

CITY OF MINERAL WELLS, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2017**



GMS

CERTIFIED PUBLIC
ACCOUNTANTS

GEORGE | MORGAN | SNEED

CITY OF MINERAL WELLS, TEXAS
Annual Financial Report
For the Year Ended September 30, 2017

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, Texas, as of September 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9, budgetary comparison schedule - general fund, schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, Schedule of Contributions – Texas Municipal Retirement System, Schedule of the City's Proportionate Share of the Net Pension Liability – Texas Emergency Services Retirement System and Schedule of Contributions – Texas Emergency Services Retirement System on pages 51-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

George Morgan Sneed, P.C.

Weatherford, Texas

February 8, 2018

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Management's Discussion and Analysis

As management of the City of Mineral Wells ("City"), we offer readers of the City's financial statements this narrative overview of the financial activities for the fiscal year ended September 30, 2017.

Financial Highlights

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$81,701,391 (net position). Of this amount, \$8,969,614 (unrestricted net position) may be used to meet the City's ongoing obligations.

The City's total net position increased by \$1,239,927. The City's operations increased governmental activities by \$556,590 and increased the business-type activities by \$683,337.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$4,224,150. \$3,108,149 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 \$3,079,127 or 25 percent of total General Fund expenditures.

Overview of Financial Statements

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

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

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

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

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

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local

governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

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

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

The basic governmental financial statements can be found on pages 13 – 16 of this report.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer Operations, for Airport Operations, Drainage Utility 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 assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net position, while the net revenue (expenses) of the internal service fund is reported with governmental activities.

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the audited financial statements. The notes can be found on pages 21 – 50 of this report.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Mineral Wells, assets exceed liabilities by \$81,701,391 at September 30, 2017.

The largest portion of the City's net position (85 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.

\$3,390,811 of the City's net position represents resources that are subject to external restrictions on how they may be used. The \$8,969,614 balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. The following is a summary of the City's Statement of Net Position.

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 8,312,251	\$ 8,602,513	\$ 24,943,229	26,645,062	33,255,480	35,247,575
Capital Assets	28,810,845	28,104,313	48,553,478	47,434,500	77,364,323	75,538,813
Total Assets	\$ 37,123,096	\$ 36,706,826	\$ 73,496,707	\$ 74,079,562	\$ 110,619,803	\$ 110,786,388
Deferred Outflows of Resources	\$ 1,271,755	\$ 1,598,526	\$ 585,512	\$ 719,296	\$ 1,857,267	\$ 2,317,822
Long-Term Liabilities	\$ 5,356,553	\$ 5,708,584	\$ 23,552,317	24,629,375	28,908,870	30,337,959
Other Liabilities	497,049	537,671	888,833	1,185,222	1,385,882	1,722,893
Total Liabilities	\$ 5,853,602	\$ 6,246,255	\$ 24,441,150	\$ 25,814,597	\$ 30,294,752	\$ 32,060,852
Deferred Inflows of Resources	\$ 327,338	\$ 401,776	\$ 153,589	\$ 180,118	\$ 480,927	\$ 581,894
Net Position						
Capital Assets Net of Related Debt	\$ 28,650,655	\$ 28,104,313	\$ 40,690,311	40,176,112	69,340,966	68,280,425
Restricted	1,090,583	1,069,061	2,300,228	2,287,754	3,390,811	3,356,815
Unrestricted	2,472,673	2,483,947	6,496,941	6,340,277	8,969,614	8,824,224
Total Net Position	\$ 32,213,911	\$ 31,657,321	\$ 49,487,480	\$ 48,804,143	\$ 81,701,391	\$ 80,461,464

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

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

Changes in Net Position

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,401,910	\$ 1,375,755	\$ 11,949,621	\$ 11,810,942	\$ 13,351,531	\$ 13,186,697
Operating grants and contributions	256,816	333,852	-	-	256,816	333,852
Capital grants and contributions	228,826	50,000	29,623	340,060	258,449	390,060
General revenues:						
Property taxes	3,739,753	3,550,586	-	-	3,739,753	3,550,586
Other taxes	4,489,480	4,501,678	-	-	4,489,480	4,501,678
Other	1,315,445	348,489	826,099	101,441	2,141,544	449,930
Total revenues	11,432,230	10,160,360	12,805,343	12,252,443	24,237,573	22,412,803
Expenses:						
Administrative	1,975,540	2,043,464	-	-	1,975,540	2,043,464
Public safety	5,248,865	4,639,276	-	-	5,248,865	4,639,276
Highways/streets	1,865,860	2,405,576	-	-	1,865,860	2,405,576
Public works	1,038,553	1,031,544	-	-	1,038,553	1,031,544
Economic development	49,109	207,751	-	-	49,109	207,751
Culture and recreation	1,627,681	1,647,502	-	-	1,627,681	1,647,502
Interest on long-term debt	1,903	(6,670)	-	-	1,903	(6,670)
Water and sewer	-	-	8,684,490	8,231,125	8,684,490	8,231,125
Airport	-	-	1,113,831	942,545	1,113,831	942,545
PPCMWD No. 1	-	-	1,378,188	1,513,572	1,378,188	1,513,572
Drainage utility	-	-	13,626	-	13,626	-
Total expenses	11,807,511	11,968,443	11,190,135	10,687,242	22,997,646	22,655,685
Change in net position before transfers	(375,281)	(1,808,083)	1,615,208	1,565,201	1,239,927	(242,882)
Transfers	931,871	731,871	(931,871)	(731,871)	-	-
Change in net position	556,590	(1,076,212)	683,337	833,330	1,239,927	(242,882)
Net position - Beginning	31,657,321	32,733,533	48,804,143	47,970,813	80,461,464	80,704,346
Net position -Ending	\$ 32,213,911	\$ 31,657,321	\$ 49,487,480	\$ 48,804,143	\$ 81,701,391	\$ 80,461,464

Financial Analysis of the Government's Funds

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

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balances of the General Fund is \$3,079,127 while total fund balance reached \$3,304,696. 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 25 percent of total general fund expenditures, while total fund balance represents 27 percent of that same amount.

Other Items

The Debt Service Fund has a total fund balance of \$6,622 all of which is restricted for the payment of debt service.

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

Unrestricted net position at the end of the year for Water/Sewer Operations, Water District, and nonmajor Enterprise Funds are \$3,217,129, \$2,667,952 and \$262,845 respectively.

General Fund Budgetary Highlights

It is the practice of the City to budget very conservatively. Revenues in 2016-17 were 3 percent more than budgeted with property taxes and charges for service coming in at \$129,998 and \$110,526 more than budgeted. Actual expenses were 2 percent more than budgeted primarily due to roof replacement however insurance proceeds also exceeded the amount budgeted and covered the additional roof costs. While the City budgeted \$468,967 of appropriated fund balance the City's actual change in fund balance was an increase of \$16,939.

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, 2017 amounts to \$77,364,323 (net of depreciation). This investment in capital assets includes land, buildings, equipment, streets and water/sewer systems, airport runways, and improvements other than buildings.

The General Fund acquired police vehicles, a pumper fire truck, and an ambulance.

The Water and Sewer fund began construction of a 16" water line on MH 379.

The Airport acquired a tractor.

The City continued replacement of the City's roofs. \$1,787,435 was added to construction in progress during the year.

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

Long-Term Debt. At the end of the fiscal year, the City had total outstanding debt of \$25,176,736. Included in the City's long-term debt are capital leases in the amount of \$361,544 for police vehicles and airport T-hangars and tractor. \$2,331,703 of the long-term debt is in the form of loans from the Texas Capital Fund that were

used to acquire and/or rehabilitate facilities to attract and/or retain businesses. The remainder of the debt, \$22,483,489 represents Palo Pinto County Municipal Water District No. 1 revenue bonds. The Water District debt has an "A" rating from Standard and Poor's and "A+" from Fitch Ratings.

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

Economic Factors and Next Year's Budgets and Rates

The City of Mineral Wells had previously demonstrated sustained economic recovery from the 2008 recession, which resulted in various economic development and business/industry expansions. The most recent downturn in the petroleum industry has had some lingering effects on the City's economy. Nevertheless, local sales tax receipts that had been previously flat have now begun to recover. Accordingly, the City has been able to accumulate, retain, and prudently invest General Fund balances of more than \$2.7 million, providing stable financial reserves in excess of the reserve funds recommended by accepted governmental accounting standards. Ad valorem tax rates and collections have also modestly increased over the past few years.

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

Relative to the Water/Sewer Utility Fund, the City has continued funding the Turkey Peak Reservoir Project by maintaining a designated portion of the water rate. A comprehensive water/sewer rate study is also being undertaken to ensure proper future funding for the Turkey Peak Reservoir Project, as well as adequately supporting the associated water/sewer utility departments' needs.

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

Finally, the City has implemented a Drainage Utility to fund necessary improvements to the storm water collection system.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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CITY OF MINERAL WELLS, TEXAS
Statement of Net Position
September 30, 2017

	Primary Government			Component Unit Community Development Corporation
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 4,741,907	\$ 3,289,566	\$ 8,031,473	\$ 791,812
Investments	510,384	2,822,658	3,333,042	-
Receivables (Net of allowances for uncollectibles)				
Property taxes	130,479	-	130,479	-
Sales taxes	498,874	-	498,874	44,849
Franchise taxes	169,726	-	169,726	-
Accounts	287,226	1,060,715	1,347,941	-
Leases	2,331,703	-	2,331,703	-
Miscellaneous	24,800	28,898	53,698	-
Inventory	9,348	376,905	386,253	-
Prepaid items	20,000	25,400	45,400	-
Internal Balances	(412,196)	412,196	-	-
Restricted Assets, Cash and Investments:				
Cash and cash equivalents	-	14,423,880	14,423,880	-
Investments	-	2,503,011	2,503,011	-
Capital assets:				
Nondepreciable	2,360,693	14,624,531	16,985,224	-
Depreciable, net of accumulated depreciation	26,450,152	33,928,947	60,379,099	-
Total Assets	<u>37,123,096</u>	<u>73,496,707</u>	<u>110,619,803</u>	<u>836,661</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows related to pensions	1,271,755	585,512	1,857,267	-
Total Deferred Outflows of Resources	<u>1,271,755</u>	<u>585,512</u>	<u>1,857,267</u>	<u>-</u>
LIABILITIES:				
Accounts Payable	296,390	142,424	438,814	-
Wages and fringe benefits payable	173,673	69,880	243,553	-
Unearned revenue	-	161,485	161,485	-
Due to other governments	26,986	-	26,986	-
Current Liabilities Payable from Restricted Assets:				
Interest payable	-	202,783	202,783	-
Customer deposits	-	312,261	312,261	-
Noncurrent liabilities:				
Due within one year	476,147	1,155,417	1,631,564	-
Due in more than one year	4,880,406	22,396,900	27,277,306	-
Total Liabilities	<u>5,853,602</u>	<u>24,441,150</u>	<u>30,294,752</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows related to pensions	327,338	153,589	480,927	-
Total Deferred Inflows of Resources	<u>327,338</u>	<u>153,589</u>	<u>480,927</u>	<u>-</u>
NET POSITION:				
Investments in Capital Assets, Net of Debt	28,650,655	40,690,311	69,340,966	-
Restricted Net Position (Expendable)	563,092	2,300,228	2,863,320	-
Restricted Net Position (Nonexpendable)	527,491	-	527,491	-
Unrestricted Net Position	2,472,673	6,496,941	8,969,614	836,661
Total Net Position	<u>\$ 32,213,911</u>	<u>\$ 49,487,480</u>	<u>\$ 81,701,391</u>	<u>\$ 836,661</u>

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, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
Administrative	\$ 995,367	\$ 40,546	\$ -	\$ -
Finance	586,898	-	-	-
Fleet Maintenance	593,187	-	-	-
Police	3,077,390	314,094	142,115	-
Fire & Emergency Medical Services	1,771,216	729,089	52,201	190,477
Inspections	400,259	76,352	-	-
Information technology	393,275	-	-	-
Streets	1,865,860	-	-	-
Sanitation	146,189	55,004	-	-
Parks & Recreation	1,051,305	89,492	-	-
Cemetery	299,177	90,076	-	-
Library	375,899	7,257	44,565	38,349
Economic Development	49,109	-	17,935	-
Hotel/Motel Occupancy	200,477	-	-	-
Interest and fiscal charges	1,903	-	-	-
Total governmental activities	<u>11,807,511</u>	<u>1,401,910</u>	<u>256,816</u>	<u>228,826</u>
Business-type activities:				
Water and Sewer	8,684,490	8,170,560	-	-
Airport	1,113,831	752,349	-	29,623
PPCMWD No. 1	1,378,188	2,923,070	-	-
Drainage Utility	13,626	103,642	-	-
Total business-type activities	<u>11,190,135</u>	<u>11,949,621</u>	<u>-</u>	<u>29,623</u>
Total primary government	<u>\$ 22,997,646</u>	<u>\$ 13,351,531</u>	<u>\$ 256,816</u>	<u>\$ 258,449</u>
Component Unit				
Economic Development	\$ 3,796	\$ -	\$ -	\$ -
Total Component Unit	<u>\$ 3,796</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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
Gain of Sale of Capital Assets
Insurance recoveries
Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1, 2016

Net Position September 30, 2017

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

EXHIBIT B-1

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Community Development Corporation	
\$ (954,821)	\$	\$ (954,821)	\$	-
(586,898)		(586,898)		-
(593,187)		(593,187)		-
(2,621,181)		(2,621,181)		-
(799,449)		(799,449)		-
(323,907)		(323,907)		-
(393,275)		(393,275)		-
(1,865,860)		(1,865,860)		-
(91,185)		(91,185)		-
(961,813)		(961,813)		-
(209,101)		(209,101)		-
(285,728)		(285,728)		-
(31,174)		(31,174)		-
(200,477)		(200,477)		-
(1,903)		(1,903)		-
(9,919,959)	-	(9,919,959)		-
	(513,930)	(513,930)		-
	(331,859)	(331,859)		-
	1,544,882	1,544,882		-
	90,016	90,016		-
-	789,109	789,109		-
\$ (9,919,959)	\$ 789,109	\$ (9,130,850)	\$	-
\$ -	\$ -	\$ -	\$	(3,796)
\$ -	\$ -	\$ -	\$	(3,796)
\$ 3,658,811	\$ -	\$ 3,658,811	\$	-
3,419	-	3,419		-
77,523	-	77,523		-
3,010,669	-	3,010,669	264,639	-
1,277,327	-	1,277,327		-
201,484	-	201,484		-
39,654	61,542	101,196	3,086	-
28,576	4,000	32,576		-
1,185,834	758,273	1,944,107		-
61,381	2,284	63,665		-
931,871	(931,871)	-		-
10,476,549	(105,772)	10,370,777		267,725
556,590	683,337	1,239,927		263,929
31,657,321	48,804,143	80,461,464		572,732
\$ 32,213,911	\$ 49,487,480	\$ 81,701,391	\$	836,661

CITY OF MINERAL WELLS, TEXAS

Balance Sheet
Governmental Funds
September 30, 2017

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Assets:				
Cash and cash equivalents	\$ 2,915,151	\$ 5,877	\$ 815,535	\$ 3,736,563
Investments	5,676	34	51,101	56,811
Receivables (Net of allowances)				
Property Taxes	64,105	5,141	61,233	130,479
Sales Taxes	498,874	-	-	498,874
Franchise Taxes	169,726	-	-	169,726
Accounts	287,226	-	-	287,226
Lease	-	2,331,703	-	2,331,703
Miscellaneous	24,800	-	-	24,800
Inventory Supplies, at Cost	9,348	-	-	9,348
Due from other funds	215,173	-	4,870	220,043
Prepaid items	20,000	-	-	20,000
Total assets	<u>\$ 4,210,079</u>	<u>\$ 2,342,755</u>	<u>\$ 932,739</u>	<u>\$ 7,485,573</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 231,561	\$ -	\$ 19,907	\$ 251,468
Wages and Fringe Benefits Payable	173,673	-	-	173,673
Due to other funds	113,351	-	-	113,351
Due to State	26,486	500	-	26,986
Total liabilities	<u>545,071</u>	<u>500</u>	<u>19,907</u>	<u>565,478</u>
Deferred inflows of resources:				
Deferred revenue	<u>360,312</u>	<u>2,335,633</u>	<u>-</u>	<u>2,695,945</u>
Fund Balances:				
Nonspendable	29,348	-	527,491	556,839
Restricted	196,221	6,622	356,319	559,162
Unassigned	3,079,127	-	29,022	3,108,149
Total fund balances	<u>3,304,696</u>	<u>6,622</u>	<u>912,832</u>	<u>4,224,150</u>
Total liabilities, deferred inflows and fund balance:	<u>\$ 4,210,079</u>	<u>\$ 2,342,755</u>	<u>\$ 932,739</u>	<u>\$ 7,485,573</u>

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

CITY OF MINERAL WELLS, TEXAS
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Position
 September 30, 2017

Total Fund Balances - Governmental Funds	\$ 4,224,150
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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 \$70,067,758 and the accumulated depreciation was \$41,256,913.	28,810,845
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Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. The details of these differences are as follows:

Capital leases	(160,190)	
Compensated absences	(130,051)	
Sales tax and use refund payable	(960,804)	
		(1,251,045)

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.	364,242
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Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$1,773,805 and a deferred outflow of resources related to pensions of \$1,271,755 and a deferred inflow of resources related to pensions of \$327,338. This amounted to a decrease in net position.	(829,388)
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The City uses an internal service fund to charge the costs of insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	895,107
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Net Position of Governmental Activities	\$ 32,213,911
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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, 2017

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 3,651,432	\$ 5,055	\$ 77,523	\$ 3,734,010
Sales and use tax	2,936,761	-	-	2,936,761
Franchise	1,273,744	-	-	1,273,744
Hotel motel taxes	-	-	201,484	201,484
Licenses and Permits	76,352	-	-	76,352
Intergovernmental Revenue	509,919	-	17,935	527,854
Charges for service	941,026	-	-	941,026
Fines	291,164	-	-	291,164
Interest income	36,541	223	2,890	39,654
Special Assessments	-	295,991	-	295,991
Cemetery	76,591	-	6,692	83,283
Miscellaneous revenues	73,707	-	1,993	75,700
Total revenues	<u>9,867,237</u>	<u>301,269</u>	<u>308,517</u>	<u>10,477,023</u>
Expenditures:				
Current				
Administrative	2,004,979	-	-	2,004,979
Finance	571,814	-	-	571,814
Fleet Maintenance	608,201	-	-	608,201
Police	3,222,666	-	2,547	3,225,213
Fire & Emergency Medical Services	2,087,946	-	-	2,087,946
Inspections	396,298	-	-	396,298
Information technology	437,322	-	-	437,322
Streets	1,117,946	-	115,073	1,233,019
Sanitation	146,711	-	-	146,711
Parks & Recreation	956,498	-	-	956,498
Cemetery	296,234	-	-	296,234
Library	389,518	-	-	389,518
Economic Development	-	-	49,109	49,109
Hotel/Motel Occupancy	-	-	200,477	200,477
Debt service:				
Principal	31,097	295,991	-	327,088
Interest and fiscal charges	1,903	-	-	1,903
Total expenditures	<u>12,269,133</u>	<u>295,991</u>	<u>367,206</u>	<u>12,932,330</u>
Excess (deficiency) of revenue over (under) expenditures	<u>\$ (2,401,896)</u>	<u>\$ 5,278</u>	<u>\$ (58,689)</u>	<u>\$ (2,455,307)</u>
Other financing sources (uses):				
Proceeds from sale of general capital assets	28,576	-	-	28,576
Insurance recoveries	1,185,834	-	-	1,185,834
Issuance of capital lease	191,287	-	-	191,287
Transfers in	1,138,138	-	125,000	1,263,138
Transfers out	(125,000)	(80,110)	(1,157)	(206,267)
Total other financing sources (uses)	<u>2,418,835</u>	<u>(80,110)</u>	<u>123,843</u>	<u>2,462,568</u>
Net change in fund balances	<u>16,939</u>	<u>(74,832)</u>	<u>65,154</u>	<u>7,261</u>
Fund balance, October 1, 2016	<u>3,287,757</u>	<u>81,454</u>	<u>847,678</u>	<u>4,216,889</u>
Fund balance, September 30, 2017	<u>\$ 3,304,696</u>	<u>\$ 6,622</u>	<u>\$ 912,832</u>	<u>\$ 4,224,150</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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ 7,261
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 \$2,099,830 of capital outlays and \$31,097 of debt principal payments is to increase net position.	2,130,927
The net effect of various miscellaneous transactions involving capital assets (i.e., sales trade-ins, disposals and transfers between activities) is to decrease net position.	(90,356)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,302,942)
Current year capital leases are other financing sources in the fund financial statements. The increase in long-term debt is a decrease in net position.	(191,287)
Compensated absences payable of the governmental funds are not due and payable in the current period, and, therefore are reported as liabilities in the funds.	(56,743)
A \$1,034,712 refund of sales tax are not due and payable in the current period, and, therefore is not reported as a liability in the funds. The decrease of the refund of sales tax increases net position.	73,908
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	14,887
GASB required the City to recognize their net pension liability, deferred outflow of resources related to pensions and deferred inflows of resources related to pensions. The changes in these balances decrease net position.	(53,270)
The City uses an internal service fund to charge the costs of insurance to individual funds. The adjustment to reflect the consolidation of the internal service fund activities related to governmental activities increases net position.	24,205
Change in Net Position of Governmental Activities	<u>\$ 556,590</u>

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

CITY OF MINERAL WELLS, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2017

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Palo Pinto County Municipal Water District No. 1	Nonmajor Enterprise Funds	Totals	Internal Service Funds
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 2,333,318	\$ 861,794	\$ 94,454	\$ 3,289,566	\$ 1,005,344
Investments	122,616	2,550,613	149,429	2,822,658	453,573
Receivables (Net of allowances):					
Accounts	1,000,593	20,798	39,324	1,060,715	-
Miscellaneous	-	-	28,898	28,898	-
Inventory	234,735	101,868	40,302	376,905	-
Due from other funds	108,481	-	4,392	112,873	-
Prepaid items	20,000	5,400	-	25,400	-
Restricted Assets, Cash and Investments:					
Cash and cash equivalents	312,261	14,111,619	-	14,423,880	
Investments	-	2,503,011	-	2,503,011	
Total current assets	<u>4,132,004</u>	<u>20,155,103</u>	<u>356,799</u>	<u>24,643,906</u>	<u>1,458,917</u>
Noncurrent Assets:					
Capital assets, at cost:					
Land	1,355,836	2,379,793	194,863	3,930,492	-
Buildings and improvements	2,355,629	98,455	2,363,468	4,817,552	-
Improvements other than Buildings	14,974,365	-	55,070	15,029,435	-
Infrastructure	-	-	5,943,565	5,943,565	-
Distribution System	13,386,593	24,575,874	-	37,962,467	-
Collection System	6,317,287	-	-	6,317,287	-
Equipment & Vehicles	1,132,718	565,437	402,073	2,100,228	-
Furnitures & Fixtures	58,792	-	-	58,792	-
Construction-in-Progress	454,057	10,203,568	36,414	10,694,039	-
Less: accumulated depreciation	(19,181,260)	(15,009,411)	(4,109,708)	(38,300,379)	-
Capital assets, net	<u>20,854,017</u>	<u>22,813,716</u>	<u>4,885,745</u>	<u>48,553,478</u>	<u>-</u>
Total noncurrent assets	<u>20,854,017</u>	<u>22,813,716</u>	<u>4,885,745</u>	<u>48,553,478</u>	<u>-</u>
Total assets	<u>24,986,021</u>	<u>42,968,819</u>	<u>5,242,544</u>	<u>73,197,384</u>	<u>1,458,917</u>
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred outflow related to pensions	<u>557,708</u>	<u>-</u>	<u>27,804</u>	<u>585,512</u>	<u>-</u>
Total deferred outflows of resources	<u>557,708</u>	<u>-</u>	<u>27,804</u>	<u>585,512</u>	<u>-</u>

CITY OF MINERAL WELLS, TEXAS
Statement of Net Position
Proprietary Funds
September 30, 2017

	Business-Type Activities Enterprise Funds				Governmental Activities
	Palo Pinto				
	Water and Sewer	County Municipal Water District No. 1	Nonmajor Enterprise Funds	Totals	Internal Service Funds
LIABILITIES:					
Current Liabilities:					
Accounts payable	115,068	-	27,356	142,424	44,922
Wages and Fringe Benefits Payable	64,898	979	4,003	69,880	-
Unearned revenue		161,485		161,485	
Compensated absences payable	54,884	-	4,087	58,971	-
Due to other funds	4,392	-	45,300	49,692	169,873
Current Liabilities Payable from Restricted Assets:				-	
Current portion of Bonds	-	1,050,000	-	1,050,000	-
Current portion of Capital Lease Payable	-	-	46,446	46,446	-
Interest payable	-	202,783	-	202,783	-
Customer Deposits	312,261	-	-	312,261	-
Total current liabilities	<u>551,503</u>	<u>1,415,247</u>	<u>127,192</u>	<u>2,093,942</u>	<u>214,795</u>
Noncurrent Liabilities:					
Long-term Liabilities (Net of Current Portion)					
Net Pension Liability	774,038	-	34,465	808,503	
Bonds (Net of Current portion)	-	21,420,000	-	21,420,000	-
Capital Lease Payable (Net of current portion)	-	-	154,908	154,908	-
Bond Premium	-	13,489	-	13,489	-
Total noncurrent liabilities	<u>774,038</u>	<u>21,433,489</u>	<u>189,373</u>	<u>22,396,900</u>	<u>-</u>
Total liabilities	<u>1,325,541</u>	<u>22,848,736</u>	<u>316,565</u>	<u>24,490,842</u>	<u>214,795</u>
DEFERRED INFLOWS OF RESOURCES:					
Deferred inflow related to pensions	147,042	-	6,547	153,589	-
Total deferred inflows of resources	<u>147,042</u>	<u>-</u>	<u>6,547</u>	<u>153,589</u>	<u>-</u>
NET POSITION:					
Investment in capital assets, net of debt	20,854,017	15,151,903	4,684,391	40,690,311	-
Restricted for debt service (Expendable)	-	2,300,228	-	2,300,228	
Unrestricted	3,217,129	2,667,952	262,845	6,147,926	1,244,122
Total net position	<u>\$ 24,071,146</u>	<u>\$ 20,120,083</u>	<u>\$ 4,947,236</u>	<u>\$ 49,138,465</u>	<u>\$ 1,244,122</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				349,015	
Net position of business-type activities				<u>\$ 49,487,480</u>	

CITY OF MINERAL WELLS, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the year ended September 30, 2017

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	Palo Pinto County		Nonmajor		Internal
	Water and Sewer	Municipal Water District No. 1	Enterprise Funds	Totals	Service Funds
Operating revenues:					
Charges for sales and services:					
Water Sales	\$ 5,075,132	\$ 2,921,120	\$ -	\$ 7,996,252	\$ -
Connections	22,046	-	-	22,046	-
Sewer Revenues	2,766,284	-	-	2,766,284	-
Drainage utility fees	-	-	102,166	102,166	-
Gasoline and Oil	-	-	521,717	521,717	-
Rentals	-	-	221,329	221,329	-
Miscellaneous Revenues	307,098	1,950	10,779	319,827	-
Other Services	-	-	-	-	2,005,963
Total operating revenue	<u>8,170,560</u>	<u>2,923,070</u>	<u>855,991</u>	<u>11,949,621</u>	<u>2,005,963</u>
Operating expenses:					
Public Works Administration	3,337,802	255,521	-	3,593,323	-
Water Distribution	1,155,527	-	-	1,155,527	-
Hilltop Water Treatment	1,232,983	-	-	1,232,983	-
Wastewater Treatment	1,306,289	-	-	1,306,289	-
Facility Maintenance	456,885	-	-	456,885	-
City Utility Service	433,633	-	-	433,633	-
Drainage Utility	-	-	13,626	13,626	-
Airport Operations	-	-	770,934	770,934	-
Self-Insurance	-	-	-	-	1,789,361
Depreciation	827,990	507,348	335,177	1,670,515	-
Total operating expenses	<u>8,751,109</u>	<u>762,869</u>	<u>1,119,737</u>	<u>10,633,715</u>	<u>1,789,361</u>
Operating income	<u>(580,549)</u>	<u>2,160,201</u>	<u>(263,746)</u>	<u>1,315,906</u>	<u>216,602</u>
Nonoperating revenues (expenses):					
Interest Earned	15,553	44,429	1,560	61,542	3,513
Oil & Gas Leases	-	-	2,284	2,284	-
Gain (loss) on disposal of capital assets	-	-	4,000	4,000	-
Insurance Recoveries	512,000	-	246,273	758,273	-
Interest on Capital Leases	-	-	(12,011)	(12,011)	-
Interest on Bonds	-	(615,319)	-	(615,319)	-
Total nonoperating revenues (expenses)	<u>527,553</u>	<u>(570,890)</u>	<u>242,106</u>	<u>198,769</u>	<u>3,513</u>
Income before contributions and transfers	<u>(52,996)</u>	<u>1,589,311</u>	<u>(21,640)</u>	<u>1,514,675</u>	<u>220,115</u>
Contributions and transfers (to) from other funds:					
Capital Grants & Contributions	-	-	29,623	29,623	-
Transfers Out	(900,000)	-	(31,871)	(931,871)	(125,000)
Change in Net Position	<u>(952,996)</u>	<u>1,589,311</u>	<u>(23,888)</u>	<u>612,427</u>	<u>95,115</u>
Net Position, October 1, 2016	<u>25,024,142</u>	<u>18,530,772</u>	<u>4,971,124</u>	<u>48,526,038</u>	<u>1,149,007</u>
Net Position, September 30, 2017	<u>\$ 24,071,146</u>	<u>\$ 20,120,083</u>	<u>\$ 4,947,236</u>	<u>\$ 49,138,465</u>	<u>\$ 1,244,122</u>
Reconciliation to government-wide statement of activities:					
Change in Net Position				\$ 612,427	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>70,910</u>	
				<u>\$ 683,337</u>	

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

EXHIBIT D-3

CITY OF MINERAL WELLS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the year ended September 30, 2017

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Palo Pinto County Municipal Water District No. 1	Nonmajor Enterprise Funds	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 8,081,700	\$ 2,952,761	\$ 878,574	\$ 11,913,035	\$ -
Cash received for interfund services provided	-	-	-	-	2,005,963
Cash paid to suppliers	(5,482,055)	(208,005)	(610,119)	(6,300,179)	(1,749,355)
Cash paid to employees	(2,299,394)	(70,705)	(173,027)	(2,543,126)	-
Net cash provided by operating activities	<u>300,251</u>	<u>2,674,051</u>	<u>95,428</u>	<u>3,069,730</u>	<u>256,608</u>
Cash flow from noncapital financing activities:					
(Increase) decrease in due from other funds	(79,160)	-	79,117	(43)	-
Transfers out	(900,000)	-	(31,871)	(931,871)	(125,000)
Net cash provided (used) by noncapital financing activities	<u>(979,160)</u>	<u>-</u>	<u>47,246</u>	<u>(931,914)</u>	<u>(125,000)</u>
Cash flow from capital and related financing activities:					
Capital expenditures	(914,010)	(1,673,187)	(414,604)	(3,001,801)	-
Proceeds from sale of capital assets	-	-	4,000	4,000	-
Capital grants and contributions	-	-	49,286	49,286	-
Insurance proceeds received	512,000	-	246,273	758,273	-
Principal payments on long-term debt	-	(1,035,000)	(53,440)	(1,088,440)	-
Interest paid on long-term debt	-	(622,374)	(12,011)	(634,385)	-
Net cash (used) by capital and related financing activities	<u>(402,010)</u>	<u>(3,330,561)</u>	<u>(180,496)</u>	<u>(3,913,067)</u>	<u>-</u>
Cash flow from investing activities:					
Interest received	15,553	44,429	1,560	61,542	3,513
Income from oil and gas leases	-	-	2,284	2,284	-
Net cash provided by investing activities	<u>15,553</u>	<u>44,429</u>	<u>3,844</u>	<u>63,826</u>	<u>3,513</u>
Net increase (decrease) in cash and cash equivalents	(1,065,366)	(612,081)	(33,978)	(1,711,425)	135,121
Cash and cash equivalents, September 30, 2016	<u>3,833,561</u>	<u>20,639,118</u>	<u>277,861</u>	<u>24,750,540</u>	<u>1,323,796</u>
Cash and cash equivalents, September 30, 2017	<u>\$ 2,768,195</u>	<u>\$ 20,027,037</u>	<u>\$ 243,883</u>	<u>\$ 23,039,115</u>	<u>\$ 1,458,917</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ (580,549)	\$ 2,160,201	\$ (263,746)	\$ 1,315,906	\$ 216,602
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	827,990	507,348	335,177	1,670,515	-
(Increase) decrease in accounts receivable	(92,113)	(18,133)	22,583	(87,663)	-
(Increase) decrease in supplies inventory	(36,920)	-	(10,218)	(47,138)	-
(Increase) decrease in prepaid items	176,500	-	-	176,500	-
Increase (decrease) in accounts payable	(65,076)	(20,056)	10,674	(74,458)	40,006
Increase (decrease) in wages and fringe benefits payable	(12,861)	(3,133)	704	(15,290)	-
Increase (decrease) in unearned revenue	-	47,824	-	47,824	-
Increase (decrease) in compensated absences payable	20,777	-	2,350	23,127	-
Increase (decrease) in customer meter deposits	3,253	-	-	3,253	-
Increase (decrease) in net pension balances	59,250	-	(2,096)	57,154	-
Total adjustments	<u>880,800</u>	<u>513,850</u>	<u>359,174</u>	<u>1,753,824</u>	<u>40,006</u>
Net cash provided by operating activities	<u>\$ 300,251</u>	<u>\$ 2,674,051</u>	<u>\$ 95,428</u>	<u>\$ 3,069,730</u>	<u>\$ 256,608</u>
Noncash Investing, Capital and Financing Activities					
Capital assets purchased with capital lease	\$ -	\$ -	\$ 40,732	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,732</u>	<u>\$ -</u>	<u>\$ -</u>

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

Discretely Presented Component Unit

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

Blended Component Unit.

The Palo Pinto County Municipal Water District No. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" due to the financial accountability of the City of Mineral Wells for the District, and because the District provides services almost entirely for the benefit of the City of Mineral Wells. Approximately 85% of the District's water sales were to the City of Mineral Wells. The City has reported in its basic financial statements, the activities of the District for its fiscal period ending September 30, 2017, in a blended format.

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

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

B. Government-wide and Fund Financial Statements

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the operation of the water and sewer systems of the City.

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

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

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

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

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

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

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

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

	Water and Sewer	Nonmajor Enterprise Funds	Palo Pinto County Municipal Water District No. 1	Internal Service Fund
Cash and cash equivalents	\$ 2,333,318	\$ 94,454	\$ 861,794	\$ 1,005,344
Investments	122,616	149,429	2,550,613	453,573
Restricted cash and cash equivalents	312,261	-	14,111,619	-
Restricted Investments	-	-	2,503,011	-
	<u>\$ 2,768,195</u>	<u>\$ 243,883</u>	<u>\$ 20,027,037</u>	<u>\$ 1,458,917</u>

The Palo Pinto County Municipal Water District No. 1 entered into an Escrow Agreement with the Texas Water Development Board for the 2015 bonds. The escrowed funds are kept in separate accounts at the District's depository bank and shall not be subject to warrants, drafts or checks drawn by the District but shall be disbursed or withdrawn to pay the costs of the Project for which the Agreement was executed and solely upon written authorization from the Executive Administrator of Texas Water Development Board or his designated representative. The balance in the Escrow Accounts at September 30, 2017 was \$14,111,619.

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 \$36,435. The property tax receivable allowance is based upon historical experience and is equal to approximately 70% of outstanding delinquent property taxes at September 30. The property tax receivable allowance is \$149,580 in the general fund and \$11,997 in the debt service fund. The EMS receivable allowance of \$147,347 is comprised of accounts aged more than ninety days. The airport allowance of \$29,205 is comprised of delinquent accounts that are not certain of collection.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

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 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. Prepaid items

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

6. 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. 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 \$615,319. 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.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. *Compensated Absences*

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick pay benefits. 10 days of vacation and 120 days of sick leave may be accumulated and carried forward. Accumulated vacation is paid upon separation from service; however sick leave is not paid upon separation from service. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. *Long-term Obligations*

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

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

10. *Pensions*

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Fund Balance – Governmental Fund

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

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

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

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

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

Unassigned – All amounts not included in other spendable classifications.

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory and Prepaids	\$ 29,348	\$ -	\$ -	\$ 29,348
Woodland Park Permanent Fund			527,491	527,491
Restricted:				
Debt Service		6,622		6,622
Police			9,511	9,511
TIF Zone #2			281,543	281,543
Economic Development			59,453	59,453
Community Services	196,221		3,063	199,284
Woodland Park Cemetery			2,749	2,749
Unassigned	3,079,127	-	29,022	3,108,149
Total Fund Balance	\$ 3,304,696	\$ 6,622	\$ 912,832	\$ 4,224,150

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 25% of expenditures.

12. *Net Position*

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

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

Restricted Fund Balance (Exhibit C-1)	\$ 559,162
Adjustments	
Deferred property tax revenue restricted for debt service	3,930
Nonexpendable portion of Cemetery Trust	527,491
Total adjustments	<u>531,421</u>
Restricted Net Position (Exhibit A-1)	<u>\$ 1,090,583</u>

13. *Use of Estimates*

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

NOTE 2: DEPOSITS AND INVESTMENTS

A. *Deposits*

As required by the City's investment policy, deposits were with the contracted depository bank in interest bearing accounts that are secured by FDIC coverage and by pledge of securities. The City's and the component unit's deposits were fully secured at the balance sheet date by FDIC coverage and by pledged securities.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

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, 2017, the City's deposits were fully insured or collateralized as required by the City's investment policy.

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.

TexPool 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. All investments of the Pool are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of TexPool is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas.

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. All securities in TexSTAR are marked to market daily using the fair value method, amortized cost, which generally approximated the market value of the securities, has been deemed to be a proxy for fair value. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured by TexSTAR.

Credit Risk– Investments

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

Interest Rate Risk – Investments

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

The City's investments at September 30, 2017 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	34 days	0.02%	\$ 940	\$ 940
TexSTAR Pool	AAAm	28 days	13.39%	781,489	781,489
				<u>782,429</u>	<u>782,429</u>
Component Unit					
TexSTAR Pool	AAAm	28 days	86.59%	5,053,513	5,053,624
Total Investments			100.00%	<u>\$ 5,835,942</u>	<u>\$ 5,836,053</u>

NOTE 3: DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

	<u>Governmental Funds</u>		
	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Deferred property taxes receivable	\$ 60,175	\$ 3,930	\$ 64,105
Deferred franchise taxes receivable	109,113	-	109,113
Deferred EMS receivable	122,547	-	122,547
Deferred Cemetery receivable	42,763	-	42,763
Deferred municipal court receivable	25,714	-	25,714
Deferred leases receivable	-	2,331,703	2,331,703
Total deferred inflows of resources	<u>\$ 360,312</u>	<u>\$ 2,335,633</u>	<u>\$ 2,695,945</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 4: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2017, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Funds	\$ 169,873
General Fund	Nonmajor enterprise funds	45,300
Nonmajor governmental funds	General Fund	4,870
Total Governmental Funds		<u>\$ 220,043</u>
Water and Sewer	General Fund	\$ 108,481
Nonmajor enterprise funds	Water and Sewer	4,392
Total Proprietary Funds		<u>\$ 112,873</u>

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2017, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor Governmental Funds	\$ 1,157	occupancy taxes
General Fund	Debt Service	80,110	property taxes
General Fund	Water and Sewer	900,000	operating
General Fund	Airport Operations	31,871	operating
General Fund	Internal Service Fund	125,000	operating
Nonmajor Governmental Funds	General Fund	125,000	street projects
Total Governmental Funds Transfers In		<u>\$ 1,263,138</u>	

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	\$ 1,845,102	\$ -	\$ -	\$ -	\$ 1,845,102
Construction in Progress	1,272,325	1,086,329	-	(1,843,063)	515,591
Total non-depreciable assets	3,117,427	1,086,329	-	(1,843,063)	2,360,693
Depreciable Assets:					
Buildings and improvements	4,484,817	180,293	-	1,671,522	6,336,632
Improvements other than buildings	2,024,124	17,415	-	81,185	2,122,724
Infrastructure	52,137,900	-	-	-	52,137,900
Equipment and vehicles	5,835,600	754,749	(102,841)	(204,237)	6,283,271
Furniture and fixtures	633,649	61,044	(72,392)	204,237	826,538
Total capital assets being depreciated	65,116,090	1,013,501	(175,233)	1,752,707	67,707,065
Accumulated Depreciation:					
Buildings and improvements	(1,972,627)	(129,828)	-	-	(2,102,455)
Improvements other than buildings	(1,528,635)	(99,958)	-	-	(1,628,593)
Infrastructure	(31,355,127)	(740,243)	-	-	(32,095,370)
Equipment and vehicles	(4,789,442)	(253,235)	102,841	7,300	(4,932,536)
Furniture and fixtures	(483,373)	(79,678)	72,392	(7,300)	(497,959)
Total accumulated depreciation	(40,129,204)	(1,302,942)	175,233	-	(41,256,913)
Governmental activities capital assets, net	\$ 28,104,313	\$ 796,888	\$ -	\$ (90,356)	\$ 28,810,845

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 5: CAPITAL ASSETS (Continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Transfers & Adjustments	Ending Balance
Non - Depreciable Assets:					
Land	\$ 3,930,492	\$ -	\$ -	\$ -	\$ 3,930,492
Construction in Progress	9,198,630	2,600,027	-	(1,104,618)	10,694,039
Total non-depreciable assets	13,129,122	2,600,027	-	(1,104,618)	14,624,531
Depreciable Assets:					
Buildings and improvements	3,622,578	-	-	1,194,974	4,817,552
Improvements other than buildings	15,029,435	-	-	-	15,029,435
Infrastructure	5,943,565	-	-	-	5,943,565
Distribution System	37,962,467	-	-	-	37,962,467
Collection System	6,317,287	-	-	-	6,317,287
Equipment and Vehicles	2,045,163	89,914	(34,849)	-	2,100,228
Furniture and Fixtures	49,597	9,195	-	-	58,792
Total capital assets being depreciated	70,970,092	99,109	(34,849)	1,194,974	72,229,326
Accumulated Depreciation:					
Buildings and improvements	(2,247,097)	(82,218)	-	-	(2,329,315)
Improvements other than buildings	(6,931,423)	(297,831)	-	-	(7,229,254)
Infrastructure	(2,747,090)	(262,368)	-	-	(3,009,458)
Distribution System	(19,542,556)	(764,892)	-	-	(20,307,448)
Collection System	(3,711,888)	(128,644)	-	-	(3,840,532)
Equipment and Vehicles	(1,440,770)	(129,775)	34,849	-	(1,535,696)
Furniture and Fixtures	(43,889)	(4,787)	-	-	(48,676)
Total accumulated depreciation	(36,664,714)	(1,670,515)	34,849	-	(38,300,379)
Business-type activities capital assets, net	\$ 47,434,500	\$ 1,028,621	\$ -	\$ 90,356	\$ 48,553,478

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 5: CAPITAL ASSETS (Continued)

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

Governmental activities:	
Administrative	\$ 14,848
Finance	11,084
Fleet Maintenance	1,966
Police	140,658
Fire & Emergency Medical Services	151,506
Information Technology	15,299
Streets, including infrastructure	769,742
Parks & Recreation	164,874
Cemetery	6,340
Library	26,625
Total depreciation expense - governmental activities	<u>\$ 1,302,942</u>
Business-type activities:	
Water and Sewer	\$ 827,990
Airport	335,177
PPCMWD No. 1	507,348
Total depreciation expense - business-type activities	<u>\$ 1,670,515</u>

NOTE 6: LEASES

A. Operating Leases – Lessor

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

B. Capital Leases - Lessee

The City has committed under various noncancelable lease/purchase agreements for vehicles and airport T-hangers. The City rents the airport T-hangers to individuals on a monthly basis for approximately \$150 per unit per month. Future minimum lease/purchase commitments are as follows:

	Governmental Activities	Business-type Activities
2018	\$ 66,001	\$ 56,605
2019	66,001	56,604
2020	33,001	49,579
2021	-	32,752
2022	-	22,959
2023-2027	-	11,478
Total debt service requirements	<u>165,003</u>	<u>229,977</u>
Less: Interest Portion	4,813	28,623
Debt Principal	<u>\$ 160,190</u>	<u>\$ 201,354</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 6: LEASES (Continued)

Assets under lease and related accumulated depreciation are as follows:

	Governmental Activities	Business-type Activities
Buildings	\$ -	\$ 660,250
Equipment and vehicles	191,776	40,462
Less: Accumulated depreciation	(12,385)	(178,624)
Net	<u>\$ 179,391</u>	<u>\$ 522,088</u>

NOTE 7: LONG-TERM LIABILITIES

A. 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:

	Principal
2018	209,062
2019	196,250
2020	196,250
2021	196,250
2022	193,205
2023-2027	743,454
2028-2032	508,628
2033-2037	88,604
Total	<u>\$ 2,331,703</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 7: LONG-TERM LIABILITIES (Continued)

B. Revenue Bonds

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

\$2,400,000; Palo Pinto County Muni Water District #1 Subordinate Revenue Bonds Series 2009A - due in annual installments at 0% to 6/1/2029.	1,440,000
\$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.	2,140,000
\$6,990,000; Palo Pinto County Muni Water District #1 Revenue Refunding Bonds Series 2011 - due in annual installments at 2.00% to 3.375% to 6/1/2023.	2,210,000
\$9,915,000; Palo Pinto County Muni Water District #1 Revenue Bonds Series 2015A - due in annual installments at .45% to 3.21% to 7/1/2045.	9,665,000
\$7,185,000; Palo Pinto County Muni Water District #1 Revenue Bonds Series 2015B - due in annual installments at .77% to 3.68% to 7/1/2045.	<u>7,015,000</u>
 Total Palo Pinto Municipal Water District No. 1	 <u>22,470,000</u>
Total Revenue Bonds	<u><u>\$ 22,470,000</u></u>

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

	Business-type Activities		
	Principal	Interest	Total
2018	1,050,000	608,345	1,658,345
2019	1,070,000	590,984	1,660,984
2020	1,080,000	572,024	1,652,024
2021	1,110,000	550,001	1,660,001
2022	1,135,000	526,261	1,661,261
2023-2027	4,420,000	2,286,186	6,706,186
2028-2032	3,180,000	1,817,395	4,997,395
2033-2037	3,150,000	1,378,074	4,528,074
2038-2042	3,720,000	822,620	4,542,620
2043-2047	2,555,000	176,254	2,731,254
Total	<u>\$ 22,470,000</u>	<u>\$ 9,328,144</u>	<u>\$ 31,798,144</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 7: LONG-TERM LIABILITIES (Continued)

C. Compliance with Debt Service Requirements

Palo Pinto County Municipal Water District No. 1

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2009A and 2009 B resolutions require a "Reserve Fund" be established for the bonds issued by the District depositing \$5,877 on the 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. The balance in the reserve at September 30, 2017 was \$364,000.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was \$410,143 and the balance in the reserve was \$411,000 at September 30, 2017.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011 require a "Contingency Fund" of \$250,000 to be maintained. Monthly deposits of \$3,334 are required to be made when the "Contingency Fund" falls below the required balance. At September 30, 2017, the "Contingency Fund" had a balance of \$250,000.

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2015A and 2015B resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was \$902,337 and the balance in the reserve was \$912,000 at September 30, 2016.

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

	<u>Cash</u>	<u>Investments</u>
Water and sewer fund		
Customer deposits	\$ 312,261	\$ -
PPCMWD No. 1		
Interest and Sinking Funds	-	566,011
Contingency Funds	-	250,000
Reserve Funds	-	1,687,000
Construction Funds	14,111,619	-
Total PPCMWD No. 1	<u>14,111,619</u>	<u>2,503,011</u>
Total Business-type activities	<u>\$ 14,423,880</u>	<u>\$ 2,503,011</u>

D. Sales Tax Refund Payable

During 2015 the Texas Comptroller of Public Accounts informed the City that \$1,108,654 in sales taxes had been paid to the City in error. The amount will be deducted from the City's sales tax payments beginning with \$6,193 in October 2015 followed by 179 monthly deductions of \$6,159 from November 2015 through September 2030. The balance at September 30, 2017 was \$960,804.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 7: LONG-TERM LIABILITIES (Continued)

Changes in Long-term Liabilities

The following is a summary of long-term liability transactions of the city for the year ended September 30, 2017.

	9/30/2016	Additions	Retirements	9/30/2017	Due Within One Year
Governmental Activities.:					
Capital Leases	\$ -	\$ 191,287	\$ 31,097	\$ 160,190	\$ 63,126
Special Assessment Debt	2,627,696	-	295,993	2,331,703	209,062
Net Pension Liability	1,972,868	-	199,063	1,773,805	-
Compensated Absences Payable	73,308	130,051	73,308	130,051	130,051
Sales Tax Refund Payable	1,034,712	-	73,908	960,804	73,908
Total Governmental Activities	5,708,584	321,338	673,369	5,356,553	476,147
Business-type Activities:					
Revenue Bonds	23,505,000	-	1,035,000	22,470,000	1,050,000
Bond Premium	15,869	-	2,380	13,489	-
Capital Leases	214,061	40,733	53,440	201,354	46,446
Net Pension Liability	858,601	-	50,098	808,503	-
Compensated Absences Payable	35,844	58,971	35,844	58,971	58,971
Total Business-type Activities	24,629,375	99,704	1,176,762	23,552,317	1,155,417
Total Long-Term Debt	\$ 30,337,959	\$ 421,042	\$ 1,850,131	\$ 28,908,870	\$ 1,631,564

The compensated absences payable were earned in the funds as follows: general fund \$130,051, water and sewer fund \$58,884 and airport operations fund \$4,087.

NOTE 8: RELATED ORGANIZATIONS

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 9: RISK MANAGEMENT

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

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

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

NOTE 10: DEFINED BENEFIT PENSION PLANS

A. Texas Municipal Retirement System (TMRS)

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>Plan Year 2017</u>
Employee deposit rate	5%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20
Updated Service Credit	100% Repeating
Annuity Increase (to retirees)	70% of CPI Repeating

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	104
Inactive employees entitled to but not yet receiving benefits	116
Active employees	<u>165</u>
Total	<u><u>385</u></u>

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.85% and 8.93% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$683,925, and were equal to the required contributions

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. These rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disable annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$30,006,729	\$27,232,917	\$ 2,773,812
Changes for the year:			
Service cost	873,843	-	873,843
Interest	2,005,609	-	2,005,609
Change of benefit terms	-	-	-
Difference between expected and actual experience	(262,015)	-	(262,015)
Changes of assumptions	-	-	-
Contributions - employer	-	665,728	(665,728)
Contributions - employee	-	376,008	(376,008)
Net investment income	-	1,839,795	(1,839,795)
Benefit payments, including refunds of employee contributions	(1,461,845)	(1,461,845)	-
Administrative expense	-	(20,786)	20,786
Other changes	-	(1,120)	1,120
Net changes	1,155,592	1,397,780	(242,188)
Balance at 12/31/2016	<u>\$31,162,321</u>	<u>\$28,630,697</u>	<u>\$ 2,531,624</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 6,742,602	\$ 2,531,624	\$ (929,334)

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016 the city recognized pension expense of \$811,426.

At September 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 480,927
Changes in actuarial assumptions	63,206	-
Difference between projected and actual investment earnings	1,257,344	-
Contributions subsequent to the measurement date	517,249	-
Total TMRS	<u>\$ 1,837,799</u>	<u>\$ 480,927</u>

\$517,249 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>TMRS</u>
Year Ended September 30:	
2018	183,733
2019	322,714
2020	333,488
2021	(312)
2022	-
Thereafter	-
Total	<u>\$ 839,623</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

B. Texas Emergency Services Retirement System (TESRS)

Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a stand-alone financial report that is available to the public at www.tesrs.org. At August 31, 2016, there were 199 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

Benefits Provided

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

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

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

Funding Policy

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

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

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017.

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

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2016, total contributions of \$3,463,603 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,583,825 for the fiscal year ending August 31, 2016. The City's contributions for the years ended September 30, 2017, 2016 and 2015 were \$7,848, \$7,956 and \$10,224, respectively.

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

The most recent completed biennial actuarial valuation as of August 31, 2016 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$725,000 each year to pay for part of the System's administrative expenses.

Net Pension Liability

The System's net pension liability was measured as of August 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2016.

	System 100.00%	City 0.17%
Total Pension Liability	\$ 123,092,111	\$ 214,180
Plan Fiduciary Net Position	93,964,008	163,497
Net Pension Liability	<u>\$ 29,128,103</u>	<u>\$ 50,683</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.3%	76.3%

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.22% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return (Arithmetic)</u>
Equities		
Large cap domestic	32.0%	5.7%
Small cap domestic	10.0%	6.0%
Developed international	21.0%	6.2%
Emerging markets	6.0%	7.2%
Master limited partnership	5.0%	7.6%
Fixed income		
Domestic	21.0%	1.6%
International	5.0%	1.8%
Cash	0.0%	0.0%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of the current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

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

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

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's Proportional Share of the Net Pension Liability	\$ 85,807	\$ 50,683	\$ 28,304

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

At August 31, 2016, the City reported a liability of \$50,683 for its proportionate share of the TESRS's net pension liability. The net pension liability was measured as of August 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability (.174%) was based on the District's contributions to the pension plan relative to the contribution of all employers to the plan for the period September 1, 2015 through August 31, 2016.

For the year ended September 30, 2017, the City recognized pension expense of \$10,796.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 78	\$ -
Changes in actuarial assumptions	1,080	-
Difference between projected and actual investment earnings	10,462	-
Contributions subsequent to the measurement date	7,848	-
Total TESRS	<u>\$ 19,468</u>	<u>\$ -</u>

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

The \$19,468 reported as deferred outflows of resources related to pensions resulting from contributions paid to TESRS subsequent to the measurement date will be recognized as a reduction to the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	<u>TESRS</u>
2018	2,807
2019	2,807
2020	5,330
2021	676
2022	-
Thereafter	-
Total	<u>\$ 11,620</u>

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The city's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$19,768, \$18,921, and \$17,122, respectively, which equaled the required contributions each year.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 12: HAIL DAMAGE AND INSURANCE RECOVERIES

In May 2013, a hail storm directly impacted the City causing significant damage to City owned property. Management expects insurance to cover the cost to repair the property less the City's deductible. Insurance received in 2017 related to the hail damage was \$1,523,987. The insurance recoveries were reported as other financing sources in the general fund, nonoperating revenues in the water and sewer and airport funds, and general revenues in the government-wide statement of activities. Most of the roof replacement project was completed in the 2017 fiscal year.

NOTE 13: CONTINGENT LIABILITIES

A. Federal and State Programs

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

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

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

NOTE 14: CONTRACTS AND COMMITMENTS

A. Turkey Peak Project

November 19, 2015, the District issued \$17,100,000 bonds that were purchased by the Texas Water Development Board's State Water Implementation Revenue Fund for Texas. The funds are to be used for the Turkey Peak Reservoir Project. \$2,318,689 of the funds have been spent as of September 30, 2017.

NOTE 15: EVALUATION OF SUBSEQUENT EVENTS

Voters approved in November 2017 issuing \$7,500,000 General Obligation bonds for water and street projects and \$3,960,000 General Obligation bonds for a water line along Highway 180.

In November 2017 the City used a \$650,000 capital lease to purchase four police vehicles and Gradall equipment.

Subsequent events were evaluated through February 8, 2018, which is the date the financial statements were available to be issued.

City of Mineral Wells, Texas
Notes to Financial Statements
September 30, 2017

NOTE 17: FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT F-1

CITY OF MINERAL WELLS, TEXAS
General FundSchedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 3,521,434	\$ 3,521,434	\$ 3,651,432	129,998
Sales and use tax	2,925,000	2,925,000	2,936,761	11,761
Franchise	1,285,000	1,285,000	1,273,744	(11,256)
Licenses and Permits	77,550	77,550	76,352	(1,198)
Intergovernmental Revenue	448,880	448,880	509,919	61,039
Charges for service	830,500	830,500	941,026	110,526
Fines	370,500	370,500	291,164	(79,336)
Interest income	5,000	5,000	36,541	31,541
Cemetery	68,300	68,300	76,591	8,291
Miscellaneous revenues	54,000	54,000	73,707	19,707
Total revenues	<u>9,586,164</u>	<u>9,586,164</u>	<u>9,867,237</u>	<u>281,073</u>
Expenditures:				
Current				
Administrative	1,099,867	1,682,867	2,004,979	(322,112)
Finance	640,349	640,349	571,814	68,535
Fleet Maintenance	703,288	703,288	608,201	95,087
Police	3,173,684	3,173,684	3,222,666	(48,982)
Fire & Emergency Medical Services	2,068,615	2,068,615	2,087,946	(19,331)
Inspections	407,382	407,382	396,298	11,084
Information Technology	368,493	368,493	437,322	(68,829)
Streets	1,202,489	1,202,489	1,117,946	84,543
Sanitation	126,512	126,512	146,711	(20,199)
Parks & Recreation	841,824	841,824	956,498	(114,674)
Cemetery	293,233	293,233	296,234	(3,001)
Library	403,153	403,153	389,518	13,635
Debt Service:				
Principal	72,000	72,000	31,097	40,903
Interest and fiscal charges	2,880	2,880	1,903	977
Debt issuance costs				-
Total expenditures	<u>11,403,769</u>	<u>11,986,769</u>	<u>12,269,133</u>	<u>(282,364)</u>
Excess (deficiency) of revenue over (under) expenditures	\$ <u>(1,817,605)</u>	\$ <u>(2,400,605)</u>	\$ <u>(2,401,896)</u>	<u>(1,291)</u>
Other financing sources (uses):				
Proceeds from sale of general capital asset	1,000	1,000	28,576	27,576
Insurance proceeds	150,000	720,000	1,185,834	465,834
Issuance of capital lease	200,000	200,000	191,287	(8,713)
Transfers in	1,135,638	1,135,638	1,138,138	2,500
Transfers out	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>
Net change in fund balances	(455,967)	(468,967)	16,939	485,906
Fund balance, October 1, 2016	<u>3,287,757</u>	<u>3,287,757</u>	<u>3,287,757</u>	<u>-</u>
Fund balance, September 30, 2017	\$ <u><u>2,831,790</u></u>	\$ <u><u>2,818,790</u></u>	\$ <u><u>3,304,696</u></u>	<u><u>485,906</u></u>

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

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

	2014	2015	2016
Total Pension Liability			
Service Cost	\$ 721,608	\$ 793,213	\$ 873,843
Interest (on the Total Pension Liability)	1,930,010	2,002,024	2,005,609
Changes of benefit terms (TMRS Plan Participation)	-	-	-
Difference between expected and actual experience	(439,509)	(556,504)	(262,015)
Change of assumptions	-	154,810	-
Benefit payments, including refunds of employee contributions	(1,257,183)	(1,181,095)	(1,461,845)
Net Change in Total Pension Liability	954,926	1,212,448	1,155,592
Total Pension Liability - Beginning	27,839,355	28,794,281	30,006,729
Total Pension Liability - Ending	<u>\$ 28,794,281</u>	<u>\$ 30,006,729</u>	<u>\$ 31,162,321</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 699,904	\$ 677,539	\$ 665,728
Contributions - Employee	346,582	358,271	376,008
Net Investment Income	1,492,992	40,373	1,839,795
Benefit payments, including refunds of employee contributions	(1,257,183)	(1,181,095)	(1,461,845)
Administrative Expense	(15,587)	(24,593)	(20,786)
Other	(1,282)	(1,215)	(1,120)
Net Change in Plan Fiduciary Net Position	1,265,426	(130,720)	1,397,780
Plan Fiduciary Net Position - Beginning	26,098,211	27,363,637	27,232,917
Plan Fiduciary Net Position - Ending	<u>\$ 27,363,637</u>	<u>\$ 27,232,917</u>	<u>\$ 28,630,697</u>
Net Pension Liability Ending	\$ 1,430,644	\$ 2,773,812	\$ 2,531,624
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.03%	90.76%	91.88%
Covered Employee Payroll	\$ 6,893,077	\$ 7,165,427	\$ 7,520,165
Net Pension Liability as a Percentage of Covered Employee Payroll	20.75%	38.71%	33.66%

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

EXHIBIT F-3

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

	2014	2015	2016	2017
Actuarially Determined Contribution	\$ 704,511	\$ 692,708	\$ 688,855	\$ 683,925
Contributions in relation to the actuarially determined contribution	\$ 704,511	\$ 692,708	\$ 688,855	\$ 683,925
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 6,822,411	\$ 7,134,246	\$ 7,648,881	\$ 7,675,606
Contributions as a percentage of covered employee payroll	10.33%	9.71%	9.01%	8.91%

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

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

	2014	2015	2016
Proportion of the Net Pension Liability (Asset)	0.00251	0.00216	0.00174
Proportionate Share of Net Pension Liability (Asset)	\$ 45,611	\$ 57,656	\$ 50,683
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the City	23,297	30,652	26,727
Total	\$ 68,908	\$ 88,308	\$ 77,410
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.46%	76.89%	76.34%

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

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

	2014	2015	2016	2017
Contractually Required Contribution	\$ 11,376	\$ 10,224	\$ 7,956	\$ 7,848
Contributions in relation to the contractually required contribution	\$ 11,376	\$ 10,224	\$ 7,956	\$ 7,848
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -

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, 2017

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 more than appropriations by \$282,364. The following general fund departments had expenditures in excess of appropriations.

<u>Department</u>	<u>Amount</u>	<u>Primary Cause</u>
Administrative	\$ 322,112	Roof replacement and professional services
Police	\$ 48,982	Roof replacement and renovations
Fire & EMS	\$ 19,331	Vehicles
Information Technology	\$ 68,829	Spillman Police Software
Sanitation	\$ 20,199	Sanitation services
Parks and Recreation	\$ 114,674	Roof replacement
Cemetery	\$ 3,001	Salaries and overtime

Note 2. Schedule of Contributions – Texas Municipal Retirement System

Valuation Date

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%

City of Mineral Wells
Notes to the Required Supplementary Information
For the Year Ended September 30, 2017

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

Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

Notes	There were no benefit changes during the year.
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Note 3. Schedule of Contributions – Texas Emergency Services Retirement System

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

Valuation Date

August 31, 2016

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoother by a 5-year deferred recognition method with a 80%/120% corridor on market value
Inflation	3.50%
Salary Increases	N/A
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA

Other Information

Notes	There were no benefit changes during the year. The mortality assumptions were changed in the August 31, 2016 valuation.
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COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS

CITY OF MINERAL WELLS, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2017

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds
Assets:					
Cash	\$ 3,063	\$ 9,511	\$ 220,310	\$ 4,422	\$ 237,306
Investments	-	-	-	50,161	50,161
Taxes receivable	-	-	61,233	-	61,233
Due from other funds	-	-	-	4,870	4,870
Total assets	<u>\$ 3,063</u>	<u>\$ 9,511</u>	<u>\$ 281,543</u>	<u>\$ 59,453</u>	<u>\$ 353,570</u>
Liabilities and fund balance:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:					
Nonspendable	-	-	-	-	-
Restricted	3,063	9,511	281,543	59,453	353,570
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>3,063</u>	<u>9,511</u>	<u>281,543</u>	<u>59,453</u>	<u>353,570</u>
Total liabilities and fund balances	<u>\$ 3,063</u>	<u>\$ 9,511</u>	<u>\$ 281,543</u>	<u>\$ 59,453</u>	<u>\$ 353,570</u>

EXHIBIT G-1

Texas Capital Fund	Capital Projects		Permanent Fund	Total Nonmajor Funds
	Street Capital Projects Fund	Total Capital Projects Funds		
\$ -	\$ 48,929	\$ 48,929	\$ 529,300	\$ 815,535
-	-	-	940	51,101
-	-	-	-	61,233
-	-	-	-	4,870
\$ -	\$ 48,929	\$ 48,929	\$ 530,240	\$ 932,739
\$ -	\$ 19,907	\$ 19,907	\$ -	\$ 19,907
-	19,907	19,907	-	19,907
-	-	-	527,491	527,491
-	-	-	2,749	356,319
-	29,022	29,022	-	29,022
-	29,022	29,022	530,240	912,832
\$ -	\$ 48,929	\$ 48,929	\$ 530,240	\$ 932,739

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, 2017

	Special Revenue				
	Hotel/Motel Occupancy Tax	Police Department Forfeitures	TIF Zone #2	Economic Development Fund	Total Special Revenue Funds
Revenues:					
Property taxes	\$ -	\$ -	\$ 77,523	\$ -	\$ 77,523
Occupancy taxes	201,484	-	-	-	201,484
Intergovernmental revenue	-	-	-	-	-
Interest	1,978	71	-	352	2,401
Cemetery	-	-	-	-	-
Miscellaneous revenues	-	1,993	-	-	1,993
Total revenue	203,462	2,064	77,523	352	283,401
Expenditures:					
Current:					
Police	-	2,547	-	-	2,547
Streets	-	-	-	-	-
Economic Development	-	-	419	30,755	31,174
Hotel/Motel Occupancy	200,477	-	-	-	200,477
Total expenditures	200,477	2,547	419	30,755	234,198
Excess (deficiency) of revenue over (under) expenditures	2,985	(483)	77,104	(30,403)	49,203
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	(1,007)	-	-	-	(1,007)
Net change in fund balances	1,978	(482)	77,104	(30,403)	48,196
Fund balance, October 1, 2016	1,085	9,994	204,439	89,856	305,374
Fund balance, September 30, 2017	\$ 3,063	\$ 9,511	\$ 281,543	\$ 59,453	\$ 353,570

EXHIBIT G-2

Capital Projects			Permanent Fund	
Texas Capital Fund	Street Capital Projects Fund	Total Capital Projects Funds	Woodland Park	Total Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ 77,523
-	-	-	-	201,484
17,935	-	17,935	-	17,935
-	-	-	489	2,890
-	-	-	6,692	6,692
-	-	-	-	1,993
17,935	-	17,935	7,181	308,517
-	-	-	-	2,547
-	115,073	115,073	-	115,073
17,935	-	17,935	-	49,109
-	-	-	-	200,477
17,935	115,073	133,008	-	367,206
-	(115,073)	(115,073)	7,181	(58,689)
-	125,000	125,000	-	125,000
-	-	-	(150)	(1,157)
-	9,927	9,927	7,031	65,154
-	19,095	19,095	523,209	847,678
\$ -	\$ 29,022	\$ 29,022	\$ 530,240	\$ 912,832

Exhibit G-3

CITY OF MINERAL WELLS, TEXAS
Combining Statement of Net Position
Nonmajor Enterprise Funds
September 30, 2017

	Airport Operations	Drainage Utility	Totals
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 21,333	\$ 73,121	\$ 94,454
Investments	149,429	-	149,429
Receivables (Net of allowances):			
Accounts	26,821	12,503	39,324
Miscellaneous	28,898	-	28,898
Inventory	40,302	-	40,302
Due from other funds	-	4,392	4,392
Total current assets	<u>266,783</u>	<u>90,016</u>	<u>356,799</u>
Noncurrent Assets:			
Capital assets, at cost:			
Land	194,863	-	194,863
Buildings and improvements	2,363,468	-	2,363,468
Improvements other than Buildings	55,070	-	55,070
Infrastructure	5,943,565	-	5,943,565
Equipment & Vehicles	402,073	-	402,073
Construction-in-Progress	36,414	-	36,414
Less: accumulated depreciation	<u>(4,109,708)</u>	<u>-</u>	<u>(4,109,708)</u>
Capital assets, net	<u>4,885,745</u>	<u>-</u>	<u>4,885,745</u>
Total noncurrent assets	<u>4,885,745</u>	<u>-</u>	<u>4,885,745</u>
Total assets	<u>5,152,528</u>	<u>90,016</u>	<u>5,242,544</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflow related to pensions	<u>27,804</u>	<u>-</u>	<u>27,804</u>
Total deferred outflows of resources	<u>27,804</u>	<u>-</u>	<u>27,804</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	27,356	-	27,356
Wages and Fringe Benefits Payable	4,003	-	4,003
Compensated absences payable	4,087	-	4,087
Due to other funds	45,300	-	45,300
Current Liabilities Payable from Restricted Assets:			
Current portion of Capital Lease Payable	<u>46,446</u>	<u>-</u>	<u>46,446</u>
Total current liabilities	<u>127,192</u>	<u>-</u>	<u>127,192</u>
Noncurrent Liabilities:			
Long-term Liabilities (Net of Current Portion)			
Net Pension Liability	34,465	-	34,465
Capital Lease Payable (Net of current portion)	<u>154,908</u>	<u>-</u>	<u>154,908</u>
Total noncurrent liabilities	<u>189,373</u>	<u>-</u>	<u>189,373</u>
Total liabilities	<u>316,565</u>	<u>-</u>	<u>316,565</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflow related to pensions	<u>6,547</u>	<u>-</u>	<u>6,547</u>
Total deferred inflows of resources	<u>6,547</u>	<u>-</u>	<u>6,547</u>
NET POSITION:			
Investment in capital assets, net of debt	4,684,391	-	4,684,391
Unrestricted	<u>172,829</u>	<u>90,016</u>	<u>262,845</u>
Total net position	<u>\$ 4,857,220</u>	<u>\$ 90,016</u>	<u>\$ 4,947,236</u>

CITY OF MINERAL WELLS, TEXAS
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the year ended September 30, 2017

	Airport Operations	Drainage Utility	Totals
Operating revenues:			
Charges for sales and services:			
Drainage utility fees	\$ -	\$ 102,166	\$ 102,166
Gasoline and Oil	521,717	-	521,717
Rentals	221,329	-	221,329
Miscellaneous Revenues	9,303	1,476	10,779
Total operating revenue	<u>752,349</u>	<u>103,642</u>	<u>855,991</u>
Operating expenses:			
Drainage Utility	-	13,626	13,626
Airport Operations	770,934	-	770,934
Depreciation	335,177	-	335,177
Total operating expenses	<u>1,106,111</u>	<u>13,626</u>	<u>1,119,737</u>
Operating income	<u>(353,762)</u>	<u>90,016</u>	<u>(263,746)</u>
Nonoperating revenues (expenses):			
Interest Earned	1,560	-	1,560
Oil & Gas Leases	2,284	-	2,284
Gain (loss) on disposal of capital assets	4,000	-	4,000
Insurance Recoveries	246,273	-	246,273
Interest on Capital Leases	(12,011)	-	(12,011)
Total nonoperating revenues (expenses)	<u>242,106</u>	<u>-</u>	<u>242,106</u>
Income before contributions and transfers	<u>(111,656)</u>	<u>90,016</u>	<u>(21,640)</u>
Contributions and transfers (to) from other funds:			
Capital Grants & Contributions	29,623	-	29,623
Transfers Out	(31,871)	-	(31,871)
Change in Net Position	(113,904)	90,016	(23,888)
Net Position, October 1, 2016	<u>4,971,124</u>	<u>-</u>	<u>4,971,124</u>
Net Position, September 30, 2017	<u>\$ 4,857,220</u>	<u>\$ 90,016</u>	<u>\$ 4,947,236</u>

EXHIBIT G-5

CITY OF MINERAL WELLS, TEXAS
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the year ended September 30, 2017

	Airport Operations	Drainage Utility	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 787,435	\$ 91,139	\$ 878,574
Cash paid to suppliers	(596,493)	(13,626)	(610,119)
Cash paid to employees	(173,027)	-	(173,027)
Net cash provided by operating activities	<u>17,915</u>	<u>77,513</u>	<u>95,428</u>
Cash flow from noncapital financing activities:			
(Increase) decrease in due from other funds	83,509	(4,392)	79,117
Transfers out	(31,871)	-	(31,871)
Net cash provided (used) by noncapital financing activities	<u>51,638</u>	<u>(4,392)</u>	<u>47,246</u>
Cash flow from capital and related financing activities:			
Capital expenditures	(414,604)	-	(414,604)
Proceeds from sale of capital assets	4,000	-	4,000
Capital grants and contributions	49,286	-	49,286
Insurance proceeds received	246,273	-	246,273
Principal payments on long-term debt	(53,440)	-	(53,440)
Interest paid on long-term debt	(12,011)	-	(12,011)
Net cash (used) by capital and related financing activities	<u>(180,496)</u>	<u>-</u>	<u>(180,496)</u>
Cash flow from investing activities:			
Interest received	1,560	-	1,560
Income from oil and gas leases	2,284	-	2,284
Net cash provided by investing activities	<u>3,844</u>	<u>-</u>	<u>3,844</u>
Net increase (decrease) in cash and cash equivalents	(107,099)	73,121	(33,978)
Cash and cash equivalents, September 30, 2016	<u>277,861</u>	<u>-</u>	<u>277,861</u>
Cash and cash equivalents, September 30, 2017	<u>\$ 170,762</u>	<u>\$ 73,121</u>	<u>\$ 243,883</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (353,762)	\$ 90,016	\$ (263,746)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	335,177	-	335,177
(Increase) decrease in accounts receivable	35,086	(12,503)	22,583
(Increase) decrease in supplies inventory	(10,218)	-	(10,218)
Increase (decrease) in accounts payable	10,674	-	10,674
Increase (decrease) in wages and fringe benefits payable	704	-	704
Increase (decrease) in compensated absences payable	2,350	-	2,350
Increase (decrease) in net pension balances	(2,096)	-	(2,096)
Total adjustments	<u>371,677</u>	<u>(12,503)</u>	<u>359,174</u>
Net cash provided by operating activities	<u>\$ 17,915</u>	<u>\$ 77,513</u>	<u>\$ 95,428</u>
Noncash Investing, Capital and Financing Activities			
Capital assets purchased with capital lease	\$ 40,732	\$ -	\$ 40,732
	<u>\$ 40,732</u>	<u>\$ -</u>	<u>\$ 40,732</u>

**OVERALL COMPLIANCE AND INTERNAL CONTROL
SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mineral Wells, Texas (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 12, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and question costs that we consider to be material weakness (2017-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-001.

City of Mineral Wells, Texas's Response to Findings

City of Mineral Wells, Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and question costs. City of Mineral Wells, Texas's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

George Morgan Sneed, P.C.

Weatherford, Texas

February 8, 2018

CITY OF MINERAL WELLS, TEXAS
Schedule of Findings and Responses
For the Year Ended September 30, 2017

Financial Statement Findings

2017-001. Bidding Procedures

Criteria: The State of Texas local government code requires the City to follow competitive bidding procedures on purchases exceeding \$50,000. The City's purchasing policy also requires public competitive bids for purchases exceeding \$50,000.

Condition: During the year the City Council authorized City staff to proceed with installation of a 16" water line on MH 379 and to install 2 inline valves. City staff received 3 written quotes for supplies for the project. The low quote of \$277,600 was accepted. The City should have followed public competitive bidding procedures for the purchase since it was reasonable to expect the cost to exceed \$50,000.

Recommendation:

We recommend that City use competitive sealed bids or cooperative purchasing contracts for purchases exceeding \$50,000. The City should have documentation to support that its purchases comply with the local government code and purchasing policy requirements.

City of Mineral Wells, Texas's Response

It is the City's policy to comply with the State law on all purchasing requirements. In this particular instance, the purchase was for material related to the MH 379 water main extension project and was initiated by the Public Works Department. The individual(s) making the purchase believed that they were following the law by obtaining three written quotes and did not realize that it was necessary to conduct a sealed bid process.

In an effort to prevent this issue from recurring, management is requiring individuals involved in the purchasing process to attend training that will better prepare them to handle purchases in excess of \$50,000. Moreover, our new purchasing policy will address purchasing procedures and provide a framework which all staff will be able to reference.

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