the debt. The City of Mineral Wells has no obligation to repay the debt issued by the Corporation. The balance of the bonds outstanding at September 30, 2009 was \$7.2 million and are payable in 2016.

Subsequent to year end it was discovered that in 2007 the Secretary of State involuntarily dissolved the Corporation due to the failure to file a periodic report with the Secretary of State. The City has begun the process of having the Corporation reinstated.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 9: RISK MANAGEMENT

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

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

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

NOTE 10: EMPLOYEE RETIREMENT PLAN

Plan Description

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

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

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 Rate	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 are: 5 years/age 60, 20 years/any age.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 10: RETIREMENT PLAN (Continued)

Contributions

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

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

Fiscal Year	2009	2008	2007
Annual required contribution (ARC)	\$ 665,356	\$ 472,860	\$ 435,696
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Total annual pension cost	665,356	472,860	435,696
Contributions Made	665,356	472,860	435,696
Increase (decrease) in Net Pension Obligation	-	-	-
Net Pension Obligation/(Asset), beginning of year	-	-	-
Net Pension Obligation/(Asset), end of year	\$ -	\$ -	\$ -

The city's contributions were based on a payroll of \$6,631,596. Both the city and the covered employees made the required contributions, amounting to \$665,356 (10.72% for months in 2009 and 7.89% for months in 2008) for the City and \$331,580 (5%) for the employees. The City's contributions for September 30, 2009, 2008 and 2007 were \$665,356, \$472,860, and \$435,696 respectively. There were no related-party transactions.

Actuarial Assumptions

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 10: RETIREMENT PLAN (Continued)

	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2006</u>
Actuarial Valuation Date			
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	29 Years-Closed Period	30 Years-Closed Period	25 Years-Open Period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	varies by age and service	varies by age and service	varies by age and service
Includes Inflation At	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.10%	2.10%	None

Funded Status

As of December 31, 2008, the most recent actuarial valuation date, the plan was 69.3% funded. The actuarial accrued liability was \$14,840,642 and the actuarial value of assets was \$10,287,692, resulting in an unfunded actuarial accrued liability of \$4,552,950. The covered payroll was \$6,332,772 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 71.9%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

NOTE 11: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement Systems (TESRS), a cost-sharing multiple employer pension systems established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. 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>
	8,254

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 11: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND – (Continued)

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.

Funding Policy

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

Annual Required Contributions

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 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the state appropriated \$8,800,000 for the fiscal year ending August 31, 2008. Total contributions made were greater than the contributions required by the state statute and were greater than the contributions required based on the August 31, 2006 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 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 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$425,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2009 are equal to the contributions required.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 11: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND – (Continued)

Three-Year Trend Information				
<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Required</u> <u>Contribution</u> <u>(ARC)</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage of</u> <u>ARC Contributed</u>	
8/31/2006	2,753,035	¹ 2,753,035	³ 100.00%	
8/31/2007	3,162,742	² 3,162,742	⁴ 100.00%	
8/31/2008	3,160,764	³ 11,239,339	⁵ 355.59%	

¹ Based on the revised August 31, 2004 actuarial valuation.

² Based on the revised August 31, 2006 actuarial valuation.

³ Includes a state contribution of \$675,307.

⁴ Includes a state contribution of \$709,072.

⁵ Includes a state contribution of \$8,800,000.

NOTE 12: CONTINGENT LIABILITIES

A. Federal and State Programs

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

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

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

NOTE 13: CONTRACTS AND COMMITMENTS

A. Construction Contracts

In May 2009, the City awarded a contract in the amount of \$856,865 for the 2009 street improvement program. Construction costs of \$638,259 have been incurred through September 30, 2009.

B. Texas Water Development Board Grant

In June 2009, the Palo Pinto County Municipal Water District No. 1 received a \$2,400,000 grant from the Texas Water Development Board's Economically Distressed Areas Program. Expenditures from the grant are limited to environmental, geotechnical and water rights engineering and legal services. The grant is to be used for the Lake Palo Pinto Storage Restoration Project ("Turkey Peak Project"). As of September 30, 2009, expenditures allocated to the grant totaled \$258,356.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2009

NOTE 14: NEW PRONOUNCEMENTS

In July 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions. This statement establishes standards for the measurement, recognition and display of other postretirement benefits expenses/expenditures and related liabilities (assets), not disclosures and required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for the City for periods beginning after December 15, 2008. The City has not yet determined the effect this statement will have on its financial statements.

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this Statement are effective for the City for periods beginning after June 15, 2010. The City has not yet determined the effect this Statement will have on its financial statements.

NOTE 15: PRIOR PERIOD ADJUSTMENTS

The following summarizes the prior period adjustments and their impact on the basic financial statements.

1. Under the modified accrual basis of accounting, revenues are recognized as soon as they are measurable and available. Revenues are considered available if they are collected within 60 days after year-end. Sales tax collected for the month of September is paid to the City in the month of November. At September 30, 2008 the sales tax for September sales was not recognized as a receivable. The effect of recognizing this receivable is to increase fund balance/net assets by \$433,774.
2. Water and sewer charges are billed in cycles. Four of the cycles are billed at times other than the end of the month. Generally accepted accounting principles requires an accrual at the end of the financial reporting period for the amount of revenue for service that has been provided but not yet billed. At September 30, 2008 the earned but unbilled revenues were not accrued. The effect of recognizing this receivable is to increase net assets by \$281,737.

The following table summarizes the effect of the prior period adjustments on the government-wide and fund opinion units.

	Governmental Activities General Fund	Business- Type Activities Water and Sewer Fund
1. Sales tax receivable	\$ 433,774	\$ -
2. Earned but unbilled revenue		281,737
Prior period adjustment	\$ 433,774	\$ 281,737

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MINERAL WELLS, TEXAS

General Fund

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

For the fiscal year ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 2,078,000	\$ 2,078,000	\$ 2,012,824	(65,176)
Sales and use tax	4,770,000	4,770,000	3,690,925	(1,079,075)
Franchise	1,275,000	1,275,000	1,367,103	92,103
Licenses and Permits	99,400	99,400	82,761	(16,639)
Intergovernmental Revenue	284,288	284,288	225,432	(58,856)
Charges for service	598,800	598,800	719,679	120,879
Fines	240,000	240,000	241,965	1,965
Interest income	125,000	125,000	33,489	(91,511)
Cemetery	100,750	100,750	76,075	(24,675)
Miscellaneous revenues	12,000	12,000	50,135	38,135
Total revenues	<u>9,583,238</u>	<u>9,583,238</u>	<u>8,500,388</u>	<u>(1,082,850)</u>
Expenditures:				
Current				
Administrative	1,092,109	1,092,109	750,868	341,241
Finance	554,506	554,506	543,038	11,468
Fleet Maintenance	911,834	911,834	631,567	280,267
Police	2,388,063	2,388,063	2,250,796	137,267
Fire & Emergency Medical Services	1,903,748	1,903,748	1,311,848	591,900
Inspections	369,636	369,636	341,429	28,207
Streets	2,096,296	2,096,296	1,680,862	415,434
Sanitation	135,213	135,213	191,073	(55,860)
Parks & Recreation	896,732	896,732	760,779	135,953
Cemetery	386,845	386,845	295,786	91,059
Library	406,572	406,572	335,244	71,328
Total expenditures	<u>11,141,554</u>	<u>11,141,554</u>	<u>9,093,290</u>	<u>2,048,264</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(1,558,316)</u>	\$ <u>(1,558,316)</u>	\$ <u>(592,902)</u>	<u>965,414</u>
Other financing sources (uses):				
Proceeds from capital leases	600,000	600,000	-	(600,000)
Transfers in	220,460	220,460	213,120	(7,340)
Transfers out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(839,748)</u>	<u>160,252</u>
Net change in fund balances	(1,737,856)	(1,737,856)	(1,219,530)	518,326
Prior Period Adjustment			433,774	
Fund balance, October 1, 2008	<u>4,903,478</u>	<u>4,903,478</u>	<u>4,903,478</u>	<u>-</u>
Fund balance, September 30, 2009	\$ <u><u>3,165,622</u></u>	\$ <u><u>3,165,622</u></u>	\$ <u><u>4,117,722</u></u>	<u><u>518,326</u></u>

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

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

	(1)	(2)	(3)	(4)	(5)	(6)
				(UAAL)		UAAL as a
Actuarial	Actuarial	Actuarial	Percentage	Unfunded Actuarial	Annual	Percentage
Valuation	Value of	Accrued	Funded	Accrued Liability	Covered	of Covered
Date	Plan Assets	Liability	(1)/(2)	(2)-(1)	Payroll	Payroll
						(4)/(5)
12/31/06	9,596,603	11,570,038	82.94%	1,973,435	5,379,999	36.68%
12/31/07	9,909,674	13,982,856	70.87%	4,073,182	5,916,079	68.85%
12/31/08	10,287,692	14,840,642	69.32%	4,552,950	6,332,772	71.90%

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

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

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (a)	Percentage Funded (1)/(2)	(UAAL) Unfunded Actuarial Accrued Liability (2)-(1)	Total Members Covered	UAAL per Member Covered (4)/(5)
8/31/04	38,140,501	51,567,426	73.96%	13,426,925	7,994	1,680
8/31/2006(b)	42,268,305	58,082,828	72.77%	15,814,523	8,061	1,962
8/31/2008(c)	60,987,157	64,227,341	94.96%	3,240,184	8,254	393

(a) The actuarial accrued liability is based upon the entry age actuarial cost method.

(b) Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.

(c) Changes in actuarial assumptions were reflected in this valuation.

City of Mineral Wells
Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

Note 1: Budget

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

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

Excess of Expenditures Over Appropriations

Expenditures of the sanitation department of the general fund exceeded appropriations by \$55,860 because expenditures for sanitation services were \$57,074 more than budgeted. Total expenditures of the general fund were \$2,048,264 less than budgeted.

Note 2: Texas Emergency Services Retirement System

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

Actuarial Valuation Date	August 31, 2006	August 31, 2008
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level dollar, open	Level dollar, open
Remaining Amortization Period	30 years	6 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 90%/110% corridor on market value	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	8.00% per year, net of investment expenses
Projected Salary Increases	N/A	N/A
Includes Inflation At	3.75%	3.50%
Cost of Living Adjustments	None	None

COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS

CITY OF MINERAL WELLS, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2009

	Special Revenue		
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	Total Special Revenue Funds
Assets:			
Cash	\$ -	\$ 3,844	\$ 3,844
Investments			-
Total assets	<u>\$ -</u>	<u>\$ 3,844</u>	<u>\$ 3,844</u>
Liabilities and fund balance:			
Liabilities:			
Retainage payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:			
Unreserved and Undesignated:			
Reported in Special Revenue Fund	-	3,844	3,844
Reported in Capital Projects Fund			
Reported in Permanent Fund			-
Total fund balance	<u>-</u>	<u>3,844</u>	<u>3,844</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 3,844</u>	<u>\$ 3,844</u>

EXHIBIT G-1

Capital Projects			Permanent Fund	Total Nonmajor Funds
Street Capital Projects	Texas Capital Fund	Total Capital Projects Funds	Woodland Park	
\$ 208,707	\$ -	\$ 208,707	\$ 9,271	\$ 221,822
		-	445,618	445,618
<u>\$ 208,707</u>	<u>\$ -</u>	<u>\$ 208,707</u>	<u>\$ 454,889</u>	<u>\$ 667,440</u>
\$ 16,598	\$ -	\$ 16,598	\$ -	\$ 16,598
<u>16,598</u>	<u>-</u>	<u>16,598</u>	<u>-</u>	<u>16,598</u>
192,109	-	192,109		3,844
		-	454,889	192,109
				454,889
<u>192,109</u>	<u>-</u>	<u>192,109</u>	<u>454,889</u>	<u>650,842</u>
<u>\$ 208,707</u>	<u>\$ -</u>	<u>\$ 208,707</u>	<u>\$ 454,889</u>	<u>\$ 667,440</u>

CITY OF MINERAL WELLS, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the fiscal year ended September 30, 2009

	Special Revenue		
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	Total Special Revenue Funds
Revenues:			
Occupancy taxes	\$ 146,962	\$ -	\$ 146,962
Intergovernmental revenue	-	-	-
Interest	-	-	-
Cemetery	-	-	-
Miscellaneous revenues	-	3,553	3,553
			-
Total revenue	146,962	3,553	150,515
Expenditures:			
Current:			
Police	-	6,284	6,284
Economic Development	-	-	-
Hotel/Motel Occupancy	146,227	-	146,227
Capital Outlay			-
Total expenditures	146,227	6,284	152,511
Excess (deficiency) of revenue over (under) expenditures	735	(2,731)	(1,996)
Other financing sources (uses):			
Transfers in			-
Transfers out	(735)	-	(735)
Net change in fund balances	-	(2,731)	(2,731)
Fund Balance, October 1, 2008	-	6,575	6,575
Fund Balance, September 30, 2009	\$ -	\$ 3,844	\$ 3,844

EXHIBIT G-2

Capital Projects			Permanent Fund	Total Nonmajor Funds
Street Capital Projects	Texas Capital Fund	Total Capital Projects Funds	Woodland Park	
\$ -	\$ -	\$ -	\$ -	\$ 146,962
	700,000	700,000	-	700,000
978		978	3,612	4,590
			11,837	11,837
		-		3,553
		-		-
978	700,000	700,978	15,449	866,942
-	-	-	-	6,284
-	700,000	700,000	-	700,000
-	-	-	-	146,227
841,925		841,925		841,925
841,925	700,000	1,541,925	-	1,694,436
(840,947)	-	(840,947)	15,449	(827,494)
839,748		839,748		839,748
-	-	-	(4,385)	(5,120)
(1,199)	-	(1,199)	11,064	7,134
193,308	-	193,308	443,825	643,708
\$ 192,109	\$ -	\$ 192,109	\$ 454,889	\$ 650,842

**OVERALL COMPLIANCE AND INTERNAL CONTROL
SECTION**

HENRY T. GEORGE - CPA
STEVE D. MORGAN - CPA
(1925-1994)
PETER H. MORGAN - CPA
PATRICK E. SNEED - CPA
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CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
AMERICAN INSTITUTE
OF CERTIFIED
PUBLIC ACCOUNTANTS
AND
TEXAS SOCIETY
OF CERTIFIED
PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Mineral Wells (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 4, 2010. 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 of Mineral Wells' 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.

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 the 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 the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal

control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, 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.

George, Morgan & Sneed, P.C.

Weatherford, Texas
March 4, 2010

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Mineral Wells with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Mineral Wells' management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Mineral Wells, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the City of Mineral Wells is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, 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.

George, Morgan & Sneed, P.C.

George, Morgan & Sneed, P.C.
March 4, 2010

CITY OF MINERAL WELLS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? Yes X No

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

Noncompliance material to financial statements noted Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Community Development Block Grants/State's Program
And Non-entitlement Grants in Hawaii

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

Auditee qualified as low-risk auditee? Yes X No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF MINERAL WELLS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2009

None.

**CITY OF MINERAL WELLS, TEXAS
CORRECTIVE ACTION PLAN
YEAR ENDED SEPTEMBER 30, 2009**

Federal Award Findings

None.

CITY OF MINERAL WELLS, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through from Office of Rural Community Affairs - State of Texas:			
Community Development Block Grant	14.228	726439	\$ 233,500
Pass-through from Texas Department of Agriculture:			
Community Development Block Grant	14.228	729042	<u>700,000</u>
Total U.S. Department of Housing and Urban Development			<u>933,500</u>
Department of Homeland Security			
Staffing for Adequate Fire and Emergency Response (Safer)	97.083		<u>7,310</u>
Total Department of Homeland Security			<u>7,310</u>
Total expenditures of federal awards			<u><u>\$ 940,810</u></u>

CITY OF MINERAL WELLS, TEXAS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2009

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Mineral Wells, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.