

**CITY OF MINERAL WELLS, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2015**



**GMS**

CERTIFIED PUBLIC  
ACCOUNTANTS

GEORGE | MORGAN | SNEED

**CITY OF MINERAL WELLS, TEXAS**

**Annual Financial Report**

**For the Year Ended September 30, 2015**

**TABLE OF CONTENTS**

	<u>Exhibit Number</u>	<u>Page Number</u>
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		1 - 3
Management's Discussion and Analysis		4 - 9
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Position	A-1	10
Statement of Activities	B-1	11 - 12
Fund Financial Statements		
Balance Sheet - Governmental Funds	C-1	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	C-2	14
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	C-3	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	16
Statement of Net Position - Proprietary Funds	D-1	17 - 18
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	D-2	19
Statement of Cash Flows - Proprietary Funds	D-3	20
Notes to the Financial Statements		21 - 51
Required Supplementary Information		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	F-1	52
Schedule of Changes in Net Pension Liability and Related Ratios - TMRS	F-2	53
Schedule of Contributions - TMRS	F-3	54
Schedule of the City's Proportionate Share of the Net Pension Liability - TESRS	F-4	55
Schedule of Contributions - TESRS	F-5	56
Notes to the Required Supplementary Information		57 - 58
Combining Fund Statements		
Nonmajor Governmental Funds		
Combining Balance Sheet	G-1	59 - 60
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	G-2	61 - 62
<b>OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION</b>		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		63 - 64

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## **FINANCIAL SECTION**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9, budgetary comparison schedule - general fund, schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, Schedule of Contributions – Texas Municipal Retirement System, Schedule of the City's Proportionate Share of the Net Pension Liability – Texas Emergency Services Retirement System and Schedule of Contributions – Texas Emergency Services Retirement System on pages 52-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*George Morgan Sneed, P.C.*

Weatherford, Texas

March 8, 2016



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## **Management's Discussion and Analysis**

As management of the City of Mineral Wells ("City"), we offer readers of the City's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2015.

### **Financial Highlights**

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$80,704,346 (net position). Of this amount, \$10,593,974 (unrestricted net position) may be used to meet the City's ongoing obligations.

The City's total net position increased by \$33,115. The City's operations decreased governmental activities by \$2,107,097 and increased the business-type activities by \$3,410,298. Net position was decreased by a \$1,270,086 prior period adjustment as a result of implementing new accounting standards. See the notes to the financial statements for a description of the new standards.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$5,773,215. \$3,352,976 is available for spending at the City's discretion (unassigned fund balance).

At the end of the fiscal year, unassigned fund balance for the General Fund is \$3,370,831 or 32 percent of total General Fund expenditures.

### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Mineral Wells' basic financial statements. The City of Mineral Wells basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

*Government-Wide Financial Statements.* The government-wide financial statements are designed to provide a broad overview of the City's finances, in a manner similar to private sector business.

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

The Statement of Activities presents information showing how the City's net position changed during the year. All changes in net position are reported as soon as the event causing the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statements consist of the City of Mineral Wells (known as the primary government) and the Mineral Wells Community Development Corporation and the Palo Pinto County Municipal Water District No. 1 ("Water District") for which the City of Mineral Wells is accountable. The Mineral Wells Community Development Corporation is reported separately from the financial information presented for the primary government. 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 separately issued audited financial statements.

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

*Fund Financial Statements.* A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 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 balance 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 13 – 16 of this report.

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

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

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

*Notes to the Financial Statements.* The notes provide additional information that is essential to a full understanding of the audited financial statements. The notes can be found on pages 21 – 51 of this report.

*Other Information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on Exhibits F-1 through F-5 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Mineral Wells, assets exceed liabilities by \$80,704,346 at September 30, 2015.

The largest portion of the City's net position (83 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$2,849,416 of the City's net position represents resources that are subject to external restrictions on how they may be used. The \$10,593,974 balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. The following is a summary of the City's Statement of Net Position.

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2015	2014	2015	2014	2015	2014
<i>Current and Other Assets</i>	\$ 10,330,554	\$ 10,733,795	\$ 10,652,008	11,468,370	20,982,562	22,202,165
<i>Capital Assets</i>	28,118,249	29,228,530	46,734,628	43,946,415	74,852,877	73,174,945
<b>Total Assets</b>	<b>\$ 38,448,803</b>	<b>\$ 39,962,325</b>	<b>\$ 57,386,636</b>	<b>\$ 55,414,785</b>	<b>\$ 95,835,439</b>	<b>\$ 95,377,110</b>
<b>Deferred Outflows</b>						
<b>of Resources</b>	<b>\$ 548,433</b>	<b>\$ -</b>	<b>\$ 240,798</b>	<b>\$ -</b>	<b>\$ 789,231</b>	<b>\$ -</b>
<i>Long-Term Liabilities</i>	\$ 5,238,017	\$ 3,739,906	\$ 8,528,194	9,739,848	13,766,211	13,479,754
<i>Other Liabilities</i>	798,257	494,437	1,029,589	642,313	1,827,846	1,136,750
<b>Total Liabilities</b>	<b>\$ 6,036,274</b>	<b>\$ 4,234,343</b>	<b>\$ 9,557,783</b>	<b>\$ 10,382,161</b>	<b>\$ 15,594,057</b>	<b>\$ 14,616,504</b>
<b>Deferred Inflows</b>						
<b>of Resources</b>	<b>\$ 227,429</b>	<b>\$ -</b>	<b>\$ 98,838</b>	<b>\$ 89,375</b>	<b>\$ 326,267</b>	<b>\$ 89,375</b>
<b>Net Position</b>						
<i>Capital Assets Net</i>						
<i>of Related Debt</i>	\$ 27,909,094	\$ 28,601,966	\$ 39,351,862	35,750,327	67,260,956	64,352,293
<i>Restricted</i>	1,338,987	1,290,547	1,510,429	1,561,139	2,849,416	2,851,686
<i>Unrestricted</i>	3,485,452	5,835,469	7,108,522	7,631,783	10,593,974	13,467,252
<b>Total Net Position</b>	<b>\$ 32,733,533</b>	<b>\$ 35,727,982</b>	<b>\$ 47,970,813</b>	<b>\$ 44,943,249</b>	<b>\$ 80,704,346</b>	<b>\$ 80,671,231</b>

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

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

**Changes in Net Position**

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program revenues:</b>						
<i>Charges for services</i>	\$ 1,275,522	\$ 1,392,854	\$ 12,661,519	\$ 11,527,775	\$ 13,937,041	\$ 12,920,629
<i>Operating grants and contributions</i>	272,405	941,870	-	-	272,405	941,870
<i>Capital grants and contributions</i>	50,000	220,483	2,147,406	258,336	2,197,406	478,819
<b>General revenues:</b>						
<i>Property taxes</i>	3,360,302	3,258,363	-	-	3,360,302	3,258,363
<i>Other taxes</i>	3,729,419	5,384,296	-	-	3,729,419	5,384,296
<i>Other</i>	581,853	421,458	180,994	224,807	762,847	646,265
<b>Total revenues</b>	<u>9,269,501</u>	<u>11,619,324</u>	<u>14,989,919</u>	<u>12,010,918</u>	<u>24,259,420</u>	<u>23,630,242</u>
<b>Expenses:</b>						
<i>Administrative</i>	1,663,317	1,642,422	-	-	1,663,317	1,642,422
<i>Public safety</i>	4,789,964	4,640,994	-	-	4,789,964	4,640,994
<i>Highways/streets</i>	2,548,686	2,513,763	-	-	2,548,686	2,513,763
<i>Public works</i>	1,110,906	1,170,095	-	-	1,110,906	1,170,095
<i>Economic development</i>	48,393	628,965	-	-	48,393	628,965
<i>Culture and recreation</i>	1,718,045	1,604,503	-	-	1,718,045	1,604,503
<i>Interest on long-term debt</i>	-	13,588	-	-	-	13,588
<i>Water and sewer</i>	-	-	8,635,757	7,917,414	8,635,757	7,917,414
<i>Airport</i>	-	-	958,548	1,092,344	958,548	1,092,344
<i>PPCMWD No. 1</i>	-	-	1,482,603	913,371	1,482,603	913,371
<b>Total expenses</b>	<u>11,879,311</u>	<u>12,214,330</u>	<u>11,076,908</u>	<u>9,923,129</u>	<u>22,956,219</u>	<u>22,137,459</u>
<i>Change in net position before transfers</i>	(2,609,810)	(595,006)	3,913,011	2,087,789	1,303,201	1,492,783
<i>Transfers</i>	502,713	502,713	(502,713)	(502,713)	-	-
<i>Change in net position</i>	(2,107,097)	(92,293)	3,410,298	1,585,076	1,303,201	1,492,783
<i>Prior Period Adjustments</i>	(887,352)	-	(382,734)	-	(1,270,086)	-
<i>Net position - Beginning</i>	35,727,982	35,820,275	44,943,249	43,358,173	80,671,231	79,178,448
<i>Net position -Ending</i>	<u>\$ 32,733,533</u>	<u>\$ 35,727,982</u>	<u>\$ 47,970,813</u>	<u>\$ 44,943,249</u>	<u>\$ 80,704,346</u>	<u>\$ 80,671,231</u>

## **Financial Analysis of the Government's Funds**

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

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balances of the General Fund is \$3,370,831 while total fund balance reached \$4,568,604. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 32 percent of total general fund expenditures, while total fund balance represents 44 percent of that same amount.

### **Other Items**

The Debt Service Fund has a total fund balance of \$210,599 all of which is restricted for the payment of debt service.

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

Unrestricted net position at the end of the year for Water/Sewer Operations, Airport Operations and Water District are \$4,829,615, 501,770 and \$1,621,753 respectively.

### **General Fund Budgetary Highlights**

It is the practice of the City to budget very conservatively. Revenues in 2014-15 were 2 percent less than budgeted with sales tax coming in at \$215,337 less than budgeted. Actual operating expenses were 8 percent lower than budgeted. While the City budgeted \$574,218 of appropriated fund balance the City's actual change in fund balance was a decrease of \$307,766.

### **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, 2015 amounts to \$74,852,877 (net of depreciation). This investment in capital assets includes land, buildings, equipment, streets and water/sewer systems, airport runways, and improvements other than buildings.

The General Fund acquired 1 ambulance, a new server, completed street improvements on SW 8<sup>th</sup> street and continued street improvements on MH 379.

The Airport runway lighting project was completed in the current year by the Texas Department of Transportation. The project was recognized as a capital grant and contribution in the Airport Fund.

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

*Long-Term Debt.* At the end of the fiscal year, the City had total outstanding debt of \$11,097,476. Of this amount, \$215,000 is general obligation refunding bonds, split between governmental and business-type activities, \$84,086 and \$130,914 respectively. In addition, the City has \$80,000 Limited Tax Notes to purchase a pumper truck for the fire department. Also included in the City's long-term debt are capital leases in the amount of \$310,669. \$36,339 of the capital leases are in the governmental activities for police vehicles and \$274,330 are in the business-type activities for T-hangars and a refueling truck. \$2,838,196 of the long-term debt is in the form of loans from the Texas Capital Fund that were used to acquire and/or rehabilitate facilities

to attract and/or retain businesses. The remainder of the debt, \$7,620,000, represents Palo Pinto County Municipal Water District No. 1 revenue bonds.

The City maintains an "A+" rating from Standard & Poor's and "AA-" from Fitch Ratings for its general obligation refunding bonds. The Water District has an "A" rating from Standard and Poor's and "A+" from Fitch Ratings for its revenue bonds. The District's rating was downgraded to "A+" from "AA-" by Fitch Ratings citing the District's growing debt for the Turkey Peak Project, weakened City finances, among other things.

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

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

The City of Mineral Wells had previously demonstrated sustained economic recovery from the 2008 recession, which resulted in various economic development and business/industry expansions. However, the recent downturn in the petroleum industry has had some effects on the City's economy. For example, local sales tax receipts have been flat. Despite this current economic ambiguity, the City has been able to accumulate, retain, and prudently invest General Fund balances of more than \$4 million, providing stable financial reserves far in excess of the reserve funds recommended by accepted governmental accounting standards. Ad valorem tax rates and collections have remained relatively steady over the past few years.

Despite the recent uncertainty in the General Fund revenues, the City has cautiously undertaken some additional activities that were deferred in previous years. Several personnel-related initiatives were funded, as well as the modest acquisition of capital equipment, various facility improvements and the resumption of selected street reconstruction projects. However, management is monitoring the economic situation and will make adjustments in spending as necessary.

Relative to the Water/Sewer Utility Fund, the City has continued funding the Turkey Peak Reservoir Project by maintaining water rate. Additionally, due to the resolution of the latest record-breaking drought, a water rate increase implemented during the 2014-2015 budget year to fund alternative water sources and treatment is slated to be rescinded. A comprehensive water/sewer rate study is also being evaluated to ensure proper future funding for the Turkey Peak Reservoir Project, as well as adequately supporting the associated water/sewer utility departments' needs.

In regards to the Airport Fund, fuel sales will remain below historical averages but sales will be sufficient to support Airport operations. However, due to the lower wholesale price of fuel, we anticipate overall aviation fuel sales to increase. Specific improvements to the Airport, such as terminal repairs, have been primarily funded by grants and insurance proceeds. These improvements are intended to increase overall usage of the Airport, which will in turn lead to increased revenues generated by the Airport.

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

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**



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CITY OF MINERAL WELLS, TEXAS  
Statement of Net Position  
September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Community Development Corporation
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 2,055,583	\$ 2,592,488	\$ 4,648,071	\$ 256,426
Investments	4,568,202	3,912,494	8,480,696	-
Receivables (Net of allowances for uncollectibles)				
Property taxes	56,026	-	56,026	-
Sales taxes	523,048	-	523,048	46,984
Franchise taxes	163,025	-	163,025	-
Accounts	230,468	1,384,336	1,614,804	-
Leases	2,838,196	-	2,838,196	-
Miscellaneous	67,285	-	67,285	-
Due from Texas Water Development Board	-	296,119	296,119	-
Inventory	12,426	309,312	321,738	-
Prepaid items	119,746	4,050	123,796	-
Internal Balances	(303,451)	303,451	-	-
Restricted Assets, Cash and Investments:				
Investments	-	1,849,758	1,849,758	-
Capital assets:				
Nondepreciable	2,082,569	11,066,397	13,148,966	-
Depreciable, net of accumulated depreciation	26,035,680	35,668,231	61,703,911	-
<b>Total Assets</b>	<b>38,448,803</b>	<b>57,386,636</b>	<b>95,835,439</b>	<b>303,410</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Deferred outflows related to pensions	548,433	240,798	789,231	-
<b>Total Deferred Outflows of Resources</b>	<b>548,433</b>	<b>240,798</b>	<b>789,231</b>	<b>-</b>
<b>LIABILITIES:</b>				
Accounts Payable	359,102	457,061	816,163	-
Wages and fringe benefits payable	306,886	143,169	450,055	-
Unearned revenue	50,000	89,375	139,375	-
Due to other governments	81,449	-	81,449	-
Current Liabilities Payable from Restricted Assets:				
Interest payable	820	60,544	61,364	-
Customer deposits	-	279,440	279,440	-
Noncurrent liabilities:				
Due within one year	583,576	1,441,661	2,025,237	-
Due in more than one year	4,654,441	7,086,533	11,740,974	-
<b>Total Liabilities</b>	<b>6,036,274</b>	<b>9,557,783</b>	<b>15,594,057</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Deferred inflows related to pensions	227,429	98,838	326,267	-
<b>Total Deferred Inflows of Resources</b>	<b>227,429</b>	<b>98,838</b>	<b>326,267</b>	<b>-</b>
<b>NET POSITION:</b>				
Investments in Capital Assets, Net of Debt	27,909,094	39,351,862	67,260,956	-
Restricted Net Position (Expendable)	827,225	1,510,429	2,337,654	-
Restricted Net Position (Nonexpendable)	511,762	-	511,762	-
Unrestricted Net Position	3,485,452	7,108,522	10,593,974	303,410
<b>Total Net Position</b>	<b>\$ 32,733,533</b>	<b>\$ 47,970,813</b>	<b>\$ 80,704,346</b>	<b>\$ 303,410</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, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
Administrative	\$ 840,996	\$ 30,786	\$ -	\$ -
Finance	511,079	-	-	-
Fleet Maintenance	688,461	-	-	-
Police	2,800,207	418,869	162,218	-
Fire & Emergency Medical Services	1,668,185	546,066	21,000	50,000
Inspections	321,572	67,853	-	-
Information technology	311,242	-	-	-
Streets	2,548,686	-	-	-
Sanitation	143,470	48,118	17,858	-
Parks & Recreation	1,055,397	80,427	18,504	-
Cemetery	278,975	76,566	-	-
Library	453,674	6,837	30,075	-
Economic Development	48,393	-	22,750	-
Hotel/Motel Occupancy	208,974	-	-	-
Total governmental activities	<u>11,879,311</u>	<u>1,275,522</u>	<u>272,405</u>	<u>50,000</u>
Business-type activities:				
Water and Sewer	8,635,757	9,453,300	-	-
Airport	958,548	780,018	-	651,880
PPCMWD No. 1	1,482,603	2,428,201	-	1,495,526
Total business-type activities	<u>11,076,908</u>	<u>12,661,519</u>	<u>-</u>	<u>2,147,406</u>
Total primary government	<u>\$ 22,956,219</u>	<u>\$ 13,937,041</u>	<u>\$ 272,405</u>	<u>\$ 2,197,406</u>
Component Unit				
Economic Development	\$ 350	\$ -	\$ -	\$ -
Total Component Unit	<u>\$ 350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property Taxes, levied for general purposes  
Property Taxes, levied for debt service  
Sales and Use Taxes  
Sales and Use Taxes Refund  
Franchise Taxes  
Hotel Motel Taxes  
Investment Earnings  
Insurance recoveries  
Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Prior period adjustment

Net Position October 1, 2014

Net Position September 30, 2015

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

## EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Community Development Corporation
\$ (810,210)	\$	\$ (810,210)	\$ -
(511,079)		(511,079)	-
(688,461)		(688,461)	-
(2,219,120)		(2,219,120)	-
(1,051,119)		(1,051,119)	-
(253,719)		(253,719)	-
(311,242)		(311,242)	-
(2,548,686)		(2,548,686)	-
(77,494)		(77,494)	-
(956,466)		(956,466)	-
(202,409)		(202,409)	-
(416,762)		(416,762)	-
(25,643)		(25,643)	-
(208,974)		(208,974)	-
<u>(10,281,384)</u>	<u>-</u>	<u>(10,281,384)</u>	<u>-</u>
	817,543	817,543	-
	473,350	473,350	-
	<u>2,441,124</u>	<u>2,441,124</u>	<u>-</u>
	<u>3,732,017</u>	<u>3,732,017</u>	<u>-</u>
\$ <u>(10,281,384)</u>	\$ <u>3,732,017</u>	\$ <u>(6,549,367)</u>	\$ <u>-</u>
\$ -	\$ -	\$ -	\$ (350)
\$ -	\$ -	\$ -	\$ (350)
\$ 3,077,542	\$ -	\$ 3,077,542	\$ -
282,760	-	282,760	-
3,359,663	-	3,359,663	303,654
(1,108,654)		(1,108,654)	-
1,268,386	-	1,268,386	-
210,024	-	210,024	-
5,544	5,344	10,888	106
404,588	172,934	577,522	-
171,721	2,716	174,437	-
502,713	(502,713)	-	-
<u>8,174,287</u>	<u>(321,719)</u>	<u>7,852,568</u>	<u>303,760</u>
(2,107,097)	3,410,298	1,303,201	303,410
(887,352)	(382,734)	(1,270,086)	-
<u>35,727,982</u>	<u>44,943,249</u>	<u>80,671,231</u>	<u>-</u>
\$ <u>32,733,533</u>	\$ <u>47,970,813</u>	\$ <u>80,704,346</u>	\$ <u>303,410</u>

## EXHIBIT C-1

CITY OF MINERAL WELLS, TEXAS  
Balance Sheet  
Governmental Funds  
September 30, 2015

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Assets:				
Cash and cash equivalents	\$ 958,574	\$ 146,622	\$ 573,520	\$ 1,678,716
Investments	3,559,166	62,413	498,033	4,119,612
Receivables (Net of allowances)				
Property Taxes	47,236	8,790	-	56,026
Sales Taxes	523,048	-	-	523,048
Franchise Taxes	163,025	-	-	163,025
Accounts	230,468	-	-	230,468
Lease	-	2,838,196	-	2,838,196
Miscellaneous	63,099	-	-	63,099
Inventory Supplies, at Cost	12,426	-	-	12,426
Due from other funds	170,764	9,332	-	180,096
Total assets	<u>\$ 5,727,806</u>	<u>\$ 3,065,353</u>	<u>\$ 1,071,553</u>	<u>\$ 9,864,712</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 282,452	\$ -	\$ 76,650	\$ 359,102
Wages and Fringe Benefits Payable	306,886	-	-	306,886
Unearned revenue	50,000			50,000
Due to other funds	157,399	-	891	158,290
Due to State	72,470	8,979	-	81,449
Total liabilities	<u>869,207</u>	<u>8,979</u>	<u>77,541</u>	<u>955,727</u>
Deferred inflows of resources:				
Deferred revenue	<u>289,995</u>	<u>2,845,775</u>	<u>-</u>	<u>3,135,770</u>
Fund Balances:				
Nonspendable	12,426	-	511,762	524,188
Restricted	109,762	210,599	500,105	820,466
Committed	-	-	-	-
Assigned	1,075,585	-	-	1,075,585
Unassigned	3,370,831	-	(17,855)	3,352,976
Total fund balances	<u>4,568,604</u>	<u>210,599</u>	<u>994,012</u>	<u>5,773,215</u>
Total liabilities, deferred inflows and fund balance:	<u>\$ 5,727,806</u>	<u>\$ 3,065,353</u>	<u>\$ 1,071,553</u>	<u>\$ 9,864,712</u>

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

CITY OF MINERAL WELLS, TEXAS  
 Reconciliation of the Governmental Funds Balance Sheet  
 To the Statement of Net Position  
 September 30, 2015

Total Fund Balances - Governmental Funds	\$ 5,773,215
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$66,760,122 and the accumulated depreciation was \$38,641,873.	28,118,249
Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. The details of these differences are as follows:	
Interest payable	(820)
General obligation bonds	(84,086)
Tax notes	(80,000)
Premiums on bonds and tax notes	(8,730)
Capital leases	(36,339)
Compensated absences	(54,979)
Sales tax and use refund payable	<u>(1,108,654)</u>
	(1,373,608)
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.	297,574
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$1,027,033 and a deferred outflow of resources related to pensions of \$548,433 and a deferred inflow of resources related to pensions of \$227,429. This amounted to a decrease in net position.	(706,029)
The City uses an internal service fund to charge the costs of insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	624,132
Net Position of Governmental Activities	<u><u>\$ 32,733,533</u></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, 2015

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 3,061,374	\$ 281,494	\$ -	\$ 3,342,868
Sales and use tax	3,359,663	-	-	3,359,663
Franchise	1,274,970	-	-	1,274,970
Hotel motel taxes	-	-	210,024	210,024
Licenses and Permits	67,853	-	-	67,853
Intergovernmental Revenue	286,642	-	22,750	309,392
Charges for service	782,050	-	-	782,050
Fines	366,092	-	-	366,092
Interest income	4,635	202	707	5,544
Special Assessments	-	222,167	-	222,167
Cemetery	67,938	-	9,498	77,436
Miscellaneous revenues	88,245	-	101,980	190,225
<b>Total revenues</b>	<b>9,359,462</b>	<b>503,863</b>	<b>344,959</b>	<b>10,208,284</b>
<b>Expenditures:</b>				
Current				
Administrative	844,971	-	-	844,971
Finance	535,410	-	-	535,410
Fleet Maintenance	693,534	-	-	693,534
Police	2,753,125	-	2,614	2,755,739
Fire & Emergency Medical Services	1,813,643	-	-	1,813,643
Inspections	327,777	-	-	327,777
Information technology	354,108	-	-	354,108
Streets	1,145,015	-	404,164	1,549,179
Sanitation	144,312	-	-	144,312
Parks & Recreation	938,146	-	-	938,146
Cemetery	304,314	-	-	304,314
Library	448,564	-	-	448,564
Economic Development	-	-	48,393	48,393
Hotel/Motel Occupancy	-	-	208,974	208,974
Debt service:				
Principal	71,915	554,567	-	626,482
Interest and fiscal charges	1,278	12,984	-	14,262
<b>Total expenditures</b>	<b>10,376,112</b>	<b>567,551</b>	<b>664,145</b>	<b>11,607,808</b>
Excess (deficiency) of revenue over (under) expenditures)	\$ (1,016,650)	\$ (63,688)	\$ (319,186)	\$ (1,399,524)
Other financing sources (uses):				
Insurance recoveries	404,588	-	-	404,588
Transfers in	504,296	-	200,000	704,296
Transfers out	(200,000)	-	(1,583)	(201,583)
<b>Total other financing sources (uses)</b>	<b>708,884</b>	<b>-</b>	<b>198,417</b>	<b>907,301</b>
<b>Net change in fund balances</b>	<b>(307,766)</b>	<b>(63,688)</b>	<b>(120,769)</b>	<b>(492,223)</b>
<b>Fund balance, October 1, 2014</b>	<b>4,876,370</b>	<b>274,287</b>	<b>1,114,781</b>	<b>6,265,438</b>
<b>Fund balance, September 30, 2015</b>	<b>\$ 4,568,604</b>	<b>\$ 210,599</b>	<b>\$ 994,012</b>	<b>\$ 5,773,215</b>

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, 2015

Total Net Change in Fund Balances - Governmental Funds	\$ (492,223)
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 \$727,160 of capital outlays and \$404,315 of debt principal payments is to increase net position.	1,131,475
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,837,441)
Current year interest payable, bond premiums and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The \$1,663 decrease in interest payable, \$13,094 decrease in bond premiums, and \$3,068 increase in compensated absences increase net position.	11,689
A \$1,108,654 refund of sales tax are not due and payable in the current period, and, therefore is not reported as a liability in the funds. The refund of sales tax decreases net position.	(1,108,654)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(12,550)
GASB required the City to recognize their net pension liability, deferred outflow of resources related to pensions and deferred inflows of resources related to pensions. The changes in these balances increase net position.	181,323
The City uses an internal service fund to charge the costs of insurance to individual funds. The adjustment to reflect the consolidation of the internal service fund activities related to governmental activities increases net position.	19,284
Change in Net Position of Governmental Activities	<u>\$ (2,107,097)</u>

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



CITY OF MINERAL WELLS, TEXAS  
Statement of Net Position  
Proprietary Funds  
September 30, 2015

	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	\$ 1,414,716	\$ 167,973	\$ 1,009,799	\$ 2,592,488	\$ 376,867
Investments	2,389,789	246,950	1,275,755	3,912,494	448,590
Receivables (Net of allowances):					
Accounts	1,332,174	51,321	841	1,384,336	-
Miscellaneous	-	-	-	-	4,186
Due from Texas Water Development Board	-	-	296,119	296,119	-
Inventory	173,377	34,067	101,868	309,312	-
Due from other funds	67,087	86,103	-	153,190	-
Prepaid items	-	-	4,050	4,050	119,746
Restricted Assets, Cash and Investments:					
Investments	279,440	-	1,570,318	1,849,758	-
Total current assets	<u>5,656,583</u>	<u>586,414</u>	<u>4,258,750</u>	<u>10,501,747</u>	<u>949,389</u>
Noncurrent Assets:					
Capital assets, at cost:					
Land	1,355,836	194,863	2,379,793	3,930,492	-
Buildings and improvements	1,685,934	1,828,689	98,455	3,613,078	-
Improvements other than Buildings	14,974,365	55,070	-	15,029,435	-
Infrastructure	-	5,943,565	-	5,943,565	-
Distribution System	13,334,803	-	24,575,874	37,910,677	-
Collection System	6,303,437	-	-	6,303,437	-
Equipment & Vehicles	949,295	365,459	565,437	1,880,191	-
Furnitures & Fixtures	65,992	-	-	65,992	-
Construction-in-Progress	-	-	7,135,905	7,135,905	-
Less: accumulated depreciation	(17,598,996)	(3,484,433)	(13,994,715)	(35,078,144)	-
Capital assets, net	<u>21,070,666</u>	<u>4,903,213</u>	<u>20,760,749</u>	<u>46,734,628</u>	<u>-</u>
Total noncurrent assets	<u>21,070,666</u>	<u>4,903,213</u>	<u>20,760,749</u>	<u>46,734,628</u>	<u>-</u>
Total assets	<u>26,727,249</u>	<u>5,489,627</u>	<u>25,019,499</u>	<u>57,236,375</u>	<u>949,389</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Deferred outflow related to pensions	229,431	11,367	-	240,798	-
Total deferred outflows of resources	<u>229,431</u>	<u>11,367</u>	<u>-</u>	<u>240,798</u>	<u>-</u>

CITY OF MINERAL WELLS, TEXAS  
Statement of Net Position  
Proprietary Funds  
September 30, 2015

	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>LIABILITIES:</b>					
Current Liabilities:					
Accounts payable	89,040	58,076	309,945	457,061	-
Wages and Fringe Benefits Payable	135,732	7,437	-	143,169	-
Unearned revenue			89,375	89,375	
Compensated absences payable	26,624	2,222	-	28,846	-
Due to other funds	5,123	-	-	5,123	169,873
Current Liabilities Payable from Restricted Assets:					
Current portion of Bonds	137,546	-	1,215,000	1,352,546	-
Current portion of Capital Lease Payable	-	60,269	-	60,269	-
Interest payable	655	-	59,889	60,544	-
Customer Deposits	279,440	-	-	279,440	-
Total current liabilities	<u>674,160</u>	<u>128,004</u>	<u>1,674,209</u>	<u>2,476,373</u>	<u>169,873</u>
Noncurrent Liabilities:					
Long-term Liabilities (Net of Current Portion)					
Net Pension Liability	426,046	23,177	-	449,223	
Bonds (Net of Current portion)	-	-	6,405,000	6,405,000	-
Capital Lease Payable (Net of current portion)	-	214,061	-	214,061	-
Bond Premium	-	-	18,249	18,249	-
Total noncurrent liabilities	<u>426,046</u>	<u>237,238</u>	<u>6,423,249</u>	<u>7,086,533</u>	<u>-</u>
Total liabilities	<u>1,100,206</u>	<u>365,242</u>	<u>8,097,458</u>	<u>9,562,906</u>	<u>169,873</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Deferred inflow related to pensions	93,739	5,099	-	98,838	-
Total deferred inflows of resources	<u>93,739</u>	<u>5,099</u>	<u>-</u>	<u>98,838</u>	<u>-</u>
<b>NET POSITION:</b>					
Investment in capital assets, net of debt	20,933,120	4,628,883	13,789,859	39,351,862	-
Restricted for debt service (Expendable)	-	-	1,510,429	1,510,429	-
Unrestricted	4,829,615	501,770	1,621,753	6,953,138	779,516
Total net position	<u>\$ 25,762,735</u>	<u>\$ 5,130,653</u>	<u>\$ 16,922,041</u>	<u>\$ 47,815,429</u>	<u>\$ 779,516</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				155,384	
Net position of business-type activities				<u>\$ 47,970,813</u>	

CITY OF MINERAL WELLS, TEXAS  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the year ended September 30, 2015

	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	\$ 6,317,880	\$ -	\$ 2,426,699	\$ 8,744,579	\$ -
Connections	11,383	-	-	11,383	-
Sewer Revenues	2,806,219	-	-	2,806,219	-
Gasoline and Oil	-	521,077	-	521,077	-
Rentals	-	251,085	-	251,085	-
Miscellaneous Revenues	317,818	7,856	1,502	327,176	-
Other Services	-	-	-	-	1,855,829
Total operating revenue	<u>9,453,300</u>	<u>780,018</u>	<u>2,428,201</u>	<u>12,661,519</u>	<u>1,855,829</u>
Operating expenses:					
Public Works Administration	3,639,351	-	877,070	4,516,421	-
Water Distribution	1,064,771	-	-	1,064,771	-
Hilltop Water Treatment	1,078,766	-	-	1,078,766	-
Wastewater Treatment	1,249,380	-	-	1,249,380	-
Facility Maintenance	411,338	-	-	411,338	-
City Utility Service	414,627	-	-	414,627	-
Airport Operations	-	660,144	-	660,144	-
Self-Insurance	-	-	-	-	1,827,861
Depreciation	800,080	286,887	410,049	1,497,016	-
Total operating expenses	<u>8,658,313</u>	<u>947,031</u>	<u>1,287,119</u>	<u>10,892,463</u>	<u>1,827,861</u>
Operating income	<u>794,987</u>	<u>(167,013)</u>	<u>1,141,082</u>	<u>1,769,056</u>	<u>27,968</u>
Nonoperating revenues (expenses):					
Interest Earned	1,843	165	3,336	5,344	296
Oil & Gas Leases	-	2,716	-	2,716	-
Insurance Recoveries	96,297	76,637	-	172,934	-
Interest on Capital Leases	-	(11,844)	-	(11,844)	-
Interest on Bonds	13,903	-	(195,484)	(181,581)	-
Total nonoperating revenues (expenses)	<u>112,043</u>	<u>67,674</u>	<u>(192,148)</u>	<u>(12,431)</u>	<u>296</u>
Income before contributions and transfers	<u>907,030</u>	<u>(99,339)</u>	<u>948,934</u>	<u>1,756,625</u>	<u>28,264</u>
Contributions and transfers (to) from other funds:					
Capital Grants & Contributions	-	651,880	1,495,526	2,147,406	-
Transfers Out	(475,842)	(26,871)	-	(502,713)	-
Change in Net Position	431,188	525,670	2,444,460	3,401,318	28,264
Prior period adjustment	(363,363)	(19,371)	-	(382,734)	-
Net Position, October 1, 2014	<u>25,694,910</u>	<u>4,624,354</u>	<u>14,477,581</u>	<u>44,796,845</u>	<u>751,252</u>
Net Position, September 30, 2015	<u>\$ 25,762,735</u>	<u>\$ 5,130,653</u>	<u>\$ 16,922,041</u>	<u>\$ 47,815,429</u>	<u>\$ 779,516</u>
Reconciliation to government-wide statement of activities:					
Change in Net Position				\$ 3,401,318	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>8,980</u>	
				<u>\$ 3,410,298</u>	

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

## EXHIBIT D-3

CITY OF MINERAL WELLS, TEXAS  
Statement of Cash Flows  
Proprietary Funds  
For the year ended September 30, 2015

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 9,125,092	\$ 750,101	\$ 2,430,115	\$ 12,305,308	\$ -
Cash received for interfund services provided	-	-	-	-	1,855,829
Cash paid to suppliers	(5,848,517)	(471,315)	(727,003)	(7,046,835)	(1,923,888)
Cash paid to employees	(2,058,146)	(141,037)	(27,021)	(2,226,204)	-
Net cash provided by operating activities	<u>1,218,429</u>	<u>137,749</u>	<u>1,676,091</u>	<u>3,032,269</u>	<u>(68,059)</u>
Cash flow from noncapital financing activities:					
Transfers out	(475,842)	(26,871)	-	(502,713)	-
Net cash provided (used) by noncapital financing activities	<u>(475,842)</u>	<u>(26,871)</u>	<u>-</u>	<u>(502,713)</u>	<u>-</u>
Cash flow from capital and related financing activities:					
Capital expenditures	-	(26,416)	(3,528,200)	(3,554,616)	-
Capital grants received	-	1,434	160,087	161,521	-
Capital contributions	-	-	1,100,000	1,100,000	-
Insurance proceeds received	96,297	76,637	-	172,934	-
Principal payments on long-term debt	(402,600)	(50,998)	(1,185,000)	(1,638,598)	-
Interest paid on long-term debt	(8,006)	(11,845)	(206,963)	(226,814)	-
Net cash (used) by capital and related financing activities	<u>(314,309)</u>	<u>(11,188)</u>	<u>(3,660,076)</u>	<u>(3,985,573)</u>	<u>-</u>
Cash flow from investing activities:					
Interest received	1,843	165	3,336	5,344	296
Income from oil and gas leases	-	2,716	-	2,716	-
Net cash provided by investing activities	<u>1,843</u>	<u>2,881</u>	<u>3,336</u>	<u>8,060</u>	<u>296</u>
Net increase (decrease) in cash and cash equivalents	430,121	102,571	(1,980,649)	(1,447,957)	(67,763)
Cash and cash equivalents, September 30, 2014	<u>3,653,824</u>	<u>312,352</u>	<u>5,836,521</u>	<u>9,802,697</u>	<u>893,220</u>
Cash and cash equivalents, September 30, 2015	<u>\$ 4,083,945</u>	<u>\$ 414,923</u>	<u>\$ 3,855,872</u>	<u>\$ 8,354,740</u>	<u>\$ 825,457</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 794,987	\$ (167,013)	\$ 1,141,082	\$ 1,769,056	\$ 27,968
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	800,080	286,887	410,049	1,497,016	-
Loss on disposal of capital assets	6,850	-	171,877	178,727	-
(Increase) decrease in accounts receivable	(350,697)	(29,917)	1,914	(378,700)	-
(Increase) decrease in miscellaneous receivables	-	-	-	-	23,719
(Increase) decrease in supplies inventory	12,828	31,618	(44,781)	(335)	-
(Increase) decrease in due from other funds	(3,621)	(470)	-	(4,091)	-
(Increase) decrease in prepaid items	-	-	(4,050)	(4,050)	(119,746)
Increase (decrease) in accounts payable	(6,830)	17,810	-	10,980	-
Increase (decrease) in wages and fringe benefits payable	15,352	1,296	-	16,648	-
Increase (decrease) in customer meter deposits	22,489	-	-	22,489	-
Increase (decrease) in net pension balances	(73,009)	(2,462)	-	(75,471)	-
Total adjustments	<u>423,442</u>	<u>304,762</u>	<u>535,009</u>	<u>1,263,213</u>	<u>(96,027)</u>
Net cash provided by operating activities	<u>\$ 1,218,429</u>	<u>\$ 137,749</u>	<u>\$ 1,676,091</u>	<u>\$ 3,032,269</u>	<u>\$ (68,059)</u>
Noncash Investing, Capital and Financing Activities					
Contribution of capital assets	\$ -	\$ 650,446	\$ -	\$ 650,446	\$ -
	<u>\$ -</u>	<u>\$ 650,446</u>	<u>\$ -</u>	<u>\$ 650,446</u>	<u>\$ -</u>

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**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.

*Discretely Presented Component Unit.*

The Mineral Wells Community Development Corporation (a nonprofit development corporation formed under the Development Corporation Act of 1979) was incorporated in 2014. The Corporation is governed by a Board of Directors appointed by the City Council. The Corporation's services are provided to stimulate economic growth in the City. Operation of the Corporation is funded by a 1/8 percent sales tax approved by voters. The Corporation is reported as a discretely presented component unit in the statement of net position and statement of activities.

*Blended Component Unit.*

The Palo Pinto County Municipal Water District No. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" due to the financial accountability of the City of Mineral Wells for the District, and because the District provides services almost entirely for the benefit of the City of Mineral Wells. Approximately 85% of the District's water sales were to the City of Mineral Wells. The City has reported in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2015, in a blended format.

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

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

**B. Government-wide and Fund Financial Statements**

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

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.

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

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.

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

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

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

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

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

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

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

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

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

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

**1. *Deposits and Investments***

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

			Palo Pinto County	
	Water and Sewer	Airport Operations	Municipal Water District No. 1	Internal Service Fund
Cash and cash equivalents	\$ 1,414,716	\$ 167,973	\$ 1,009,799	\$ 376,867
Investments	2,389,789	246,950	1,275,755	448,590
Restricted Investments	279,440	-	1,570,318	-
	<u>\$ 4,083,945</u>	<u>\$ 414,923</u>	<u>\$ 3,855,872</u>	<u>\$ 825,457</u>

**2. *Receivables and Payables***

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in the enterprise fund that are delinquent for more than two months at year-end comprise the trade accounts receivable allowance for uncollectible accounts of \$43,999. The property tax receivable allowance is based upon historical experience and is equal to approximately 70% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$110,217 in the general fund and \$20,510 in the debt service fund. The EMS receivable allowance of \$120,399 is comprised of accounts aged more than ninety days.

**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 nonspendable.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

***5. Prepaid items***

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. The cost of prepaid items are recorded as expenditures/expenses when consumed.

***6. 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 \$193,425. 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

***7. 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

**8. *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.

**9. *Long-term Obligations***

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

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

**10. *Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**11. *Fund Balance – Governmental Fund***

In the fund financial statements, governmental funds report the following classifications of fund balance:

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

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

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

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

Unassigned – All amounts not included in other spendable classifications.

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	\$ 12,426	\$ -	\$ -	\$ 12,426
Woodland Park Permanent Fund			511,762	511,762
Restricted:				
Debt Service		210,599		210,599
Police			105,748	105,748
TIF Zone #2			126,882	126,882
Economic Development			266,157	266,157
Community Services	109,762		202	109,964
Woodland Park Cemetery			1,116	1,116
Assigned				
Subsequent year budget deficit	1,075,585			1,075,585
Unassigned	3,370,831		(17,855)	3,352,976
Total Fund Balance	<u>\$ 4,568,604</u>	<u>\$ 210,599</u>	<u>\$ 994,012</u>	<u>\$ 5,773,215</u>

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

The City Council adopted a minimum fund balance policy for the General Fund. The policy requires the City strive to maintain an unassigned fund balance equal to 25% of the General Fund annual operating expenditures. The City considers a balance of less than 16.67% as cause for concern, barring unusual or deliberate circumstances. The unassigned fund balance of the general fund at year end was 32% of expenditures.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

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

**12. *Net Position***

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Restricted Fund Balance (Exhibit C-1)	\$ 820,466
Adjustments	
Accrued interest payable restricted for debt service	(820)
Deferred property tax revenue restricted for debt service	7,579
Total adjustments	<u>6,759</u>
Restricted Net Position (Exhibit A-1)	<u>\$ 827,225</u>

**13. *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 securities. 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, 2015, 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, 2015**

**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. The investment pool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940. The Pool is required to maintain a market value of its underlying investment portfolio within one half of one percent of the values of its shares.

**Credit Risk– Investments**

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

**Interest Rate Risk – Investments**

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

The City's investments at September 30, 2015 included the following:

Investment	Credit Rating	Average Maturities	Percentage of Total Investments	Cost	Fair Value
City of Mineral Wells					
Tex-Pool	AAAm	40 days	16.16%	\$ 1,668,900	\$ 1,668,900
TexSTAR Pool	AAAm	46 days	56.29%	5,815,481	5,815,481
				<u>7,484,381</u>	<u>7,484,381</u>
Component Unit					
TexSTAR Pool	AAAm	46 days	27.55%	2,845,840	2,846,073
Total Investments			100.00%	<u>\$ 10,330,221</u>	<u>\$ 10,330,454</u>

**NOTE 3: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies in this category, deferred outflows related to pensions reported in the government-wide statement of net position and proprietary funds statement of net position.

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

	Governmental Funds		
	General	Debt Service	Total Governmental Funds
Deferred property taxes receivable	\$ 43,306	\$ 7,579	\$ 50,885
Deferred franchise taxes receivable	101,661		101,661
Deferred EMS receivable	79,388		79,388
Deferred Cemetery receivable	27,580		27,580
Deferred municipal court receivable	38,060		38,060
Deferred leases receivable		2,838,196	2,838,196
Total deferred inflows of resources	<u>\$ 289,995</u>	<u>\$ 2,845,775</u>	<u>\$ 3,135,770</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 891
General Fund	Internal Service Funds	169,873
Debt Service Fund	General Fund	4,209
Debt Service Fund	Water and Sewer	5,123
Total Governmental Funds		\$ <u>180,096</u>
Water and Sewer	General Fund	\$ 67,087
Airport Operations	General Fund	86,103
Total Proprietary Funds		\$ <u>153,190</u>

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2015, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Governmental Funds	\$ 1,583	occupancy taxes
General Fund	Water and Sewer	475,842	operating
General Fund	Airport Operations	26,871	operating
Nonmajor Governmental Funds	General Fund	200,000	street projects
Total Governmental Funds Transfers In		\$ <u>704,296</u>	

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2015 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
<b>Non - Depreciable Assets:</b>					
Land	\$ 1,845,102	\$ -	\$ -	\$ -	\$ 1,845,102
Construction in Progress	58,547	404,163		(225,243)	237,467
<b>Total non-depreciable assets</b>	<b>1,903,649</b>	<b>404,163</b>	<b>-</b>	<b>(225,243)</b>	<b>2,082,569</b>
<b>Depreciable Assets:</b>					
Buildings and improvements	4,458,234	-	-	-	4,458,234
Improvements other than buildings	1,790,993	55,624	-	-	1,846,617
Infrastructure	51,912,657	-	-	225,243	52,137,900
Equipment and vehicles	5,573,585	195,875	(159,089)	-	5,610,371
Furniture and fixtures	607,412	71,498	(54,479)	-	624,431
<b>Total capital assets being depreciated</b>	<b>64,342,881</b>	<b>322,997</b>	<b>(213,568)</b>	<b>225,243</b>	<b>64,677,553</b>
<b>Accumulated Depreciation:</b>					
Buildings and improvements	(1,773,156)	(97,133)	-	-	(1,870,289)
Improvements other than buildings	(1,332,353)	(88,822)	-	-	(1,421,175)
Infrastructure	(28,741,661)	(1,367,745)	-	-	(30,109,406)
Equipment and vehicles	(4,752,176)	(235,053)	159,089	-	(4,828,140)
Furniture and fixtures	(418,654)	(48,688)	54,479	-	(412,863)
<b>Total accumulated depreciation</b>	<b>(37,018,000)</b>	<b>(1,837,441)</b>	<b>213,568</b>	<b>-</b>	<b>(38,641,873)</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 29,228,530</b>	<b>\$ (1,110,281)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,118,249</b>



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 5: CAPITAL ASSETS (Continued)**

Business-type activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
<b>Non - Depreciable Assets:</b>					
Land	\$ 3,916,446	\$ 14,046	\$ -	\$ -	\$ 3,930,492
Construction in Progress	6,349,826	1,331,305	(172,994)	(372,232)	7,135,905
<b>Total non-depreciable assets</b>	<b>10,266,272</b>	<b>1,345,351</b>	<b>(172,994)</b>	<b>(372,232)</b>	<b>11,066,397</b>
<b>Depreciable Assets:</b>					
Buildings and improvements	3,598,553	14,525	-	-	3,613,078
Improvements other than buildings	15,029,435	-	-	-	15,029,435
Infrastructure	5,087,401	649,283	-	206,881	5,943,565
Distribution System	35,354,633	2,390,693	-	165,351	37,910,677
Collection System	6,303,437	-	-	-	6,303,437
Equipment and Vehicles	1,848,845	64,104	(32,758)	-	1,880,191
Furniture and Fixtures	65,992	-	-	-	65,992
<b>Total capital assets being depreciated</b>	<b>67,288,296</b>	<b>3,118,605</b>	<b>(32,758)</b>	<b>372,232</b>	<b>70,746,375</b>
<b>Accumulated Depreciation:</b>					
Buildings and improvements	(2,115,739)	(65,312)	-	-	(2,181,051)
Improvements other than buildings	(6,321,682)	(311,667)	-	-	(6,633,349)
Infrastructure	(2,254,461)	(230,261)	-	-	(2,484,722)
Distribution System	(18,109,916)	(668,785)	-	-	(18,778,701)
Collection System	(3,459,946)	(126,069)	-	-	(3,586,015)
Equipment and Vehicles	(1,297,945)	(89,016)	27,025	-	(1,359,936)
Furniture and Fixtures	(48,464)	(5,906)	-	-	(54,370)
<b>Total accumulated depreciation</b>	<b>(33,608,153)</b>	<b>(1,497,016)</b>	<b>27,025</b>	<b>-</b>	<b>(35,078,144)</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 43,946,415</b>	<b>\$ 2,966,940</b>	<b>\$ (178,727)</b>	<b>\$ -</b>	<b>\$ 46,734,628</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 5: CAPITAL ASSETS (Continued)**

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

Governmental activities:	
Administrative	\$ 4,386
Finance	486
Fleet Maintenance	1,274
Police	127,935
Fire & Emergency Medical Services	81,587
Information Technology	667
Streets, including infrastructure	1,429,277
Parks & Recreation	151,052
Cemetery	2,293
Library	38,484
Total depreciation expense - governmental activities	<u>\$ 1,837,441</u>
Business-type activities:	
Water and Sewer	\$ 800,080
Airport	286,887
PPCMWD No. 1	410,049
Total depreciation expense - business-type activities	<u>\$ 1,497,016</u>

**NOTE 6: LEASES**

**A. Operating Leases – Lessor**

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

**B. Capital Leases - Lessee**

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

	Governmental Activities	Business-type Activities
2016	\$ 36,596	\$ 74,317
2017	-	58,423
2018	-	42,551
2019	-	42,551
2020	-	42,551
2021	-	67,190
Total debt service requirements	<u>36,596</u>	<u>327,583</u>
Less: Interest Portion	257	53,253
Debt Principal	<u>\$ 36,339</u>	<u>\$ 274,330</u>

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 6: LEASES (Continued)**

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities	Business-type Activities
Buildings	\$ -	\$ 660,250
Equipment and vehicles	204,122	129,477
Less: Accumulated depreciation	(105,264)	(193,644)
Net	<u>\$ 98,858</u>	<u>\$ 596,083</u>

**NOTE 7: LONG-TERM LIABILITIES**

**A. General Obligation Bonds**

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

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

		Governmental Activities			Business-type Activities		
		Principal	Interest	Total	Principal	Interest	Total
2016	\$	84,086	\$ 1,259	\$ 85,345	\$ 130,914	\$ 1,966	\$ 132,880
Total	\$	84,086	\$ 1,259	\$ 85,345	\$ 130,914	\$ 1,966	\$ 132,880

**B. Tax Notes**

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

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

		Governmental Activities		
		Principal	Interest	Total
2016	\$	80,000	\$ 12,000	\$ 92,000
Total	\$	80,000	\$ 12,000	\$ 92,000

**City of Mineral Wells, Texas  
Notes to Financial Statements  
September 30, 2015**

**NOTE 7 : LONG-TERM LIABILITIES (Continued)**

**C. Special Assessment Debt**

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

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

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

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

	<u>Principal</u>
2016	\$ 245,500
2017	253,750
2018	196,250
2019	196,250
2020	196,250
2021-2025	863,455
2026-2030	621,136
2031-2035	<u>265,605</u>
Total	<u>\$ 2,838,196</u>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

**D. Revenue Bonds**

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

\$2,400,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009A - due in annual installments at 0% to 6/1/2029.	1,680,000
\$3,200,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009B - due in annual installments at 2.63% to 3.68% to 6/1/2028.	2,435,000
\$6,990,000; Palo Pinto County Muni Water District #1 Revenue Refunding Bonds Series 2011 - due in annual installments at 2.00% to 3.375% to 6/1/2023.	3,505,000
	<hr/>
Total Palo Pinto Municipal Water District No. 1	7,620,000
	<hr/>
Total Revenue Bonds	\$ 7,620,000
	<hr/> <hr/>

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

		Business-type Activities		
		Principal	Interest	Total
		<hr/>	<hr/>	<hr/>
2016	\$	1,215,000	\$ 179,667	\$ 1,394,667
2017		615,000	151,523	766,523
2018		630,000	139,928	769,928
2019		640,000	126,010	766,010
2020		650,000	111,641	761,641
2021-2025		2,715,000	303,567	3,018,567
2026-2029		1,155,000	50,083	1,205,083
		<hr/>	<hr/>	<hr/>
Total	\$	7,620,000	\$ 1,062,419	\$ 8,682,419
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

**E. Compliance with Debt Service Requirements**

*Palo Pinto County Municipal Water District No. 1*

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2009A and 2009 B resolutions require a "Reserve Fund" be established for the bonds issued by the District depositing \$5,877 on the 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. The balance in the reserve at September 30, 2015 was \$364,000.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was \$551,162 and the balance in the reserve was \$490,000 at September 30, 2015.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 require a "Contingency Fund" of \$250,000 to be maintained. Monthly deposits of \$3,334 are required to be made when the "Contingency Fund" falls below the required balance. At September 30, 2015, the "Contingency Fund" had a balance of \$250,000.

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

	<u>Investments</u>
Water and sewer fund	
Customer deposits	\$ 279,440
PPCMWD No. 1	
Interest and Sinking Funds	466,318
Contingency Funds	250,000
Reserve Funds	<u>854,000</u>
Total PPCMWD No. 1	<u>1,570,318</u>
 Total Business-type activities	 <u><u>\$ 1,849,758</u></u>

**F. Sales Tax Refund Payable**

During 2015 the Texas Comptroller of Public Accounts informed the City that \$1,108,654 in sales taxes had been paid to the City in error. The amount will be deducted from the City's sales tax payments beginning with \$6,193 in October 2015 followed by 179 monthly deductions of \$6,159 from November 2015 through September 2030.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 7: LONG-TERM LIABILITIES (Continued)**

**G. Changes in Long-term Liabilities**

The following is a summary of long-term liability transactions of the city for the year ended September 30, 2015.

	9/30/2014	Additions	Retirements	9/30/2015	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 341,486	\$ -	\$ 257,400	\$ 84,086	\$ 84,086
Tax Note	155,000	-	75,000	80,000	80,000
Bond Premiums	21,824	-	13,094	8,730	8,730
Capital Leases	108,254	-	71,915	36,339	36,339
Special Assessment Debt	3,061,431	-	223,235	2,838,196	245,500
Net Pension Liability	-	1,027,033	-	1,027,033	-
Compensated Absences Payable	51,911	54,979	51,911	54,979	54,979
Sales Tax Refund Payable	-	1,108,654	-	1,108,654	73,942
<b>Total Governmental Activities</b>	<b>3,739,906</b>	<b>2,190,666</b>	<b>692,555</b>	<b>5,238,017</b>	<b>583,576</b>
<b>Business-type Activities:</b>					
General Obligation Bonds	533,514	-	402,600	130,914	130,914
Revenue Bonds	8,805,000	-	1,185,000	7,620,000	1,215,000
Bond Premium	47,159	-	22,278	24,881	6,632
Capital Leases	325,329	-	50,999	274,330	60,269
Net Pension Liability	-	449,223	-	449,223	-
Compensated Absences Payable	28,846	28,846	28,846	28,846	28,846
<b>Total Business-type Activities</b>	<b>9,739,848</b>	<b>478,069</b>	<b>1,689,723</b>	<b>8,528,194</b>	<b>1,441,661</b>
<b>Total Long-Term Debt</b>	<b>\$ 13,479,754</b>	<b>\$ 2,668,735</b>	<b>\$ 2,382,278</b>	<b>\$ 13,766,211</b>	<b>\$ 2,025,237</b>

The compensated absences payable were earned in the funds as follows: general fund \$54,979, water and sewer fund \$26,624 and airport operations fund \$2,222.

**NOTE 8: RELATED ORGANIZATIONS**

The Industrial Development Corporation of Mineral Wells (the "Development Corporation") – organized pursuant to the Development Corporation Act of 1979, 1979 Tex. Gen. Laws, Chapter 700, Section 1, at 1675, was created February 11, 1980 to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises and to promote and encourage employment and the public welfare. The Development Corporation is a nonprofit corporation governed by a ten member Board of Directors each of whom is appointed by the City. In addition, the City is entitled to approve all programs and expenditures of the Development Corporation including the issuance of debt obligations, acquiring, leasing and/or the selling of or conveying certain properties and the making of loans, for the above stated purpose. The 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**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:      DEFINED BENEFIT PENSION PLANS**

**A.      Texas Municipal Retirement System (TMRS)**

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

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

	<u>Plan Year 2015</u>
Employee deposit rate	5%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20
Updated Service Credit	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating

At the December 31, 2014 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	98
Inactive employees entitled to but not yet receiving benefits	111
Active employees	<u>162</u>
Total	<u><u>371</u></u>

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.15% and 9.43% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$692,708, and were equal to the required contributions

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions:*

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. These rates were projected on a fully generational basis by scale BB to account to future mortality improvements. For disable annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100.0%</u>	

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$27,839,355	\$26,098,211	\$ 1,741,144
Changes for the year:			
Service cost	721,608	-	721,608
Interest	1,930,010	-	1,930,010
Change of benefit terms	-	-	-
Difference between expected and actual experience	(439,509)	-	(439,509)
Changes of assumptions	-	-	-
Contributions - employer	-	699,904	(699,904)
Contributions - employee	-	346,582	(346,582)
Net investment income	-	1,492,992	(1,492,992)
Benefit payments, including refunds of employee contributions	(1,257,183)	(1,257,183)	-
Administrative expense	-	(15,587)	15,587
Other changes	-	(1,282)	1,282
Net changes	954,926	1,265,426	(310,500)
Balance at 12/31/2014	<u>\$28,794,281</u>	<u>\$27,363,637</u>	<u>\$ 1,430,644</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 5,363,930	\$ 1,430,644	\$ (1,799,884)

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

**B. Texas Emergency Services Retirement System (TESRS)**

Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2014, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,073
Terminated Members Entitled to Benefits but Not Yet Receiving Them	2,161
Active Participants (Vested and Nonvested)	4,036

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified 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. There is no provision for automatic postretirement benefit increases.

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 or continuing monthly payments to a member's surviving spouse and dependent children

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10:     DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System “actuarially sound” each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,530,343 for the fiscal year ending August 31, 2014. The City’s contributions for the years ended September 30, 2015 and 2014 were \$53,760, \$10,224 and \$11,376, respectively.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

**Net Pension Liability**

The System's net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2014.

	System 100.00%	City 0.25%
Total Pension Liability	\$ 109,854,799	\$ 275,736
Plan Fiduciary Net Position	91,683,156	230,125
Net Pension Liability	<u>\$ 18,171,643</u>	<u>\$ 45,611</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.5%	83.5%

***Actuarial Assumptions***

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return (Arithmetic)</u>
Equities		
Large cap domestic	32.0%	5.2%
Small cap domestic	10.0%	5.8%
Developed international	21.0%	5.5%
Emerging markets	6.0%	5.4%
Master limited partnership	5.0%	7.1%
Fixed income		
Domestic	21.0%	1.4%
International	5.0%	1.6%
Cash	0.0%	0.0%
Total	100.0%	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease in Discount Rate (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase in Discount Rate (8.75%)</u>
City's Proportional Share of the Net Pension Liability	\$ 93,990	\$ 45,611	\$ 17,384

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

**C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At August 31, 2014, the City reported a liability of \$45,611 for its proportionate share of the TESRS's net pension liability. This liability reflects a reduction for State pension support provided to the City. The amounts recognized by the City as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

	City
City's proportional share of the collective net pension liability	\$ 45,611
State's proportionate share that is associated with the City	23,297
	<u>\$ 68,908</u>

TESRS's net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's portion of the net pension liability was based on the City's contributions to the pension plan relative to the contribution of all entities to the plan for the period September 1, 2013 through August 31, 2014.

For the year ended September 30, 2015, the City recognized pension expense of \$443,887. \$437,071 of this expense was for TMRS and \$6,816 was for TESRS.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 314,773
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	267,106	-
Contributions subsequent to the measurement date	511,901	-
Total TMRS	<u>\$ 779,007</u>	<u>\$ 314,773</u>
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	11,494
Contributions subsequent to the measurement date	10,224	-
Total TESRS	<u>\$ 10,224</u>	<u>\$ 11,494</u>
Total	<u>\$ 789,231</u>	<u>\$ 326,267</u>



**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

\$522,125 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>TMRS</u>	<u>TESRS</u>	<u>Total</u>
Year Ended September 30:			
2016	\$ (57,959)	\$ (2,874)	\$ (60,833)
2017	(57,959)	(2,874)	(60,833)
2018	1,476	(2,873)	(1,397)
2019	66,775	(2,873)	63,902
2020	-	-	-
Thereafter	-	-	-
Total	<u>\$ (47,667)</u>	<u>\$ (11,494)</u>	<u>\$ (59,161)</u>

**NOTE 11: OTHER POSTEMPLOYMENT BENEFITS**

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

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

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

The city's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$17,122, \$16,374, and \$14,682, respectively, which equaled the required contributions each year.

**NOTE 12: HAIL DAMAGE AND INSURANCE RECOVERIES**

In May 2013, a hail storm directly impacted the City causing significant damage to City owned property. Management expects insurance to cover the cost to repair the property less the City's deductible. Insurance received in 2015 related to the hail damage was \$546,098. The insurance recoveries were reported as other financing sources in the general fund, nonoperating revenues in the water and sewer and airport funds, and general revenues in the government-wide statement of activities. The City expects to complete a significant portion of the repairs in the 2016 fiscal year.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**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. Turkey Peak Project**

In 2009, the Palo Pinto County Municipal Water District No. 1 issued \$5,600,000 Subordinate Revenue Bonds, \$2,400,000 from the Texas Water Development Board's Economically Distressed Areas Program and \$3,200,000 from the Texas Water Development Board's Water Infrastructure Fund for the Turkey Peak Project. The District also received a grant of \$2,400,000 from the Texas Water Development Board's Economically Distressed Areas Program for the Turkey Peak Project. The total amount budgeted for the project is \$8,000,000. As of September 30, 2015, expenditures for the project totaled \$7,078,047 with a remaining budget of \$921,953.

**NOTE 15:     EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 8, 2016, which is the date the financial statements were available to be issued.

In November of 2015 the District issued the \$9,915,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Series 2015A and \$7,185,000 Palo Pinto County Municipal Water District No. 1 Revenue Bonds, Taxable Series 2015B to fund the costs related to acquire and construct a dam and all works, plants and other facilities necessary or useful for the purpose of impounding processing and transporting water to cities and others for all useful purposes (Turkey Peak Reservoir). This includes land acquisition, final design, archeological recovery and initial utility relocations. These bonds were purchased by the Texas Water Development Board's State Water Implementation Revenue Fund for Texas. The bonds are secured by revenues of the District.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2015**

**NOTE 16: NEW ACCOUNTING PRONOUNCEMENTS**

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This Statement was issued to improve the accounting and financial reporting by state and local governments for pensions. This Statement requires government-wide and proprietary fund statements to recognize a liability equal to the net pension liability and changes in the net pension liability be included in pension expense in the period of change.

The City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. This Statement addresses issues related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Beginning net position of the governmental activities, business-type activities, and component unit was reduced by the following prior period adjustments:

	Governmental Activities	Business-type Activities	Total
Net Pension Liability	\$ (1,259,038)	\$ (546,720)	\$ (1,805,758)
Deferred Outflows of Resources	371,686	163,986	535,672
Prior Period Adjustment	<u>\$ (887,352)</u>	<u>\$ (382,734)</u>	<u>\$ (1,270,086)</u>

**NOTE 17: FUTURE ACCOUNTING PRONOUNCEMENTS**

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City has not yet determined the effect these statements will have on its financial reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures* will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial users. This Statement is effective for fiscal years beginning after December 15, 2015.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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## EXHIBIT F-1

## CITY OF MINERAL WELLS, TEXAS

## General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the year ended September 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
<b>Taxes:</b>				
Property taxes	\$ 3,117,000	\$ 3,117,000	\$ 3,061,374	(55,626)
Sales and use tax	3,575,000	3,575,000	3,359,663	(215,337)
Franchise	1,266,000	1,266,000	1,274,970	8,970
Licenses and Permits	112,150	112,150	67,853	(44,297)
Intergovernmental Revenue	294,920	294,920	286,642	(8,278)
Charges for service	784,500	784,500	782,050	(2,450)
Fines	287,000	287,000	366,092	79,092
Interest income	2,000	2,000	4,635	2,635
Cemetery	66,200	66,200	67,938	1,738
Miscellaneous revenues	45,400	45,400	88,245	42,845
<b>Total revenues</b>	<u>9,550,170</u>	<u>9,550,170</u>	<u>9,359,462</u>	<u>(190,708)</u>
<b>Expenditures:</b>				
<b>Current</b>				
Administrative	1,077,196	1,077,196	844,971	232,225
Finance	464,378	469,178	535,410	(66,232)
Fleet Maintenance	761,586	761,586	693,534	68,052
Police	2,709,769	2,709,769	2,753,125	(43,356)
Fire & Emergency Medical Services	1,951,087	1,963,603	1,813,643	149,960
Inspections	345,816	345,816	327,777	18,039
Information Technology	372,356	372,356	354,108	18,248
Streets	1,227,556	1,227,556	1,145,015	82,541
Sanitation	179,300	179,300	144,312	34,988
Parks & Recreation	1,303,516	1,303,516	938,146	365,370
Cemetery	315,405	315,405	304,314	11,091
Library	475,895	475,895	448,564	27,331
<b>Debt Service:</b>				
Principal	75,000	75,000	71,915	3,085
Interest and fiscal charges	3,525	3,525	1,278	2,247
<b>Total expenditures</b>	<u>11,262,385</u>	<u>11,279,701</u>	<u>10,376,112</u>	<u>903,589</u>
<b>Excess (deficiency) of revenue over (under) expenditures</b>	<u>\$ (1,712,215)</u>	<u>\$ (1,729,531)</u>	<u>\$ (1,016,650)</u>	<u>712,881</u>
<b>Other financing sources (uses):</b>				
Proceeds from sale of general fixed assets	1,500	1,500	-	(1,500)
Insurance proceeds	850,000	850,000	404,588	(445,412)
Transfers in	503,813	503,813	504,296	483
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>(556,902)</u>	<u>(574,218)</u>	<u>(307,766)</u>	<u>266,452</u>
<b>Fund balance, October 1, 2014</b>	<u>4,876,370</u>	<u>4,876,370</u>	<u>4,876,370</u>	<u>-</u>
<b>Fund balance, September 30, 2015</b>	<u>\$ 4,319,468</u>	<u>\$ 4,302,152</u>	<u>\$ 4,568,604</u>	<u>266,452</u>

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

**EXHIBIT F-2**

CITY OF MINERAL WELLS, TEXAS  
Schedule of Changes in Net Pension Liability and Related Ratios  
Texas Municipal Retirement System  
Last 10 Years (will ultimately be displayed)

	<u>2014</u>
<b>Total Pension Liability</b>	
Service Cost	\$ 721,608
Interest (on the Total Pension Liability)	1,930,010
Changes of benefit terms (TMRS Plan Participation)	-
Difference between expected and actual experience	(439,509)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(1,257,183)
Net Change in Total Pension Liability	954,926
Total Pension Liability - Beginning	27,839,355
Total Pension Liability - Ending	<u>\$ 28,794,281</u>
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 699,904
Contributions - Employee	346,582
Net Investment Income	1,492,992
Benefit payments, including refunds of employee contributions	(1,257,183)
Administrative Expense	(15,587)
Other	(1,282)
Net Change in Plan Fiduciary Net Position	1,265,426
Plan Fiduciary Net Position - Beginning	26,098,211
Plan Fiduciary Net Position - Ending	<u>\$ 27,363,637</u>
 <b>Net Pension Liability Ending</b>	 \$ 1,430,644
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	  95.03%
 <b>Covered Employee Payroll</b>	 \$ 6,893,077
 <b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	  20.75%

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

**EXHIBIT F-3**

CITY OF MINERAL WELLS, TEXAS  
Schedule of Contributions  
Texas Municipal Retirement System  
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2014</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 704,511	\$ 692,708
Contributions in relation to the actuarially determined contribution	<u>\$ 704,511</u>	<u>\$ 692,708</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 6,822,411	\$ 7,134,246
Contributions as a percentage of covered employee payroll	10.33%	9.71%

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



**EXHIBIT F-4**

**CITY OF MINERAL WELLS, TEXAS**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Texas Emergency Services Retirement System**  
**Last 10 Years (will ultimately be displayed)**

	<u>2014</u>
Proportion of the Net Pension Liability (Asset)	0.00251
Proportionate Share of Net Pension Liability (Asset)	\$ 45,611
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the City	<u>23,297</u>
Total	<u><u>\$ 68,908</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.46%

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

**EXHIBIT F-5**

CITY OF MINERAL WELLS, TEXAS  
Schedule of Contributions  
Texas Emergency Services Retirement System  
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2014</u>	<u>2015</u>
Contractually Required Contribution	\$ 11,376	\$ 10,224
Contributions in relation to the contractually required contribution	<u>\$ 11,376</u>	<u>\$ 10,224</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

**Note 1:** **Budget**

Total general fund expenditures were less than appropriations by \$903,589. The following general fund departments had expenditures in excess of appropriations.

**Note 2. Schedule of Contributions – Texas Municipal Retirement System**

### Methods and Assumptions Used to Determine Contribution Rates

57

**City of Mineral Wells**  
**Notes to the Required Supplementary Information**  
**For the Year Ended September 30, 2015**

**Note 2.            Schedule of Contributions – Texas Municipal Retirement System (Continued)**

Mortality                                      RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

Notes    There were no benefit changes during the year.

**Note 3.            Schedule of Contributions – Texas Emergency Services Retirement System**

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

Valuation Date

August 31, 2014

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoother by a 5-year deferred recognition method with a 80%/120% corridor on market value
Inflation	3.50%
Salary Increases	N/A
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA

Other Information

Notes    There were no benefit changes during the year.

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

CITY OF MINERAL WELLS, TEXAS  
Nonmajor Governmental Funds  
Combining Balance Sheet  
September 30, 2015

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds
Assets:					
Cash	\$ 202	\$ 105,748	\$ 126,882	\$ 216,500	\$ 449,332
Investments	-	-	-	49,657	49,657
Total assets	<u>\$ 202</u>	<u>\$ 105,748</u>	<u>\$ 126,882</u>	<u>\$ 266,157</u>	<u>\$ 498,989</u>
Liabilities and fund balance:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:					
Nonspendable	-	-	-	-	-
Restricted	202	105,748	126,882	266,157	498,989
Unassigned	-	-	-	-	-
Total fund balance	<u>202</u>	<u>105,748</u>	<u>126,882</u>	<u>266,157</u>	<u>498,989</u>
Total liabilities and fund balances	<u>\$ 202</u>	<u>\$ 105,748</u>	<u>\$ 126,882</u>	<u>\$ 266,157</u>	<u>\$ 498,989</u>

EXHIBIT G-1

Capital Projects			Permanent Fund	
Texas Capital Fund	Street Capital Projects Fund	Total Capital Projects Funds	Woodland Park	Total Nonmajor Funds
\$ -	\$ 59,686	\$ 59,686	\$ 64,502	\$ 573,520
-	-	-	448,376	498,033
\$ -	\$ 59,686	\$ 59,686	\$ 512,878	\$ 1,071,553
\$ -	\$ 76,650	\$ 76,650	\$ -	\$ 76,650
-	891	891	-	891
-	77,541	77,541	-	77,541
-	-	-	511,762	511,762
-	-	-	1,116	500,105
-	(17,855)	(17,855)	-	(17,855)
-	(17,855)	(17,855)	512,878	994,012
\$ -	\$ 59,686	\$ 59,686	\$ 512,878	\$ 1,071,553



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, 2015

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds
Revenues:					
Occupancy taxes	\$ 210,024	\$ -	\$ -	\$ -	\$ 210,024
Intergovernmental revenue	-	-	-	-	-
Interest	433	13	-	31	477
Cemetery	-	-	-	-	-
Miscellaneous revenues	-	101,980	-	-	101,980
Total revenue	<u>210,457</u>	<u>101,993</u>	<u>-</u>	<u>31</u>	<u>312,481</u>
Expenditures:					
Current:					
Police	-	2,614	-	-	2,614
Streets	-	-	-	-	-
Economic Development	-	-	25,643	-	25,643
Hotel/Motel Occupancy	<u>208,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>208,974</u>
Total expenditures	<u>208,974</u>	<u>2,614</u>	<u>25,643</u>	<u>-</u>	<u>237,231</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,483</u>	<u>99,379</u>	<u>(25,643)</u>	<u>31</u>	<u>75,250</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	<u>(1,583)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,583)</u>
Net change in fund balances	(100)	99,379	(25,643)	31	73,667
Fund balance, October 1, 2014	<u>302</u>	<u>6,369</u>	<u>152,525</u>	<u>266,126</u>	<u>425,322</u>
Fund balance, September 30, 2015	\$ <u><u>202</u></u>	\$ <u><u>105,748</u></u>	\$ <u><u>126,882</u></u>	\$ <u><u>266,157</u></u>	\$ <u><u>498,989</u></u>

EXHIBIT G-2

Capital Projects			Permanent Fund	
Texas Capital Fund	Street Capital Projects Fund	Total Capital Projects Funds	Woodland Park	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ 210,024
22,750	-	22,750	-	22,750
-	-	-	230	707
-	-	-	9,498	9,498
-	-	-	-	101,980
22,750	-	22,750	9,728	344,959
-	-	-	-	2,614
-	404,164	404,164	-	404,164
22,750	-	22,750	-	48,393
-	-	-	-	208,974
22,750	404,164	426,914	-	664,145
-	(404,164)	(404,164)	9,728	(319,186)
-	200,000	200,000	-	200,000
-	-	-	-	(1,583)
-	(204,164)	(204,164)	9,728	(120,769)
-	186,309	186,309	503,150	1,114,781
\$ -	\$ (17,855)	\$ (17,855)	\$ 512,878	\$ 994,012

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**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 8, 2016.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*George Morgan Smith, P.C.*

Weatherford, Texas

March 8, 2016