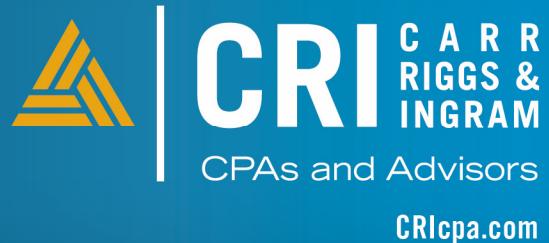


# **City of Mineral Wells, Texas**

## **ANNUAL FINANCIAL REPORT**

**For the Year Ended September 30, 2018**



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## Introductory Section

**City of Mineral Wells, Texas**  
**Annual Financial Report**  
**September 30, 2018**  
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**Annual Financial Report**  
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**City of Mineral Wells, Texas  
Official Roster  
September 30, 2018**

**City Council**

<b><u>Name</u></b>	<b><u>Title</u></b>
Christopher M. Perricone	Mayor
Brian Shoemaker	Councilor
Regan Johnson	Councilor
Jerrel Tomlin	Councilor
Tammy Underwood	Councilor
Beth Watson	Councilor
Doyle Light	Councilor

**Administration**

Lance Howerton (as of 9/30/18)	City Manager
Margie Rose (current)	Interim City Manager
John Moran	Finance Director
Peggy Clifton	City Clerk

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## **Financial Section**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2018, 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 misstatements, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Palo Pinto County Municipal Water District No. 1, which represent 55 percent, 44 percent, and 22 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Palo Pinto Municipal Water District No. 1, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 disclosures 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 accounting 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Mineral Wells, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Adoption of New Accounting Pronouncement*

As described in Note 17 to the financial statements, the City adopted Government Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which resulted in a cumulative effect of change in accounting principle of (\$253,956) to the September 30, 2017 net position for governmental activities and (\$119,158) for the business-type activities. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 13 through 19 and Schedules pertaining to Pension and OPEB, the Notes to the Required Supplementary Information, and the budgetary comparison for the General Fund on pages 92 through 104 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 City's financial statements that collectively comprise the City's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Dallas, Texas  
March 29, 2019

**City of Mineral Wells, Texas  
Management's Discussion and Analysis  
September 30, 2018**

**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, 2018.

**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 \$81,281,726 (net position). Of this amount, \$19,759,939 (unrestricted net position) may be used to meet the City's ongoing obligations.

The City's total net position decreased by \$59,441. The City's operations decreased governmental activities by \$853,444 and increased the business-type activities by \$794,003.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$9,662,601. \$3,673,188 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 \$3,673,188 or 32% percent of total General Fund expenditures.

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

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

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

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

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

The government-wide financial statements are presented on pages 22-25 of this report.

**City of Mineral Wells, Texas  
Management's Discussion and Analysis  
September 30, 2018**

**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 22-89 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.

**City of Mineral Wells, Texas  
Management's Discussion and Analysis  
September 30, 2018**

The Proprietary Fund Financial Statements provide information for the Water/Sewer Enterprise Fund, the Water District, the Airport and the Drainage Utility 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 34-43 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 44-89 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 pages 92-103 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 \$81,268,836 at September 30, 2018.

The largest portion of the City's net position (71 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.

\$3,312,604 of the City's net position represents resources that are subject to external restrictions on how they may be used. The \$19,759,939 balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

**City of Mineral Wells, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2018**

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current and Other Assets	\$ 14,018,028	\$ 8,312,251	\$ 30,828,924	\$ 24,943,229	\$ 44,846,952	\$ 33,255,480
Capital Assets	28,079,279	28,810,845	49,036,642	48,553,478	77,115,921	77,364,323
<b>Total Assets</b>	<b>\$ 42,097,307</b>	<b>\$ 37,123,096</b>	<b>\$ 79,865,566</b>	<b>\$ 73,496,707</b>	<b>\$ 121,962,873</b>	<b>\$ 110,619,803</b>
<b>Deferred Outflows of Resources</b>						
	\$ 405,092	\$ 1,271,755	\$ 187,346	\$ 585,512	\$ 592,438	\$ 1,857,267
<b>Liabilities</b>						
Long-Term Liabilities	\$ 9,207,066	\$ 5,356,553	\$ 26,794,013	\$ 23,552,317	\$ 36,001,079	\$ 28,908,870
Other Liabilities	1,500,709	497,049	2,781,306	888,833	4,282,015	1,385,882
<b>Total Liabilities</b>	<b>\$ 10,707,775</b>	<b>\$ 5,853,602</b>	<b>\$ 29,575,319</b>	<b>\$ 24,441,150</b>	<b>\$ 40,283,094</b>	<b>\$ 30,294,752</b>
<b>Deferred Inflows of Resources</b>						
	\$ 675,223	\$ 327,338	\$ 315,268	\$ 153,589	\$ 990,491	\$ 480,927
<b>Net position</b>						
Net Investment						
in Capital Assets	\$ 22,511,317	\$ 28,650,655	\$ 35,684,976	\$ 40,690,311	\$ 58,196,293	\$ 69,340,966
Restricted	957,559	1,090,583	2,355,045	2,300,228	3,312,604	3,390,811
Unrestricted	7,637,635	2,472,673	12,122,304	6,496,941	19,759,939	8,969,614
<b>Total Net Position</b>	<b>\$ 31,106,511</b>	<b>\$ 32,213,911</b>	<b>\$ 50,162,325</b>	<b>\$ 49,487,480</b>	<b>\$ 81,268,836</b>	<b>\$ 81,701,391</b>

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

**City of Mineral Wells, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2018**

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 1,214,484	\$ 1,401,910	\$ 13,445,658	\$ 11,949,621	\$ 14,660,142	\$ 13,351,531
Operating grants and contributions	272,720	256,816	-	-	272,720	256,816
Capital grants and contributions	-	228,826	-	29,623	-	258,449
<b>General revenues:</b>						
Property taxes	4,051,187	3,739,753	-	-	4,051,187	3,739,753
Other taxes	4,804,934	4,489,480	-	-	4,804,934	4,489,480
Other	159,597	1,315,445	890,223	826,099	1,049,820	2,141,544
<b>Total revenues</b>	<b>\$ 10,502,922</b>	<b>\$ 11,432,230</b>	<b>\$ 14,335,881</b>	<b>\$ 12,805,343</b>	<b>\$ 24,838,803</b>	<b>\$ 24,237,573</b>
<b>Expenses:</b>						
Administrative	\$ 1,136,740	\$ 1,975,540	\$ -	\$ -	\$ 1,136,740	\$ 1,975,540
Public safety	5,064,655	5,248,865	-	-	5,064,655	5,248,865
Highways/streets	1,920,563	1,865,860	-	-	1,920,563	1,865,860
Public works	2,668,546	1,038,553	-	-	2,668,546	1,038,553
Economic development	235,537	49,109	-	-	235,537	49,109
Culture and recreation	1,469,011	1,627,681	-	-	1,469,011	1,627,681
Interest on long-term debt	118,185	1,903	-	-	118,185	1,903
Water and sewer	-	-	9,335,377	8,684,490	9,335,377	8,684,490
PPCMWD No. 1	-	-	1,456,366	1,378,188	1,456,366	1,378,188
Airport	-	-	1,460,550	1,106,111	1,460,550	1,106,111
Nonmajor enterprise funds	-	-	32,714	21,346	32,714	21,346
<b>Total expenses</b>	<b>\$ 12,613,237</b>	<b>\$ 11,807,511</b>	<b>\$ 12,285,007</b>	<b>\$ 11,190,135</b>	<b>\$ 24,898,244</b>	<b>\$ 22,997,646</b>
Change in net position before transfers						
Transfers	\$ (2,110,315)	\$ (375,281)	\$ 2,050,874	\$ 1,615,208	\$ (59,441)	\$ 1,239,927
<b>Transfers</b>	<b>1,256,871</b>	<b>931,871</b>	<b>(1,256,871)</b>	<b>(931,871)</b>	<b>-</b>	<b>-</b>
Change in net position	(853,444)	556,590	794,003	683,337	(59,441)	1,239,927
Net position - beginning	31,959,955	31,657,321	49,368,322	48,804,143	81,328,277	80,461,464
Restatement of net position (Note 17)	-	(253,956)	-	(119,158)	-	(373,114)
Net position - beginning, as restated	-	31,403,365	-	48,684,985	-	80,088,350
<b>Net position - ending</b>	<b>\$ 31,106,511</b>	<b>\$ 31,959,955</b>	<b>\$ 50,162,325</b>	<b>\$ 49,368,322</b>	<b>\$ 81,268,836</b>	<b>\$ 81,328,277</b>

**City of Mineral Wells, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2018**

**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 \$3,673,188 while total fund balance reached \$3,684,648. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 32.28 percent of total general fund expenditures, while total fund balance represents 32.38 percent of that same amount.

**Other Items.** The Debt Service Fund has a total fund balance of \$2,787 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, Airport Operations and Nonmajor Enterprise Fund are \$7,736,710, \$3,318,413, \$503,050 and \$215,116 respectively.

**General Fund Budgetary Highlights.** It is the practice of the City to budget very conservatively. Revenues in 2017-18 were \$43,416 more than budgeted with Sales and use taxes coming in at \$180,898 more than budgeted. Actual expenses were 2.91 percent less than budgeted primarily due to Capital Outlay and the Library expenditures being lower than anticipated. While the City budgeted \$0 of appropriated fund balance the City's actual change in fund balance was an increase of \$379,952.

**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, 2018 amounts to \$77,103,031 (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. Additional information on the City's capital assets can be found in Note 6 of this report.

**Long-Term Liabilities.** At the end of the fiscal year, the City had total outstanding liabilities of \$37,913,150. Included in the City's long-term debt are capital leases in the amount of \$161,595 for police vehicles and airport T-hangars and tractor. \$2,133,993 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, \$21,420,000 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.

**City of Mineral Wells, Texas  
Management's Discussion and Analysis  
September 30, 2018**

**Economic Factors and Next Year's Budgets and Rates.** The City of Mineral Wells has demonstrated sustained economic recovery from the 2008 recession, which resulted in various economic development and business/industry expansions. 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 carefully invest General Fund balances of more than \$3,300,000 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 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.

A voter – approved bond initiative was also utilized to improve street and utility infrastructure. This multi – faceted approach is part of a larger strategy to deal with long standing infrastructure issues.

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 was undertaken to ensure proper future funding for the Turkey Peak Reservoir Project, as well as adequately supporting the associated water/sewer utility departments' needs. The City is also formulating a Water/Sewer Capital Improvement Plan in order to plan and properly fund future infrastructure improvements.

In regards to the Airport Fund, fuel sales have started to increase, which in turn supports Airport operations. We anticipate future runway repairs and upgrades to also increase utilization of the Airport. Also, 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 recently implemented a Drainage Utility to fund necessary improvements to the storm water collection system. We intend to fund a Comprehensive Drainage Study to mitigate future flood events within the community and to also identify and repair aging infrastructure.

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.

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## **Financial Statements**

**City of Mineral Wells, Texas**  
**Statement of Net Position**  
**September 30, 2018**

	Primary Government			Component Unit		
	Governmental Activities		Business-Type Activities	Total	Community Development	
					Corporation	
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 2,808,485	\$ 5,326,373	\$ 8,134,858	\$ 1,079,800		
Investments	5,271,476	7,788,914	13,060,390		-	
Receivables:						
Property taxes	153,455	-	153,455		-	
Other taxes	704,113	-	704,113		-	
Accounts	271,260	1,079,399	1,350,659		-	
Leases	2,133,993	-	2,133,993		-	
Other	19,039	1,090	20,129		47,513	
Prepaid expense	110,000	5,400	115,400		-	
Inventory	11,460	381,140	392,600		-	
Internal Balances	(303,239)	303,239	-		-	
Total current assets	11,180,042	14,885,555	26,065,597		1,127,313	
Noncurrent assets						
Restricted cash and cash equivalents:						
Cash and cash equivalents	2,837,986	13,391,330	16,229,316		-	
Investments	-	2,552,039	2,552,039		-	
Capital assets						
Nondepreciable	2,324,726	15,181,291	17,506,017		-	
Depreciable, net of accumulated depreciation	25,741,663	33,855,351	59,597,014		-	
Total noncurrent assets	30,904,375	64,980,011	95,884,386		-	
Deferred outflows						
Deferred outflows related to pensions	376,013	173,701	549,714		-	
Deferred outflows related to OPEB	29,079	13,645	42,724		-	
Total deferred outflows	405,092	187,346	592,438		-	
Total assets and deferred outflows	\$ 42,489,509	\$ 80,052,912	\$ 122,542,421		\$ 1,127,313	

*The accompanying notes are an integral part of these financial statements.*

	Primary Government			Component Unit	
	Governmental Activities		Business-Type Activities	Total	Community Development Corporation
<b>Liabilities</b>					
Current liabilities					
Accounts payable	\$ 750,178	\$ 729,921	\$ 1,480,099	\$ -	-
Accrued payroll	106,714	52,166	158,880		-
Other accrued liabilities	90,048	32,843	122,891		
Due to State	21,173	-	21,173		-
Retainage payable	62,472	33,831	96,303		-
Unearned revenue	-	161,485	161,485		-
Deposits held for others	-	329,113	329,113		-
Noncurrent liabilities					
Due within one year	470,124	1,475,670	1,945,794		-
Total current liabilities	1,500,709	2,815,029	4,315,738		-
Noncurrent liabilities					
Due in more than one year	9,207,066	26,760,290	35,967,356		-
Total noncurrent liabilities	9,207,066	26,760,290	35,967,356		-
Total liabilities	10,707,775	29,575,319	40,283,094		-
<b>Deferred inflows</b>					
Deferred inflows related to pensions	675,223	315,268	990,491		-
Total deferred inflows	675,223	315,268	990,491		-
<b>Net position</b>					
Net investment in capital assets	22,511,317	35,684,976	58,196,293		-
Restricted for:					
Debt service	2,787	2,355,045	2,357,832		-
Police	9,092	-	9,092		-
Hotel/motel occupancy	6,256	-	6,256		-
Economic development	395,814	-	395,814		-
Woodland park	543,610	-	543,610		-
Unrestricted net position	7,637,635	12,122,304	19,759,939	1,127,313	
Total net position	31,106,511	50,162,325	81,268,836	1,127,313	
Total liabilities, deferred inflows, and net position	\$ 42,489,509	\$ 80,052,912	\$ 122,542,421	\$ 1,127,313	

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2018**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
Administrative	\$ 1,135,740	\$ 24,083	\$ -	\$ -
Finance	639,463	204,493	-	-
Information technology	409,913	-	-	-
Fleet maintenance	774,866	-	-	-
Police department	3,137,228	44,193	160,846	-
Fire/EMS	1,927,427	615,820	80,611	-
Inspections	375,666	78,832	-	-
Streets	1,920,563	3,697	-	-
Sanitation	159,743	60,666	-	-
Parks & recreation	1,139,573	87,669	-	-
Cemetery	308,895	84,934	-	-
Library	329,438	10,097	31,263	-
Economic development	235,537	-	-	-
Interest and fiscal charges	118,185	-	-	-
<b>Total governmental activities</b>	<b>12,612,237</b>	<b>1,214,484</b>	<b>272,720</b>	<b>-</b>
<b>Business-type activities:</b>				
Water and sewer	9,335,377	9,216,704	-	-
PPCMWD No. 1	1,456,366	2,975,194	-	-
Airport	1,460,550	1,079,756	-	-
Nonmajor enterprise fund	32,714	174,004	-	-
<b>Total business-type activities</b>	<b>12,285,007</b>	<b>13,445,658</b>	<b>-</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 24,897,244</b>	<b>\$ 14,660,142</b>	<b>\$ 272,720</b>	<b>\$ -</b>
<b>Component unit:</b>				
Economic Development	\$ 2,712	\$ -	\$ -	\$ -
<b>General revenues:</b>				
Taxes				
Property taxes				
Sales and use taxes				
Franchise taxes				
Hotel/motel taxes				
Investment earnings				
Insurance recoveries				
Other revenue				
Transfers				
<b>Total general revenues and transfers</b>				
<b>Change in net position</b>				
<b>Net position - beginning</b>				
<b>Restatement of net position (see note 17)</b>				
<b>Net position - beginning, as restated</b>				
<b>Net position - ending</b>				

*The accompanying notes are an integral part of these financial statements.*

**Net (Expense) Revenue and Changes in Net Position**

	Primary Government		Component Unit	
	Governmental Activities	Business-Type Activities	Total	Community Development Corporation
\$	(1,111,657)	\$ -	\$ (1,111,657)	\$ -
	(434,970)		(434,970)	
	(409,913)		(409,913)	
	(774,866)		(774,866)	
	(2,932,189)		(2,932,189)	
	(1,230,996)		(1,230,996)	
	(296,834)		(296,834)	
	(1,916,866)		(1,916,866)	
	(99,077)		(99,077)	
	(1,051,904)		(1,051,904)	
	(223,961)		(223,961)	
	(288,078)		(288,078)	
	(235,537)		(235,537)	
	(118,185)		(118,185)	
	<u>(11,125,033)</u>		<u>(11,125,033)</u>	
	-	(118,673)	(118,673)	-
	-	1,518,828	1,518,828	-
	-	(380,794)	(380,794)	-
	-	141,290	141,290	-
	<u>-</u>	<u>1,160,651</u>	<u>1,160,651</u>	
	<u>(11,125,033)</u>	<u>1,160,651</u>	<u>(9,964,382)</u>	
	-	-	-	(2,712)
	4,051,187	-	4,051,187	-
	3,155,898	-	3,155,898	278,001
	1,306,298	-	1,306,298	-
	198,370	-	198,370	-
	144,368	153,953	298,321	15,363
	-	736,270	736,270	-
	159,597	-	159,597	-
	1,255,871	(1,256,871)	(1,000)	-
	<u>10,271,589</u>	<u>(366,648)</u>	<u>9,904,941</u>	<u>293,364</u>
	<u>(853,444)</u>	<u>794,003</u>	<u>(59,441)</u>	<u>290,652</u>
	<u>32,213,911</u>	<u>49,487,480</u>	<u>81,701,391</u>	<u>836,661</u>
	<u>(253,956)</u>	<u>(119,158)</u>	<u>(373,114)</u>	
	<u>31,959,955</u>	<u>49,368,322</u>	<u>81,328,277</u>	<u>836,661</u>
\$	<u>31,106,511</u>	<u>\$ 50,162,325</u>	<u>\$ 81,268,836</u>	<u>\$ 1,127,313</u>

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2018**

	<b>General Fund</b>	<b>Debt Service</b>
<b>Assets</b>		
Unrestricted cash	\$ 1,715,278	\$ 7,597
Restricted cash	212,976	-
Receivables, net		
Property tax receivables	79,048	4,263
Other tax receivables	704,113	-
Account receivables	271,260	-
Miscellaneous receivables	19,039	-
Lease receivables	-	2,133,993
Inventory	11,460	-
Unrestricted investments	1,407,240	-
Due from other funds	324,413	-
<b>Total assets</b>	<b>\$ 4,744,827</b>	<b>\$ 2,145,853</b>
<b>Liabilities, deferred inflows of resources, and fund balances</b>		
Liabilities		
Accounts payable	\$ 303,715	\$ 6,021
Accrued payroll	106,714	-
Other accrued liabilities	15,260	-
Fringe benefits payable	66,252	-
Due to state	21,173	-
Retainage payable	62,472	-
Due to other funds	113,351	-
<b>Total liabilities</b>	<b>688,937</b>	<b>6,021</b>
Deferred Inflows of resources		
Unavailable revenue	371,242	2,137,045
<b>Total deferred inflows of resources</b>	<b>371,242</b>	<b>2,137,045</b>
Fund balances		
Nonspendable		
Inventory	11,460	-
Woodland park permanent fund	-	-
Restricted		
Debt service	-	2,787
Capital projects	-	-
Police	-	-
Hotel/Motel occupancy	-	-
Economic development	-	-
Unassigned	3,673,188	-
<b>Total fund balances</b>	<b>3,684,648</b>	<b>2,787</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,744,827</b>	<b>\$ 2,145,853</b>

*The accompanying notes are an integral part of these financial statements.*

Street Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ - \$ 2,307,072	313,626 \$ 317,938	2,036,501 2,837,986
	- 70,144	153,455
	-	704,113
	-	271,260
	-	19,039
	-	2,133,993
	-	11,460
3,150,353	251,605	4,809,198
-	8,281	332,694
<b>\$ 5,457,425</b>	<b>\$ 961,594</b>	<b>\$ 13,309,699</b>
\$ 437,031	\$ 3,411	\$ 750,178
-	-	106,714
-	-	15,260
-	-	66,252
-	-	21,173
-	-	62,472
-	3,411	116,762
<b>437,031</b>	<b>6,822</b>	<b>1,138,811</b>
-	-	2,508,287
<b>-</b>	<b>-</b>	<b>2,508,287</b>
-	-	11,460
-	543,610	543,610
-	-	2,787
5,020,394	-	5,020,394
-	9,092	9,092
-	6,256	6,256
-	395,814	395,814
-	-	3,673,188
<b>5,020,394</b>	<b>954,772</b>	<b>9,662,601</b>
<b>\$ 5,457,425</b>	<b>\$ 961,594</b>	<b>\$ 13,309,699</b>

*The accompanying notes are an integral part of these financial statements.*

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**City of Mineral Wells, Texas**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**September 30, 2018**

Amounts reported for governmental activities in the Statement of Net Position  
 are different because:

Fund balances - total governmental funds	\$ 9,662,601
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	28,066,389
Certain taxes receivable are not considered "available" revenues and are considered to be unearned revenue in the fund financial statements, but are considered revenue in the Statement of Activities	374,294
Deferred outflows and inflows of resources are applicable to future periods and therefore, are not reported in funds:	
Deferred outflows of resources related to pensions	376,013
Deferred outflows of resources related to OPEBs	29,079
Deferred inflows of resources related to pensions	(675,223)
Some liabilities, including bonds payable, notes, accrued compensated absences, and net pension payable are not due and payable in the current period and, therefore, are not reported in the funds:	
Long-term liabilities	(7,543,197)
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 attributable to the fund are included in the statement of net position.	816,555
<b>Total net position of governmental activities</b>	<b>\$ 31,106,511</b>

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2018**

	<b>General Fund</b>	<b>Debt Service</b>
<b>Revenues</b>		
Taxes		
Property taxes	\$ 3,948,825	\$ 2,744
Sales and use taxes	3,155,898	-
Franchise taxes	1,306,298	-
Occupancy taxes	-	-
Intergovernmental	272,720	-
Charges for services	314,412	-
Permits and fees	923,525	-
Investment income	94,766	354
Other revenue	135,074	197,209
<b>Total revenues</b>	<b>10,151,518</b>	<b>200,307</b>
<b>Expenditures</b>		
Current		
General administration	1,060,921	-
Finance	639,405	-
Information technology	398,200	-
Fleet maintenance	776,528	-
Police department	3,041,246	-
Fire and EMS	1,746,258	-
Inspections	382,130	-
Streets	1,170,914	-
Sanitation department	160,183	-
Parks and recreation	903,048	-
Cemetery	304,935	-
Library	294,322	-
Economic development	-	-
Hotel occupancy tax	-	-
Capital outlay	316,267	-
Debt service		
Principal	170,681	197,710
Interest	5,973	-
<b>Total expenditures</b>	<b>11,371,011</b>	<b>197,710</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,219,493)</b>	<b>2,597</b>
<b>Other financing sources (uses)</b>		
Proceeds from sale of general capital assets	210,000	-
Premiums from bonds and notes payable	-	-
Bond discount and issuance cost	-	-
Proceeds from bonds and notes payable	-	-
Transfers in	1,389,445	-
Transfers out	-	(6,432)
<b>Total other financing sources (uses)</b>	<b>1,599,445</b>	<b>(6,432)</b>
Net change in fund balance	379,952	(3,835)
Fund balance - Beginning of year	3,304,696	6,622
<b>Fund balance - End of year</b>	<b>\$ 3,684,648</b>	<b>\$ 2,787</b>

*The accompanying notes are an integral part of these financial statements.*

Street Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 89,566	\$ 4,041,135
-	-	3,155,898
-	-	1,306,298
-	198,370	198,370
-	-	272,720
-	8,296	322,708
-	-	923,525
28,136	11,948	135,204
-	30	332,313
<b>28,136</b>	<b>308,210</b>	<b>10,688,171</b>
-	-	1,060,921
-	-	639,405
-	-	398,200
-	-	776,528
-	569	3,041,815
-	-	1,746,258
-	-	382,130
-	-	1,170,914
-	-	160,183
-	-	903,048
-	-	304,935
-	-	294,322
-	38,159	38,159
-	197,378	197,378
<b>479,624</b>	-	<b>795,891</b>
-	-	368,391
-	-	5,973
<b>591,836</b>	<b>236,106</b>	<b>12,284,451</b>
<b>(563,700)</b>	<b>72,104</b>	<b>(1,596,280)</b>
-	-	210,000
340,072	-	340,072
(112,212)	-	(112,212)
5,215,000	-	5,215,000
-	-	1,389,445
-	(1,142)	(7,574)
<b>5,442,860</b>	<b>(1,142)</b>	<b>7,034,731</b>
<b>4,991,372</b>	<b>70,962</b>	<b>5,438,451</b>
<b>29,022</b>	<b>883,810</b>	<b>4,224,150</b>
<b>\$ 5,020,394</b>	<b>\$ 954,772</b>	<b>\$ 9,662,601</b>

*The accompanying notes are an integral part of these financial statements.*

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**City of Mineral Wells, Texas**

**Governmental Funds**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2018**

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Net change in fund balances - total governmental funds	\$ 5,438,451
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Governmental funds report capital outlays as expenditures. However, in  
the Statement of Activities, the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense:

Capital expenditures recorded in capital outlay	795,891
Depreciation expense	(1,524,069)

Governmental funds do not report losses on dispositions. However, in the  
Statement of Activities, these items are reported as expenses:

Loss of disposition of capital assets	(16,278)
---------------------------------------	----------

Revenues in the Statement of Activities that do not provide current financial  
resources are not reported as revenue in the funds:

Increase in unavailable revenue related to taxes receivable	10,052
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Changes in PERA and OPEB liability affect expenses reported in the Statement  
of Activities but does not require the use of current financial resources and,  
therefore, is not reported as expenditures in the governmental funds

OPEB related items	(31,749)
Pension related items	159,491

The issuance of long-term debt (e.g. bonds, loans, leases) provides current financial  
resources to governmental funds, while the repayment of the principal of long-term  
debt consumes the current financial resources of governmental funds. Neither  
transaction, however, has any effect on net position.

Proceeds from the issuance of capital leases	(210,000)
Proceeds from the issuance of bonds	(5,215,000)
Premium from bonds payable	(340,072)
Principal payments on bonds payable and capital lease	158,391

The City uses an internal service fund to charge the costs of insurance to  
individual funds. The adjustment is needed to reflect the consolidation  
of the internal service fund in the governmental activities

(78,552)
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Change in net position of governmental activities	\$ (853,444)
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*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

	<b>Business-Type Activities Enterprise Funds</b>			
			<b>Palo Pinto County</b>	
	<b>Water and Sewer</b>	<b>Municipal Water District No. 1</b>	<b>Airport Operations</b>	
<b>Assets</b>				
Unrestricted cash	\$ 3,741,087	\$ 1,224,502	\$ 172,354	
Investments	4,229,769	3,406,930		152,215
Receivables (Net of allowance):				
Accounts receivable	1,029,923	4,640		31,067
Miscellaneous receivables	1,090	-		
Inventory	228,432	101,868		50,840
Due from other funds	(12,917)	-		
Prepaid assets	-	5,400		
<b>Total current assets</b>	<b>9,217,384</b>	<b>4,743,340</b>		<b>406,476</b>
Restricted cash and cash equivalents				
Restricted cash	-	13,390,330		1,000
Investments	-	2,552,039		
Capital assets				
Capital assets non-depreciable	1,355,836	13,630,592		194,863
Capital assets depreciable	39,535,153	25,239,766		8,799,014
Less: accumulated depreciation	(20,077,409)	(15,516,759)		(4,484,601)
<b>Total noncurrent assets</b>	<b>20,813,580</b>	<b>39,295,968</b>		<b>4,510,276</b>
<b>Total assets</b>	<b>30,030,964</b>	<b>44,039,308</b>		<b>4,916,752</b>
<b>Deferred outflows of resources</b>				
Deferred outflows related to pension	166,488	-		7,213
Deferred outflows related to OPEB	12,963	-		682
<b>Total deferred outflows of resources</b>	<b>179,451</b>	-		<b>7,895</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 30,210,415</b>	<b>\$ 44,039,308</b>		<b>\$ 4,924,647</b>

*The accompanying notes are an integral part of these financial statements.*

<b>Business-Type Activities</b>		<b>Governmental Activities</b>	
<b>Enterprise Funds</b>		<b>Activities</b>	
<b>Nonmajor Proprietary Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>	
\$ 188,430	\$ 5,326,373	\$ 771,984	
-	7,788,914	462,278	
13,769	1,079,399	-	
-	1,090	-	
-	381,140	-	
12,917	-	-	
-	5,400	110,000	
<b>215,116</b>	<b>14,582,316</b>	<b>1,344,262</b>	
-	13,391,330	-	
-	2,552,039	-	
-	15,181,291	-	
382,500	73,956,433	-	
(22,313)	(40,101,082)	-	
<b>360,187</b>	<b>64,980,011</b>	<b>-</b>	
<b>575,303</b>	<b>79,562,327</b>	<b>1,344,262</b>	
-	173,701	-	
-	13,645	-	
<b>-</b>	<b>187,346</b>	<b>-</b>	
<b>\$ 575,303</b>	<b>\$ 79,749,673</b>	<b>\$ 1,344,262</b>	

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2018**

<b>Business-Type Activities Enterprise Funds</b>				
	<b>Palo Pinto County</b>			
	<b>Water and Sewer</b>	<b>Municipal Water District No. 1</b>	<b>Airport Operations</b>	
<b>Liabilities</b>				
Current liabilities				
Accounts payable	\$ 236,675	\$ 493,246		
Fringe benefits payable	26,380	-		723
Retainage payable	18,336	-		15,495
Accrued payroll	43,224	5,629		3,313
Other accrued liabilities	5,714	-		26
Unearned revenue	-	161,485		
Deposits held for others	329,113	-		
Due to other funds	2,765	-		43,011
Current liabilities payable from restricted assets				
Notes payable	-	-		
Bonds payable	45,000	1,070,000		
Leases payable	-	-		48,723
Interest payable	-	196,994		
Compensated absences	51,361	-		5,676
Bond premium and discount	13,994	-		
Total current liabilities	772,562	1,927,354		116,967
Long-term liabilities (Net of current portion)				
Notes payable	-	-		
Bonds payable	5,320,000	20,350,000		
Leases payable	-	-		112,872
Net pension liability	155,753	-		1,924
Net OPEB liability	140,314	-		7,385
Bond premium and discount	335,859	11,108		
Total noncurrent liabilities	5,951,926	20,361,108		122,181
Total liabilities	6,724,488	22,288,462		239,148
<b>Deferred inflows of resources</b>				
Deferred inflows related to pension	300,637	-		14,631
Total deferred inflows of resources	300,637	-		14,631
<b>Net position</b>				
Net investment in capital assets	15,448,580	16,077,388		4,167,818
Restricted for debt service	-	2,355,045		
Unrestricted net position	7,736,710	3,318,413		503,050
Total net position	23,185,290	21,750,846		4,670,868
Total liabilities, deferred inflows of resources, and net position	\$ 30,210,415	\$ 44,039,308	\$ 4,924,647	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				
Net position of business-type activities				

*The accompanying notes are an integral part of these financial statements.*

<b>Business-Type Activities</b>		<b>Governmental Activities</b>	
<b>Enterprise Funds</b>		<b>Activities</b>	
<b>Nonmajor Proprietary Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>	
\$	\$	\$	
	729,921		-
-	27,103		8,536
-	33,831		-
-	52,166		-
-	5,740		-
	161,485		-
	329,113		-
-	45,776		170,156
	-		
43,922	43,922		-
-	1,115,000		-
-	48,723		-
-	196,994		-
-	57,037		-
-	13,994		
<b>43,922</b>	<b>2,860,805</b>		<b>178,692</b>
325,075	325,075		-
-	25,670,000		-
-	112,872		-
-	157,677		-
-	147,699		-
-	346,967		-
<b>325,075</b>	<b>26,760,290</b>		<b>-</b>
<b>368,997</b>	<b>29,621,095</b>		<b>178,692</b>
-	315,268		-
-	315,268		-
(8,810)	35,684,976		-
-	2,355,045		-
<b>215,116</b>	<b>11,773,289</b>		<b>1,165,570</b>
<b>206,306</b>	<b>49,813,310</b>		<b>1,165,570</b>
\$	<b>575,303</b>	<b>79,749,673</b>	\$ <b>1,344,262</b>
		303,239	
\$		<b>80,052,912</b>	

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	<b>Business-Type Activities Enterprise Funds</b>		
	<b>Palo Pinto County</b>		
	<b>Water and Sewer</b>	<b>Municipal Water District No. 1</b>	<b>Airport Operations</b>
Operating revenues			
Water sales	\$ 6,051,756	\$ 2,973,244	\$ -
Connections	34,949	-	-
Sewer	3,022,786	-	-
Drainage utility fees	-	-	-
Oil and gas	-	-	800,625
Rentals	-	-	259,474
Other Revenue	107,213	1,950	19,657
<b>Total operating revenues</b>	<b>9,216,704</b>	<b>2,975,194</b>	<b>1,079,756</b>
Operating expenses			
General administration	-	348,842	-
Public works administration	3,218,832	-	-
Water distribution and sewer	1,187,409	-	-
Hilltop water treatment plant	1,348,981	-	-
Wastewater plants	1,444,573	-	-
Facility maintenance	651,565	-	-
City utility service	472,429	-	-
Drainage utility	-	-	-
Airport	-	-	1,067,500
Waterworks and sewer system	115,440	-	-
Depreciation expense	896,148	507,348	382,892
<b>Total operating expenses</b>	<b>9,335,377</b>	<b>856,190</b>	<b>1,450,392</b>
<b>Operating income (loss)</b>	<b>(118,673)</b>	<b>2,119,004</b>	<b>(370,636)</b>
Non-operating revenues (expenses)			
Insurance recoveries	506,785	-	229,485
Interest expense	-	(600,176)	(10,158)
Interest earned	39,232	111,935	2,786
<b>Total non-operating revenues (expenses)</b>	<b>546,017</b>	<b>(488,241)</b>	<b>222,113</b>
Income (loss) before contributions and transfers	427,344	1,630,763	(148,523)
Transfers in	5,964,974	-	-
Transfers out	(7,164,974)	-	(31,871)
Change in net position	(772,656)	1,630,763	(180,394)
Net position - beginning	24,071,146	20,120,083	4,857,220
Net position, restatement (note 17)	(113,200)	-	(5,958)
<b>Total net position, beginning, as restated</b>	<b>23,957,946</b>	<b>20,120,083</b>	<b>4,851,262</b>
<b>Net position - end of year</b>	<b>\$ 23,185,290</b>	<b>\$ 21,750,846</b>	<b>\$ 4,670,868</b>

*The accompanying notes are an integral part of these financial statements.*

<b>Business-Type Activities</b>		<b>Governmental Activities</b>	
<b>Enterprise Funds</b>		<b>Activities</b>	
<b>Nonmajor Proprietary Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>	
\$ -	\$ 9,025,000	\$ -	
-	34,949	-	
-	3,022,786	-	
174,004	174,004	-	
-	800,625	-	
-	259,474	-	
-	128,820	1,940,908	
<b>174,004</b>	<b>13,445,658</b>	<b>1,940,908</b>	
-	348,842	1,903,624	
-	3,218,832	-	
-	1,187,409	-	
-	1,348,981	-	
-	1,444,573	-	
-	651,565	-	
-	472,429	-	
3,304	3,304	-	
-	1,067,500	-	
-	115,440	-	
22,313	1,808,701	-	
<b>25,617</b>	<b>11,667,576</b>	<b>1,903,624</b>	
<b>148,387</b>	<b>1,778,082</b>	<b>37,284</b>	
-	736,270	-	
(7,097)	(617,431)	-	
-	153,953	9,164	
<b>(7,097)</b>	<b>272,792</b>	<b>9,164</b>	
<b>141,290</b>	<b>2,050,874</b>	<b>46,448</b>	
-	5,964,974	-	
<b>(25,000)</b>	<b>(7,221,845)</b>	<b>(125,000)</b>	
116,290	794,003	(78,552)	
<b>90,016</b>	<b>49,138,465</b>	<b>1,244,122</b>	
-	(119,158)	-	
<b>90,016</b>	<b>49,019,307</b>	<b>1,244,122</b>	
<b>\$ 206,306</b>	<b>\$ 49,813,310</b>	<b>\$ 1,165,570</b>	

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	<b>Business-Type Activities Enterprise Funds</b>		
	<b>Palo Pinto County</b>		
	<b>Water and Sewer</b>	<b>Municipal Water District No. 1</b>	<b>Airport Operations</b>
<b>Cash flows from operating activities</b>			
Cash received from user charges	\$ 9,203,136	\$ 2,991,352	\$ 1,104,408
Cash payments to employees for services	(3,276,968)	(66,044)	(264,784)
Cash payments to suppliers for goods and services	(5,048,437)	(145,632)	(826,588)
<b>Net cash provided (used) by operating activities</b>	<b>877,731</b>	<b>2,779,676</b>	<b>13,036</b>
<b>Cash flows from noncapital financing activities</b>			
Miscellaneous income	628,183	-	229,486
Transfers and interfund activity	(1,201,627)	-	(34,160)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(573,444)</b>	<b>-</b>	<b>195,326</b>
<b>Cash flows from investing activities</b>			
Reclassification from cash to investments	(4,107,153)	(5,958,969)	(2,786)
Interest on investments	39,233	111,935	2,786
<b>Net cash provided (used) by investing activities</b>	<b>(4,067,920)</b>	<b>(5,847,034)</b>	<b>-</b>
<b>Cash flows from capital and related financing activities</b>			
Acquisition of capital assets	(855,712)	(686,501)	(6,424)
Interest paid	-	(608,346)	(10,158)
Proceeds from issuance of long-term debt	394,853	-	-
Principal payments on bonds, loans, and notes payable	5,320,000	(1,050,000)	(39,759)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>4,859,141</b>	<b>(2,344,847)</b>	<b>(56,341)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>1,095,508</b>	<b>(5,412,205)</b>	<b>152,021</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>2,645,579</b>	<b>20,027,037</b>	<b>21,333</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 3,741,087</b>	<b>\$ 14,614,832</b>	<b>\$ 173,354</b>

*The accompanying notes are an integral part of these financial statements.*

<b>Business-Type Activities</b>		<b>Governmental Activities</b>	
<b>Enterprise Funds</b>		<b>Internal Service Fund</b>	
<b>Nonmajor Proprietary Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>	
\$ 172,738	\$ 13,471,634	\$ -	
-	(3,607,796)	(70,694)	
(3,304)	(6,023,961)	25,772	
<u>169,434</u>	<u>3,839,877</u>	<u>(44,922)</u>	
 -	 857,669	 -	
<u>(33,525)</u>	<u>(1,269,312)</u>	<u>(169,873)</u>	
 (33,525)	 (411,643)	 (169,873)	
 -	 (10,068,908)	 (462,278)	
<u>-</u>	<u>153,954</u>	<u>-</u>	
<u>-</u>	<u>(9,914,954)</u>	<u>(462,278)</u>	
 (382,500)	 (1,931,137)	 -	
<u>(7,097)</u>	<u>(625,601)</u>	<u>-</u>	
<u>325,075</u>	<u>719,928</u>	<u>-</u>	
 <u>43,922</u>	 <u>4,274,163</u>	 <u>-</u>	
 (20,600)	 2,437,353	 -	
 115,309	 (4,049,367)	 (677,073)	
<u>73,121</u>	<u>22,767,070</u>	<u>1,458,917</u>	
 \$ 188,430	 \$ 18,717,703	 \$ 781,844	

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2018**

	<b>Business-Type Activities Enterprise Funds</b>		
	<b>Palo Pinto County</b>	<b>Water and Sewer</b>	<b>Municipal Water District No. 1</b>
	<b>Airport Operations</b>		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (118,673)	\$ 2,119,004	\$ (370,636)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	896,148	507,348	382,892
Noncash pension and OPEB expense	(59,319)	-	(3,121)
Changes in assets, liabilities and deferred outflows of resources:			
Receivables	(30,420)	16,158	24,652
Inventory	6,303	-	(10,538)
Prepaid expenses	20,000	-	
Other noncurrent assets	-	(360,730)	
Accounts payable	121,607	493,246	(27,356)
Accrued payroll expenses	43,224	4,650	33
Accrued compensated absences	(42,041)	-	1,589
Other current liabilities	24,050	-	15,521
Meter deposits	16,852	-	
Net cash provided (used) by operating activities	<u>\$ 877,731</u>	<u>\$ 2,779,676</u>	<u>\$ 13,036</u>

*The accompanying notes are an integral part of these financial statements.*

<b>Business-Type Activities</b>		<b>Governmental Activities</b>	
<b>Enterprise Funds</b>		<b>Internal Service Fund</b>	
<b>Nonmajor Proprietary Fund</b>	<b>Total</b>	<b>Internal Service Fund</b>	
\$ 148,387	\$ 1,778,082	\$ -	
22,313	1,808,701	-	
-	(62,440)	-	
(1,266)	9,124	-	
-	(4,235)	-	
-	20,000	-	
-	(360,730)	-	
-	587,497	(44,922)	
-	47,907	-	
-	(40,452)	-	
-	39,571	-	
-	16,852	-	
<b>\$ 169,434</b>	<b>\$ 3,839,877</b>	<b>\$ (44,922)</b>	

*The accompanying notes are an integral part of these financial statements.*

**City of Mineral Wells, Texas  
Notes to Financial Statements  
September 30, 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

This summary of significant accounting policies of the City is presented to assist in the understanding of City's financial statements. The financial statements and notes are the representation of City's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

**A. *Financial Reporting Entity***

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the City for financial reporting purposes management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61 and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

**A. *Financial Reporting Entity (Continued)***

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has two component units required to be reported under GASB Statements No. 14, No. 39, No. 61 and No. 80.

**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. I (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 77% of the District's water sale, which amounted to \$2,300,000, 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, 2018, 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. I  
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. For the most part, the effect of interfund activity has been removed from these statements.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

*B. Government-wide and Fund Financial Statements (Continued)*

*Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In the government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis by column, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The City's net position is reported in three parts – Net investment in capital assets; restricted net position; and unrestricted net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary 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, net of estimated refunds, 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

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

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 account, revenues are recognized as soon as they are both 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only 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.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The City does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

**City of Mineral Wells, Texas  
Notes to Financial Statements  
September 30, 2018**

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

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)*

The 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 Water and Sewer funds are charges to the customers for sales and services. Operating expenses for enterprise 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 with the capital grants that reported below nonoperating revenues and expenses in the statement of revenues, expenses and changes in net position.

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

Under the requirements of GASB Statement No. 34, the City is required to present certain governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following:

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 *Streets Capital Projects Fund* is used to account for the resources accumulated and payments made in relation for capital street repair and improvements.

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

The City reports the following major proprietary funds:

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

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

The *Airport Operations Fund* accounts for the operation of the airport of the City.

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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)*

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, 2018**

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

**D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Equity**

**Deposits and Investments:** The City'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.

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, 2018 was \$13,391,330.

**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 \$184,443 in the general fund and \$9,948 in the debt service fund. The EMS receivable allowance of \$134,603 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.

**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.

**Inventory:** The City's method of accounting for inventory is the purchase method. Under the purchase approach, the inventory is first recorded as an expense when purchased. All inventories are valued at the lower of cost or market on the first-in, first-out method. 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

**D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Equity (Continued)**

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

**Restricted Assets:** Restricted assets consist of those funds expendable for debt service purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended. 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.

**Capital Assets:** Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental 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 one year 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.

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

**Accrued Payroll:** Accrued payroll is comprised of the payroll expenditures based on amounts earned by the employees through September 30, 2018, along with accruals for applicable fringe benefits.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

**D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Equity (Continued)**

**Deferred Inflows of Resources:** In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The City typically has one type of deferred inflow which arises under the modified accrual basis of accounting that qualifies for reporting in this category. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The item, unavailable revenue - property taxes is typically reported only in the governmental funds balance sheet.

In addition, the City has two types of items present on the Statement of Net Position for both the governmental and business-type activities, which arise due to the implementation of GASB 68 and 75 and the related net pension liability and OPEB liability. These amounts are reported as deferred inflows and amortized into pension and OPEB expense over the average remaining service life of employees.

**Deferred Outflows of Resources:** In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The City has two types of items that qualify for reporting in this category in both the governmental and business-type activities, which arise due to the implementation of GASB 68 and 75 and the related net pension liability and OPEB liability. These amounts are reported as deferred outflows and amortized into pension and OPEB expense over the average remaining service life of employees.

**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, 2018**

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

**D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Equity (Continued)**

**Other Post-Employment Benefits:** For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEBs, and net OPEB expense, information about the Texas Municipal Retirement System Supplemental Death Benefit Plan 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.

**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.

**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 governmental activities, business-type activities, or proprietary fund type statements of net position. For bonds issued after GASB Statement No. 34 was implemented, 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. For fund financial reporting, governmental fund types recognize bond premiums, discounts, as well as issuance costs, 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.

**Fund Balance Classification Policies and Procedures:**

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

**Nonspendable Fund Balance:** Includes amounts that are not in a spendable form or are required to be maintained intact. At September 30, 2018, the City had \$555,070 of nonspendable fund balance categorized in the governmental funds balance sheet.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

**D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Equity (Continued)**

**Restricted Fund Balance:** 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. At September 30, 2018, the City has presented restricted fund balance on the governmental funds balance sheet in the amount of \$5,434,343 for various City programs and operations as restricted by enabling legislation. The details of these fund balance items are located on the governmental funds balance sheet.

**Committed Fund Balance:** 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 Fund Balance:** 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 Fund Balance:** All amounts not included in other spendable classifications.

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 restricted funds, committed funds, then assigned, and finally unassigned as needed.

**Minimum Fund Balance Policy:** 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

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

**D. Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Net Position or Fund Equity (Continued)**

**Net Position:** Net position is classified as net position and displayed in three components:

- a. Net Investment in Capital Assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted Net Position: Net position is reported as restricted when constraints placed on net position use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted Net Position: Net position that does not meet the definition of "net investment in capital assets" or "restricted".

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates for the City are management's estimate of depreciation on assets over their estimated useful lives, the current portion of accrued compensated absences, and the allowance for doubtful accounts for various types of receivables. Actuarial estimates are included in the calculation of net pension liability, net OPEB liability, and related pension and OPEB amounts.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*Budgetary Information*

Governmental fund budgets are prepared on the GAAP basis, excluding encumbrances, and secure appropriation of funds for only one year. Proprietary fund budgets are also prepared on the GAAP basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year. The City does not budget for depreciation expense, only capital outlay.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 3: DEPOSITS AND INVESTMENTS**

As required by the City's investment policy, deposits were with the contracted depository bank in interest bearing accounts.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. 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 pledged securities.

**Reconciliation of Cash and Cash Equivalents**

Cash and cash equivalents	\$ 9,214,658
Restricted cash and cash equivalents	<u>16,229,316</u>
<hr/>	
Total cash and cash equivalents	25,443,974
Plus: outstanding checks	284,323
Less: outstanding deposits	(333,886)
Less: petty cash	<u>(3,147)</u>
<hr/>	
Bank balance of deposits	<u>\$ 25,391,264</u>

**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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

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.

The City's investments at September 30, 2018 include the following:

<b>Investment</b>	<b>Credit Rating</b>	<b>Average Maturities</b>	<b>Percentage of Total Investments</b>	<b>Balance at September 30, 2018</b>
<b>City of Mineral Wells</b>				
Tex-Pool	AAAm	34 days	0.01%	\$ 954
TexSTAR Pool	AAAm	25 days	6.57%	1,026,913
East West Bank	n/a	349 days	39.76%	6,212,274
Titan Bank	n/a	1 year	10.37%	1,620,664
Herring Bank	n/a	2 years	3.58%	558,741
Southside Bank	n/a	1 year	1.57%	244,533
<b>Component unit</b>				
TexSTAR Pool	AAAm	25 days	38.14%	5,958,969
<b>Total investments</b>			<b>100.00%</b>	<b>\$ 15,623,048</b>

\*\* Based on Moody's rating

**Fair Value Measurement**

All of the City's investments are either money market accounts, CD's or external investment pools not subject to fair value measurement in accordance with GASB 72.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 4: RECEIVABLES**

Receivables as of September 30, 2018, are as follows:

**Governmental Activities**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>			<b>Total</b>
Property taxes	\$ 263,491	\$ 14,211	\$ 70,144	\$	347,846	
Other taxes:						
Sales taxes	528,717	-	-		528,717	
Franchise taxes	175,396	-	-		175,396	
Accounts	271,260	-	-		271,260	
Leases	-	2,133,993	-		2,133,993	
Miscellaneous	19,039	-	-		19,039	
Less: Allowance for doubtful accounts	(184,443)	(9,948)	-		(194,391)	
<b>Totals</b>	<b>\$ 1,073,460</b>	<b>\$ 2,138,256</b>	<b>\$ 70,144</b>	<b>\$</b>	<b>3,281,860</b>	

**Business-Type Activities**

	<b>Water and Sewer</b>	<b>PPCMWD No. 1</b>	<b>Nonmajor Proprietary Fund</b>			<b>Total</b>
Utility	\$ 1,066,358	\$ -	\$ -	\$ -	\$ -	\$ 1,066,358
Accounts		4,640	60,281	13,769		78,690
Miscellaneous	1,090	-	-	-		1,090
Less: Allowance for doubtful accounts	(36,435)	-	(29,214)	-		(65,649)
<b>Totals</b>	<b>\$ 1,031,013</b>	<b>\$ 4,640</b>	<b>\$ 31,067</b>	<b>\$ 13,769</b>	<b>\$</b>	<b>1,080,489</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 5: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances for the City's individual major funds and nonmajor funds at September 30, 2018, is as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
Drainage Utility Fund	Water Fund	\$ 12,917
Hotel/Motel Occupancy Tax Fund	TIF Zone #2	3,411
Economic Development Fund	General Fund	4,870
General Fund	Water Fund	2,765
General Fund	Internal Service Fund	170,156
General Fund	Airport Fund	43,011
<b>Total</b>		<b>\$ 237,130</b>

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2018, is as follows:

<b>Transfer In</b>	<b>Transfer Out</b>	<b>Amount</b>
General Fund	Debt Service	\$ 6,432
General Fund	Water Fund	1,200,000
General Fund	Drainage Utility	25,000
General Fund	Hotel/Motel Occupancy Tax Fund	992
General Fund	Internal Service Fund	125,000
General Fund	Airport Fund	31,871
General Fund	Woodland Park Trust Fund	150
Water Fund	Waterworks & Sewer System	599,974
Waterworks & Sewer System	Water Fund	5,365,000
<b>Total</b>		<b>\$ 7,355,419</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 6: CAPITAL ASSETS**

The following is a summary of capital assets and changes occurring during the year ended September 30, 2018. Land and Construction in Progress are not subject to depreciation.

**Governmental Activities:**

	<b>Beginning Balance 10/1/17</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance 9/30/18</b>
<b>Non-depreciable assets:</b>					
Land	\$ 1,845,102	\$ -	\$ -	\$ -	\$ 1,845,102
Construction in Progress	515,591	479,624	-	(515,591)	479,624
<b>Total non-depreciable assets</b>	<b>2,360,693</b>	<b>479,624</b>	-	(515,591)	2,324,726
<b>Depreciable assets:</b>					
Buildings and improvements	6,336,632	-	-	-	6,336,632
Improvements other than buildings	2,122,724	-	-	-	2,122,724
Infrastructure	52,137,900	-	-	515,591	52,653,491
Equipment and vehicles	6,283,271	316,267	30,913	-	6,568,625
Furniture and fixtures	826,538	-	-	-	826,538
<b>Total capital assets being depreciated</b>	<b>67,707,065</b>	<b>316,267</b>	<b>30,913</b>	<b>515,591</b>	<b>68,508,010</b>
<b>Total capital assets</b>	<b>70,067,758</b>	<b>795,891</b>	<b>30,913</b>	-	<b>70,832,736</b>
<b>Accumulated depreciation:</b>					
Buildings and improvements	(2,102,455)	(301,364)	-	-	(2,403,819)
Improvements other than buildings	(1,628,593)	(100,727)	-	-	(1,729,320)
Infrastructure	(32,095,370)	(753,133)	-	-	(32,848,503)
Equipment and vehicles	(4,932,536)	(288,948)	14,635	-	(5,206,849)
Furniture and fixtures	(497,959)	(79,897)	-	-	(577,856)
<b>Total accumulated depreciation</b>	<b>(41,256,913)</b>	<b>(1,524,069)</b>	<b>14,635</b>	-	<b>(42,766,347)</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 28,810,845</b>	<b>\$ (728,178)</b>	<b>\$ 16,278</b>	-	<b>\$ 28,066,389</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 6: CAPITAL ASSETS (Continued)**

Depreciation expense for the year ended September 30, 2018 was charged to the functions of the governmental activities as follows:

Administrative	\$ 67,536
Finance	11,084
Fleet Maintenance	2,981
Police	157,021
Fire & Emergency Medical Services	208,102
Information Technology	15,299
Streets, including infrastructure	764,565
Parks & Recreation	248,150
Cemetery	9,478
Library	39,853
<b>Total depreciation expense - governmental activities</b>	<b>\$ 1,524,069</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 6: CAPITAL ASSETS (Continued)**

**Business-type Activities:**

	<b>Beginning Balance 10/1/17</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance 9/30/18</b>
<b>Non-depreciable Assets:</b>					
Land	\$ 3,930,492	\$ 200,000	\$ -	\$ -	\$ 4,130,492
Construction in Progress	10,694,039	1,386,288	- (454,057)	11,626,270	
<b>Total non-depreciable assets</b>	<b>14,624,531</b>	<b>1,586,288</b>	- (454,057)	15,756,762	
<b>Depreciable assets:</b>					
Buildings and improvements	4,817,552	-	-	-	4,817,552
Improvements other than buildings	15,029,435	19,915	-	-	15,049,350
Infrastructure	5,943,565	-	-	-	5,943,565
Distribution System	37,962,467	98,178	- 454,057	14,504,265	
Collection System	6,317,287	-	-	-	6,317,287
Equipment and vehicles	2,100,228	587,486	(8,000)	-	26,690,151
Furniture and fixtures	58,792	-	-	-	58,792
<b>Total capital assets being depreciated</b>	<b>72,229,326</b>	<b>705,579</b>	(8,000) 454,057	73,380,962	
<b>Total capital assets</b>	<b>86,853,857</b>	<b>2,291,867</b>	(8,000) -	89,137,724	
<b>Accumulated depreciation:</b>					
Buildings and improvements	(2,329,315)	(185,708)	-	-	(2,515,023)
Improvements other than buildings	(7,229,254)	(296,243)	-	-	(7,525,497)
Infrastructure	(3,009,458)	(262,369)	-	-	(3,271,827)
Distribution System	(20,307,448)	(796,414)	-	-	(6,704,644)
Collection System	(3,840,532)	(128,642)	-	-	(3,969,174)
Equipment and Vehicles	(1,535,696)	(137,162)	8,000	-	(16,064,076)
Furniture and fixtures	(48,676)	(2,165)	-	-	(50,841)
<b>Total accumulated depreciation</b>	<b>(38,300,379)</b>	<b>(1,808,703)</b>	8,000 -	(40,101,082)	
<b>Business-type activities capital assets, net</b>	<b>\$ 48,553,478</b>	<b>\$ 483,164</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,036,642</b>

Depreciation expense for business-type activities is reported in the following funds on the Statement of Revenues, Expenses, and Changes in Net Position

Water and Sewer	\$ 896,148
Nonmajor proprietary funds	405,207
PPCMWD No. 1	507,348
<b>Total depreciation expense -business-type activities</b>	<b>\$ 1,808,703</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 7: OPERATING LEASES**

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.

**NOTE 8: LONG-TERM LIABILITIES**

**Governmental Activities:**

During the year ended September 30, 2018, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance September 30, 2017			Balance September 30, 2018			Due Within One Year
	Additions	Retirements					
Go Bonds - Streets	\$ -	\$ 5,215,000	\$ -	\$ 5,215,000	\$ 45,000		
2018 Bond Premium	-	340,072	-	340,072	13,603		
Sales Tax Payable	960,804	-	73,908	886,896	78,228		
Note Payable - FFB - PD 2017	160,190	-	63,125	97,065	78,099		
Note Payable - FFB - PD 2018	-	210,000	33,648	176,352	69,065		
Special Assessment Debt	2,331,703		197,710	2,133,993	43,922		
	\$ 3,452,697	\$ 5,765,072	\$ 368,391	\$ 8,849,378	\$ 327,917		

**General Obligation Bond – Streets**

At September 30, 2018, the City had one GO bond outstanding. The GO bond information is as follows:

Description	Date of Issue	Due Date	Original	
			Interest Rate	Amount of Issue
GO Bonds Streets	03/08/18	02/01/43	4.000%	\$ 5,215,000

The annual requirements to amortize the GO Bond as of September 30, 2018, including interest payments, are as follows:

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

<b>Fiscal Year</b> <b>Ending</b> <b>September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt</b> <b>Service</b>
2019	\$ 45,000	\$ 290,561	\$ 335,561
2020	130,000	204,200	334,200
2021	135,000	198,900	333,900
2022	140,000	193,400	333,400
2023	145,000	187,700	332,700
2024-2028	835,000	843,100	1,678,100
2029-2033	1,015,000	658,900	1,673,900
2034-2038	1,250,000	433,000	1,683,000
2039-2043	1,520,000	157,000	1,677,000
	<b>\$ 5,215,000</b>	<b>\$ 3,166,761</b>	<b>\$ 8,381,761</b>

**2018 Bond Premium**

At September 30, 2018, the City has a 2018 Bond Premium that it will straight-line amortize for the life of the bond.

**Sales Tax 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, 2018 was \$886,896.

<b>Fiscal Year</b> <b>Ending</b> <b>September 30,</b>	<b>Payments</b>
2019	\$ 73,908
2020	73,908
2021	73,908
2022	73,908
2023	73,908
2024-2028	369,540
2029-2030	147,816
	<b>\$ 886,896</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

**Note Payable – FFB – PD 2017**

At September 30, 2018, the City had one Note Payable – FFB – PD 2017 outstanding as follows:

<b>Description</b>	<b>Date of Issue</b>	<b>Due Date</b>	<b>Interest Rate</b>	<b>Original Amount of Issue</b>
Note Payable - FFB - PD 2017	3/28/2017	3/28/2020	1.99%	\$ 232,019

The annual requirements to amortize the Note Payable – FFB – PD 2017 as of September 30, 2018, including interest payments, are as follows:

<b>Fiscal Year Ending September 30,</b>	<b>Total Debt Service</b>		
	<b>Principal</b>	<b>Interest</b>	
2019	\$ 78,099	\$ 1,956	\$ 80,055
2020	18,966	394	19,360
	\$ 97,065	\$ 2,351	\$ 99,416

**Note Payable – FFB – PD 2018**

At September 30, 2018, the City had one Note Payable – FFB – PD 2018 as follows:

<b>Description</b>	<b>Date of Issue</b>	<b>Due Date</b>	<b>Interest Rate</b>	<b>Original Amount of Issue</b>
Note Payable - FFB - PD 2018	2/6/2018	2/28/2021	1.99%	\$ 210,000

The annual requirements to amortize the Note Payable – FFB – PD 2018 as of September 30, 2018, including interest payments, are as follows:

<b>Fiscal Year Ending September 30,</b>	<b>Total Debt Service</b>		
	<b>Principal</b>	<b>Interest</b>	
2019	\$ 69,065	\$ 4,425	\$ 73,490
2020	70,999	2,491	73,490
2021	36,241	504	36,745
	\$ 176,306	\$ 7,420	\$ 183,725

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

**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 amount 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.

**Accrued Compensated Absences**

The liability for accrued compensated absences for governmental activities was \$130,151 at year-end. Compensated absences are liquidated by the respective funds in which they are accrued.

**Proprietary Funds:**

The proprietary funds have incurred various forms of debt which were used for the purposes of constructing, expanding, repairing and making improvements to its property, plant and equipment. The following schedule shows the changes to its various forms of debt during the fiscal year ended September 30, 2018:

	Balance			Balance			Due Within One Year
	September 30, 2017	Additions	Retirements	September 30, 2018			
GO Bond WW&S Projects	\$ -	\$ 1,705,000	\$ -	\$ 1,705,000	\$ 15,000		
GO Bond Hwy 180 W Project	-	3,660,000	-	3,660,000	30,000		
2018 Bond Premium	-	349,853	-	349,853	13,994		
Note Payable - FFB	-	390,000	21,003	368,997	43,922		
Revenue Bonds	22,470,000	-	1,050,000	21,420,000	1,050,000		
Bond premium	13,489	-	2,381	11,108	2,380		
Capital Leases	201,354	-	39,759	161,595	48,723		
	\$ 22,684,843	\$ 6,104,853	\$ 1,113,143	\$ 27,676,553	\$ 1,204,019		

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

**General Obligation Bond WW&S Projects**

At September 30, 2018, the City had a GO Bond WW&S Projects outstanding. The GO Bond WW&S Projects is as follows:

Description	Date of Issue	Due Date	Interest Rate	Original Amount of Issue
GO Bond WW&S Projects	03/08/18	02/01/43	4.000%	1,705,000

The annual requirements to amortize the GO Bond WW&S Projects as of September 30, 2018, including interest payments, are as follows:

Fiscal Year Ending September 30,	Total Debt		
	Principal	Interest	Service
2019	\$ 15,000	\$ 94,991	\$ 109,991
2020	45,000	66,700	111,700
2021	45,000	64,900	109,900
2022	45,000	63,100	108,100
2023	50,000	61,200	111,200
2024-2028	270,000	275,000	545,000
2029-2033	330,000	215,000	545,000
2034-2038	410,000	141,400	551,400
2039-2043	495,000	51,100	546,100
	<b>\$ 1,705,000</b>	<b>\$ 1,033,391</b>	<b>\$ 2,738,391</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

**GO Bond Hwy 180 W Project**

At September 30, 2018, the City had one GO Bond Hwy 180 W Project outstanding. The GO Bond Hwy 180 W Project is as follows:

Description	Date of Issue	Due Date	Interest Rate	Original Amount of Issue
GO Hwy 180 W Project	03/08/18	02/01/43	4.000%	\$ 3,660,000

The annual requirements to amortize the GO Bond Hwy 180 W Project as of September 30, 2018, including interest payments, are as follows:

Fiscal Year Ending September 30,	Total Debt		
	Principal	Interest	Service
2019	\$ 30,000	\$ 203,953	\$ 233,953
2020	90,000	143,400	233,400
2021	95,000	139,700	234,700
2022	100,000	135,800	235,800
2023	105,000	131,700	236,700
2024-2028	585,000	590,900	1,175,900
2029-2033	715,000	462,100	1,177,100
2034-2038	875,000	303,300	1,178,300
2039-2043	1,065,000	109,900	1,174,900
	\$ 3,660,000	\$ 2,220,753	\$ 5,880,753

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

**Bond Premium**

At September 30, 2018, the City has a 2018 Bond Premium in the amount of \$349,853 that it will straight-line amortize for the life of the bond.

**Note Payable**

At September 30, 2018, the City had one Note Payable outstanding as follows:

Description	Date of Issue	Due Date	Interest Rate	Original Amount of Issue
Note Payable - FFB	2/6/2018	2/28/2026	3.43%	\$ 390,000

The annual requirements to amortize the Note Payable as of September 30, 2018, including interest payments, are as follows:

Fiscal Year Ending September 30,	Total Debt Service		
	Principal	Interest	
2019	\$ 43,922	\$ 12,280	\$ 56,202
2020	45,441	10,760	56,201
2021	47,013	9,188	56,201
2022	48,639	7,562	56,201
2023	50,322	5,879	56,201
2024-2026	133,554	6,949	140,503
	\$ 368,891	\$ 52,618	\$ 421,509

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

**Capital Leases**

At September 30, 2018, the City had three business-type capital lease outstanding as follows:

<b>Description</b>	<b>Date of Issue</b>	<b>Due Date</b>	<b>Original</b>	
			<b>Interest</b>	<b>Amount of</b>
2005 Master lease	5/17/2005	2021	6.000%	\$ 192,000
2007 Master lease	2/15/2008	2020	6.000%	225,000
2017 Master lease	3/28/2017	2023	1.990%	40,732

<b>Fiscal Year</b> <b>Ending</b> <b>September 30,</b>				<b>Total Debt</b>
	<b>Principal</b>	<b>Interest</b>	<b>Service</b>	
2019	\$ 48,723	\$ 7,880	\$ 56,603	
2020	44,104	5,475	49,579	
2021	29,607	3,142	32,749	
2022	21,325	1,633	22,958	
2023	17,836	334	18,170	
	<b>\$ 161,595</b>	<b>\$ 18,464</b>	<b>\$ 180,059</b>	

**Palo Pinto County Municipal Water District No. 1**

**A. 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:

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

***Palo Pinto County Municipal Water District No. 1 (Continued)***

**A. Revenue Bonds (Continued)**

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

Fiscal Year Ending September 30,	Principal	Interest	Total Debt Service
2019	\$ 1,070,000	\$ 590,986	\$ 1,660,986
2020	1,080,000	572,025	1,652,025
2021	1,110,000	550,002	1,660,002
2022	1,135,000	526,260	1,661,260
2023	1,170,000	500,334	1,670,334
2024-2028	4,115,000	2,184,702	6,299,702
2029-2033	2,905,000	1,732,159	4,637,159
2034-2038	3,255,000	1,277,287	4,532,287
2039-2043	3,850,000	696,975	4,546,975
2044	850,000	59,034	909,034
2055	880,000	30,034	910,034
	<hr/> \$ 21,420,000	<hr/> \$ 8,719,798	<hr/> \$ 29,229,764

**B. Compliance with Debt Service Requirements**

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, 2018 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, 2018.

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, 2018, the "Contingency Fund" had a balance of \$250,000.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 8: LONG-TERM LIABILITIES (Continued)**

*Palo Pinto County Municipal Water District No. 1 (Continued)*

**B. Compliance with Debt Service Requirements**

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, 2018.

**Accrued Compensated Absences**

The liability for accrued compensated absences for business-type activities was \$57,037 at year-end. Compensated absences are liquidated by the respective funds in which they are accrued.

**NOTE 9: 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.

**NOTE 10: 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 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.

**City of Mineral Wells, Texas  
Notes to Financial Statements  
September 30, 2018**

**NOTE 10: RISK MANAGEMENT (Continued)**

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 11: DEFINED BENEFIT PENSION PLANS**

***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.tmrs.com](http://www.tmrs.com).

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

Benefits Provided

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

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Municipal Retirement System (TMRS) (Continued)***

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	107
Inactive employees entitled to but not yet receiving benefits	106
Active employees	168
<b>Total</b>	<b>381</b>

**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 9.19% and 8.97% in calendar years 2017 and 2018, respectively. The city's contributions to TMRS for the year ended September 30, 2018, were \$706,160, and were equal to the required contributions.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Municipal Retirement System (TMRS) (Continued)***

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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, 2017, 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Municipal Retirement System (TMRS) (Continued)***

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term expected rate of return (Arithmetic)</b>
Domestic equity	17.50%	4.55%
International equity	17.50%	6.35%
Core fixed income	10.00%	1.00%
Non-core fixed income	20.00%	4.15%
Real return	10.00%	4.15%
Real estate	10.00%	4.75%
Absolute return	10.00%	4.00%
Private equity	5.00%	7.75%
<b>Total</b>	<b>100.00%</b>	

*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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Municipal Retirement System (TMRS) (Continued)***

*Changes in the Net Pension Liability*

	Total pension liability (a)	Plan fiduciary net position (b)	Increase (Decrease)	Net pension liability (a) - (b)
Balance at 12/31/2016	\$ 31,162,321	\$ 28,630,697	\$ 2,531,624	
<b>Changes for the year:</b>				
Service cost	901,422	-	901,422	
Interest	2,083,766	-	2,083,766	
Change of benefit terms	-	-	-	
Difference between expected/actual experience	1,263	-	1,263	
Changes of assumptions	-	-	-	
Contributions - employer	-	692,142	(692,142)	
Contributions - employee	-	387,542	(387,542)	
Net investment income	-	3,966,274	(3,966,274)	
Benefit payments, including refunds of employee contributions	(1,484,855)	(1,484,855)	-	
Administrative expense	-	(20,564)	20,564	
Other changes	-	(1,042)	1,042	
<b>Net changes</b>	<b>1,501,596</b>	<b>3,539,497</b>	<b>(2,037,901)</b>	
Balance at 12/31/2017	\$ 32,663,917	\$ 32,170,194	\$ 493,723	

*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	\$ 4,874,151	\$ 493,723	\$ (3,108,339)

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Municipal Retirement System (TMRS) (Continued)***

*Pension Plan Fiduciary Net Position*

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

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

For the year ended September 30, 2018, the City recognized pension expense of \$464,026.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 910	\$ 177,381
Changes in actuarial assumptions	17,404	-
Difference between projected and actual investment earnings	-	811,096
Contributions subsequent to the measurement date	531,262	-
<b>Total TMRS</b>	<b>\$ 549,576</b>	<b>\$ 988,477</b>

\$531,262 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>TMRS</b>
Year ending September 30:	
2019	\$ (83,673)
2020	(72,899)
2021	(406,849)
2022	(406,742)
2023	-
Thereafter	-
<b>Total</b>	<b>\$ (970,163)</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***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. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

TESRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TESRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained at [www.tesrs.org](http://www.tesrs.org).

**Benefits Provided**

Senate Bill 411, 6th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 791h 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Emergency Services Retirement System (TESRS) (Continued)***

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

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2018, 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 ended September 30, 2018, total contributions (dues, prior service, and interest on prior service financing) of \$7,674 were paid into TESRS by the City. This was equal to the required contributions for the period.

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, 2018 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.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Emergency Services Retirement System (TESRS) (Continued)***

**Net Pension Liability**

The System's net pension liability was measured as of August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018.

	<b>System 100.00%</b>	<b>City 0.16%</b>
Total pension liability	\$ 137,514,345	\$ 220,023
Plan fiduciary net position	115,863,894	185,382
Net pension liability	\$ 21,650,451	\$ 34,641
Plan fiduciary net position as a percentage of the total pension liability		84.3%

***Actuarial Assumptions***

The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
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:

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Emergency Services Retirement System (TESRS) (Continued)***

<b>Asset Class</b>	<b>Target allocation</b>	<b>Long-term expected rate of return (arithmetic)</b>
Equities		
Large cap domestic	32%	5.81%
Small cap domestic	15%	5.92%
Developed international	15%	6.21%
Emerging markets	5%	7.18%
Master limited partnership	5%	8%
Real Estate	5%	4.46%
Fixed income	23%	1.61%
Cash	0%	0.00%
<b>Total / Weighted Average</b>	<b>100%</b>	<b>5.01%</b>

*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, 2018 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.

*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-percentagepoint lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<b>1% Decrease in Discount Rate (6.75%)</b>	<b>Discount Rate (7.75%)</b>	<b>1% Increase in Discount Rate (8.75%)</b>
City's proportional share of the net pension liability	\$ 68,842	\$ 34,641	\$ 11,573

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

***Texas Emergency Services Retirement System (TESRS) (Continued)***

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

At August 31, 2018, the City reported a liability of \$34,641 for its proportionate share of the TESRS's net pension liability. The net pension liability was measured as of August 31, 2018. 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 (.16%) 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, 2016 through August 31, 2018.

For the year ended September 30, 2018, the City recognized pension expense of \$7,674.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 9	\$ -
Changes in actuarial assumptions	129	-
Difference between projected and actual experience	-	100
Net difference between projected and actual investment earnings on pension plan investments	-	1,915
<b>Total TESRS</b>	<b>\$ 139</b>	<b>\$ 2,014</b>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>TESRS</b>	
Year ending September 30:	
2019	2,232
2020	(1,242)
2021	(1,828)
2022	(1,038)
<b>Total</b>	<b>(1,875)</b>

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 12: OTHER POST-EMPLOYMENT BENEFITS**

***Plan Description and Benefits***

The City also participates in a single-employer, defined benefit group-term life insurance known as the Supplemental Death Benefits Fund (SDBF) administered by the Texas Municipal Retirement System (TMRS). This is a voluntary program in which 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). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

***Employees covered by benefit terms***

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	70
Inactive employees entitled to but not yet receiving benefits	17
Active employees	168
<b>Total</b>	<b>255</b>

**Contributions**

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.

Employees for the City of Mineral Wells, TX were required to contribute 0.07% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.26% and 0.25% in calendar 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$20,323 and were equal to the required contributions.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**OPEB Liability**

*Actuarial Assumptions:*

Inflation	2.50%
Salary increases	3.5% to 10.5% including inflation
Discount rate*	3.31
Retirees' share of benefit-related costs	\$ -
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - service retirees	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.
Mortality rates - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

*Discount Rate*

	<b>Total OPEB Liability (a)</b>
Balance at 12/31/2017	\$ 388,174
<b>Changes for the year:</b>	
Service cost	31,003
Interest	15,156
Change of benefit terms	-
Difference between expected/actual experience	1,263
Changes of assumptions	33,576
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	(5,426)
Administrative expense	-
Other changes	-
<b>Net changes</b>	<b>74,309</b>
Balance at 12/31/2018	\$ 462,483

*Changes in the Net Pension Liability*

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate:

	<b>1% Decrease in Discount Rate (2.31%)</b>	<b>1% Increase in Discount Rate (4.31%)</b>
City's net pension liability	\$ 547,806	\$ 462,483

*Pension Plan Fiduciary Net Position*

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

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

For the year ended September 30, 2018 the City recognized OPEB expense of \$52,252

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	27,493	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	15,231	-
<b>Total OPEBs</b>	<b>\$ 42,724</b>	<b>\$ -</b>

\$15,231 reported as deferred outflows of resources related to OPEBs resulted from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

<b>OPEBs</b>		
<b>Year ending September 30:</b>		
2019	\$ 6,083	
2020	6,083	
2021	6,083	
2022	6,083	
2023	3,161	
<b>Thereafter</b>	<b>-</b>	
<b>Total</b>	<b>\$ 27,493</b>	

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 year ended 2017 was \$19,768, which equaled the required contributions each year.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 13: CONTINGENT LIABILITIES**

The City is exposed to various claims and lawsuits in the normal course of business. Management are unaware of any material pending or threatened litigation, claims, or assessments against the City which are not covered by the City's insurance.

In the normal course of operations the City receives grant funds from various federal and state agencies. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Management believes any liability resulting from these audits would be immaterial.

**NOTE 14: RESTRICTED COMPONENTS OF NET POSITION**

The government-wide statement of net position reports \$3,312,604 of restricted net position, all of which is restricted by enabling legislation or other methods.

**NOTE 15: SUBSEQUENT EVENTS**

Subsequent events were evaluated through March 29, 2019, which is the date the financial statements were available to be issued. No events were identified which required disclosure in the City's financial statements.

**NOTE 16: COMMITMENTS**

PPCMWD No. 1 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. \$3,163,784 of the funds have been spent as of September 30, 2018.

The City has various street, infrastructure, and other capital projects in the works that are going to be funded from the 2018 GO Bonds. No significant commitments pertaining to these projects require disclosure.

**NOTE 17: RESTATEMENT OF NET POSITION**

Net position was restated in the amount of (\$253,956) in governmental activities and (\$119,158) in business-type activities for the implementation of GASB 75.

**City of Mineral Wells, Texas**  
**Notes to Financial Statements**  
**September 30, 2018**

**NOTE 18: SUBSEQUENT PRONOUNCEMENTS**

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City is in the process of determining the effect these statements will have on its financial reporting.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 87, *Leases*
- GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

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## **Required Supplementary Information**

**City of Mineral Wells, Texas**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Texas Emergency Services Retirement System**  
**Last 10 Fiscal Years\***

	<b>2017</b>	<b>2016</b>
Proportion of the net pension liability	0.0016	0.00174
Proportionate share of the net pension liability	\$ 34,641	\$ 50,683
State's proportionate share of the net pension liability associated with the City	17,321	26,727
<b>Total</b>	<b>\$ 51,962</b>	<b>\$ 77,410</b>
Plan fiduciary net position as a percentage of the total pension liability	84.30%	76.34%

\* The amounts presented were determined as of September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, City of Mineral Wells will present information for those years for which information is available.

*See independent auditors' report.  
See notes to required supplementary information.*

<b>2015</b>	<b>2014</b>
0.00216	0.00251

\$ 57,656	\$ 45,611
-----------	-----------

<u>30,652</u>	<u>23,297</u>
---------------	---------------

<u>\$ 88,308</u>	<u>\$ 68,908</u>
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76.89%	83.46%
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*See independent auditors' report.  
See notes to required supplementary information.*

**City of Mineral Wells, Texas**  
**Schedule of Contributions**  
**Texas Emergency Services Retirement System**  
**Last 10 Fiscal Years\***

	<b>2018</b>	<b>2017</b>
Actuarially determined contribution	\$ 7,674	\$ 7,848
Contributions in relation to the actuarially determined contribution	(7,674)	(7,848)
Contribution deficiency (excess)	\$ -	\$ -

\* The amounts presented were determined as of September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, City of Mineral Wells will present information for those years for which information is available.

*See independent auditors' report.  
 See notes to required supplementary information.*

<b>2016</b>	<b>2015</b>	<b>2014</b>
\$ 7,956	\$ 10,224	\$ 11,376
<u>(7,956)</u>	<u>(10,224)</u>	<u>(11,376)</u>
\$ -	\$ -	\$ -

*See independent auditors' report.  
See notes to required supplementary information.*

**City of Mineral Wells, Texas**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Texas Municipal Retirement System**  
**Last 10 Fiscal Years\***

	<b>Plan Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Total Pension Liability</b>		
Service cost	\$ 901,422	\$ 873,843
Interest (on the total pension liability)	2,083,766	2,005,609
Changes of benefit terms	-	-
Difference between expected and actual experience	1,263	(262,015)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(1,484,855)	(1,461,845)
<b>Net Change in Total Pension Liability</b>	<b>1,501,596</b>	<b>1,155,592</b>
<b>Total Pension Liability - Beginning</b>	<b>31,162,321</b>	<b>30,006,729</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 32,663,917</b>	<b>\$ 31,162,321</b>
 <b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 692,142	\$ 665,728
Contributions - employee	387,542	376,008
Net investment income	3,966,274	1,839,795
Benefit payments, including refunds of employee contributions	(1,484,855)	(1,461,845)
Administrative expense	(20,564)	(20,786)
Other	(1,042)	(1,120)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>3,539,497</b>	<b>1,397,780</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>28,630,697</b>	<b>27,232,917</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 32,170,194</b>	<b>\$ 28,630,697</b>
 <b>Net Pension Liability - Ending</b>	<b>\$ 493,723</b>	<b>\$ 2,531,624</b>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	98.49%	91.88%
 Covered Payroll	\$ 7,750,836	\$ 7,520,165
 Net Pension Liability as a Percentage of Covered Payroll	6.37%	33.66%

\* The amounts presented were determined as of September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, City of Mineral Wells will present information for those years for which information is available.

*See independent auditors' report.  
See notes to required supplementary information.*

**Plan Year Ended December 31,**

	<b>2015</b>	<b>2014</b>
--	-------------	-------------

\$ 793,213	\$ 721,608
2,002,024	1,930,010
-	-
(556,504)	(439,509)
154,810	-
<hr/>	<hr/>
(1,181,095)	(1,257,183)
1,212,448	954,926
<hr/>	<hr/>
28,794,281	27,839,355
<hr/>	<hr/>
<b>\$ 30,006,729</b>	<b>\$ 28,794,281</b>

\$ 677,539	\$ 699,904
358,271	346,582
40,373	1,492,992
(1,181,095)	(1,257,183)
(24,593)	(15,587)
(1,215)	(1,282)
<hr/>	<hr/>
(130,720)	1,265,426
<hr/>	<hr/>
27,363,637	26,098,211
<hr/>	<hr/>
<b>\$ 27,232,917</b>	<b>\$ 27,363,637</b>
<hr/>	<hr/>
\$ 2,773,812	\$ 1,430,644

90.76%	95.03%
--------	--------

\$ 7,165,427	\$ 6,893,077
<hr/>	<hr/>
38.71%	20.75%

*See independent auditors' report.  
See notes to required supplementary information.*

**City of Mineral Wells, Texas**  
**Schedule of Contributions**  
**Texas Municipal Retirement System**  
**Last 10 Fiscal Years\***

	<b>2018</b>	<b>2017</b>
Actuarially determined contribution	\$ 706,160	\$ 703,692
Contributions in relation to the actuarially determined contribution	(706,160)	(703,692)
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 8,051,000	\$ 7,675,606
Contributions as a percentage of covered payroll	8.77%	9.17%

\* The amounts presented were determined as of September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, City of Mineral Wells will present information for those years for which information is available.

*See independent auditors' report.  
 See notes to required supplementary information.*

	<b>2016</b>	<b>2015</b>	<b>2014</b>
\$	707,524	\$ 704,163	\$ 704,511
	<u>(707,524)</u>	<u>(704,163)</u>	<u>(704,511)</u>
\$	-	-	-
	\$ 7,648,881	\$ 7,134,245	\$ 6,822,411
	9.25%	9.87%	10.33%

*See independent auditors' report.  
See notes to required supplementary information.*

**City of Mineral Wells, Texas**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Other Post-Employment Benefits**  
**Last 10 Fiscal Years\***

	<b>Plan Year Ended December 31, 2017</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 31,003
Interest (on the total OPEB liability)	15,156
Changes of benefit terms	-
Difference between expected and actual experience	-
Change of assumptions	33,576
Benefit payments, including refunds of employee contributions	(5,426)
<b>Net Change in Total OPEB Liability</b>	<b>74,309</b>
<b>Total OPEB Liability - Beginning</b>	<b>388,174</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 462,483</b>
 Covered Payroll	 \$ 7,750,836
 Total OPEB Liability as a Percentage of Covered Payroll	 5.97%

\* The amounts presented were determined as of September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, City of Mineral Wells will present information for those years for which information is available.

*See independent auditors' report.  
See notes to required supplementary information.*

**City of Mineral Wells, Texas**  
**Notes to Required Supplementary Information**  
**For the Year Ended September 30, 2018**

**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. 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 City Council.

**NOTE 2: SCHEDULE OF CONTRIBUTIONS – TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN**

**Valuation Date:** 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	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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.
<b>Other Information:</b>	There were no benefit changes during the year.

*See independent auditors' report.*

**City of Mineral Wells, Texas**  
**Notes to Required Supplementary Information**  
**For the Year Ended September 30, 2018**

**NOTE 3: SCHEDULE OF CONTRIBUTIONS – TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

**Valuation Date:** August 31, 2018

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
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	3.5%
Salary Increases	n/a
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Mortality	RP2000 Combined Mortality Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.

**Other Information:** There were no benefit changes during the year.

*See independent auditors' report.*

**City of Mineral Wells, Texas**  
**Notes to Required Supplementary Information**  
**For the Year Ended September 30, 2018**

**NOTE 4: SCHEDULE OF CONTRIBUTIONS – TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFIT**

**Valuation Date:** 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	17 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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:** There were no benefit changes during the year.

*See independent auditors' report.*

**City of Mineral Wells, Texas**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget (GAAP Budgetary Basis) and Actual**  
**For the Year Ended September 30, 2018**

	<b>Budgeted Amounts</b>			<b>Variances Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Taxes				
Property taxes	\$ 3,968,122	\$ 3,968,122	\$ 3,948,825	\$ (19,297)
Sales and use taxes	2,975,000	2,975,000	3,155,898	180,898
Franchise taxes	1,290,000	1,290,000	1,306,298	16,298
Occupancy taxes	-	-	-	-
Intergovernmental	192,380	192,380	272,720	80,340
Charges for services	455,000	455,000	314,412	(140,588)
Permits and fees	1,038,800	1,038,800	923,525	(115,275)
Investment income	15,500	15,500	94,766	79,266
Other revenue	173,300	173,300	135,074	(38,226)
<b>Total revenues</b>	<b>10,108,102</b>	<b>10,108,102</b>	<b>10,151,518</b>	<b>43,416</b>
<b>Expenditures</b>				
Current				
General administration	1,010,480	1,010,480	1,061,921	(51,441)
Finance	690,752	690,752	639,405	51,347
Information technology	374,006	374,006	398,200	(24,194)
Fleet maintenance	685,729	685,729	776,528	(90,799)
Police department	3,136,294	3,136,294	3,041,246	95,048
Fire and EMS	1,868,500	1,868,500	1,746,258	122,242
Inspections	415,624	415,624	382,130	33,494
Streets	1,231,601	1,231,601	1,170,914	60,687
Sanitation department	125,487	125,487	160,183	(34,696)
Parks and recreation	852,310	852,310	903,048	(50,738)
Cemetery	297,423	297,423	304,935	(7,512)
Library	404,407	404,407	294,322	110,085
Economic development	-	-	-	-
Hotel occupancy tax	-	-	-	-
Capital outlay	467,500	467,500	316,267	151,233
Debt service				
Principal	148,000	148,000	170,681	(22,681)
Interest	5,760	5,760	5,973	(213)
<b>Total expenditures</b>	<b>11,713,873</b>	<b>11,713,873</b>	<b>11,372,011</b>	<b>341,862</b>
Excess (deficiency) of revenues over expenditures	(1,605,771)	(1,605,771)	(1,220,493)	385,278
Other financing sources (uses)				
Proceeds from sale of general capital assets	201,750	201,750	210,000	8,250
Premiums from bonds and notes payable	-	-	-	-
Proceeds from bonds and notes payable	-	-	-	-
Transfers in	1,404,021	1,404,021	1,390,445	(13,576)
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>1,605,771</b>	<b>1,605,771</b>	<b>1,600,445</b>	<b>(5,326)</b>
Net change in fund balance	-	-	379,952	379,952
Fund balance - beginning of year	3,304,696	3,304,696	3,304,696	-
<b>Fund balance - end of year</b>	<b>\$ 3,304,696</b>	<b>\$ 3,304,696</b>	<b>\$ 3,684,648</b>	<b>\$ 379,952</b>

*See independent auditors' report.*

## **Supplementary Information**

**City of Mineral Wells, Texas**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**September 30, 2018**

	<b>Special Revenue</b>				
	<b>Hotel/Motel</b>		<b>Police</b>		<b>TIF Zone #2</b>
	<b>Occupancy</b>	<b>Tax</b>	<b>Department</b>	<b>Forfeitures</b>	
<b>Assets</b>					
Unrestricted cash	\$ 6,256	\$ 9,092	\$ 276,046		
Restricted cash	-	-	-		
Receivables (Net of Allowances)					
Property tax receivable	-	-	70,144		
Other tax receivables	-	-	-		
Account receivables	-	-	-		
Miscellaneous receivables	-	-	-		
Lease receivables	-	-	-		
Inventory	-	-	-		
Investments	-	-	-		
Due from other funds	3,411				
<b>Total assets</b>	<b>\$ 9,667</b>	<b>\$ 9,092</b>	<b>\$ 346,190</b>		
<b>Liabilities</b>					
Accounts payable	\$ 3,411	\$ -	\$ -		
Due to other funds	-	-	3,411		
<b>Total liabilities</b>	<b>3,411</b>			<b>3,411</b>	
<b>Fund balances</b>					
Nonspendable					
Woodland park permanent fund	-	-	-		
Restricted					
Police	-	9,092	-		
Hotel/Motel occupancy	6,256	-	-		
Economic development	-	-	342,779		
<b>Total fund balances</b>	<b>6,256</b>	<b>9,092</b>	<b>342,779</b>		
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 9,667</b>	<b>\$ 9,092</b>	<b>\$ 346,190</b>		

*See independent auditors' report.*

<b>Special Revenue</b>		<b>Permanent Fund</b>	
<b>Economic Development</b>	<b>Total Special Revenue Funds</b>	<b>Woodland Park</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Fund</b>			
\$ 22,232	\$ 313,626	\$ -	\$ 313,626
-	-	317,938	317,938
-	70,144	-	70,144
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
25,933	25,933	225,672	251,605
4,870	8,281	-	8,281
<b>\$ 53,035</b>	<b>\$ 417,984</b>	<b>\$ 543,610</b>	<b>\$ 961,594</b>
\$ -	\$ 3,411	\$ -	\$ 3,411
-	3,411	-	3,411
<b>-</b>	<b>6,822</b>	<b>-</b>	<b>6,822</b>
-	-	543,610	543,610
-	9,092	-	9,092
-	6,256	-	6,256
53,035	395,814	-	395,814
<b>53,035</b>	<b>411,162</b>	<b>543,610</b>	<b>954,772</b>
<b>\$ 53,035</b>	<b>\$ 417,984</b>	<b>\$ 543,610</b>	<b>\$ 961,594</b>

*See independent auditors' report.*

**City of Mineral Wells, Texas**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Year Ended September 30, 2018**

	<b>Special Revenue</b>			
	<b>Hotel/Motel Occupancy</b>	<b>Police Department</b>	<b>TIF Zone #2</b>	<b>Forfeitures</b>
	<b>Tax</b>			
<b>Revenues</b>				
Taxes				
Property taxes	\$ -	\$ -	\$ 89,566	
Sales and use taxes	- -	- -	- -	
Franchise taxes	- -	- -	- -	
Occupancy taxes	198,370	- -	- -	
Intergovernmental	- -	- -	- -	
Charges for services	- -	- -	- -	
Investment income	3,163	150	2,578	
Other revenue	30	- -	- -	
<b>Total revenues</b>	<b>201,563</b>	<b>150</b>	<b>92,144</b>	
<b>Expenditures</b>				
<b>Current</b>				
Police department	- -	569	- -	
Hotel/Motel Occupancy	197,378	- -	- -	
Economic development	- -	- -	30,908	
Capital outlay	- -	- -	- -	
Debt service				
Principal	- -	- -	- -	
Interest	- -	- -	- -	
<b>Total expenditures</b>	<b>197,378</b>	<b>569</b>	<b>30,908</b>	
<b>Excess (deficiency) of revenues over expenditures</b>	<b>4,185</b>	<b>(419)</b>	<b>61,236</b>	
<b>Other financing sources (uses)</b>				
Transfers in	- -	- -	- -	
Transfers out	(992)	- -	- -	
<b>Total other financing sources (uses)</b>	<b>(992)</b>	<b>- -</b>	<b>- -</b>	
<b>Net change in fund balances</b>	<b>3,193</b>	<b>(419)</b>	<b>61,236</b>	
<b>Fund balances - beginning of year</b>	<b>3,063</b>	<b>9,511</b>	<b>281,543</b>	
<b>Fund balances - end of year</b>	<b>\$ 6,256</b>	<b>\$ 9,092</b>	<b>\$ 342,779</b>	

*See independent auditors' report.*

<b>Special Revenue</b>		<b>Permanent Fund</b>	
<b>Economic Development Fund</b>	<b>Total Special Revenue Funds</b>	<b>Woodland Park</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ 89,566	\$ -	\$ 89,566
-	-	-	-
-	-	-	-
-	198,370	-	198,370
-	-	-	-
-	-	8,296	8,296
833	6,724	5,224	11,948
-	30	-	30
<b>833</b>	<b>294,690</b>	<b>13,520</b>	<b>308,210</b>
<hr/>			
-	569	-	569
-	197,378	-	197,378
7,251	38,159	-	38,159
-	-	-	-
-	-	-	-
-	-	-	-
<b>7,251</b>	<b>236,106</b>	<b>-</b>	<b>236,106</b>
<hr/>			
(6,418)	58,584	13,520	72,104
<hr/>			
-	-	-	-
-	(992)	(150)	(1,142)
<b>-</b>	<b>(992)</b>	<b>(150)</b>	<b>(1,142)</b>
<hr/>			
(6,418)	57,592	13,370	70,962
59,453	353,570	530,240	883,810
<hr/>			
\$ 53,035	\$ 411,162	\$ 543,610	\$ 954,772

*See independent auditors' report.*

**City of Mineral Wells, Texas  
Nonmajor Proprietary Fund  
Combining Statement of Net Position  
September 30, 2018**

<b>Drainage Utility</b>		
<b>Assets</b>		
Unrestricted cash	\$	188,430
Investments		-
Receivables (Net of allowance):		
Accounts receivable		13,769
Inventory		-
Due from other funds		12,917
<b>Total current assets</b>		<b>215,116</b>
Restricted cash and cash equivalents:		
Restricted cash		-
Capital assets:		
Capital assets non-depreciable		-
Capital assets depreciable		382,500
Less: accumulated depreciation		(22,313)
<b>Total noncurrent assets</b>		<b>360,187</b>
<b>Total assets</b>		<b>575,303</b>
<b>Deferred outflows of resources</b>		
Deferred outflows related to pension		-
Deferred outflows related to OPEB		-
<b>Total deferred outflows of resources</b>		<b>-</b>
Total assets and deferred outflows of resources	\$	575,303

*See independent auditors' report.*

## Drainage Utility

### **Liabilities**

Current liabilities		
Accounts payable	\$	-
Fringe benefits payable		-
Retainage payable		-
Accrued payroll		-
Other accrued liabilities		-
Due to other funds		-
Current liabilities payable from restricted assets		-
Notes payable		43,922
Leases payable		-
Compensated absences		-
Total current liabilities		43,922
Long-term liabilities (Net of current position)		
Net pension liability		-
Net OPEB liability		-
Notes payable		325,075
Leases payable		-
Total noncurrent liabilities		325,075
Total liabilities		368,997
<b>Deferred inflows of resources</b>		
Deferred inflows related to pension		-
Total deferred inflows of resources		-
<b>Net position</b>		
Net investment in capital assets		(8,810)
Unrestricted net position		215,116
Total net position		206,306
Total liabilities, deferred inflows of resources, and net position	\$	575,303

*See independent auditors' report.*

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**City of Mineral Wells, Texas**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended September 30, 2018**

<b>Drainage Utility</b>	
Operating revenues	
Drainage utility fees	\$ 174,004
Oil and gas	-
Rentals	-
Other revenue	-
<b>Total operating revenues</b>	<b>174,004</b>
Operating expenses	
Drainage utility	3,304
Airport	-
Depreciation expense	22,313
<b>Total operating expenses</b>	<b>25,617</b>
<b>Operating income (loss)</b>	<b>148,387</b>
Non-operating revenues (expenses)	
Insurance recoveries	-
Interest expense	(7,097)
Interest earned	-
<b>Total non-operating revenues (expenses)</b>	<b>(7,097)</b>
Income (loss) before contributions and transfers	141,290
Transfers in	-
Transfers out	(25,000)
<b>Change in net position</b>	<b>116,290</b>
<b>Net position - beginning</b>	<b>90,016</b>
Net position, restatement (note xx)	-
<b>Total net position, beginning, as restated</b>	<b>90,016</b>
<b>Net position - end of year</b>	<b>\$ 206,306</b>

*See independent auditors' report.*

**City of Mineral Wells, Texas**  
**Nonmajor Proprietary Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended September 30, 2018**

	<b>Drainage Utility</b>
Cash flows from operating activities	
Cash received from user charges	\$ 172,738
Cash payments to employees for services	-
Cash payments to suppliers for goods and services	(3,304)
Net cash provided (used) by operating activities	<u>169,434</u>
Cash flows from noncapital financing activities	
Gross receipts taxes	-
Miscellaneous income	-
Transfers and interfund activity	(33,525)
Net cash provided (used) by noncapital financing activities	<u>(33,525)</u>
Cash flows from investing activities	
Reclassification from cash to investments	-
Interest on investments	-
Net cash provided (used) by investing activities	<u>-</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(382,500)
Capital grants	-
Interest paid	(7,097)
Proceeds from issuance of long-term debt	325,075
Principal payments on bonds, loans, and notes payable	43,922
Net cash provided (used) by capital and related financing activities	<u>(20,600)</u>
Net (decrease) increase in cash and cash equivalents	115,309
Cash and cash equivalents - beginning of year	73,121
Cash and cash equivalents - end of year	<u>\$ 188,430</u>

*See independent auditors' report.*

**Drainage Utility**

Reconciliation of operating income (loss) to  
net cash provided (used) by operating activities:

Operating income (loss)	\$	148,387
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Adjustments to reconcile operating income (loss) to  
net cash provided (used) by operating activities:

Depreciation	22,313
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Noncash pension and OPEB expense	-
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Changes in assets, liabilities and deferred outflows of resources:

Receivables	(1,266)
-------------	---------

Inventory	-
-----------	---

Prepaid expenses	-
------------------	---

Other noncurrent assets	-
-------------------------	---

Deferred outflows - subsequent contributions	-
--	---

Accounts payable	-
------------------	---

Accrued payroll expenses	-
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Accrued compensated absences	-
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Other current liabilities	-
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Meter deposits	-
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Net cash provided (used) by operating activities	\$	169,434
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*See independent auditors' report.*

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## **Compliance Section**

**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***

**INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and City Council  
City of Mineral Wells  
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 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2019.

**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 City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items FS 2018-001, FS 2018-002, and FS 2018-003 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

## **The City's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 result of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC

Dallas, Texas

March 29, 2019

**City of Mineral Wells, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2018**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

*Financial Statements:*

1. Type of auditors’ report issued	Unmodified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	None noted
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
c. Noncompliance material to the financial statements noted?	None noted

**City of Mineral Wells, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2018**

**SECTION II – FINDINGS - FINANCIAL STATEMENT AUDIT**

**FS 2018-001 — Misidentification of Accounts Payable (Significant Deficiency)**

*Condition:* The City did not accrue two accounts payable for a total of \$448,947 in the correct year.

*Criteria:* Generally accepted accounting principles requires that expenditures and the related accounts payable be recorded for goods or services received as of the date of the financial statements yet unpaid at year end. If these items relate to capital purchases such as construction in progress, the related asset should also be recorded in the accounting records in the same fiscal year.

*Cause:* During the City's year end close process they did not appropriately categorize two transactions as accounts payable. The amounts were recorded as expenditures in fiscal year 2019 based on incomplete information received from other City departments. Also, this project is ongoing as of the date of the auditors' report.

*Effect:* The City's expenditures/expenses and related accounts payable were initially understated by \$448,947 at year-end. In addition, one of the items was a construction in progress which was not on the 2018 construction in progress listing in the amount of \$437,071. This item was included on the 2019 listing. An adjusting entry was proposed and recorded to correct these balances.

*Auditors' Recommendation:* City Departments should accurately track their expenditures at year-end and ensure that pay applications received subsequent to year-end but related to work performed before year-end be accurately reported to the City's Finance Department. The City should also keep in mind that construction projects can often be misidentified during year-end accrual categorization and ensure that all construction projects are accounted for as payable if services were rendered before year-end.

*City's Response:* The City has since implemented a monthly reporting system from departments involved in construction activities that will prevent any confusion or misunderstandings over the dates of an expenditure and reduce the need for a correcting audit entry.

**City of Mineral Wells, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2018**

**SECTION II – FINDINGS - FINANCIAL STATEMENT AUDIT**

**FS 2018-002 — Formal Documentation of Journal Entry Review Process (Significant Deficiency)**

*Condition:* The City does not maintain formal documentation of the review processes in place for all entries posted to the general ledger by the Accounting Manager.

*Criteria:* The COSO framework states that a monitoring function should be documented in order for the City to have a well-designed controls over the journal entry process.

*Cause:* The City does not have formalized documentation of the current review process in place to review activity, including manual journal entries, posted to the general ledger by the Accounting Manager.

*Effect:* The City is unable to support the frequency or level of detail of the review of general ledger activity and manual journal entries recorded by the Accounting Manager.

*Auditors' Recommendation:* We recommend the Finance Director formally document via a log or other means the frequency of the general ledger and journal entry review along with items found during the review. The review should assess the appropriateness and legitimacy of the activity and related journal entries. The updated procedures should be formally documented in the City's Finance policy and procedure manual.

*City's Response:* The Director of Finance has consistently reviewed all journal entries by the Accounting Manager, but there has not been a "formal" documentation process in place previously. Nevertheless, the Director of Finance will begin to formally document the review process for all entries posted to the general ledger by the Accounting Manager as recommended.

**City of Mineral Wells, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2018**

**SECTION II – FINDINGS - FINANCIAL STATEMENT AUDIT**

**FS 2018-003 — Controls over Decentralized Cash Receipting (Significant Deficiency)**

*Condition:* The City does not have adequate preventative or detective controls in place over the receipting processes for Animal Shelter and Cemetery services.

*Criteria:* The COSO framework states that control activities should be in place that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

*Cause:* The City does not have adequate safeguards in place over the receipting of cash at the cash receipting locations mentioned above. In addition, there are not adequate detective controls to evaluate the level of services compared to revenue received.

*Effect:* The City has an increased risk of cash or checks for services rendered received at those locations not remitted to the City Clerk. The City mitigates the risk of missing revenue by its review of budget to actual revenues at these locations. In addition, the volume and frequency of transactions at these locations is not significant when compared to the City's other revenue sources.

*Auditors' Recommendation:* We recommend the Departments' responsible for these services formalize controls with a layer of review for all cash receipts at the respective decentralized locations. We also recommend the cash and checks received be remitted to the City Clerk in a more timely manner as staffing allows. If adding these preventative controls is not feasible, the City should understand the importance of detective controls assessing reasonableness of revenue to services performed and these should be evaluated at least quarterly. Lastly, the City should consider minimizing the frequency of cash collected at these sites through the use of electronic payments.

*City's Response:* The City will endeavor to implement a Cash Handling Policy to address these recommendations. We will also evaluate the use of electronic payments in lieu of cash at the sites that are referenced in the recommendations.

**City of Mineral Wells, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2018**

**SECTION III – PRIOR YEAR AUDIT FINDINGS**

**FS 2017-001 — Bidding Procedures (Material Weakness and Noncompliance and Other Matters) - Resolved**