

# **CITY OF MINERAL WELLS, TEXAS**

## **ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended  
September 30, 2010**

**CITY OF MINERAL WELLS, TEXAS**  
**Annual Financial Report**  
**For the Fiscal Year Ended September 30, 2010**

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## FINANCIAL SECTION

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**CERTIFIED PUBLIC ACCOUNTANTS**

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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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

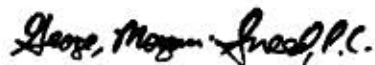
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 – 8, the budgetary comparison schedule – general fund on page 44, Texas Municipal Retirement System Pension Schedule of Funding Progress on page 45 and Texas Emergency Services Retirement System Schedule of Funding Progress on page 46 are not a required part of the basics 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 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.  
Weatherford, Texas  
March 8, 2011



PO Box 459  
Mineral Wells, Texas 76068

## Management's Discussion and Analysis

As management of the City of Mineral Wells ("City"), we offer readers of the City's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2010.

### Financial Highlights

The assets of the City exceeded its liabilities at the close of the fiscal year by \$72,759,996 (net assets). Of this amount, \$9,400,063 (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 \$5,200,865. Eighty-six percent of this total amount, \$4,481,683 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 \$4,481,683 or 51.51 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 nine 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 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 funds.

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

The basic proprietary fund financial statements can be found on pages 16 – 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 page 20 of this report.

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

The notes can be found on pages 21-43 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 \$72,759,996 at September 30, 2010.

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 (\$3,802,407) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9,400,063) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
<i>Current and Other Assets</i>	\$8,282,722	\$8,265,523	\$11,595,341	\$12,177,753	\$19,878,063	\$20,443,276
<i>Capital Assets</i>	34,784,332	35,997,303	41,652,839	41,655,921	76,437,171	77,653,224
<b>Total Assets</b>	<b>\$43,067,054</b>	<b>\$44,262,826</b>	<b>\$53,248,180</b>	<b>\$53,833,674</b>	<b>\$96,315,234</b>	<b>\$98,096,500</b>
<i>Long-Term Liabilities</i>	\$3,937,962	\$4,603,272	\$15,736,207	\$17,757,991	\$19,674,169	\$22,361,263
<i>Other Liabilities</i>	1,028,824	1,014,244	2,852,245	2,702,086	3,881,069	3,716,330
<b>Total Liabilities</b>	<b>\$4,966,786</b>	<b>\$5,617,516</b>	<b>\$18,588,452</b>	<b>\$20,460,077</b>	<b>\$23,555,238</b>	<b>\$26,077,593</b>
<b>Net Assets</b>						
<i>Capital Assets Net of Related Debt</i>	\$32,184,332	\$32,922,303	\$27,373,194	\$26,455,239	\$59,557,526	\$59,377,542
<i>Restricted</i>	630,980	688,102	3,171,427	2,958,377	3,802,407	3,646,479
<i>Unrestricted</i>	5,284,956	5,034,905	4,115,107	3,959,981	9,400,063	8,994,886
<b>Total Net Assets</b>	<b>\$38,100,268</b>	<b>\$38,645,310</b>	<b>\$34,659,728</b>	<b>\$33,373,597</b>	<b>\$72,759,996</b>	<b>\$72,018,907</b>

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$1,285,963	\$1,458,118	\$10,432,698	\$10,894,394	\$11,718,661	\$12,352,512
Operating grants and contributions	174,532	761,564	-	18,870	174,532	780,434
Capital grants and contributions	162,500		368,387	491,856	530,887	491,856
<b>General revenues:</b>						
Property taxes	2,944,651	2,664,472			2,944,651	2,664,472
Other taxes	5,132,889	5,115,935			5,132,889	5,115,935
Other	72,139	94,483	19,598	53,018	91,737	147,501
<b>Total revenues</b>	<b>9,772,674</b>	<b>10,094,572</b>	<b>10,820,683</b>	<b>11,458,138</b>	<b>20,593,357</b>	<b>21,552,710</b>
<b>Expenses:</b>						
Administrative	1,315,059	1,299,758			1,315,059	1,299,758
Public Safety	4,061,842	4,138,803			4,061,842	4,138,803
Highways/streets	2,669,223	2,874,008			2,669,223	2,874,008
Public works	1,083,311	1,139,100			1,083,311	1,139,100
Economic development	72,500	700,000			72,500	700,000
Culture and recreation	1,357,460	1,404,937			1,357,460	1,404,937
Interest on long-term debt	123,068	140,163			123,068	140,163
Water and Sewer			7,174,640	7,452,165	7,174,640	7,452,165
Airport			987,507	1,018,005	987,507	1,018,005
PPCMWD No 1			1,164,406	1,130,768	1,164,406	1,130,768
<b>Total expenses</b>	<b>10,682,463</b>	<b>11,696,769</b>	<b>9,326,553</b>	<b>9,600,938</b>	<b>20,009,016</b>	<b>21,297,707</b>
<b>Change in net assets before transfers</b>	<b>(909,789)</b>	<b>(1,602,197)</b>	<b>1,494,130</b>	<b>1,857,200</b>	<b>584,341</b>	<b>255,003</b>
<b>Special Items</b>						
Transfers	207,999	208,000	(207,999)	(208,000)	-	-
<b>Change in net assets</b>	<b>(701,790)</b>	<b>(1,394,197)</b>	<b>1,286,131</b>	<b>1,649,200</b>	<b>584,341</b>	<b>255,003</b>
<b>Net assets - Beginning*</b>	<b>38,802,058</b>	<b>39,605,733</b>	<b>33,373,597</b>	<b>31,442,660</b>	<b>72,175,655</b>	<b>71,048,393</b>
<b>Prior Period Adjustments</b>		<b>433,774</b>		<b>281,737</b>		<b>715,511</b>
<b>Net assets - 09/30/10</b>	<b>\$38,100,268</b>	<b>\$38,645,310</b>	<b>\$34,659,728</b>	<b>\$33,373,597</b>	<b>\$72,759,996</b>	<b>\$72,018,907</b>

\*See Note 16

## 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 \$4,481,683, while the total fund balance reached \$4,494,294. 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 51.51 percent of total general fund expenditures, while total fund balance represents 51.65 percent of that same amount.

### Other items

The Debt Service Fund has a total fund balance of \$156,251 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 \$2,307,228 and \$1,587,865 for the Water District. Unrestricted net assets in Airport Operations are \$220,014.

### General Fund Budgetary Highlights

It is the practice of the City to budget very conservatively. Revenues in 2009-10 were 2.7 percent higher than budgeted with actual operating expenses being 9.7 percent lower than budgeted. The City budgeted \$1.2 million of appropriated fund balance, but did not spend the associated budgeted expenses due to the economic uncertainties associated with the ongoing national recession.

### 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, 2010 amounts to \$76,437,171 (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 completed street and water/sewer improvement projects from 2008-09, and issued a contract for the expansion of the water distribution system in 2009-10. The water distribution project was not complete at fiscal year end so it is carried as construction in progress. Vehicles were purchased in the General Fund as well as the addition of a new classroom for training purposes and a new Fossil Park. Not all funds budgeted for acquisition of vehicles and equipment were spent in this year's budget due to the economic uncertainties of the last two years and into the foreseeable future.

Additional information on the City's capital assets can be found in Note 4 on pages 29 – 30 of this report.

**Long-term debt.** At the end of the fiscal year, the City had total outstanding debt of \$22,342,207. Of this amount, \$2,600,000 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 \$389,575 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 "AA-" 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 and an "AA-" from Fitch Ratings.

Additional information on the City's long-term debt can be found in Note 7 on pages 32 – 37 of this report.

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

Given the worst general economic decline since the 1930's, the Mineral Wells area has suffered substantial economic displacement and loss. While the area has been somewhat insulated from the most dire consequences associated with this recession, it has been impacted by a precipitous drop in energy prices and the near shutdown of oil and gas exploration and development. Local unemployment has risen from 3.7% in 2007 to 7.8% in May of 2010. Due to these circumstances, the General Fund has seen sales and franchise tax collections fall approximately \$2.5 million over the past two fiscal years and are expected to continue at this diminished rate into this fiscal year. A 12% increase in property tax rate has been adopted to offset a 5% decrease in property values and the decline in sales and franchise tax collections. Fortunately, the City has been able to maintain its fund balance in the General Fund at approximately 120 operating days by curtailing capital expenditures and through a temporary hiring freeze. Also, the City has been able to maintain all its programming and key city functions.

The City has increased water rates to offset weak water sales in prior years and an aggressive program of capital projects. In addition to an increased water rate, the City has also implemented an increasing block rate structure to promote water conservation. The rate increase and new structure represents a 3-5% increase to the average customer. This will allow the City to accumulate funds to continue to pursue capital improvements in the water/sewer systems and fund an increase of \$300,000 for the purchase of raw water.

Overall expenses were relatively unchanged from 2009-10 as the City positions itself for the long process of economic recovery. The City has budgeted the replacement of some of its aging vehicles and equipment in the General Fund in addition to four smaller capital improvement projects, but no major capital projects have been budgeted in the General or Water/Sewer Funds.

Without question, the past two fiscal years have proven to be exceedingly difficult for the City of Mineral Wells. Nonetheless, through conservative fiscal management, the City has maintained basic service levels and positioned itself to survive these unsettled economic times. We will continue to cautiously manage our fiscal affairs until such time as our local economic circumstance improves.

#### 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**

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CITY OF MINERAL WELLS, TEXAS  
Statement of Net Assets  
September 30, 2010

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 331,687	\$ 389,768	\$ 721,455
Investments	4,487,604	5,594,495	10,082,099
Receivables (Net of allowances for uncollectibles)			
Property taxes	86,509		86,509
Sales taxes	646,569		646,569
Franchise taxes	172,488		172,488
Accounts	336,039	967,051	1,303,090
Leases	1,984,462		1,984,462
Miscellaneous	9,674	2,872	12,546
Due from Texas Water Development Board		626,743	626,743
Inventory	12,611	253,808	266,419
Restricted Assets, Cash and Investments:			
Cash and cash equivalents	41,143	28,407	69,550
Investments	109,892	3,380,864	3,490,756
Deferred Charges	64,044	351,333	415,377
Capital assets (net of accumulated depreciation):			
Land	2,055,146	2,506,789	4,561,935
Construction in progress	96,265	2,704,624	2,800,889
Buildings and improvements	2,983,339	1,819,016	4,802,355
Improvements other than buildings	831,249	10,070,499	10,901,748
Infrastructure	28,074,654	3,654,260	31,728,914
Distribution System	-	17,240,079	17,240,079
Collection System	-	3,348,994	3,348,994
Equipment and Vehicles	712,333	277,448	989,781
Furniture and Fixtures	31,346	31,130	62,476
<b>Total Assets</b>	<b>43,067,054</b>	<b>53,248,180</b>	<b>96,315,234</b>
<b>LIABILITIES:</b>			
Accounts Payable	138,466	238,438	376,904
Wages and fringe benefits payable	152,850	84,715	237,565
Retainage payable	-	25,613	25,613
Due to other governments	26,217	-	26,217
Deferred revenue	-	89,375	89,375
Current Liabilities Payable from Restricted Assets:			
Interest payable	17,764	204,328	222,092
Customer deposits	-	159,643	159,643
Noncurrent liabilities:			
Due within one year	693,527	2,050,133	2,743,660
Due in more than one year	3,937,962	15,736,207	19,674,169
<b>Total Liabilities</b>	<b>4,966,786</b>	<b>18,588,452</b>	<b>23,555,238</b>
<b>NET ASSETS:</b>			
Investments in Capital Assets, Net of Debt	32,184,332	27,373,194	59,557,526
Restricted for debt service (Expendable)	166,451	3,171,427	3,337,878
Restricted for Woodland Park (Nonexpendable)	464,529	-	464,529
Unrestricted Net Assets	5,284,956	4,115,107	9,400,063
<b>Total Net Assets</b>	<b>\$ 38,100,268</b>	<b>\$ 34,659,728</b>	<b>\$ 72,759,996</b>

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, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
Administrative	\$ 792,111	\$ 41,633	\$	\$
Finance	312,609	-		
Fleet Maintenance	633,339	-		
Police	2,301,344	446,091	52,076	
Fire & Emergency Medical Services	1,473,641	521,764	63,165	
Inspections	286,857	82,326		
Information technology	210,339			
Streets	2,669,223	-		
Sanitation	141,944	41,552		
Parks & Recreation	866,967	80,650		
Cemetery	308,028	66,033		
Library	343,022	5,914	19,291	
Economic Development	72,500		40,000	162,500
Hotel/Motel Occupancy	147,471			
Interest and fiscal charges	123,068			
Total governmental activities	<u>10,682,463</u>	<u>1,285,963</u>	<u>174,532</u>	<u>162,500</u>
Business-type activities:				
Water and Sewer	7,174,640	7,783,414		
Airport	987,507	833,747		
PPCMWD No. 1	1,164,406	1,815,537		368,387
Total business-type activities	<u>9,326,553</u>	<u>10,432,698</u>	<u>-</u>	<u>368,387</u>
Total primary government	<u>\$ 20,009,016</u>	<u>\$ 11,718,661</u>	<u>\$ 174,532</u>	<u>\$ 530,887</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

Net Assets October 1, 2009 (See Note 16)

Net Assets September 30, 2010

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
\$ (750,478)	\$	(750,478)
(312,609)		(312,609)
(633,339)		(633,339)
(1,803,177)		(1,803,177)
(888,712)		(888,712)
(204,531)		(204,531)
(210,339)		(210,339)
(2,669,223)		(2,669,223)
(100,392)		(100,392)
(786,317)		(786,317)
(241,995)		(241,995)
(317,817)		(317,817)
130,000		130,000
(147,471)		(147,471)
(123,068)		(123,068)
<u>(9,059,468)</u>	<u>-</u>	<u>(9,059,468)</u>
	608,774	608,774
	(153,760)	(153,760)
	1,019,518	1,019,518
<u>-</u>	<u>1,474,532</u>	<u>1,474,532</u>
\$ <u>(9,059,468)</u>	\$ <u>1,474,532</u>	\$ <u>(7,584,936)</u>
\$ 2,436,972	\$ 389	\$ 2,437,361
507,679		507,679
3,682,792		3,682,792
1,301,885		1,301,885
148,212		148,212
9,858	18,344	28,202
62,281	865	63,146
207,999	(207,999)	-
<u>8,357,678</u>	<u>(188,401)</u>	<u>8,169,277</u>
(701,790)	1,286,131	584,341
<u>38,802,058</u>	<u>33,373,597</u>	<u>72,175,655</u>
\$ <u>38,100,268</u>	\$ <u>34,659,728</u>	\$ <u>72,759,996</u>

## CITY OF MINERAL WELLS, TEXAS

Balance Sheet  
 Governmental Funds  
 September 30, 2010

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Assets:				
Cash and cash equivalents	\$ 146,869	\$ -	\$ 41,884	\$ 188,753
Investments	3,741,096	-	503,419	4,244,515
Receivables (Net of allowances)				
Property Taxes	51,298	15,352	19,859	86,509
Sales Taxes	646,569			646,569
Franchise Taxes	172,488			172,488
Accounts	336,039	-	-	336,039
Lease	-	1,984,462	-	1,984,462
Miscellaneous	4,458	5,216		9,674
Inventory Supplies, at Cost	12,611			12,611
Due from other funds			5,017	5,017
Restricted Assets:				
Cash and cash equivalents		41,143		41,143
Investments		109,892		109,892
Total assets	\$ 5,111,428	\$ 2,156,065	\$ 570,179	\$ 7,837,672
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 115,723	\$ -	\$ -	\$ 115,723
Wages and Fringe Benefits Payable	152,850	-	-	152,850
Due to other funds	5,017	-	-	5,017
Due to State	26,217			26,217
Deferred revenue	317,327	1,999,814	19,859	2,337,000
Total liabilities	617,134	1,999,814	19,859	2,636,807
Fund Balances:				
Reserved for:				
Retirement of Long-term Debt		156,251		156,251
Inventory	12,611			12,611
Unreserved and Undesignated:				
Reported in General Fund	4,481,683			4,481,683
Reported in Special Revenue Fund			85,791	85,791
Reported in Permanent Fund			464,529	464,529
Total fund balances	4,494,294	156,251	550,320	5,200,865
Total liabilities and fund balances	\$ 5,111,428	\$ 2,156,065	\$ 570,179	\$ 7,837,672

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

CITY OF MINERAL WELLS, TEXAS  
 Reconciliation of the Governmental Funds Balance Sheet  
 To the Statement of Net Assets  
 September 30, 2010

Total Fund Balances - Governmental Funds	\$ 5,200,865
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 \$64,775,763 and the accumulated depreciation was \$29,991,431.	34,784,332
Capitalized bond issuance costs related to governmental activity debt are not financial resources and therefore are not reported in the governmental funds.	64,044
Long-term liabilities, including \$2,600,000 bonds payable and \$47,027 compensated absences payable are not due and payable in the current period and, therefore are not reported as liabilities in the fund financial statements.	(2,647,027)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(17,764)
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.	352,538
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.	363,280
Net Assets of Governmental Activities	<u>\$ 38,100,268</u>

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

## EXHIBIT C-3

CITY OF MINERAL WELLS, TEXAS  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended September 30, 2010

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 2,401,279	\$ 505,745	\$ 5,017	2,912,041
Sales and use tax	3,682,792		-	3,682,792
Franchise	1,301,885		-	1,301,885
Hotel motel taxes	-		148,212	148,212
Licenses and Permits	82,326		-	82,326
Intergovernmental Revenue	341,150		40,000	381,150
Charges for service	715,778		-	715,778
Fines	208,614		-	208,614
Interest income	7,790	341	1,097	9,228
Special Assessments	-	175,310	-	175,310
Cemetery	62,047		9,389	71,436
Miscellaneous revenues	62,281		162,500	224,781
Total revenues	<u>8,865,942</u>	<u>681,396</u>	<u>366,215</u>	<u>9,913,553</u>
Expenditures:				
Current				
Administrative	781,816	-	-	781,816
Finance	357,005	-	-	357,005
Fleet Maintenance	631,602	-	-	631,602
Police	2,301,878	-	-	2,301,878
Fire & Emergency Medical Services	1,369,698	-	-	1,369,698
Inspections	280,823	-	-	280,823
Information technology	210,339	-	-	210,339
Streets	1,268,256	-	-	1,268,256
Sanitation	141,944	-	-	141,944
Parks & Recreation	723,956	-	-	723,956
Cemetery	299,921	-	-	299,921
Library	333,982	-	-	333,982
Economic Development			282,544	282,544
Hotel/Motel Occupancy			147,471	147,471
Debt service:				
Principal		650,310	-	650,310
Interest and fiscal charges		115,272	-	115,272
Capital Outlay			189,619	189,619
Total expenditures	<u>8,701,220</u>	<u>765,582</u>	<u>619,634</u>	<u>10,086,436</u>
Excess (deficiency) of revenue over (under) expenditures)	\$ <u>164,722</u>	\$ <u>(84,186)</u>	\$ <u>(253,419)</u>	<u>(172,883)</u>
Other financing sources (uses):				
Transfers in	211,850	-	-	211,850
Transfers out	<u>-</u>	<u>-</u>	<u>(3,851)</u>	<u>(3,851)</u>
Net change in fund balances	376,572	(84,186)	(257,270)	35,116
Fund balance, October 1, 2009 (See Note 16)	<u>4,117,722</u>	<u>240,437</u>	<u>807,590</u>	<u>5,165,749</u>
Fund balance, September 30, 2010	<u>\$ 4,494,294</u>	<u>\$ 156,251</u>	<u>\$ 550,320</u>	<u>5,200,865</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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$ 35,116
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 \$541,928 of capital outlays and \$475,000 of debt principal payments is to increase net assets.	1,016,928
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.	(1,754,899)
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 \$2,879 decrease in interest payable, \$1,234 decrease in compensated absences and \$10,675 amortization of bond issuance costs decrease net assets.	(6,562)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	33,801
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.	(26,174)
Change in Net Assets of Governmental Activities	<u>\$ (701,790)</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, 2010

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$ 63,817	\$ 77,808	\$ 248,143	\$ 389,768	\$ 142,934
Investments	1,427,155	90,144	4,077,196	5,594,495	243,089
Receivables (Net of allowances):					
Accounts	941,553	23,743	1,755	967,051	-
Miscellaneous	30	-	2,842	2,872	-
Due from Texas Water Development Board			626,743	626,743	-
Inventory	171,014	36,153	46,641	253,808	-
Restricted Assets, Cash and Investments:					
Cash and cash equivalents	28,407	-		28,407	
Investments	2,163,562		1,217,302	3,380,864	
Total current assets	<u>4,795,538</u>	<u>227,848</u>	<u>6,220,622</u>	<u>11,244,008</u>	<u>386,023</u>
Noncurrent Assets:					
Deferred Charges	199,313		152,020	351,333	
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	-	15,500,453	-
Infrastructure	-	5,043,980	-	5,043,980	-
Distribution System	12,921,249	-	21,415,200	34,336,449	-
Collection System	6,303,437	-		6,303,437	-
Equipment & Vehicles	2,503,739	331,405	58,604	2,893,748	-
Furnitures & Fixtures	244,889	-	-	244,889	-
Construction-in-Progress	293,974	-	2,410,649	2,704,623	-
Less: accumulated depreciation	(16,042,522)	(2,266,920)	(14,116,371)	(32,425,813)	-
Capital assets, net	<u>24,312,552</u>	<u>5,208,548</u>	<u>12,131,739</u>	<u>41,652,839</u>	<u>-</u>
Total noncurrent assets	<u>24,511,865</u>	<u>5,208,548</u>	<u>12,283,759</u>	<u>42,004,172</u>	<u>-</u>
Total assets	<u>29,307,403</u>	<u>5,436,396</u>	<u>18,504,381</u>	<u>53,248,180</u>	<u>386,023</u>

CITY OF MINERAL WELLS, TEXAS  
Statement of Net Assets  
Proprietary Funds  
September 30, 2010

**LIABILITIES:**

## Current Liabilities:

Accounts payable	236,856	1,582	-	238,438	22,743
Wages and Fringe Benefits Payable	79,736	4,979	-	84,715	-
Retainage Payable	25,613			25,613	
Compensated absences payable	27,322	1,273		28,595	
Deferred Revenue			89,375	89,375	
Customer Deposits	159,643	-	-	159,643	-

## Current Liabilities Payable from Restricted Assets:

Current portion of Revenue Bonds	1,065,000	-	920,000	1,985,000	-
Current portion of Capital Lease Payable	-	36,538		36,538	-
Interest payable	54,127	-	150,201	204,328	-
Total current liabilities	<u>1,648,297</u>	<u>44,372</u>	<u>1,159,576</u>	<u>2,852,245</u>	<u>22,743</u>

## Noncurrent Liabilities:

## Long-term Liabilities (Net of Current Portion)

Revenue Bonds (Net of Current portion)	3,265,000		12,115,000	15,380,000	-
Capital Lease Payable (Net of current portion)	-	353,037		353,037	-
Bond Premium	-		3,170	3,170	-
Total noncurrent liabilities	<u>3,265,000</u>	<u>353,037</u>	<u>12,118,170</u>	<u>15,736,207</u>	<u>-</u>

## Total liabilities

<u>4,913,297</u>	<u>397,409</u>	<u>13,277,746</u>	<u>18,588,452</u>	<u>22,743</u>
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**NET ASSETS:**

Investment in capital assets, net of debt	19,982,552	4,818,973	2,571,669	27,373,194	-
Restricted for debt service (Expendable)	2,104,326	-	1,067,101	3,171,427	-
Unrestricted	2,307,228	220,014	1,587,865	4,115,107	363,280
Total net assets	<u>\$ 24,394,106</u>	<u>\$ 5,038,987</u>	<u>\$ 5,226,635</u>	<u>\$ 34,659,728</u>	<u>\$ 363,280</u>



CITY OF MINERAL WELLS, TEXAS  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the year ended September 30, 2010

	Business-Type Activities Enterprise Funds				Governmental Activities
	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	\$ 4,577,630	\$ -	\$ 1,813,915	\$ 6,391,545	\$ -
Connections	10,758	-	-	10,758	-
Sewer Revenues	2,942,695	-	-	2,942,695	-
Gasoline and Oil	-	578,103	-	578,103	-
Rentals	-	240,562	-	240,562	-
Miscellaneous Revenues	252,331	15,082	1,622	269,035	-
Other Services	-	-	-	-	1,275,001
Total operating revenue	<u>7,783,414</u>	<u>833,747</u>	<u>1,815,537</u>	<u>10,432,698</u>	<u>1,275,001</u>
Operating expenses:					
Public Works Administration	1,903,177	-	108,474	2,011,651	-
Water Distribution	928,180	-	-	928,180	-
Hilltop Water Treatment	1,323,781	-	-	1,323,781	-
Wastewater Treatment	1,117,920	-	-	1,117,920	-
Facility Maintenance	368,282	-	-	368,282	-
City Utility Service	487,407	-	-	487,407	-
Airport Operations	-	697,347	-	697,347	-
Self-Insurance	-	-	-	-	1,301,805
Depreciation	821,625	265,264	578,621	1,665,510	-
Total operating expenses	<u>6,950,372</u>	<u>962,611</u>	<u>687,095</u>	<u>8,600,078</u>	<u>1,301,805</u>
Operating income	<u>833,042</u>	<u>(128,864)</u>	<u>1,128,442</u>	<u>1,832,620</u>	<u>(26,804)</u>
Nonoperating revenues (expenses):					
Property taxes	-	-	389	389	-
Interest Earned	5,874	144	12,326	18,344	630
Oil & Gas Leases	-	865	-	865	-
Interest on Capital Leases	-	(24,896)	-	(24,896)	-
Interest on Revenue Bonds	(224,268)	-	(477,311)	(701,579)	-
Total nonoperating revenues (expenses)	<u>(218,394)</u>	<u>(23,887)</u>	<u>(464,596)</u>	<u>(706,877)</u>	<u>630</u>
Income before contributions and transfers	<u>614,648</u>	<u>(152,751)</u>	<u>663,846</u>	<u>1,125,743</u>	<u>(26,174)</u>
Contributions and transfers (to) from other funds:					
Capital Grants & Contributions	-	-	368,387	368,387	-
Transfers out	(199,999)	(8,000)	-	(207,999)	-
Change in Net Assets	<u>414,649</u>	<u>(160,751)</u>	<u>1,032,233</u>	<u>1,286,131</u>	<u>(26,174)</u>
Net Assets, October 1, 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>
Net Assets, September 30, 2010	<u>\$ 24,394,106</u>	<u>\$ 5,038,987</u>	<u>\$ 5,226,635</u>	<u>\$ 34,659,728</u>	<u>\$ 363,280</u>

CITY OF MINERAL WELLS, TEXAS  
Statement of Cash Flows  
Proprietary Funds  
For the year ended September 30, 2010

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	
Cash flows from operating activities:					
Cash received from customers	\$ 7,620,727	\$ 854,378	\$ 1,818,848	\$ 10,293,953	\$ -
Cash received for interfund services provided	(4,069,164)	(548,419)	(97,335)	(4,714,918)	1,275,001
Cash paid to suppliers	(1,867,232)	(140,528)	-	(2,007,760)	(1,279,062)
Cash paid to employees	1,684,331	165,431	1,721,513	3,571,275	-
Net cash provided by operating activities					(4,061)
Cash flow from noncapital financing activities:					
Property taxes	-	-	389	389	-
Transfers out	(199,999)	(8,000)	-	(207,999)	-
Net cash provided (used) by noncapital financing activities	(199,999)	(8,000)	389	(207,610)	-
Cash flow from capital and related financing activities:					
Capital expenditures	(405,774)	(19,452)	(1,295,375)	(1,720,601)	-
Principal payments on long-term debt	(1,160,000)	(34,243)	(880,000)	(2,074,243)	-
Interest paid on long-term debt	(182,585)	(24,896)	(429,969)	(637,450)	-
Net cash (used) by capital and related financing activities	(1,748,359)	(78,591)	(2,605,344)	(4,432,294)	-
Cash flow from investing activities:					
Interest received	5,874	144	13,151	19,169	630
Income from oil and gas leases	-	865	-	865	-
Net cash provided by investing activities	5,874	1,009	13,151	20,034	630
Net increase (decrease) in cash and cash equivalents	(258,153)	79,849	(870,291)	(1,048,595)	(3,431)
Cash and cash equivalents, September 30, 2009	3,941,094	88,103	6,412,932	10,442,129	389,454
Cash and cash equivalents, September 30, 2010	\$ 3,682,941	\$ 167,952	\$ 5,542,641	\$ 9,393,534	\$ 386,023
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	\$ 833,042	\$ (128,864)	\$ 1,128,442	\$ 1,832,620	\$ (26,804)
Operating income (loss)	821,625	265,264	578,621	1,665,510	
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	(167,005)	20,631	2,667	(143,707)	
Depreciation expense	396	-	-	396	
(Increase) decrease in accounts receivable	3,095	9,483	-	12,578	
(Increase) decrease in supplies inventory	10	-	-	10	
(Increase) decrease in due from other funds	167,079	12	-	167,091	
Increase (decrease) in accounts payable	12,166	48	-	12,214	22,743
Increase (decrease) in wages and fringe benefits payable	10,298	-	-	10,298	
Increase (decrease) in retainage payable	(297)	(1,143)	-	(1,440)	
Increase (decrease) in compensated absences payable	3,922	-	-	3,922	
Increase (decrease) in customer meter deposits	-	-	-	-	
Disposal of capital asset	-	-	11,531	11,531	
Increase (decrease) in taxes receivable	-	-	252	252	
Total adjustments	851,289	294,295	593,071	1,738,655	22,743
Net cash provided by operating activities	\$ 1,684,331	\$ 165,431	\$ 1,721,513	\$ 3,571,275	\$ (4,061)

**EXHIBIT E-1**

CITY OF MINERAL WELLS, TEXAS  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2010

	<u>Agency Police Department Seized Fund</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ <u>2,461</u>
Total assets	<u>2,461</u>
<b>LIABILITIES:</b>	
Due to Others	<u>2,461</u>
Total Liabilities	\$ <u><u>2,461</u></u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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 79% 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, 2010, 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, 2010**

**NOTE 1:      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even through 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, 2010**

**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 *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 not 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, 2010**

**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, and 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 70% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$119,697 in the general fund and \$35,823 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, 2010**

**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 \$726,475. 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, 2010**

**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, and the depository's correspondent bank. The City's and the component unit's deposits were fully secured at the balance sheet date by FDIC coverage and by pledged securities.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's funds are required to be deposited and invested under the terms of a depository contract. At September 30, 2010, 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, 2010**

**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, 2010**

**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, 2010 included the following:

Investment	Credit Rating	Average Maturities	Percentage of Total Investments	Cost	Fair Value
City of Mineral Wells					
Tex-Pool	AAAm	77 days	12.43%	\$ 1,661,876	\$ 1,661,878
TexSTAR Pool	AAAm	47 days	49.48%	6,616,479	6,616,479
				<u>8,278,355</u>	<u>8,278,357</u>
Component Unit					
TexSTAR Pool	AAAm	47 days	38.10%	5,093,994	5,094,498
Total Investments			100.00%	<u>\$ 13,372,349</u>	<u>\$ 13,372,855</u>
Reconciliation to financial statements					
Investments from Exhibit A-1					\$ 13,572,855
Less Certificate of Deposit					<u>(200,000)</u>
					<u>\$ 13,372,855</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:

	Governmental Funds			Enterprise Fund	
				Total Governmental Funds	PPCMWD No. 1
	General	Debt Service	Nonmajor		
Deferred property taxes receivable	\$ 51,298	\$ 15,352	\$ 19,859	\$ 86,509	\$ -
Deferred franchise taxes receivable	102,903			102,903	
Deferred EMS receivable	63,292			63,292	
Deferred Cemetery receivable	47,566			47,566	
Deferred municipal court receivable	52,268			52,268	
Deferred leases receivable		1,984,462		1,984,462	
Unearned water sales		-		-	89,375
Total deferred revenue	<u>\$ 317,327</u>	<u>\$ 1,999,814</u>	<u>\$ 19,859</u>	<u>\$ 2,337,000</u>	<u>\$ 89,375</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2010 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Non - Depreciable Assets:				
Land	\$ 1,845,102	\$ 210,044	\$ -	\$ 2,055,146
Construction in Progress	481,113	189,619	(574,467)	96,265
Total non-depreciable assets	2,326,215	399,663	(574,467)	2,151,411
Depreciable Assets:				
Buildings and improvements	4,397,195	22,500		4,419,695
Improvements other than buildings	1,722,354	75,954		1,798,308
Infrastructure	50,866,930	574,467		51,441,397
Equipment and vehicles	4,614,428	43,811	(41,222)	4,617,017
Furniture and fixtures	347,935	-		347,935
Total capital assets being depreciated	61,948,842	716,732	(41,222)	62,624,352
Accumulated Depreciation:				
Buildings and improvements	(1,346,340)	(90,016)		(1,436,356)
Improvements other than buildings	(870,933)	(96,126)		(967,059)
Infrastructure	(22,049,125)	(1,317,618)		(23,366,743)
Equipment and vehicles	(3,721,462)	(224,444)	41,222	(3,904,684)
Furniture and fixtures	(289,894)	(26,695)		(316,589)
Total accumulated depreciation	(28,277,754)	(1,754,899)	41,222	(29,991,431)
Governmental activities capital assets, net	\$ 35,997,303	\$ (638,504)	\$ (574,467)	\$ 34,784,332

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

Governmental activities:	
Administrative	\$ 10,295
Finance	5,955
Fleet Maintenance	1,737
Police	55,468
Fire & Emergency Medical Services	103,943
Inspections	6,034
Streets, including infrastructure	1,400,967
Parks & Recreation	153,353
Cemetery	8,107
Library	9,040
Total depreciation expense - governmental activities	<u>\$ 1,754,899</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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	1,453,734	1,656,442	(405,553)	2,704,623
Total non-depreciable assets	3,960,523	1,656,442	(405,553)	5,211,412
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	34,102,526	44,706	189,217	34,336,449
Collection System	6,145,271	-	158,166	6,303,437
Equipment and Vehicles	2,874,297	19,451	-	2,893,748
Furniture and Fixtures	244,889	-		244,889
Total capital assets being depreciated	68,455,700	64,157	347,383	68,867,240
Accumulated Depreciation:				
Buildings and improvements	(2,639,159)	(86,109)		(2,725,268)
Improvements other than buildings	(5,117,047)	(312,907)		(5,429,954)
Infrastructure	(1,169,027)	(220,693)		(1,389,720)
Distribution System	(16,287,649)	(809,109)	388	(17,096,370)
Collection System	(2,829,956)	(124,487)		(2,954,443)
Equipment and Vehicles	(2,511,001)	(105,300)	-	(2,616,301)
Furniture and Fixtures	(206,464)	(7,293)		(213,757)
Total accumulated depreciation	(30,760,303)	(1,665,898)	388	(32,425,813)
Business-type activities capital assets, net	\$ 41,655,920	\$ 54,701	\$ (57,782)	\$ 41,652,839

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

Business-type activities:	
Water and Sewer	\$ 821,625
Airport	265,264
PPCMWD No. 1	578,621
Total depreciation expense - business-type activities	<u>\$ 1,665,510</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**NOTE 5:     INTERFUND TRANSFERS**

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2010, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,361
	Water and Sewer	199,999
	Airport Operations	8,000
	Nonmajor Governmental Funds	2,490
Total Governmental Funds Transfers In		\$ <u>211,850</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.

**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:

	Business-type Activities
2011	\$ 59,343
2012	59,341
2013	50,947
2014	42,550
2015	42,550
2016-2020	212,750
2021-2025	67,394
Total debt service requirements	534,875
Less: Interest Portion	145,300
Debt Principal	\$ <u>389,575</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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:

	Business-type Activities
Buildings	\$ 660,250
Less: Accumulated depreciation	<u>(84,504)</u>
Net	<u>\$ 575,746</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:

	Governmental Activities		
	Principal	Interest	Total
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	420,000	19,150	439,150
2016	<u>230,000</u>	<u>5,060</u>	<u>235,060</u>
Total debt service requirements	<u>\$ 2,600,000</u>	<u>\$ 294,497</u>	<u>\$ 2,894,497</u>



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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>
2011	\$ 156,500
2012	156,500
2013	156,500
2014	156,500
2015	156,500
2016-2020	647,083
2021-2025	415,314
2026-2030	<u>139,565</u>
Total debt service requirements	<u>\$ 1,984,462</u>



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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	\$     870,000
\$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	2,235,000
\$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	1,225,000
Total Water and Sewer Fund	<u>4,330,000</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	2,580,000
\$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	5,090,000
\$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.	2,280,000
\$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.	3,085,000
Total Palo Pinto Municipal Water District No. 1	<u>13,035,000</u>
Total Revenue Bonds	<u><u>\$ 17,365,000</u></u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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
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	1,345,000	317,552	1,662,552
2015-2019	3,890,000	1,044,621	4,934,621
2020-2024	3,000,000	370,499	3,370,499
2025-2029	1,155,000	50,084	1,205,084
Total debt service requirements	\$ <u>17,365,000</u>	\$ <u>3,722,991</u>	\$ <u>21,087,991</u>

**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, 2010 the reserve fund balance was \$1,174,820 and the emergency fund balance was \$40,569.

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 1.24 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, 2010 was \$446,148.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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, 2010, 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 25<sup>th</sup> of each month beginning July 25, 2009 and continuing each subsequent month until a balance of \$352,626 is obtained. The District is in compliance with requirements. As September 30, 2010, the District had \$88,155 in the fund which constitutes fifteen payment of \$5,877.

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. The District is in compliance with requirements. At September 30, 2010, the "Contingency Fund" had a balance of \$6,255 which constitutes fifteen 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	\$ 28,407	\$ 5,109
Interest and Sinking Funds		943,064
Emergency Fund		40,569
Reserve Fund		1,174,820
Total Water and Sewer Fund	<u>28,407</u>	<u>2,163,562</u>
PPCMWD No. 1		
Interest and Sinking Funds		476,744
Contingency Funds		206,255
Reserve Funds		534,303
Total PPCMWD No. 1	<u>-</u>	<u>1,217,302</u>
Total Business-type activities	<u>\$ 28,407</u>	<u>\$ 3,380,864</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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, 2010.

	<u>9/30/2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2010</u>	<u>Due Within One Year</u>
Governmental Activities.:					
General Obligation Bonds	\$ 3,075,000		\$ 475,000	\$ 2,600,000	\$ 490,000
Special Assessment Debt	2,159,772	-	175,310	1,984,462	156,500
Compensated Absences Payable	48,261	47,027	48,261	47,027	47,027
Total Governmental Activities	<u>5,283,033</u>	<u>47,027</u>	<u>698,571</u>	<u>4,631,489</u>	<u>693,527</u>
Business-type Activities:					
Revenue Bonds	19,405,000	-	2,040,000	17,365,000	1,985,000
Bond Premium	3,620		450	3,170	-
Capital Leases	423,818		34,243	389,575	36,538
Compensated Absences Payable	30,035	28,595	30,035	28,595	28,595
Total Business-type Activities	<u>19,862,473</u>	<u>28,595</u>	<u>2,104,728</u>	<u>17,786,340</u>	<u>2,050,133</u>
Total Long-Term Debt	<u>\$ 25,145,506</u>	<u>\$ 75,622</u>	<u>\$ 2,803,299</u>	<u>\$ 22,417,829</u>	<u>\$ 2,743,660</u>

The compensated absences payable were earned in the funds as follows: general fund \$47,027, water and sewer fund \$27,322 and airport operations fund \$1,273.

**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 Development 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, 2010 was \$7.2 million and are payable in 2016.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**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](http://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:

	<b>Plan Year 2009</b>	<b>Plan Year 2010</b>
Employee Deposit Rate	5%	5%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**NOTE 10: EMPLOYEE RETIREMENT PLAN (Continued)**

Contributions

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

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

Fiscal Year	2010	2009	2008
Annual required contribution (ARC)	\$ 768,322	\$ 665,356	\$ 472,860
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Total annual pension cost	768,322	665,356	472,860
Contributions Made	768,322	665,356	472,860
Increase (decrease) in Net Pension Obligation	-	-	-
Net Pension Obligation/(Asset), beginning of year	-	-	-
Net Pension Obligation/(Asset), end of year	\$ -	\$ -	\$ -

Actuarial Assumptions

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	9/30/2007	9/30/2008	9/30/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	30 Years-Closed Period	29 Years-Closed Period	28 Years-Closed Period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year smoothed market
Investment Rate of Return	7.0%	7.5%	7.5%
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%	2.10%

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**NOTE 10: EMPLOYEE RETIREMENT PLAN (Continued)**

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Funded ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	\$11,296,570	\$16,189,980	69.8%	\$4,893,410	\$6,864,469	71.3%

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

**NOTE 11: OTHER POSTEMPLOYMENT BENEFITS**

The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your City offers supplemental death to:	Plant Year 2009	Plan Year 2010
Active Employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The city's contributions to the TMRS SDBF for the years ended 2010, 2009 and 2008 were \$3,417, \$3,780 and \$4,733, respectively, which equaled the required contributions each year.

**NOTE 12: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND**

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement Systems (TESRS), a cost-sharing multiple employer pension systems established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. 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, 2010, there was 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.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

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

At August 31, 2010, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,152
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,105
Active Participants (Vested and Nonvested)	<u>4,359</u>
	8,616

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

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

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

Funding Policy

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

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, 2010 total contributions (dues and prior service) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. 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, 2008 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, 2010

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

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

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, 2010 (\$502,941 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 \$500,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

Without the expected future annual contributions from the state, the System would have an inadequate contribution arrangement.

**NOTE 13: 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 14: CONTRACTS AND COMMITMENTS**

**A. 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, 2010, expenditures allocated to the grant totaled \$626,743.

**NOTE 15: NEW PRONOUNCEMENTS**

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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**NOTE 16:     EXPENDABLE TRUST FUND**

As of September 30, 2009, the Private Purpose Trust Fund (fiduciary fund) was used to account for the money obtained from the sale of a donated building. During the current year the Private Purpose Trust Fund was evaluated. The conclusion was that the Private Purpose Trust Fund should be reported as a special revenue fund denoted as "Expendable Trust Fund" in the combining financial statements of the nonmajor governmental funds because the assets were deemed to be for the benefit of the City. Beginning equity of the governmental funds and the governmental activities were adjusted to account for the Expendable Trust Fund. The following summarizes the adjustment.

	September 30, 2009 Fund Balances
Beginning governmental funds net assets	\$       5,009,001
Private Purpose Trust Fund net assets	<u>          156,748</u>
Ending governmental funds net assets	<u><u>\$       5,165,749</u></u>
 Beginning government-wide net assets	 \$       38,645,310
Private Purpose Trust Fund net assets	<u>          156,748</u>
Ending government-wide net assets	<u><u>\$       38,802,058</u></u>

**NOTE 17:     EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 8, 2011, which is the date the financial statements were available to be issued.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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## CITY OF MINERAL WELLS, TEXAS

## General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the year ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 2,181,000	\$ 2,181,000	\$ 2,401,279	220,279
Sales and use tax	3,720,000	3,720,000	3,682,792	(37,208)
Franchise	1,324,000	1,324,000	1,301,885	(22,115)
Licenses and Permits	87,400	87,400	82,326	(5,074)
Intergovernmental Revenue	243,600	243,600	341,150	97,550
Charges for service	650,700	650,700	715,778	65,078
Fines	280,000	280,000	208,614	(71,386)
Interest income	25,000	25,000	7,790	(17,210)
Cemetery	100,750	100,750	62,047	(38,703)
Miscellaneous revenues	20,800	20,800	62,281	41,481
Total revenues	<u>8,633,250</u>	<u>8,633,250</u>	<u>8,865,942</u>	<u>232,692</u>
Expenditures:				
Current				
Administrative	1,263,659	1,263,659	781,816	481,843
Finance	367,339	367,339	357,005	10,334
Fleet Maintenance	684,830	684,830	631,602	53,228
Police	2,321,903	2,321,903	2,301,878	20,025
Fire & Emergency Medical Services	1,386,338	1,386,338	1,369,698	16,640
Inspections	328,106	328,106	280,823	47,283
Information Technology	211,882	211,882	210,339	1,543
Streets	1,397,205	1,397,205	1,268,256	128,949
Sanitation	199,293	199,293	141,944	57,349
Parks & Recreation	814,352	814,352	723,956	90,396
Cemetery	318,455	318,455	299,921	18,534
Library	342,420	342,420	333,982	8,438
Total expenditures	<u>9,635,782</u>	<u>9,635,782</u>	<u>8,701,220</u>	<u>934,562</u>
Excess (deficiency) of revenue over (under) expenditures)	\$ <u>(1,002,532)</u>	\$ <u>(1,002,532)</u>	\$ <u>164,722</u>	<u>1,167,254</u>
Other financing sources (uses):				
Transfers in	210,950	210,950	211,850	900
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(791,582)	(791,582)	376,572	1,168,154
Fund balance, October 1, 2009	<u>4,117,722</u>	<u>4,117,722</u>	<u>4,117,722</u>	<u>-</u>
Fund balance, September 30, 2010	\$ <u><u>3,326,140</u></u>	\$ <u><u>3,326,140</u></u>	\$ <u><u>4,494,294</u></u>	<u><u>1,168,154</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)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	(UAAL) Unfunded Actuarial Accrued Liability (2)-(1)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
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%
12/31/09	11,296,570	16,189,980	69.78%	4,893,410	6,864,469	71.29%

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)
8/31/2006	42,268,305	58,082,828	72.77%	15,814,523	8,061	1,962
8/31/2008(b)	60,987,157	64,227,341	94.96%	3,240,184	8,254	393
8/31/2010(c)	64,113,803	79,953,215	80.19%	15,839,412	8,708	1,819

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

(b) Changes in actuarial assumptions were reflected in this valuation

(c) Changes in an actuarial assumption and method were reflected in this valuation.

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

**City of Mineral Wells**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2010**

**Note 1:        Budget**

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

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

**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, 2010
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar, open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:	
Investment Rate of Return	7.75% per year, net of investment expenses
Projected Salary Increases	N/A
Includes Inflation At	3.50%
Cost of Living Adjustments	None

**COMBINING FINANCIAL STATEMENTS**  
**NONMAJOR GOVERNMENTAL FUNDS**

CITY OF MINERAL WELLS, TEXAS  
Nonmajor Governmental Funds  
Combining Balance Sheet  
September 30, 2010

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Expendable Trust Fund	Total Special Revenue Funds
Assets:					
Cash	\$ -	\$ 3,844	\$ -	\$ 20,000	\$ 23,844
Investments				56,930	56,930
Due from other funds			5,017	-	5,017
Taxes receivable			19,859	-	19,859
Total assets	\$ -	\$ 3,844	\$ 24,876	\$ 76,930	\$ 105,650
Liabilities and fund balance:					
Liabilities:					
Retainage payable	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred tax revenue	-	-	19,859	-	19,859
Due to other funds	-	-	-	-	-
Total liabilities	-	-	19,859	-	19,859
Fund Balance:					
Unreserved and Undesignated:					
Reported in Special Revenue Fund	-	3,844	5,017	76,930	85,791
Reported in Capital Projects Fund					
Reported in Permanent Fund					-
Total fund balance	-	3,844	5,017	76,930	85,791
Total liabilities and fund balances	\$ -	\$ 3,844	\$ 24,876	\$ 76,930	\$ 105,650

## EXHIBIT G-1

Street Capital Projects	Capital Projects		Permanent Fund		Total Nonmajor Funds
	Texas Capital Fund	Total Capital Projects Funds	Woodland Park		
\$ -	\$ -	\$ -	\$ 18,040	\$	41,884
			446,489		503,419
			-		5,017
			-		19,859
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>464,529</u>	<u>\$</u>	<u>570,179</u>
\$ -	\$ -	\$ -	\$ -	\$	-
					19,859
					-
					19,859
					85,791
					-
			464,529		464,529
			464,529		550,320
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>464,529</u>	<u>\$</u>	<u>570,179</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, 2010

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Expendable Trust Fund	Total Special Revenue Funds
Revenues:					
Occupancy taxes	\$ 148,212	\$ -	\$ -	\$ -	\$ 148,212
Property taxes	-	-	5,017	-	5,017
Intergovernmental revenue	-	-	-	-	-
Interest	-	-	-	226	226
Cemetery	-	-	-	-	-
Miscellaneous revenues	-	-	-	162,500	162,500
					-
Total revenue	148,212	-	5,017	162,726	315,955
Expenditures:					
Current:					
Economic Development	-	-	-	242,544	242,544
Hotel/Motel Occupancy	147,471	-	-	-	147,471
Capital Outlay					-
					-
Total expenditures	147,471	-	-	242,544	390,015
Excess (deficiency) of revenue over (under) expenditures	741	-	5,017	(79,818)	(74,060)
Other financing sources (uses):					
Transfers in					-
Transfers out	(741)	-	-	-	(741)
Net change in fund balances	-	-	5,017	(79,818)	(74,801)
Fund balance, October 1, 2009	-	3,844	-	156,748	160,592
Fund balance, September 30, 2010	\$ -	\$ 3,844	\$ 5,017	\$ 76,930	\$ 85,791



EXHIBIT G-2

Street Capital Projects	Capital Projects		Permanent Fund	Total Nonmajor Funds
	Texas Capital Fund	Total Capital Projects Funds	Woodland Park	
\$ -	\$ -	\$ -	\$ -	148,212
				5,017
	40,000	40,000	-	40,000
-		-	871	1,097
			9,389	9,389
		-		162,500
		-		-
-	40,000	40,000	10,260	366,215
-	40,000	40,000	-	282,544
-	-	-	-	147,471
189,619		189,619		189,619
189,619	40,000	229,619	-	619,634
(189,619)	-	(189,619)	10,260	(253,419)
-		-		-
(2,490)	-	(2,490)	(620)	(3,851)
(192,109)	-	(192,109)	9,640	(257,270)
192,109	-	192,109	454,889	807,590
\$ -	\$ -	\$ -	\$ 464,529	\$ 550,320

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**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**

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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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 Frost, P.C.*

Weatherford, Texas  
March 8, 2011