

CITY OF MINERAL WELLS, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011**

CITY OF MINERAL WELLS, TEXAS

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**For the Fiscal Year Ended
September 30, 2011**

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Annual Financial Report

For the Year Ended September 30, 2011

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FINANCIAL SECTION

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Independent Auditor' s Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Mineral Wells, Texas (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City' s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

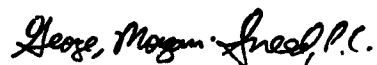
As discussed in Note 16 to the financial statements, management of the Palo Pinto County Municipal Water District No. 1 evaluated the capital asset schedule and determined that certain capital assets were not being reported in the correct category and were being depreciated with inconsistent useful lives. Accordingly, adjustments have been made to equity as of September 30, 2011 to correct capital asset balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2012 on our consideration of the City' s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 – 8, the budgetary comparison schedule – general fund on page 46, Texas Municipal Retirement System Pension Schedule of Funding Progress on page 47 and Texas Emergency Services Retirement System Statewide Schedule of Funding Progress on page 48 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.

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



George, Morgan & Sneed, P.C.
Weatherford, Texas
March 5, 2012



PO Box 459
Mineral Wells, Texas 76068

Management's Discussion and Analysis

As management of the City of Mineral Wells ("City"), we offer readers of the City's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2011.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the fiscal year by \$77,378,531 (net assets). Of this amount, \$13,597,585 (unrestricted net assets) may be used to meet the City's ongoing obligations.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$5,474,372. Seventy-one percent of this total amount, \$3,868,258, 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 \$3,868,258 or 41.8 percent of total General Fund expenditures.

Overview of Financial Statements

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

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

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

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

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

The government-wide financial statements are presented on pages 9 –11 of this report.

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

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

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

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and the Debt Service Fund, which are considered to be major funds. Individual fund data for the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental financial statements can be found on pages 12 – 15 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 16 – 19 of this report.

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

The basic fiduciary fund financial statements can be found on page 20 of this report.

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Mineral Wells, assets exceeded liabilities by \$77,378,531 at September 30, 2011.

The largest portion of the City's net assets (79 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (\$2,527,661) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$13,597,585) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
<i>Current and Other Assets</i>	\$8,583,778	\$8,282,722	\$12,848,799	\$11,595,341	\$21,432,577	\$19,878,063
<i>Capital Assets</i>	33,439,276	34,784,332	43,973,417	41,652,839	77,412,693	76,437,171
Total Assets	\$42,023,054	\$43,067,054	\$56,822,216	\$53,248,180	\$98,845,270	\$96,315,234
<i>Long-Term Liabilities</i>	\$3,595,673	\$3,937,962	\$13,829,391	\$15,736,207	\$17,425,064	\$19,674,169
<i>Other Liabilities</i>	1,316,955	1,028,824	2,724,720	2,852,245	4,041,675	3,881,069
Total Liabilities	\$4,912,628	\$4,966,786	\$16,554,111	\$18,588,452	\$21,466,739	\$23,555,238
Net Assets						
<i>Capital Assets Net of Related Debt</i>	\$31,288,170	\$32,184,332	\$29,965,115	\$27,373,194	\$61,253,285	\$59,557,526
<i>Restricted</i>	759,561	630,980	1,768,100	3,171,427	2,527,661	3,802,407
<i>Unrestricted</i>	5,062,695	5,284,956	8,534,890	4,115,107	13,597,585	9,400,063
Total Net Assets	\$37,110,426	\$38,100,268	\$40,268,105	\$34,659,728	\$77,378,531	\$72,759,996

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

Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$1,311,345	\$1,285,963	\$12,549,178	\$10,432,698	\$13,860,523	\$11,718,661
Operating grants and contributions	272,558	174,532	566	-	273,124	174,532
Capital grants and contributions	152,998	162,500	788,469	368,387	941,467	530,887
General revenues:					-	-
Property taxes	3,132,790	2,944,651			3,132,790	2,944,651
Other taxes	4,905,879	5,132,889			4,905,879	5,132,889
Other	75,958	72,139	13,972	19,598	89,930	91,737
Total revenues	9,851,528	9,772,674	13,352,185	10,820,683	23,203,713	20,593,357
Expenses:						
Administrative	1,474,206	1,315,059			1,474,206	1,315,059
Public Safety	4,120,185	4,061,842			4,120,185	4,061,842
Highways/streets	2,507,391	2,669,223			2,507,391	2,669,223
Public works	1,195,998	1,083,311			1,195,998	1,083,311
Economic development	169,500	72,500			169,500	72,500
Culture and recreation	1,485,894	1,357,460			1,485,894	1,357,460
Interest on long-term debt	114,068	123,068			114,068	123,068
Water and Sewer			7,584,932	7,174,640	7,584,932	7,174,640
Airport			1,308,067	987,507	1,308,067	987,507
PPCMWD No 1			1,062,058	1,164,406	1,062,058	1,164,406
Total expenses	11,067,242	10,682,463	9,955,057	9,326,553	21,022,299	20,009,016
Change in net assets before transfers	(1,215,714)	(909,789)	3,397,128	1,494,130	2,181,414	584,341
Special Items						
Transfers	225,872	207,999	(225,872)	(207,999)	-	-
Change in net assets	(989,842)	(701,790)	3,171,256	1,286,131	2,181,414	584,341
Net assets – Beginning	38,100,268	38,802,058	34,659,728	33,373,597	72,759,996	72,175,655
Prior Period Adjustments*			2,437,121	-	2,437,121	-
Net assets – 09/30/10	<u>\$37,110,426</u>	<u>\$38,100,268</u>	<u>\$40,268,105</u>	<u>\$34,659,728</u>	<u>\$77,378,531</u>	<u>\$72,759,996</u>

*See Note 16

Financial Analysis of the Government's Funds

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, 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 balance of the General Fund is \$3,868,258, while the total fund balance reached \$4,742,211. 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 41.8 percent of total general fund expenditures, while total fund balance represents 51.2 percent of that same amount.

Other items

The Debt Service Fund has a total fund balance of \$170,667 all of which is reserved for the payment of debt service.

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

Unrestricted net assets, at the end of the year for Water/Sewer Operations are \$5,605,846 and \$2,571,181 for the Water District. Unrestricted net assets in Airport Operations are \$357,863.

General Fund Budgetary Highlights

It is the practice of the City to budget very conservatively. Revenues in 2010-11 were 4.7 percent higher than budgeted with actual operating expenses being 7.4 percent lower than budgeted. While the City budgeted \$677,655 of appropriated fund balance, none was spent. The General Fund's fund balance increased \$247,917 as budgeted expenses were delayed due to the economic uncertainties associated with the ongoing national recession.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011 amounts to \$77,412,693 (net of depreciation). This investment in capital assets includes land, buildings, equipment, streets and water/sewer systems, airport runways, and improvements other than buildings.

The City completed a 6,100', 18" water line extension of the water distribution system this year in the Water Fund. The General Fund acquired four new vehicles, a 72" mower, and a wheel loader. In addition to the new vehicles and equipment, the City was able to upgrade all its public safety radio equipment to meet P25 compliance. Also in the General Fund, construction in progress includes the construction of a new cemetery maintenance building, as well as, a multiphase street reconstruction project.

Additional information on the City's capital assets can be found in Note 4 on pages 31 – 32 of this report.

Long-term debt. At the end of the fiscal year, the City had total outstanding debt of \$20,286,318. Of this amount \$5,355,000 is general obligation refunding bonds, split between governmental and business-type activities, \$2,090,000 and \$3,265,000 respectively. In addition, the City has \$375,000 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 \$352,875 for T-hangars accounted for in the Airport Fund. The T-hangars are collateral for security agreements between the City and the lessors. Principal and interest payments are payable out of current revenues generated by hangar space rentals. \$1,940,207 of the long-term debt is in the form of loans from the Texas Capital Fund. The loans are used to acquire and/or rehabilitate facilities to attract and/or retain businesses. The loans are repaid through lease revenues when available. The remainder of the debt, \$12,115,000, represents Palo Pinto County Municipal Water District No. 1 revenue bonds.

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

Additional information on the City's long-term debt can be found in Note 7 on pages 34 – 39 of this report.

Economic Factors and Next Year's Budgets and Rates

It has become apparent that the economic climate will not materially improve in the immediate future and the City of Mineral Wells is prepared to maintain a very disciplined fiscal posture as it moves forward. General Fund revenues are showing signs of stability after suffering from the worst general economic decline since the 1930's. Sales tax collections are projected to be only 2.8% lower than last year's, after experiencing a three-year decline of \$1.3 million or 27.5% from our highest collection year of FY 2007-08. The City has also experienced a slight decrease in ad valorem property tax valuations of 1.25% percent compared to a 5% decline last year. While the fiscal year 2011-2012 General Fund Budget is the lowest budget adopted since FY 2005-2006, the City is able to fund capital equipment acquisitions and continue with an ongoing multiphase street reconstruction program without a property tax increase to its citizens. Fortunately, the City has been able to maintain its fund balance in the General Fund at approximately 145 operating days through conservative spending. Also, the City has been able to maintain all its programming and key city functions.

The City has proposed a 3% increase in water rates to fund the continued development of the Turkey Peak Reservoir project and an \$130,000 increase in raw water. In April, 2011 a general obligation bond refunding allowed reserve funds to become available for expenditures. The City has budgeted an 18" water line replacement project in the western portion of the city at a cost of \$1 million. The Water Fund budget also includes funds for a mini excavator and four new trucks.

For the first time in several years the Airport Fund achieved improved margins and stronger than anticipated aviation fuel sales. With additional funds available for improvements, a taxiway connection project is budgeted as well as the purchase of a new aviation refueler truck.

Overall, leading indicators appear to point to a sluggish and under-performing economy in the near term. Nonetheless, through conservative fiscal management, the City has maintained basic service levels and positioned itself to survive these unsettled economic times. We will continue to cautiously manage our fiscal affairs until such time as our local economic circumstance improves.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

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EXHIBIT A-1

CITY OF MINERAL WELLS, TEXAS
Statement of Net Assets
September 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 149,742	\$ 772,453	\$ 922,195
Investments	4,934,863	7,226,243	12,161,106
Receivables (Net of allowances for uncollectibles)			
Property taxes	92,800		92,800
Sales taxes	583,114		583,114
Franchise taxes	181,319		181,319
Accounts	257,267	1,111,332	1,368,599
Leases	1,940,207		1,940,207
Miscellaneous	312,024	235,050	547,074
Due from Texas Water Development Board		854,942	854,942
Inventory	18,953	286,973	305,926
Internal Balances	26,669	(26,669)	-
Restricted Assets, Cash and Investments:			
Investments	-	1,907,145	1,907,145
Deferred Charges	86,820	481,330	568,150
Capital assets (net of accumulated depreciation):			
Land	2,055,146	2,544,237	4,599,383
Construction in progress	177,733	4,258,538	4,436,271
Buildings and improvements	2,893,781	1,694,101	4,587,882
Improvements other than buildings	734,929	9,655,199	10,390,128
Infrastructure	26,733,923	3,433,567	30,167,490
Distribution System	-	18,846,320	18,846,320
Collection System	-	3,224,507	3,224,507
Equipment and Vehicles	693,488	293,109	986,597
Furniture and Fixtures	150,276	23,839	174,115
Total Assets	42,023,054	56,822,216	98,845,270
LIABILITIES:			
Accounts Payable	150,083	163,808	313,891
Wages and fringe benefits payable	173,620	76,394	250,014
Due to other governments	56,208	-	56,208
Deferred revenue	-	89,375	89,375
Current Liabilities Payable from Restricted Assets:			
Interest payable	13,291	153,012	166,303
Customer deposits	-	222,671	222,671
Noncurrent liabilities:			
Due within one year	923,753	2,019,460	2,943,213
Due in more than one year	3,595,673	13,829,391	17,425,064
Total Liabilities	4,912,628	16,554,111	21,466,739
NET ASSETS:			
Investments in Capital Assets, Net of Debt	31,288,170	29,965,115	61,253,285
Restricted Net Assets (Expendable)	285,892	1,768,100	2,053,992
Restricted for Net Assets (Nonexpendable)	473,669	-	473,669
Unrestricted Net Assets	5,062,695	8,534,890	13,597,585
Total Net Assets	\$ 37,110,426	\$ 40,268,105	\$ 77,378,531

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, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Administrative	\$ 847,241	\$ 38,138	\$	
Finance	380,236	-		
Fleet Maintenance	706,713	-		
Police	2,381,890	401,901	2,457	152,998
Fire & Emergency Medical Services	1,435,140	576,105	15,000	
Inspections	303,155	65,885		
Information technology	246,729			
Streets	2,507,391	-	17,891	
Sanitation	173,131	48,062		
Parks & Recreation	903,200	93,539		
Cemetery	316,154	81,504		
Library	390,985	6,211	87,710	
Economic Development	169,500		149,500	
Hotel/Motel Occupancy	191,709			
Interest and fiscal charges	114,068			
Total governmental activities	<u>11,067,242</u>	<u>1,311,345</u>	<u>272,558</u>	<u>152,998</u>
Business-type activities:				
Water and Sewer	7,584,932	9,208,123		27,131
Airport	1,308,067	1,222,734	566	
PPCMWD No. 1	1,062,058	2,118,321		761,338
Total business-type activities	<u>9,955,057</u>	<u>12,549,178</u>	<u>566</u>	<u>788,469</u>
Total primary government	\$ 21,022,299	\$ 13,860,523	\$ 273,124	\$ 941,467

General Revenues:

Taxes:

Property Taxes, levied for general purposes
Property Taxes, levied for debt service
Property Taxes, levied for TIF Zone #2
Sales and Use Taxes
Franchise Taxes
Hotel Motel Taxes
Investment Earnings
Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Assets

Prior Period Adjustment

Net Assets October 1, 2010

Net Assets September 30, 2011

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

EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Assets			
		Primary Government	
Governmental	Business-type	Total	
Activities	Activities		
\$		\$	
(809,103)		(809,103)	
(380,236)		(380,236)	
(706,713)		(706,713)	
(1,824,534)		(1,824,534)	
(844,035)		(844,035)	
(237,270)		(237,270)	
(246,729)		(246,729)	
(2,489,500)		(2,489,500)	
(125,069)		(125,069)	
(809,661)		(809,661)	
(234,650)		(234,650)	
(297,064)		(297,064)	
(20,000)		(20,000)	
(191,709)		(191,709)	
(114,068)		(114,068)	
<u>(9,330,341)</u>	<u>-</u>	<u>(9,330,341)</u>	
	1,650,322	1,650,322	
	(84,767)	(84,767)	
	1,817,601	1,817,601	
<u>-</u>	<u>3,383,156</u>	<u>3,383,156</u>	
\$ <u>(9,330,341)</u>	\$ <u>3,383,156</u>	\$ <u>(5,947,185)</u>	
\$		\$	
2,554,209	-	2,554,209	
556,235		556,235	
22,346		22,346	
3,402,034		3,402,034	
1,311,173		1,311,173	
192,672		192,672	
11,488	11,305	22,793	
64,470	2,667	67,137	
225,872	(225,872)	-	
<u>8,340,499</u>	<u>(211,900)</u>	<u>8,128,599</u>	
(989,842)	3,171,256	2,181,415	
	2,437,121	2,437,121	
<u>38,100,268</u>	<u>34,659,728</u>	<u>72,759,996</u>	
\$ <u>37,110,426</u>	\$ <u>40,268,105</u>	\$ <u>77,378,532</u>	

CITY OF MINERAL WELLS, TEXAS
Balance Sheet
Governmental Funds
September 30, 2011

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Assets:				
Cash and cash equivalents	\$ 20,879	\$ 10,738	\$ 55,177	\$ 86,794
Investments	4,004,161	135,629	496,562	4,636,352
Receivables (Net of allowances)				
Property Taxes	52,109	14,500	26,191	92,800
Sales Taxes	583,114			583,114
Franchise Taxes	181,319			181,319
Accounts	257,267	-	-	257,267
Lease	-	1,940,207	-	1,940,207
Miscellaneous	307,082	4,942		312,024
Inventory Supplies, at Cost	18,953			18,953
Due from other funds		27,919	9,755	37,674
	<u>5,424,884</u>	<u>2,133,935</u>	<u>587,685</u>	<u>8,146,504</u>
Total assets	\$ <u>5,424,884</u>	\$ <u>2,133,935</u>	\$ <u>587,685</u>	\$ <u>8,146,504</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 150,083	\$ -	\$ -	\$ 150,083
Wages and Fringe Benefits Payable	173,620	-	-	173,620
Due to other funds	9,755	1,250	-	11,005
Due to State	48,897	7,311		56,208
Deferred revenue	300,318	1,954,707	26,191	2,281,216
	<u>682,673</u>	<u>1,963,268</u>	<u>26,191</u>	<u>2,672,132</u>
Total liabilities	<u>682,673</u>	<u>1,963,268</u>	<u>26,191</u>	<u>2,672,132</u>
Fund Balances:				
Nonspendable	18,953		473,669	492,622
Restricted		170,667	87,825	258,492
Assigned	855,000			855,000
Unassigned	3,868,258			3,868,258
	<u>4,742,211</u>	<u>170,667</u>	<u>561,494</u>	<u>5,474,372</u>
Total fund balances	<u>4,742,211</u>	<u>170,667</u>	<u>561,494</u>	<u>5,474,372</u>
Total liabilities and fund balances	\$ <u>5,424,884</u>	\$ <u>2,133,935</u>	\$ <u>587,685</u>	\$ <u>8,146,504</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 Assets
 September 30, 2011

Total Fund Balances - Governmental Funds	\$ 5,474,372
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 \$65,209,382 and the accumulated depreciation was \$31,770,106.	33,439,276
Capitalized bond issuance costs related to governmental activity debt are not financial resources and therefore are not reported in the governmental funds.	86,820
Long-term liabilities, including \$2,090,000 bonds payable, \$375,000 tax notes, \$61,106 bond premiums and \$53,113 compensated absences payable are not due and payable in the current period and, therefore are not reported as liabilities in the fund financial statements.	(2,579,219)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(13,291)
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.	341,009
The City uses an internal service fund to charge the costs of insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.	361,459
Net Assets of Governmental Activities	<u>\$ 37,110,426</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, 2011

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 2,553,399	\$ 557,088	\$ 16,014	3,126,501
Sales and use tax	3,402,034	-	-	3,402,034
Franchise	1,298,218	-	-	1,298,218
Hotel motel taxes	-	-	192,672	192,672
Licenses and Permits	65,885	-	-	65,885
Intergovernmental Revenue	434,567	-	149,500	584,067
Charges for service	816,703	-	-	816,703
Fines	217,975	-	-	217,975
Interest income	5,761	4,662	642	11,065
Special Assessments	-	159,256	-	159,256
Cemetery	73,435	-	9,609	83,044
Miscellaneous revenues	51,156	-	13,314	64,470
Total revenues	<u>8,919,133</u>	<u>721,006</u>	<u>381,751</u>	<u>10,021,890</u>
Expenditures:				
Current				
Administrative	840,177	-	-	840,177
Finance	378,971	-	-	378,971
Fleet Maintenance	705,254	-	-	705,254
Police	2,488,881	-	7,617	2,496,498
Fire & Emergency Medical Services	1,334,773	-	-	1,334,773
Inspections	298,941	-	-	298,941
Information technology	246,729	-	-	246,729
Streets	1,229,363	-	-	1,229,363
Sanitation	173,131	-	-	173,131
Parks & Recreation	801,572	-	-	801,572
Cemetery	349,843	-	-	349,843
Library	383,327	-	-	383,327
Economic Development	-	-	169,500	169,500
Hotel/Motel Occupancy	-	-	191,709	191,709
Debt service:				
Principal	-	649,256	-	649,256
Interest and fiscal charges	-	106,584	-	106,584
Debt issuance costs	32,019	7,079	-	39,098
Total expenditures	<u>9,262,981</u>	<u>762,919</u>	<u>368,826</u>	<u>10,394,726</u>
Excess (deficiency) of revenue over (under) expenditures)	<u>\$ (343,848)</u>	<u>\$ (41,913)</u>	<u>\$ 12,925</u>	<u>(372,836)</u>
Other financing sources (uses):				
Transfers in	209,751	17,872	-	227,623
Transfers out	-	-	(1,751)	(1,751)
Proceeds of tax notes	375,000	-	-	375,000
Proceeds of refunding bonds	-	2,090,000	-	2,090,000
Premium on bonds	7,014	58,457	-	65,471
Payment to refunded bond escrow agent	-	(2,110,000)	-	(2,110,000)
Total other financing sources (uses)	<u>591,765</u>	<u>56,329</u>	<u>(1,751)</u>	<u>646,343</u>
Net change in fund balances	<u>247,917</u>	<u>14,416</u>	<u>11,174</u>	<u>273,507</u>
Fund balance, October 1, 2010	<u>4,494,294</u>	<u>156,251</u>	<u>550,320</u>	<u>5,200,865</u>
Fund balance, September 30, 2011	<u>\$ 4,742,211</u>	<u>\$ 170,667</u>	<u>\$ 561,494</u>	<u>5,474,372</u>

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

CITY OF MINERAL WELLS, TEXAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of
The Governmental Funds to the Statement of Activities
For the year ended September 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 273,507
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 \$473,525 of capital outlays and \$490,000 of debt principal payments is to increase net assets.	963,525
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(1,818,581)
Current year debt proceeds are other financing sources (uses) in the fund financial statements and debt issuance costs are expenditures in the fund financial statements. The net effect of the \$20,000 decrease in bonds payable, \$375,000 increase in tax notes, \$65,471 increase in bond premiums and \$39,098 increase in bond issuance costs is decrease in net assets.	(381,373)
Current year interest payable, bond premiums and compensated absences of the governmental funds are not due and payable in the current period and debt issuance costs are not financial resources of the current period, and, therefore are not reported as liabilities or assets in the funds. The \$4,473 decrease in interest payable, \$4,365 decrease in bond premiums, \$6,086 increase in compensated absences and \$16,322 amortization of bond issuance costs decrease net assets.	(13,570)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(11,529)
The City uses an internal service fund to charge the costs of insurance to individual funds. The adjustment to reflect the consolidation of the internal service fund activities related to governmental activities decreases net assets.	(1,821)
Change in Net Assets of Governmental Activities	<u>\$ (989,842)</u>

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

CITY OF MINERAL WELLS, TEXAS
Statement of Net Assets
Proprietary Funds
September 30, 2011

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 355,218	\$ 86,874	\$ 330,361	\$ 772,453	\$ 62,948
Investments	4,030,780	160,285	3,035,178	7,226,243	298,511
Receivables (Net of allowances):					
Accounts	1,087,133	21,662	2,537	1,111,332	-
Miscellaneous	165,404	69,646	-	235,050	-
Due from Texas Water Development Board			854,942	854,942	-
Inventory	183,589	56,743	46,641	286,973	-
Due from other funds		1,250		1,250	
Restricted Assets, Cash and Investments:					
Investments	-		1,907,145	1,907,145	
Total current assets	<u>5,822,124</u>	<u>396,460</u>	<u>6,176,804</u>	<u>12,395,388</u>	<u>361,459</u>
Noncurrent Assets:					
Deferred Charges	278,729		202,601	481,330	
Capital assets, at cost:					
Land	1,156,479	194,863	1,192,895	2,544,237	-
Buildings and improvements	1,356,721	1,850,150	98,455	3,305,326	-
Improvements other than Buildings	15,434,771	55,070	-	15,489,841	-
Infrastructure	-	5,043,980	-	5,043,980	-
Distribution System	13,423,032	-	21,748,204	35,171,236	-
Collection System	6,303,437	-		6,303,437	-
Equipment & Vehicles	2,503,739	331,405	518,309	3,353,453	-
Furnitures & Fixtures	244,889	-	-	244,889	-
Construction-in-Progress	-	-	4,258,538	4,258,538	-
Less: accumulated depreciation	<u>(16,848,973)</u>	<u>(2,531,428)</u>	<u>(12,361,119)</u>	<u>(31,741,520)</u>	<u>-</u>
Capital assets, net	<u>23,574,095</u>	<u>4,944,040</u>	<u>15,455,282</u>	<u>43,973,417</u>	<u>-</u>
Total noncurrent assets	<u>23,852,824</u>	<u>4,944,040</u>	<u>15,657,883</u>	<u>44,454,747</u>	<u>-</u>
Total assets	<u>29,674,948</u>	<u>5,340,500</u>	<u>21,834,687</u>	<u>56,850,135</u>	<u>361,459</u>

CITY OF MINERAL WELLS, TEXAS
Statement of Net Assets
Proprietary Funds
September 30, 2011

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
LIABILITIES:					
Current Liabilities:					
Accounts payable	132,292	31,516	-	163,808	-
Wages and Fringe Benefits Payable	71,535	4,859	-	76,394	-
Retainage Payable	-	-	-	-	-
Compensated absences payable	26,624	2,222	-	28,846	-
Due to other funds	27,919	-	-	27,919	-
Deferred Revenue	-	-	89,375	89,375	-
Customer Deposits	222,671	-	-	222,671	-
Current Liabilities Payable from Restricted Assets:					
Current portion of Bonds	996,860	-	955,000	1,951,860	-
Current portion of Capital Lease Payable	-	38,754	-	38,754	-
Interest payable	13,967	-	139,045	153,012	-
Total current liabilities	1,491,868	77,351	1,183,420	2,752,639	-
Noncurrent Liabilities:					
Long-term Liabilities (Net of Current Portion)					
Bonds (Net of Current portion)	2,268,140	-	11,160,000	13,428,140	-
Capital Lease Payable (Net of current portion)	-	314,121	-	314,121	-
Bond Premium	84,411	-	2,719	87,130	-
Total noncurrent liabilities	2,352,551	314,121	11,162,719	13,829,391	-
Total liabilities	3,844,419	391,472	12,346,139	16,582,030	-
NET ASSETS:					
Investment in capital assets, net of debt	20,224,683	4,591,165	5,149,267	29,965,115	-
Restricted for debt service (Expendable)	-	-	1,768,100	1,768,100	-
Unrestricted	5,605,846	357,863	2,571,181	8,534,890	361,459
Total net assets	\$ 25,830,529	\$ 4,949,028	\$ 9,488,548	\$ 40,268,105	\$ 361,459

CITY OF MINERAL WELLS, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the year ended September 30, 2011

	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	\$ 5,900,634	\$ -	\$ 2,116,946	\$ 8,017,580	\$ -
Connections	21,325	-	-	21,325	-
Sewer Revenues	3,033,232	-	-	3,033,232	-
Gasoline and Oil	-	967,243	-	967,243	-
Rentals	-	245,310	-	245,310	-
Intergovernmental Revenue		566		566	
Miscellaneous Revenues	252,932	10,181	1,375	264,488	-
Other Services		-	-	-	1,304,804
Total operating revenue	<u>9,208,123</u>	<u>1,223,300</u>	<u>2,118,321</u>	<u>12,549,744</u>	<u>1,304,804</u>
Operating expenses:					
Public Works Administration	2,187,608	-	139,457	2,327,065	-
Water Distribution	1,031,092	-	-	1,031,092	-
Hilltop Water Treatment	1,433,420	-	-	1,433,420	-
Wastewater Treatment	1,134,230	-	-	1,134,230	-
Facility Maintenance	364,114	-	-	364,114	-
City Utility Service	497,325	-	-	497,325	-
Airport Operations	-	1,020,916	-	1,020,916	-
Self-Insurance	-	-	-	-	1,307,048
Depreciation	808,349	264,509	458,183	1,531,041	-
Total operating expenses	<u>7,456,138</u>	<u>1,285,425</u>	<u>597,640</u>	<u>9,339,203</u>	<u>1,307,048</u>
Operating income	<u>1,751,985</u>	<u>(62,125)</u>	<u>1,520,681</u>	<u>3,210,541</u>	<u>(2,244)</u>
Nonoperating revenues (expenses):					
Interest Earned	3,973	141	7,191	11,305	423
Oil & Gas Leases		2,667		2,667	-
Interest on Capital Leases		(22,642)	-	(22,642)	-
Interest on Revenue Bonds	(128,794)	-	(464,418)	(593,212)	-
Total nonoperating revenues (expenses)	<u>(124,821)</u>	<u>(19,834)</u>	<u>(457,227)</u>	<u>(601,882)</u>	<u>423</u>
Income before contributions and transfers	<u>1,627,164</u>	<u>(81,959)</u>	<u>1,063,454</u>	<u>2,608,659</u>	<u>(1,821)</u>
Contributions and transfers (to) from other funds:					
Capital Grants & Contributions	165,048		761,338	926,386	
Capital Contribution Expense	(137,917)			(137,917)	
Transfers Out	(217,872)	(8,000)	-	(225,872)	-
Change in Net Assets	1,436,423	(89,959)	1,824,792	3,171,256	(1,821)
Prior Period Adjustment			2,437,121	2,437,121	
Net Assets, October 1, 2010	<u>24,394,106</u>	<u>5,038,987</u>	<u>5,226,635</u>	<u>34,659,728</u>	<u>363,280</u>
Net Assets, September 30, 2011	<u>\$ 25,830,529</u>	<u>\$ 4,949,028</u>	<u>\$ 9,488,548</u>	<u>\$ 40,268,105</u>	<u>\$ 361,459</u>

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

CITY OF MINERAL WELLS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the year ended September 30, 2011

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Airport Operations	Palo Pinto County Municipal Water District No. 1	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 8,960,197	\$ 1,155,735	\$ 2,117,538	\$ 12,233,470	\$ -
Cash received for interfund services provided				-	1,304,804
Cash paid to suppliers	(4,992,458)	(874,332)	(139,457)	(6,006,247)	(1,329,791)
Cash paid to employees	(1,779,064)	(137,661)	-	(1,916,725)	-
Net cash provided by operating activities	<u>2,188,675</u>	<u>143,742</u>	<u>1,978,081</u>	<u>4,310,498</u>	<u>(24,987)</u>
Cash flow from noncapital financing activities:					
Transfers out	(217,872)	(8,000)		(225,872)	-
Net cash provided (used) by noncapital financing activities	<u>(217,872)</u>	<u>(8,000)</u>	<u>-</u>	<u>(225,872)</u>	<u>-</u>
Cash flow from capital and related financing activities:					
Capital expenditures	(207,809)	-	(1,277,169)	(1,484,978)	-
Capital grants received	165,048		389,704	554,752	
Principal payments on long-term debt	(1,065,000)	(36,701)	(920,000)	(2,021,701)	-
Payment to refunded bond escrow agent	(72,723)			(72,723)	
Interest paid on long-term debt	(91,235)	(22,642)	(450,606)	(564,483)	-
Net cash (used) by capital and related financing activities	<u>(1,271,719)</u>	<u>(59,343)</u>	<u>(2,258,071)</u>	<u>(3,589,133)</u>	<u>-</u>
Cash flow from investing activities:					
Interest received	3,973	141	10,033	14,147	423
Income from oil and gas leases		2,667		2,667	
Net cash provided by investing activities	<u>3,973</u>	<u>2,808</u>	<u>10,033</u>	<u>16,814</u>	<u>423</u>
Net increase (decrease) in cash and cash equivalents	703,057	79,207	(269,957)	512,307	(24,564)
Cash and cash equivalents, September 30, 2010	<u>3,682,941</u>	<u>167,952</u>	<u>5,542,641</u>	<u>9,393,534</u>	<u>386,023</u>
Cash and cash equivalents, September 30, 2011	<u>\$ 4,385,998</u>	<u>\$ 247,159</u>	<u>\$ 5,272,684</u>	<u>\$ 9,905,841</u>	<u>\$ 361,459</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 1,751,985	\$ (62,125)	\$ 1,520,681	\$ 3,210,541	\$ (2,244)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	808,349	264,509	458,183	1,531,041	
(Increase) decrease in accounts receivable	(310,628)	(67,565)	(783)	(378,976)	
(Increase) decrease in miscellaneous receivables	(326)		-	(326)	
(Increase) decrease in supplies inventory	(12,575)	(20,590)	-	(33,165)	
(Increase) decrease in due from other funds	-	(1,250)	-	(1,250)	
Increase (decrease) in accounts payable	(104,565)	29,934	-	(74,631)	(22,743)
Increase (decrease) in wages and fringe benefits payable	(8,201)	(120)	-	(8,321)	
Increase (decrease) in retainage payable	(25,613)			(25,613)	
Increase (decrease) in compensated absences payable	(698)	949	-	251	
Increase (decrease) in due to other funds	27,919	-	-	27,919	
Increase (decrease) in customer meter deposits	63,028	-	-	63,028	
Total adjustments	<u>436,690</u>	<u>205,867</u>	<u>457,400</u>	<u>1,099,957</u>	<u>(22,743)</u>
Net cash provided by operating activities	<u>\$ 2,188,675</u>	<u>\$ 143,742</u>	<u>\$ 1,978,081</u>	<u>\$ 4,310,498</u>	<u>\$ (24,987)</u>

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

EXHIBIT E-1

CITY OF MINERAL WELLS, TEXAS
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2011

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

Blended Component Unit.

The Palo Pinto County Municipal Water District No. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, due to the financial accountability of the City of Mineral Wells for the District, and because the District provides services almost entirely for the benefit of the City of Mineral Wells. Approximately 79% of the District's water sales were to the City of Mineral Wells. The City has reported in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2011, in a blended format.

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

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

B. Government-wide and Fund Financial Statements

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

The government applies all GASB pronouncements as well as FASB Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its government-wide and proprietary fund financial statements, unless those FASB Statements and Interpretations conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector guidance.

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, including restricted assets. Amounts invested in Tex-Pool and TexStar public investment pools are considered cash and cash equivalents. 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	Total
Cash and cash equivalents	\$ 355,218	\$ 86,874	\$ 330,361	\$ 772,453
Investments	4,030,780	160,285	3,035,178	7,226,243
Restricted Investments	-		1,907,145	1,907,145
Total cash and cash equivalents	<u>\$ 4,385,998</u>	<u>\$ 247,159</u>	<u>\$ 5,272,684</u>	<u>\$ 9,905,841</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 \$23,446. The property tax receivable allowance is based upon historical experience and is equal to 70% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$121,587 in the general fund and \$33,834 in the debt service fund.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

5. *Capital Assets*

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the enterprise funds during the current fiscal year was \$615,854. 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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. *Restricted Assets*

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

7. *Compensated Absences*

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

8. *Long-term Obligations*

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

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

9. *Fund Balance – Governmental Fund*

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

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

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	\$ 18,953	\$ -	\$ -	\$ 18,953
Woodland Park Permanent Fund			473,669	473,669
Restricted:				
Debt Service		170,667		170,667
Police			9,541	9,541
TIF Zone #2			21,031	21,031
Economic Development			57,002	57,002
Woodland Park Cemetery			251	251
Assigned				
Subsequent year budget deficit	855,000			855,000
Unassigned	3,868,258			3,868,258
	<u>\$ 4,742,211</u>	<u>\$ 170,667</u>	<u>\$ 561,494</u>	<u>\$ 5,474,372</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 42% of expenditures.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. *Net Assets*

Net assets represent the difference between assets and liabilities. Net assets 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 assets 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 assets of the governmental activities reported in the government-wide financial statements.

Restricted Fund Balance (Exhibit C-1)	\$ 258,492
Adjustments	
Accrued interest payable restricted for debt service	(13,291)
Deferred property tax revenue restricted for debt service	14,500
Deferred property tax revenue restricted for TIF Zone #2	26,191
Total adjustments	<u>27,400</u>
Restricted Net Assets (Exhibit A-1)	<u>\$ 285,892</u>

11. *Use of Estimates*

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

NOTE 2: DEPOSITS AND INVESTMENTS

A. *Deposits*

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's funds are required to be deposited and invested under the terms of a depository contract. At September 30, 2011, 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, 2011

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

B. Investments

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

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

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

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

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

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexStar was created in April 2002 by contract among its participating government units and it is governed by a Board of Directors (the "Board"). JPMorgan Fleming Asset Management (USA), Inc. (JPMFAM) and First Southwest Asset Management, Inc. (FSAM) act as co-administrators, providing investment management services, and participant services and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Inc., provides custodial, transfer agency, fund account and depository services. TexSTAR is operated in full compliance with the Texas Public Funds Investment Act.

Credit Risk— Investments

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk – Investments

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

The City's investments at September 30, 2011 included the following:

<u>Investment</u>	<u>Credit Rating</u>	<u>Average Maturities</u>	<u>Percentage of Total Investments</u>	<u>Cost</u>	<u>Fair Value</u>
City of Mineral Wells					
Tex-Pool	AAAm	83 days	11.83%	\$ 1,664,004	\$ 1,664,004
TexSTAR Pool	AAAm	46 days	53.04%	7,461,924	7,461,924
				<u>9,125,928</u>	<u>9,125,928</u>
Component Unit					
TexSTAR Pool	AAAm	46 days	35.13%	<u>4,941,828</u>	<u>4,942,323</u>
Total Investments			100.00%	<u>\$ 14,067,756</u>	<u>\$ 14,068,251</u>

NOTE 3: DEFERRED REVENUE

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

	<u>Governmental Funds</u>			<u>Enterprise Fund</u>	
				<u>Total</u>	
	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Governmental Funds</u>	<u>PPCMWD No. 1</u>
Deferred property taxes receivable	\$ 52,109	\$ 14,500	\$ 26,191	\$ 92,800	\$ -
Deferred franchise taxes receivable	115,858			115,858	
Deferred EMS receivable	45,750			45,750	
Deferred Cemetery receivable	46,025			46,025	
Deferred municipal court receivable	40,576			40,576	
Deferred leases receivable		1,940,207		1,940,207	
Unearned water sales		-		-	89,375
Total deferred revenue	<u>\$ 300,318</u>	<u>\$ 1,954,707</u>	<u>\$ 26,191</u>	<u>\$ 2,281,216</u>	<u>\$ 89,375</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Non - Depreciable Assets:				
Land	\$ 2,055,146	\$ -	\$ -	\$ 2,055,146
Construction in Progress	96,265	81,468	-	177,733
Total non-depreciable assets	2,151,411	81,468	-	2,232,879
Depreciable Assets:				
Buildings and improvements	4,419,695	-		4,419,695
Improvements other than buildings	1,798,308	-		1,798,308
Infrastructure	51,441,397	-		51,441,397
Equipment and vehicles	4,617,017	228,417	(39,906)	4,805,528
Furniture and fixtures	347,935	163,640		511,575
Total capital assets being depreciated	62,624,352	392,057	(39,906)	62,976,503
Accumulated Depreciation:				
Buildings and improvements	(1,436,356)	(89,558)		(1,525,914)
Improvements other than buildings	(967,059)	(96,320)		(1,063,379)
Infrastructure	(23,366,743)	(1,340,731)		(24,707,474)
Equipment and vehicles	(3,904,684)	(247,262)	39,906	(4,112,040)
Furniture and fixtures	(316,589)	(44,710)		(361,299)
Total accumulated depreciation	(29,991,431)	(1,818,581)	39,906	(31,770,106)
Governmental activities capital assets, net	\$ 34,784,332	\$ (1,345,056)	\$ -	\$ 33,439,276

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

Governmental activities:	
Administrative	\$ 7,064
Finance	1,265
Fleet Maintenance	1,459
Police	84,871
Fire & Emergency Medical Services	100,367
Inspections	4,214
Streets, including infrastructure	1,448,754
Parks & Recreation	156,558
Cemetery	6,371
Library	7,658
Total depreciation expense - governmental activities	<u>\$ 1,818,581</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 4: CAPITAL ASSETS - (Continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	\$ 2,506,789	\$ -	\$ -	\$ 37,448	\$ 2,544,237
Construction in Progress	2,704,623	1,405,678	(422,483)	570,720	4,258,538
Total non-depreciable assets	5,211,412	1,405,678	(422,483)	608,168	6,802,775
Depreciable Assets:					
Buildings and improvements	4,544,284	-	-	(1,238,958)	3,305,326
Improvements other than buildings	15,500,453	-	-	(10,612)	15,489,841
Infrastructure	5,043,980	-	-	-	5,043,980
Distribution System	34,336,449	501,783	-	333,004	35,171,236
Collection System	6,303,437	-	-	-	6,303,437
Equipment and Vehicles	2,893,748	-	-	459,705	3,353,453
Furniture and Fixtures	244,889	-	-	-	244,889
Total capital assets being depreciated	68,867,240	501,783	-	(456,861)	68,912,162
Accumulated Depreciation:					
Buildings and improvements	(2,725,268)	(67,614)	-	1,181,657	(1,611,225)
Improvements other than buildings	(5,429,954)	(310,507)	-	(94,181)	(5,834,642)
Infrastructure	(1,389,720)	(220,693)	-	-	(1,610,413)
Distribution System	(17,096,370)	(662,750)	-	1,434,204	(16,324,916)
Collection System	(2,954,443)	(124,487)	-	-	(3,078,930)
Equipment and Vehicles	(2,616,301)	(137,697)	-	(306,346)	(3,060,344)
Furniture and Fixtures	(213,757)	(7,293)	-	-	(221,050)
Total accumulated depreciation	(32,425,813)	(1,531,041)	-	2,215,334	(31,741,520)
Business-type activities capital assets, net	\$ 41,652,839	\$ 376,420	\$ (422,483)	\$ 2,366,641	\$ 43,973,417

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

Business-type activities:	
Water and Sewer	\$ 808,349
Airport	264,509
PPCMWD No. 1	458,183
Total depreciation expense - business-type activities	<u>\$ 1,531,041</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 5: INTERFUND TRANSFERS

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2011, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service Fund	Water and Sewer	\$ 27,919
Nonmajor governmental funds	General Fund	9,755
Total Governmental Funds		\$ <u>37,674</u>
Airport Operations	Debt Service Fund	\$ 1,250
Total Proprietary Funds		\$ <u>1,250</u>

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2011, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,751
	Water and Sewer	200,000
	Airport Operations	8,000
Debt Service Fund	Water and Sewer	17,872
Total Governmental Funds Transfers In		\$ <u>227,623</u>

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

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.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 6: LEASES – (Continued)

B. Capital Leases - Lessee

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

	Business-type Activities
2012	\$ 59,341
2013	50,947
2014	42,550
2015	42,550
2016	42,549
2017-2021	202,954
2022-2023	34,437
Total debt service requirements	475,328
Less: Interest Portion	122,453
Debt Principal	<u>\$ 352,875</u>

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

Assets under lease and related accumulated depreciation are as follows:

	Business-type Activities
Buildings	\$ 660,250
Less: Accumulated depreciation	(97,708)
Net	<u>\$ 562,542</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 are 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. This refunding reduced principal and interest payments over the life of the bonds by \$150,035 and resulted in a net present value savings (economic gain) of \$154,550.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 7: LONG-TERM LIABILITIES - (continued)

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
2012	\$ 638,140	\$ 47,235	\$ 685,375	\$ 996,860	\$ 73,790	\$ 1,070,650
2013	569,823	32,306	602,129	890,177	50,469	940,646
2014	540,551	17,002	557,553	844,449	26,561	871,010
2015	257,591	6,381	263,972	402,409	9,969	412,378
2016	83,895	1,259	85,154	131,105	1,966	133,071
<hr/>						
Total	\$ 2,090,000	\$ 104,183	\$ 2,194,183	\$ 3,265,000	\$ 162,755	\$ 3,427,755

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
2012	\$	70,000	\$	11,283	\$ 81,283
2013		75,000		7,275	82,275
2014		75,000		5,588	80,588
2015		75,000		3,525	78,525
2016		80,000		1,200	81,200
Total	\$	375,000	\$	28,871	\$ 403,871

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

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>
2012	\$ 162,500
2013	162,500
2014	162,500
2015	162,500
2016	162,500
2017-2021	628,333
2022-2026	389,272
2027-2031	<u>110,102</u>
Total	<u>\$ 1,940,207</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

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 funds. At year end the following revenue bonds were outstanding:

\$5,370,000; Palo Pinto County Muni Water District #1 Revenue Refunding Bonds Series 2001 - due in annual installments at 3.00% to 4.50% to 6/1/2016	2,205,000
\$6,645,000; Palo Pinto County Muni Water District #1 Revenue Bonds - Series 2002 due in annual installments at 4.00% to 5.25% to 6/1/2023	4,785,000
\$2,400,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009A - due in annual installments at 0% to 6/1/2029.	2,160,000
\$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.	2,965,000
	<hr/>
Total Palo Pinto Municipal Water District No. 1	12,115,000
	<hr/>
Total Revenue Bonds	<u><u>\$ 12,115,000</u></u>

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

Business-type Activities			
	Principal	Interest	Total
	<hr/>	<hr/>	<hr/>
2012	\$ 955,000	\$ 417,141	\$ 1,372,141
2013	995,000	384,933	1,379,933
2014	1,040,000	350,294	1,390,294
2015	1,080,000	312,583	1,392,583
2016	1,125,000	272,331	1,397,331
2017-2021	3,520,000	900,864	4,420,864
2022-2026	2,580,000	266,546	2,846,546
2027-2031	820,000	25,463	845,463
	<hr/>	<hr/>	<hr/>
Total	\$ <u>12,115,000</u>	\$ <u>2,930,155</u>	\$ <u>15,045,155</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

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 resolutions require a "Reserve Fund" of \$830,464 to be maintained. If the balance falls below this threshold, the District is required to deposit \$16,524 monthly to replenish the fund or the District can issue a reserve fund obligation. The District purchased two surety bonds to comply with the reserve fund requirement. The ordinance has a provision where the District has to fund the reserve in cash within 6 months if the credit rating of the issuer of the surety bond falls below the highest available rating. The issuer's credit rating has been downgraded and the District has funded the reserve in cash. The balance in the reserve at September 30, 2011 was \$830,464.

The provisions of the bond ordinance require a "Contingency Fund" of \$200,000 to be maintained. Monthly deposits of \$3,334 are required to be made when the "Contingency Fund" falls below the required balance. At September 30, 2011, the "Contingency Fund" had a balance of \$200,000.

The provisions of the bond ordinance resolutions require a "Reserve Fund" be established for the newly issued bonds by the District depositing \$5,877 on the 25th of each month beginning July 25, 2009 and continuing each subsequent month until a balance of \$352,626 is obtained. The District is in compliance with requirements. As September 30, 2011, the District had \$352,626 in the fund.

The provisions of the District's bond ordinance resolutions require a "Contingency Fund" of \$50,000 be established and maintained. Monthly deposits of \$417 are required to be made when the contingency fund falls below the required balance. The District is in compliance with requirements. At September 30, 2011, the "Contingency Fund" had a balance of \$50,000.

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

	<u>Investments</u>
PPCMWD No. 1	
Interest and Sinking Funds	\$ 474,055
Contingency Funds	250,000
Reserve Funds	<u>1,183,090</u>
Total PPCMWD No. 1	<u>1,907,145</u>
 Total Business-type activities	 <u><u>\$ 1,907,145</u></u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 7: LONG-TERM LIABILITIES - (continued)

F. Changes in Long-term Liabilities

The following is a summary of long-term liability transactions of the city for the year ended September 30, 2011.

	<u>9/30/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/2011</u>	<u>Due Within One Year</u>
Governmental Activities.:					
General Obligation Bonds	\$ 2,600,000	\$ 2,090,000	\$ 2,600,000	\$ 2,090,000	\$ 638,140
Tax Note		375,000		375,000	70,000
Bond Premiums		65,471	4,365	61,106	-
Special Assessment Debt	1,984,462	115,000	159,255	1,940,207	162,500
Compensated Absences Payable	47,027	53,113	47,027	53,113	53,113
Total Governmental Activities	<u>4,631,489</u>	<u>2,698,584</u>	<u>2,810,647</u>	<u>4,519,426</u>	<u>923,753</u>
Business-type Activities:					
General Obligation Bonds		3,265,000		3,265,000	996,860
Revenue Bonds	17,365,000	-	5,250,000	12,115,000	955,000
Bond Premium	3,170	90,440	6,480	87,130	-
Capital Leases	389,575		36,700	352,875	38,754
Compensated Absences Payable	28,595	28,846	28,595	28,846	28,846
Total Business-type Activities	<u>17,786,340</u>	<u>3,384,286</u>	<u>5,321,775</u>	<u>15,848,851</u>	<u>2,019,460</u>
Total Long-Term Debt	<u>\$ 22,417,829</u>	<u>\$ 6,082,870</u>	<u>\$ 8,132,422</u>	<u>\$ 20,368,277</u>	<u>\$ 2,943,213</u>

The compensated absences payable were earned in the funds as follows: general fund \$53,113, 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.

In 1996 the Development Corporation authorized the issuance of \$7.2 million in Industrial Development Bonds for the benefit of a manufacturing entity. Subject to the terms of a loan agreement, the manufacturing entity is responsible for the repayment of the debt. The City of Mineral Wells has no obligation to repay the debt issued by the Corporation. The balance of the bonds outstanding at September 30, 2011 was \$7.2 million however December 21, 2011, the bonds were called for full redemption by the manufacturing entity

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 9: RISK MANAGEMENT

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

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

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

NOTE 10: EMPLOYEE RETIREMENT PLAN

Plan Description

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

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

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

	Plan Year 2010	Plan Year 2011
Employee Deposit Rate	5%	5%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 10: EMPLOYEE RETIREMENT PLAN (Continued)

Contributions

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

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

Fiscal Year	2011	2010	2009
Annual required contribution (ARC)	\$ 777,825	\$ 768,322	\$ 665,356
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Total annual pension cost	777,825	768,322	665,356
Contributions Made	777,825	768,322	665,356
Increase (decrease) in Net Pension Obligation	-	-	-
Net Pension Obligation/(Asset), beginning of year	-	-	-
Net Pension Obligation/(Asset), end of year	\$ -	\$ -	\$ -

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

General System-wide Actuarial Assumptions

	12/31/2008	12/31/2009	12/31/10-prior to restructuring	12/31/2010 restructured
Actuarial Valuation Date	12/31/2008	12/31/2009	12/31/10-prior to restructuring	12/31/2010 restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	29 Years-Closed	28.1 Years-Closed	26.9 Years-Closed	26.8 Years-Closed
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year smoothed	10-year smoothed	10-year smoothed
Actuarial Assumptions:				
Investment Rate of Return	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases	varies by age and service	varies by age and service	varies by age and service	varies by age and service
Includes Inflation At	3.0%	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.10%	2.10%	2.10%	2.10%

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 10: EMPLOYEE RETIREMENT PLAN (Continued)

Funded Status and Funding Progress

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS Funds. The legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

		(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date		Actuarial Value of Plan Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	(UAAL) Unfunded Actuarial Accrued Liability (2)-(1)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
12/31/10	1	12,109,948	16,700,747	72.51%	4,590,799	6,521,882	70.39%
12/31/10	2	19,745,779	22,908,869	86.19%	3,163,090	6,521,882	48.50%

1 Actuarial valuation performed under the original fund structure.

2 Actuarial valuation performed under the new fund structure.

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

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

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 2010, 2009 and 2008 were \$3,218, \$3,417, and \$3,780, respectively, which equaled the required contributions each year.

NOTE 12: VOLUNTEER FIRE FIGHTER'S RETIREMENT FUND

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement Systems (TESRS), a cost-sharing multiple employer pension systems established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2010, there was 199 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,167
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,106
Active Participants (Vested and Nonvested)	<u>4,371</u>
	8,644

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

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

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

Funding Policy

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

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010 total contributions (dues and prior service) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were greater than the contributions required by the state statute and were greater than the contributions required based on the August 31, 2008 actuarial valuation. The City's contributions for the years ended September 30, 2011 and 2010 were \$25,948 and \$34,812 respectively.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010 revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010 (\$502,941 to help pay for the System's administrative expenses) and with the assumed continuation of legislative appropriations of (1) the maximum state contribution amount in future years as is necessary for the System to have a 30-year amortization period, and (2) approximately \$500,000 each year to help pay for the System's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

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.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2011

NOTE 14: CONTRACTS AND COMMITMENTS

A. Turkey Peak Project

In June 2009, the Palo Pinto County Municipal Water District No. 1 received a \$2,400,000 grant from the Texas Water Development Board's Economically Distressed Areas Program and issued \$5,600,000 in revenue bonds for the Lake Palo Pinto Storage Restoration Project ("Turkey Peak Project"). The total amount budgeted for the project is \$8,000,000. As of September 30, 2011, expenditures for the project totaled \$4,193,820 with a remaining budget of \$3,806,180.

NOTE 15: NEW PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, Financial Reporting Entity: Omnibus – an amendment to GASB Statements No. 14 and No. 34. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. The provisions of the Statement are effective for financial statement periods beginning after June 15, 2012. The City has not yet determined the effect this Statement will have on its financial statements.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides guidance for deferred outflows of resources and deferred inflows of resources as introduced and defined in Concepts Statement No. 4, Elements of Financial Statements. Concepts No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. The provisions of this Statement are effective for financial statements for periods beginning after December 31, 2011. The City has not yet determined the effect this Statement will have on its financial statements.

NOTE 16: PRIOR PERIOD ADJUSTMENTS

During the current year, the Palo Pinto County Municipal Water District No. 1 evaluated its capital asset schedule and it was determined that certain capital assets were not being reported in the correct category and were being depreciated with inconsistent useful lives. After research, the original historical cost of certain assets was reduced and expenditures related to the Turkey Peak project that were previously expensed have now been capitalized. This resulted in an increase to capital asset balances of \$227,306, a decrease in accumulated depreciation balances of \$2,209,815, and an increase in the beginning net assets of the Enterprise Fund of \$2,437,121.

NOTE 17: EVALUATION OF SUBSEQUENT EVENTS

Subsequent events were evaluated through March 5, 2012, which is the date the financial statements were available to be issued.

September 16, 2011, the Board of Directors of the Palo Pinto County Municipal Water District No. 1 agreed to refund Revenue Refund Bonds – Series 2001 in the amount of \$2,205,000 and Revenue Bonds – Series 2002 in the amount of \$4,785,000 with Revenue Refund Bonds – Series 2011 in the amount of \$6,990,000. The expected delivery date of the refunded bonds is December 8, 2011.

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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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 2,300,000	\$ 2,300,000	\$ 2,553,399	253,399
Sales and use tax	3,520,000	3,520,000	3,402,034	(117,966)
Franchise	1,284,000	1,284,000	1,298,218	14,218
Licenses and Permits	87,000	87,000	65,885	(21,115)
Intergovernmental Revenue	317,892	317,892	434,567	116,675
Charges for service	665,000	665,000	816,703	151,703
Fines	250,000	250,000	217,975	(32,025)
Interest income	7,500	7,500	5,761	(1,739)
Cemetery	63,750	63,750	73,435	9,685
Miscellaneous revenues	22,000	22,000	51,156	29,156
Total revenues	<u>8,517,142</u>	<u>8,517,142</u>	<u>8,919,133</u>	<u>401,991</u>
Expenditures:				
Current				
Administrative	877,917	877,917	840,177	37,740
Finance	376,733	376,733	378,971	(2,238)
Fleet Maintenance	659,921	659,921	705,254	(45,333)
Police	2,301,433	2,301,433	2,488,881	(187,448)
Fire & Emergency Medical Services	1,844,123	1,844,123	1,334,773	509,350
Inspections	341,481	341,481	298,941	42,540
Information Technology	214,694	214,694	246,729	(32,035)
Streets	1,507,779	1,507,779	1,229,363	278,416
Sanitation	160,100	160,100	173,131	(13,031)
Parks & Recreation	820,932	820,932	801,572	19,360
Cemetery	394,341	394,341	349,843	44,498
Library	397,853	397,853	383,327	14,526
Debt Service:				
Principal	95,000	95,000		95,000
Interest and fiscal charges	12,000	12,000		12,000
Debt issuance costs			32,019	(32,019)
Total expenditures	<u>10,004,307</u>	<u>10,004,307</u>	<u>9,262,981</u>	<u>741,326</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(1,487,165)</u>	\$ <u>(1,487,165)</u>	\$ <u>(343,848)</u>	<u>1,143,317</u>
Other financing sources (uses):				
Transfers in	209,500	209,500	209,751	251
Proceeds of tax notes	600,000	600,000	375,000	(225,000)
Premium on bonds		-	7,014	7,014
Net change in fund balances	(677,665)	(677,665)	247,917	925,582
Fund balance, October 1, 2010	<u>4,494,294</u>	<u>4,494,294</u>	<u>4,494,294</u>	<u>-</u>
Fund balance, September 30, 2011	\$ <u><u>3,816,629</u></u>	\$ <u><u>3,816,629</u></u>	\$ <u><u>4,742,211</u></u>	<u><u>925,582</u></u>

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

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

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	(UAAL) Unfunded Actuarial Accrued Liability (2)-(1)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(5)
12/31/08	10,287,692	14,840,642	69.32%	4,552,950	6,332,772	71.90%
12/31/09	11,296,570	16,189,980	69.78%	4,893,410	6,864,469	71.29%
12/31/10 ¹	12,109,948	16,700,747	72.51%	4,590,799	6,521,882	70.39%
12/31/10 ²	19,745,779	22,908,869	86.19%	3,163,090	6,521,882	48.50%

¹ Actuarial valuation performed under the original fund structure.

² Actuarial valuation performed under the new fund structure.

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

City of Mineral Wells, Texas
Texas Emergency Services Retirement System
Statewide Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ¹ (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/2006	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8061	\$ 1,962
8/31/2008 ²	60,987,157	64,227,341	3,240,184	95.0%	8254	393
8/31/2010 ³	64,113,803	81,264,230	17,150,427	78.9%	8644	1,984

Notes:

¹The actuarial accrued liability is based upon the entry age actuarial cost method.²Changes in actuarial assumptions were reflected in this valuation.³Changes in actuarial assumption and method were reflected in this valuation.

Schedule of Employer Contributions

Fiscal Year Endin August 31,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2005	3,206,300 ¹	\$ 1,606,759 ⁵	50%
2006	2,753,035 ²	2,753,035 ⁶	100%
2007	3,162,742 ³	3,162,742 ⁷	100%
2008	3,160,764 ⁴	11,239,339 ⁸	356%
2009	2,698,271 ⁴	2,698,271	100%
2010	2,875,103 ⁴	2,875,103	100%

Notes:

¹ Based on the original August 31, 2004 actuarial valuation.² Based on the revised August 31, 2004 actuarial valuation.³ Based on the August 31, 2006 actuarial valuation.⁴ Based on the August 31, 2008 actuarial valuation.⁵ A change in billing procedures resulted in a one-time change in the timing of dues contributions, resulting in an atypical amount of dues contributions for this fiscal year.⁶ Includes a state contribution of \$675,307⁷ Includes a state contribution of \$709,072⁸ Includes a state contribution of \$8,800,000

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

City of Mineral Wells
Notes to the Required Supplementary Information
For the Year Ended September 30, 2011

Note 1: Budget

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

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

Total general fund expenditures were less than appropriations by \$741,326. The following general fund departments had expenditures in excess of appropriations.

<u>Department</u>	<u>Amount</u>	<u>Primary Cause</u>
Finance	\$ 2,238	Overtime
Fleet Maintenance	45,333	Fuel
Police	187,448	Equipment purchased with grant
Information technology	32,035	Hardware/software
Sanitation	13,031	Sanitation services
Debt issuance costs	32,019	Cost to issue tax notes

Note 2: Texas Emergency Services Retirement System

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

City of Mineral Wells
Notes to the Required Supplementary Information
For the Year Ended September 30, 2011

Note 2: Texas Emergency Services Retirement System (continued)

Actuarial Valuation Date	August 31, 2010
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar, open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial assumptions:	
Investment Rate of Return	7.75% per year, net of investment expenses
Projected Salary Increases	N/A
Includes Inflation At	3.50%
Cost of Living Adjustments	None

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COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS

CITY OF MINERAL WELLS, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2011

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Expendable Trust Fund	Total Special Revenue Funds
Assets:					
Cash	\$ -	\$ 9,541	\$ 11,276	\$ 7,500	\$ 28,317
Investments				49,502	49,502
Due from other funds			9,755	-	9,755
Taxes receivable			26,191	-	26,191
Total assets	\$ -	\$ 9,541	\$ 47,222	\$ 57,002	\$ 113,765
Liabilities and fund balance:					
Liabilities:					
Deferred tax revenue	\$ -	\$ -	26,191	\$ -	\$ 26,191
Total liabilities	-	-	26,191	-	26,191
Fund Balance:					
Nonspendable					-
Restricted		9,541	21,031	57,002	87,574
Total fund balance	-	9,541	21,031	57,002	87,574
Total liabilities and fund balances	\$ -	\$ 9,541	\$ 47,222	\$ 57,002	\$ 113,765

EXHIBIT G-1

<u>Capital Projects Texas Capital Fund</u>	<u>Permanent Fund Woodland Park</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ 26,860	\$ 55,177
	447,060	496,562
	-	9,755
	-	26,191
<u>\$ -</u>	<u>\$ 473,920</u>	<u>\$ 587,685</u>
\$ -	\$ -	\$ 26,191
-	-	26,191
	473,669	473,669
	251	87,825
-	473,920	561,494
<u>\$ -</u>	<u>\$ 473,920</u>	<u>\$ 587,685</u>

CITY OF MINERAL WELLS, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the fiscal year ended September 30, 2011

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Expendable Trust Fund	Total Special Revenue Funds
Revenues:					
Property taxes	\$ -	\$ -	\$ 16,014	\$ -	\$ 16,014
Occupancy taxes	192,672	-	-	-	192,672
Intergovernmental revenue	-	-	-	-	-
Interest	-	-	-	72	72
Cemetery	-	-	-	-	-
Miscellaneous revenues	-	13,314	-	-	13,314
					-
Total revenue	192,672	13,314	16,014	72	222,072
Expenditures:					
Current:					
Police	-	7,617	-	-	7,617
Economic Development	-	-	-	20,000	20,000
Hotel/Motel Occupancy	191,709	-	-	-	191,709
					-
Total expenditures	191,709	7,617	-	20,000	219,326
Excess (deficiency) of revenue over (under) expenditures	963	5,697	16,014	(19,928)	2,746
Other financing sources (uses):					
Transfers out	(963)	-	-	-	(963)
Net change in fund balances	-	5,697	16,014	(19,928)	1,783
Fund balance, October 1, 2010	-	3,844	5,017	76,930	85,791
Fund balance, September 30, 2011	\$ -	\$ 9,541	\$ 21,031	\$ 57,002	\$ 87,574

EXHIBIT G-2

<u>Capital Projects Texas Capital Fund</u>	<u>Permanent Fund Woodland Park</u>	<u>Total Nonmajor Funds</u>
\$ -	\$ -	\$ 16,014
-	-	192,672
149,500	-	149,500
	570	642
	9,609	9,609
		13,314
<u>149,500</u>	<u>10,179</u>	<u>381,751</u>
149,500	-	7,617
-	-	169,500
		191,709
<u>149,500</u>	<u>-</u>	<u>368,826</u>
-	10,179	12,925
-	(788)	(1,751)
-	9,391	11,174
-	464,529	550,320
<u>\$ -</u>	<u>\$ 473,920</u>	<u>\$ 561,494</u>

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**OVERALL COMPLIANCE AND INTERNAL CONTROL
SECTION**

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

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Mineral Wells (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 5, 2012 . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 5, 2012.

This report is intended solely for the information and use of management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

George Morgan Fred, P.C.

Weatherford, Texas
March 5, 2012