# City of Mineral Wells, Texas

## ANNUAL FINANCIAL REPORT

### For the Year Ended September 30, 2019

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# Introductory Section

## Table of Contents

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## City Council

| Name | Title |
|---|---|
| Christopher M. Perricone | Mayor |
| Brian Shoemaker | Councilor |
| Regan Johnson | Councilor |
| Jerrel Tomlin | Councilor |
| Tammy Underwood | Councilor |
| Beth Watson | Councilor |
| Doyle Light | Councilor |

## Administration

| Name | Title |
|---|---|
| Randy Criswell | City Manager |
| John Moran | Finance Director |
| Peggy Clifton | City Clerk |

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# Financial Section

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**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, 2019, 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 56 percent, 47 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and 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, based on our audit and the report of other auditors, 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, 2019, 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.

***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 20 and Schedules pertaining to Pension and OPEB, the Notes to the Required Supplementary Information, and the budgetary comparison for the General Fund on pages 94 through 107 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The 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 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 31, 2020, 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 solely 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 effectiveness of the City's 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 31, 2020

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, 2019.

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 $81,261,244 (net position). Of this amount, $18,653,321 (unrestricted net position) may be used to meet the City's ongoing obligations.

The City's total net position decreased by $7,592. The City's operations decreased governmental activities by $708,978 and increased the business-type activities by $701,386.

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of $9,601,607. $3,982,490 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 $3,982,490 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: l) 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. I ("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.

***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 26-33 of this report.

***Proprietary Funds.*** The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer Operations, for Airport Operations, Drainage Utility and for the Water District. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for worker's compensation self-insurance and employee health, dental and life insurance. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net position, while the net revenue (expenses) of the internal service fund is reported with governmental activities.

The Proprietary Fund Financial Statements provide information for the Water/Sewer Enterprise Fund, the Water District, the Airport Operations 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 44-91 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 paged 94-107 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 and deferred outflows exceed liabilities and deferred inflows by $81,261,244 at September 30, 2019.

The largest portion of the City's net position (73 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.

$3,450,142 of the City's net position represents resources that are subject to external restrictions on how they may be used. The $18,653,321 balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Assets** | | | | | | |
| Current and Other Assets | $ 14,281,600 | $ 14,005,138 | $ 27,888,539 | $ 30,828,924 | $ 42,170,139 | $ 44,834,062 |
| Capital Assets | 27,505,638 | 28,079,279 | 51,327,563 | 49,036,642 | 78,833,201 | 77,115,921 |
| **Total Assets** | $ 41,787,238 | $ 42,084,417 | $ 79,216,102 | $ 79,865,566 | $ 121,003,340 | $ 121,949,983 |
| **Deferred Outflows of Resources** | $ 1,688,395 | $ 405,092 | $ 701,130 | $ 187,346 | $ 2,389,525 | $ 592,438 |
| **Liabilities** | | | | | | |
| Long-Term Liabilities | $ 11,094,378 | $ 9,207,066 | $ 26,374,772 | $ 26,794,013 | $ 37,469,150 | $ 36,001,079 |
| Other Liabilities | 1,933,281 | 1,500,709 | 2,652,413 | 2,781,306 | 4,585,694 | 4,282,015 |
| **Total Liabilities** | $ 13,027,659 | $ 10,707,775 | $ 29,027,185 | $ 29,575,319 | $ 42,054,844 | $ 40,283,094 |
| **Deferred Inflows of Resources** | $ 50,441 | $ 675,223 | $ 26,336 | $ 315,268 | $ 76,777 | $ 990,491 |
| **Net position** | | | | | | |
| Net Investment in Capital Assets | $ 20,872,820 | $ 22,511,317 | $ 38,284,961 | $ 35,684,976 | $ 59,157,781 | $ 58,196,293 |
| Restricted | 1,106,790 | 957,559 | 2,343,352 | 2,355,045 | 3,450,142 | 3,312,604 |
| Unrestricted | 8,417,923 | 7,637,635 | 10,235,398 | 12,122,304 | 18,653,321 | 19,759,939 |
| **Total Net Position** | $ 30,397,533 | $ 31,106,511 | $ 50,863,711 | $ 50,162,325 | $ 81,261,244 | $ 81,268,836 |

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

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Revenues:** | | | | | | |
| **Program revenues:** | | | | | | |
| Charges for services | $ 1,223,217 | $ 1,214,484 | $ 13,608,492 | $ 13,445,658 | $ 14,831,709 | $ 14,660,142 |
| Operating grants and contributions | 624,257 | 272,720 | - | - | 624,257 | 272,720 |
| Capital grants and contributions | - | - | - | - | - | - |
| **General revenues:** | | | | | | |
| Property taxes | 4,819,196 | 4,051,187 | - | - | 4,819,196 | 4,051,187 |
| Other taxes | 4,886,282 | 4,804,934 | - | - | 4,886,282 | 4,804,934 |
| Other | 637,028 | 159,597 | 335,435 | 890,223 | 972,463 | 1,049,820 |
| **Total revenues** | $ 12,189,980 | $ 10,502,922 | $ 13,943,927 | $ 14,335,881 | $ 26,133,907 | $ 24,838,803 |
| **Expenses:** | | | | | | |
| Adminstrative | $ 1,417,239 | $ 1,136,740 | $ - | $ - | $ 1,417,239 | $ 1,136,740 |
| Public safety | 2,985,402 | 5,064,655 | - | - | 2,985,402 | 5,064,655 |
| Highways/streets | 1,896,429 | 1,920,563 | - | - | 1,896,429 | 1,920,563 |
| Public works | 6,024,508 | 2,668,546 | - | - | 6,024,508 | 2,668,546 |
| Economic development | 117,717 | 235,537 | - | - | 117,717 | 235,537 |
| Culture and recreation | 1,489,452 | 1,469,011 | - | - | 1,489,452 | 1,469,011 |
| Interest on long-term debt | 298,582 | 118,185 | - | - | 298,582 | 118,185 |
| Water and sewer | - | - | 9,022,790 | 9,335,377 | 9,022,790 | 9,335,377 |
| PPCMWD No. 1 | - | - | 1,424,683 | 1,456,366 | 1,424,683 | 1,456,366 |
| Airport | - | - | - | 1,460,550 | - | 1,460,550 |
| Nonmajor enterprise funds | - | - | 1,465,697 | 32,714 | 1,465,697 | 32,714 |
| **Total expenses** | $ 14,229,329 | $ 12,613,237 | $ 11,913,170 | $ 12,285,007 | $ 26,142,499 | $ 24,898,244 |
| Change in net position before transfers | $ (2,039,349) | $ (2,110,315) | $ 2,030,757 | $ 2,050,874 | $ (8,592) | $ (59,441) |
| Transfers | 1,330,371 | 1,256,871 | (1,329,371) | (1,256,871) | 1,000 | - |
| Change in net position | (708,978) | (853,444) | 701,386 | 794,003 | (7,592) | (59,441) |
| Net position - beginning | 31,106,511 | 31,959,955 | 50,162,325 | 49,368,322 | 81,268,836 | 81,328,277 |
| **Net position - ending** | $ 30,397,533 | $ 31,106,511 | $ 50,863,711 | $ 50,162,325 | $ 81,261,244 | $ 81,268,836 |

## 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 $3,982,490 while total fund balance reached $3,982,490. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 32 percent of total general fund expenditures, while total fund balance represents 32 percent of that same amount.

Other Items. The Debt Service Fund has a total fund balance of $33,460 all of which is restricted for the payment of debt service.

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

Unrestricted net position at the end of the year for Water/Sewer Operations, Water District, and Nonmajor Enterprise Fund are $6,907,407, $2,590,255, and $310,169 respectively.

General Fund Budgetary Highlights. It is the practice of the City to budget very conservatively. Revenues in 2018-19 were $131,943 less than budgeted with Sales and use taxes coming in at $327,995 more than budgeted. Actual expenses were 8.29 percent less than budgeted primarily due to Capital Outlay, Police, Streets and the Parks and Recreation 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 $908,290.

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, 2019 amounts to $78,833,201 (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, an ambulance, a tanker fire truck, mowers, and an annex remodel at City Hall and completed a paving project on MH 379. The Water and Sewer fund completed construction of a water line on HWY 180, installed water lines and fire hydrants on SE, purchased vehicles, a dump truck, and lab equipment. 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 $39,345,823. Included in the City's long-term debt are capital leases in the amount of $112,872 for police vehicles and airport T-hangars and tractor. $1,935,452 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, $20,350,000 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.

Economic Factors and Next Year's Budgets and Rates. The City of Mineral Wells has demonstrated sustained economic recovery from the 2008 recession, which has resulted in numerous economic development and business/industry expansions. As a result, local sales tax receipts have generally trended upward. Accordingly, the City has been able to accumulate, retain, and carefully invest General Fund balances of more than $3,500,000 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 recovery in the General Fund revenues, the City has prudently undertaken some supplementary 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 diligently monitoring the economic situation and will make adjustments in spending as necessary.

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

The long – awaited Baker Hotel and Crazy Water Hotel renovation projects have also been initiated, which have the ability to be the catalysts for the rejuvenation of downtown Mineral Wells, as well as the entire city.

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 for the project. A comprehensive water/sewer rate study for our wholesale customers is in progress 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 continuing to formulate a Water/Sewer Capital Improvement Plan in order to plan and properly fund future infrastructure improvements.

In regards to the Airport Fund, aircraft fuel sales have been increasing, which in turn supports Airport operations. We anticipate upcoming runaway repairs and upgrades to also increase the 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 tum lead to increased revenues generated by the Airport. Management also proposes to fund a Comprehensive Plan to determine the best overall uses of the Regional Airport as we move forward.

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 and partner with the Corps of Engineers to mitigate future flood events within the community as well as identify and repair aging infrastructure.

The City has successfully maintained excellent service levels during the past periods of uncertainty and diminished resources. Going forward, as the economy continues to improve and revenues increase, 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.

# Financial Statements

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Community Development Corporation |
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 2,509,726 | $ 4,177,514 | $ 6,687,240 | $ 1,397,873 |
| Investments | 3,880,398 | 5,866,939 | 9,747,337 | - |
| Receivables, net: | | | | |
| Property taxes | 289,249 | - | 289,249 | - |
| Other taxes | 705,276 | - | 705,276 | - |
| Accounts | 461,560 | 1,304,201 | 1,765,761 | - |
| Leases | 1,935,452 | - | 1,935,452 | - |
| Miscellaneous | 106,046 | 477 | 106,523 | 46,438 |
| Prepaid expense | - | 5,400 | 5,400 | - |
| Inventory | - | 382,015 | 382,015 | - |
| Internal Balances | (213,760) | 213,760 | - | - |
| Total current assets | 9,673,947 | 11,950,306 | 21,624,253 | 1,444,311 |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents: | | | | |
| Cash and cash equivalents | 4,607,653 | 13,404,206 | 18,011,859 | - |
| Investments | - | 2,534,027 | 2,534,027 | - |
| Capital assets | | | | |
| Nondepreciable | 2,502,842 | 18,077,924 | 20,580,766 | - |
| Depreciable, net of accumulated depreciation | 25,002,796 | 33,249,639 | 58,252,435 | - |
| Total noncurrent assets | 32,113,291 | 67,265,796 | 99,379,087 | - |
| **Deferred outflows** | | | | |
| Deferred outflows related to pensions | 1,583,322 | 655,365 | 2,238,687 | - |
| Deferred outflows related to OPEB | 105,073 | 45,765 | 150,838 | - |
| Total deferred outflows | 1,688,395 | 701,130 | 2,389,525 | - |
| Total assets and deferred outflows | $ 43,475,633 | $ 79,917,232 | $ 123,392,865 | $ 1,444,311 |

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

| | Primary Government | | | Component Unit |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Community Development Corporation |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable | $ 1,098,252 | $ 412,734 | $ 1,510,986 | $ - |
| Accrued payroll | 158,808 | 60,557 | 219,365 | - |
| Other accrued liabilities | 15,681 | 5,801 | 21,482 | |
| Fringe benefits payble | 78,630 | 30,420 | 109,050 | - |
| Due to state | 21,736 | - | 21,736 | - |
| Retainage payable | 62,472 | 33,831 | 96,303 | - |
| Unearned revenue | - | 161,485 | 161,485 | - |
| Deposits held for others | - | 377,939 | 377,939 | - |
| Interest payable | - | 190,675 | 190,675 | - |
| Long-term liabilities due within one year | | | | |
| Due within one year | 497,702 | 1,378,971 | 1,876,673 | - |
| Total current liabilities | 1,933,281 | 2,652,413 | 4,585,694 | - |
| Noncurrent liabilities | | | | |
| Net pension liability | 2,496,618 | 1,047,726 | 3,544,344 | - |
| Net OPEB liability | 422,172 | 193,087 | 615,259 | - |
| Due in more than one year | 8,175,588 | 25,133,959 | 33,309,547 | - |
| Total noncurrent liabilities | 11,094,378 | 26,374,772 | 37,469,150 | - |
| Total liabilities | 13,027,659 | 29,027,185 | 42,054,844 | - |
| **Deferred inflows** | | | | |
| Deferred inflows related to pensions | 32,479 | 18,745 | 51,224 | - |
| Deferred inflows related to OPEB | 17,962 | 7,591 | 25,553 | - |
| Total deferred inflows | 50,441 | 26,336 | 76,777 | - |
| **Net position** | | | | |
| Net investment in capital assets | 20,872,820 | 38,284,961 | 59,157,781 | - |
| Restricted for: | | | | |
| Debt service | 33,460 | 2,343,352 | 2,376,812 | - |
| Police | 9,305 | - | 9,305 | - |
| Hotel/motel occupancy | 6,563 | - | 6,563 | - |
| Economic development | 497,414 | - | 497,414 | - |
| Woodland park | 560,048 | - | 560,048 | - |
| Unrestricted net position | 8,417,923 | 10,235,398 | 18,653,321 | 1,444,311 |
| Total net position | 30,397,533 | 50,863,711 | 81,261,244 | 1,444,311 |
| Total liabilities, deferred inflows, and net position | $ 43,475,633 | $ 79,917,232 | $ 123,392,865 | $ 1,444,311 |

*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, 2019

| | | Program Revenues | | |
|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Primary government:** | | | | |
| **Governmental activities:** | | | | |
| Administrative | $ 1,417,239 | $ 28,184 | $ - | $ - |
| Finance | 677,760 | 269,919 | - | - |
| Information technology | 467,752 | - | - | - |
| Fleet maintenance | 708,526 | - | - | - |
| Police department | 3,532,145 | 41,223 | 234,205 | - |
| Fire/EMS | 2,621,467 | 563,422 | 359,505 | - |
| Inspections | 363,935 | 93,837 | - | - |
| Streets | 1,896,429 | 4,083 | - | - |
| Sanitation | 175,537 | 67,837 | - | - |
| Parks and recreation | 1,078,231 | 79,596 | - | - |
| Cemetery | 284,806 | 66,011 | - | - |
| Library | 411,221 | 9,105 | 30,547 | - |
| Economic development | 117,717 | - | - | - |
| Hotel occupancy | 177,983 | - | - | - |
| Interest and fiscal charges | 298,582 | - | - | - |
| Total governmental activities | 14,229,329 | 1,223,217 | 624,257 | - |
| **Business-type activities:** | | | | |
| Water and sewer | 9,022,790 | 9,482,987 | - | - |
| PPCMWD No. 1 | 1,424,683 | 2,974,154 | - | - |
| Airport | - | - | - | - |
| Nonmajor enterprise fund | 1,465,697 | 1,151,351 | - | - |
| Total business-type activities | 11,913,170 | 13,608,492 | - | - |
| Total primary government | $ 26,142,499 | $ 14,831,709 | $ 624,257 | $ - |
| **Component unit:** | | | | |
| Economic Development | 5,415 | $ - | $ - | $ - |

General revenues and transfers:
- Taxes
  - Property taxes
  - Sales and use taxes
  - Franchise taxes
  - Occupancy taxes
  - Investment earnings
  - Insurance recoveries
  - Other revenue
- Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

*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 |
| $ (1,389,055) | $ - | $ (1,389,055) | $ - |
| (407,841) | - | (407,841) | - |
| (467,752) | - | (467,752) | - |
| (708,526) | - | (708,526) | - |
| (3,256,717) | - | (3,256,717) | - |
| (1,698,540) | - | (1,698,540) | - |
| (270,098) | - | (270,098) | - |
| (1,892,346) | - | (1,892,346) | - |
| (107,700) | - | (107,700) | - |
| (998,635) | - | (998,635) | - |
| (218,795) | - | (218,795) | - |
| (371,569) | - | (371,569) | - |
| (117,717) | - | (117,717) | - |
| (177,983) | - | (177,983) | - |
| (298,582) | - | (298,582) | - |
| (12,381,855) | - | (12,381,855) | - |
| - | 460,197 | 460,197 | - |
| - | 1,549,471 | 1,549,471 | - |
| - | - | - | - |
| - | (314,346) | (314,346) | - |
| - | 1,695,322 | 1,695,322 | - |
| (12,381,855) | 1,695,322 | (10,686,533) | - |
| - | - | - | (5,415) |
| 4,819,196 | - | 4,819,196 | - |
| 3,403,995 | - | 3,403,995 | 298,037 |
| 1,303,410 | - | 1,303,410 | - |
| 178,877 | - | 178,877 | - |
| 335,240 | 330,005 | 665,245 | 25,376 |
| - | 5,430 | 5,430 | - |
| 301,788 | - | 301,788 | - |
| 1,330,371 | (1,329,371) | 1,000 | (1,000) |
| 11,672,877 | (993,936) | 10,678,941 | 322,413 |
| (708,978) | 701,386 | (7,592) | 316,998 |
| 31,106,511 | 50,162,325 | 81,268,836 | 1,127,313 |
| $ 30,397,533 | $ 50,863,711 | $ 81,261,244 | $ 1,444,311 |

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

# City of Mineral Wells, Texas
# Balance Sheet
# Governmental Funds
# September 30, 2019

| | | General Fund | | Debt Service |
|---|---|---|---|---|
| **Assets** | | | | |
| Unrestricted cash | $ | 1,192,116 | $ | 34,915 |
| Restricted cash | | 237,468 | | - |
| Receivables, net | | | | |
| Property tax receivables | | 116,647 | | 9,890 |
| Other tax receivables | | 705,276 | | - |
| Account receivables | | 461,560 | | - |
| Miscellaneous receivables | | 106,046 | | - |
| Lease receivables | | - | | 1,935,452 |
| Unrestricted investments | | 2,330,597 | | - |
| Due from other funds | | 511,936 | | - |
| Total assets | $ | 5,661,646 | $ | 1,980,257 |
| **Liabilities, deferred inflows of resources,and fund balances** | | | | |
| Liabilities | | | | |
| Accounts payable | $ | 749,411 | $ | 2,667 |
| Accrued payroll | | 158,808 | | - |
| Other accrued liabilities | | 15,681 | | - |
| Fringe benefits payable | | 78,630 | | - |
| Due to state | | 21,736 | | - |
| Retainage payable | | 62,472 | | - |
| Due to other funds | | 113,351 | | - |
| Total liabilities | | 1,200,089 | | 2,667 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue | | 479,067 | | 1,944,130 |
| Total deferred inflows of resources | | 479,067 | | 1,944,130 |
| Fund balances | | | | |
| Nonspendable | | | | |
| Woodland Park permanent fund | | - | | - |
| Restricted | | | | |
| Debt service | | - | | 33,460 |
| Capital projects | | - | | - |
| Police | | - | | - |
| Hotel/Motel occupancy | | - | | - |
| Economic development | | - | | - |
| Unassigned | | 3,982,490 | | - |
| Total fund balances | | 3,982,490 | | 33,460 |
| Total liabilities, deferred inflows of resources, and fund balances | $ | 5,661,646 | $ | 1,980,257 |

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

| Street Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ - | $ 326,978 | $ 1,554,009 |
| 4,111,113 | 259,072 | 4,607,653 |
| | | |
| - | 162,712 | 289,249 |
| - | - | 705,276 |
| - | - | 461,560 |
| - | - | 106,046 |
| - | - | 1,935,452 |
| 747,337 | 327,514 | 3,405,448 |
| - | 2,946 | 514,882 |
| $ 4,858,450 | $ 1,079,222 | $ 13,579,575 |
| | | |
| $ 343,228 | $ 2,946 | $ 1,098,252 |
| - | - | 158,808 |
| - | - | 15,681 |
| - | - | 78,630 |
| - | - | 21,736 |
| - | - | 62,472 |
| 2,895 | 2,946 | 119,192 |
| 346,123 | 5,892 | 1,554,771 |
| | | |
| - | - | 2,423,197 |
| - | - | 2,423,197 |
| | | |
| - | 560,048 | 560,048 |
| | | |
| - | - | 33,460 |
| 4,512,327 | - | 4,512,327 |
| - | 9,305 | 9,305 |
| - | 6,563 | 6,563 |
| - | 497,414 | 497,414 |
| - | - | 3,982,490 |
| 4,512,327 | 1,073,330 | 9,601,607 |
| $ 4,858,450 | $ 1,079,222 | $ 13,579,575 |

*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, 2019

| | | |
|---|---|---|
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Fund balances - total governmental funds | $ | 9,601,607 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 27,505,638 |
| 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 | | 2,423,197 |
| 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 | | 1,583,322 |
| Deferred outflows of resources related to OPEBs | | 105,073 |
| Deferred inflows of resources related to pensions | | (32,479) |
| Deferred inflows of resources related to OPEBs | | (17,962) |
| Some liabilities, including bonds payable, notes, accrued compensated absences, and net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | | |
| Long-term liabilities | | (11,592,080) |
| 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. | | 821,217 |
| Total net position of governmental activities | $ | 30,397,533 |

*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, 2019

| | General Fund | Debt Service |
|---|---|---|
| Revenues | | |
| Taxes | | |
| Property taxes | $ 4,130,070 | $ 364,070 |
| Sales and use taxes | 3,403,995 | - |
| Franchise taxes | 1,303,410 | - |
| Occupancy taxes | - | - |
| Intergovernmental | 624,257 | - |
| Charges for services | 366,882 | - |
| Permits and fees | 850,983 | - |
| Investment income | 139,386 | 2,201 |
| Other revenue | 106,834 | 198,541 |
| Total revenues | 10,925,817 | 564,812 |
| Expenditures | | |
| Current | | |
| General adminstration | 1,309,566 | - |
| Finance | 644,370 | - |
| Information technology | 446,027 | - |
| Fleet maintenance | 697,744 | - |
| Police department | 3,240,845 | - |
| Fire and EMS | 2,345,061 | - |
| Inspections | 353,452 | - |
| Streets | 1,075,815 | - |
| Sanitation department | 174,657 | - |
| Parks and recreation | 778,009 | - |
| Cemetery | 270,879 | - |
| Library | 368,008 | - |
| Economic development | - | 38 |
| Hotel occupancy tax | - | - |
| Capital outlay | 348,073 | - |
| Debt service | | |
| Principal | 243,963 | 243,540 |
| Interest | 8,021 | 290,561 |
| Total expenditures | 12,304,490 | 534,139 |
| Excess (deficiency) of revenues over expenditures | (1,378,673) | 30,673 |
| Other financing sources (uses) | | |
| Proceeds from sale of general capital assets | 220,000 | - |
| Transfers in | 1,456,515 | - |
| Transfers out | - | - |
| Total other financing sources (uses) | 1,676,515 | - |
| Net change in fund balance | 297,842 | 30,673 |
| Fund balance - Beginning of year | 3,684,648 | 2,787 |
| Fund balance - End of year | $ 3,982,490 | $ 33,460 |

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

| Street Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ - | $ 211,605 | $ 4,705,745 |
| - | - | 3,403,995 |
| - | - | 1,303,410 |
| - | 178,877 | 178,877 |
| - | - | 624,257 |
| - | 5,352 | 372,234 |
| - | - | 850,983 |
| 160,863 | 19,530 | 321,980 |
| - | - | 305,375 |
| 160,863 | 415,364 | 12,066,856 |
| | | |
| - | - | 1,309,566 |
| - | - | 644,370 |
| - | - | 446,027 |
| - | - | 697,744 |
| - | - | 3,240,845 |
| - | - | 2,345,061 |
| - | - | 353,452 |
| - | - | 1,075,815 |
| - | - | 174,657 |
| - | - | 778,009 |
| - | - | 270,879 |
| - | - | 368,008 |
| - | 117,679 | 117,717 |
| - | 177,983 | 177,983 |
| 668,930 | - | 1,017,003 |
| | | |
| - | - | 487,503 |
| - | - | 298,582 |
| 668,930 | 295,662 | 13,803,221 |
| (508,067) | 119,702 | (1,736,365) |
| | | |
| - | - | 220,000 |
| - | - | 1,456,515 |
| - | (1,144) | (1,144) |
| - | (1,144) | 1,675,371 |
| (508,067) | 118,558 | (60,994) |
| 5,020,394 | 954,772 | 9,662,601 |
| $ 4,512,327 | $ 1,073,330 | $ 9,601,607 |

*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, 2019

| | | |
|---|---|---|
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Net change in fund balances - total governmental funds | $ | (60,994) |
| 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 | | 1,017,003 |
| Depreciation expense | | (1,577,754) |
| 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 | | 113,451 |
| 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 | | (49,356) |
| Pension related items | | (275,878) |
| 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 | | (220,000) |
| Principal payments on bonds payable and capital lease | | 267,505 |
| 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 | | 77,045 |
| Change in net position of governmental activities | $ | (708,978) |

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

# City of Mineral Wells, Texas
# Statement of Net Position
# Proprietary Funds
# September 30, 2019

| | Business-Type Activities Enterprise Funds | |
|---|---|---|
| | Water and Sewer | Palo Pinto County Municipal Water District No. 1 |
| **Assets** | | |
| Unrestricted cash | $ 3,284,516 | $ 597,220 |
| Investments | 3,534,865 | 2,301,620 |
| Receivables (Net of allowance): | | |
| Accounts receivable | 1,260,619 | 3,440 |
| Miscellaneous receivables | 477 | - |
| Inventory | 241,909 | 101,868 |
| Due from other funds | 2,895 | - |
| Prepaid assets | - | 5,400 |
| Total current assets | 8,325,281 | 3,009,548 |
| Restricted cash and cash equivalents | | |
| Restricted cash | - | 13,395,706 |
| Investments | - | 2,534,027 |
| Capital assets | | |
| Capital assets non-depreciable | 1,450,120 | 16,256,395 |
| Capital assets depreciable | 40,762,249 | 25,239,766 |
| Less: accumulated depreciation | (20,991,633) | (16,016,273) |
| Total noncurrent assets | 21,220,736 | 41,409,621 |
| Total assets | 29,546,017 | 44,419,169 |
| **Deferred outflows of resources** | | |
| Deferred outflows related to pension | 613,173 | - |
| Deferred outflows related to OPEB | 43,008 | - |
| Total deferred outflows of resources | 656,181 | - |
| Total assets and deferred outflows of resources | $ 30,202,198 | $ 44,419,169 |

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

| Business-Type Activities Enterprise Funds | | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Nonmajor Proprietary Fund | | Total | | Internal Service Fund |
| $ | 295,778 | $ | 4,177,514 | $ | 955,717 |
| | 30,454 | | 5,866,939 | | 474,950 |
| | | | | | |
| | 40,142 | | 1,304,201 | | - |
| | - | | 477 | | - |
| | 38,238 | | 382,015 | | - |
| | 16,878 | | 19,773 | | - |
| | - | | 5,400 | | - |
| | 421,490 | | 11,756,319 | | 1,430,667 |
| | | | | | |
| | 8,500 | | 13,404,206 | | - |
| | - | | 2,534,027 | | - |
| | | | | | |
| | 371,409 | | 18,077,924 | | - |
| | 9,138,676 | | 75,140,691 | | - |
| | (4,883,146) | | (41,891,052) | | - |
| | 4,635,439 | | 67,265,796 | | - |
| | 5,056,929 | | 79,022,115 | | 1,430,667 |
| | | | | | |
| | 42,192 | | 655,365 | | - |
| | 2,757 | | 45,765 | | - |
| | 44,949 | | 701,130 | | - |
| | | | | | |
| $ | 5,101,878 | $ | 79,723,245 | $ | 1,430,667 |

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

## City of Mineral Wells, Texas
## Statement of Net Position
## Proprietary Funds
## September 30, 2019

| | Business-Type Activities Enterprise Funds | |
|---|---|---|
| | Water and Sewer | Palo Pinto County Municipal Water District No. 1 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 170,095 | $ 242,639 |
| Fringe benefits payable | 29,298 | - |
| Retainage payable | 18,336 | - |
| Accrued payroll | 54,994 | 979 |
| Other accrued liabilities | 5,746 | - |
| Unearned revenue | - | 161,485 |
| Deposits held for others | 377,939 | - |
| Due to other funds | 165,041 | - |
| Current liabilities payable from restricted assets | | |
| Notes payable | - | - |
| Bonds payable | 135,000 | 1,080,000 |
| Leases payable | - | - |
| Interest payable | - | 190,675 |
| Compensated absences | 55,693 | - |
| Bond premium and discount | 13,994 | - |
| Total current liabilities | 1,026,136 | 1,675,778 |
| Long-term liabilities (Net of current portion) | | |
| Notes payable | - | - |
| Bonds payable | 5,185,000 | 19,270,000 |
| Leases payable | - | - |
| Net pension liability | 988,297 | - |
| Net OPEB liability | 182,770 | - |
| Bond premium and discount | 321,864 | 8,728 |
| Total noncurrent liabilities | 6,677,931 | 19,278,728 |
| Total liabilities | 7,704,067 | 20,954,506 |
| **Deferred inflows of resources** | | |
| Deferred inflows related to pension | 18,745 | - |
| Deferred inflows related to OPEB | 7,101 | - |
| Total deferred inflows of resources | 25,846 | - |
| **Net position** | | |
| Net investment in capital assets | 15,564,878 | 18,531,056 |
| Restricted for debt service | - | 2,343,352 |
| Unrestricted net position | 6,907,407 | 2,590,255 |
| Total net position | 22,472,285 | 23,464,663 |
| Total liabilities, deferred inflows of resources, and net position | $ 30,202,198 | $ 44,419,169 |
| 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.*

| Business-Type Activities Enterprise Funds | | Governmental Activities |
|---|---|---|
| Nonmajor Proprietary Fund | Total | Internal Service Fund |
| $ - | $ 412,734 | $ - |
| 1,122 | 30,420 | - |
| 15,495 | 33,831 | - |
| 4,584 | 60,557 | - |
| 55 | 5,801 | - |
| - | 161,485 | - |
| - | 377,939 | - |
| 68,539 | 233,580 | 181,883 |
| 45,441 | 45,441 | - |
| - | 1,215,000 | - |
| 44,104 | 44,104 | - |
| - | 190,675 | - |
| 4,739 | 60,432 | - |
| - | 13,994 | |
| 184,079 | 2,885,993 | 181,883 |
| 279,599 | 279,599 | - |
| - | 24,455,000 | - |
| 68,768 | 68,768 | - |
| 59,429 | 1,047,726 | - |
| 10,317 | 193,087 | |
| - | 330,592 | - |
| 418,113 | 26,374,772 | - |
| 602,192 | 29,260,765 | 181,883 |
| - | 18,745 | - |
| 490 | 7,591 | |
| 490 | 26,336 | - |
| 4,189,027 | 38,284,961 | - |
| - | 2,343,352 | - |
| 310,169 | 9,807,831 | 1,248,784 |
| 4,499,196 | 50,436,144 | 1,248,784 |
| $ 5,101,878 | $ 79,723,245 | $ 1,430,667 |
| | 427,567 | |
| | $ 50,863,711 | |

*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, 2019

| | Business-Type Activities Enterprise Funds | |
|---|---|---|
| | Water and Sewer | Palo Pinto County Municipal Water District No. 1 |
| Operating revenues | | |
| Water sales | $ 6,159,931 | $ 2,972,354 |
| Connections | 34,878 | - |
| Sewer | 3,000,878 | - |
| Drainage utility fees | - | - |
| Oil and gas | - | - |
| Rentals | - | - |
| Other | 287,300 | 1,800 |
| Total operating revenues | 9,482,987 | 2,974,154 |
| Operating expenses | | |
| General administration | - | 342,885 |
| Public works administration | 3,104,392 | - |
| Water distribution and sewer | 1,240,355 | - |
| Hilltop water treatment plant | 1,300,498 | - |
| Wastewater plants | 1,351,163 | - |
| Facility maintenance | 477,532 | - |
| City utility service | 428,896 | - |
| Drainage utility | - | - |
| Airport | - | - |
| Waterworks and sewer system | - | - |
| Depreciation expense | 914,225 | 499,514 |
| Total operating expenses | 8,817,061 | 842,399 |
| Operating income (loss) | 665,926 | 2,131,755 |
| Non-operating revenues (expenses) | | |
| Insurance recoveries | 5,430 | - |
| Interest expense | (284,949) | (582,284) |
| Interest earned | 162,420 | 164,346 |
| Total non-operating revenues (expenses) | (117,099) | (417,938) |
| Income (loss) before contributions and transfers | 548,827 | 1,713,817 |
| Transfers out | (1,262,500) | - |
| Change in net position | (713,673) | 1,713,817 |
| Net position - beginning | 23,185,290 | 21,750,846 |
| Net position - end of year | $ 22,471,617 | $ 23,464,663 |

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

| Business-Type Activities Enterprise Funds | | Governmental Activities |
|---|---|---|
| Nonmajor Proprietary Fund | Total | Internal Service Fund |
| $ - | $ 9,132,285 | $ - |
| - | 34,878 | - |
| - | 3,000,878 | - |
| 172,847 | 172,847 | - |
| 710,320 | 710,320 | - |
| 257,318 | 257,318 | - |
| 10,866 | 299,966 | 1,908,972 |
| 1,151,351 | 13,608,492 | 1,908,972 |
| - | 342,885 | 1,714,006 |
| - | 3,104,392 | - |
| - | 1,240,355 | - |
| - | 1,300,498 | - |
| - | 1,351,163 | - |
| - | 477,532 | - |
| - | 428,896 | - |
| 110,930 | 110,930 | - |
| 957,744 | 957,744 | - |
| - | - | - |
| 376,231 | 1,789,970 | - |
| 1,444,905 | 11,104,365 | 1,714,006 |
| (293,554) | 2,504,127 | 194,966 |
| - | 5,430 | - |
| (20,124) | (887,357) | - |
| 3,239 | 330,005 | 13,260 |
| (16,885) | (551,922) | 13,260 |
| (310,439) | 1,952,205 | 208,226 |
| (66,871) | (1,329,371) | (125,000) |
| (377,310) | 622,834 | 83,226 |
| 4,877,174 | 49,813,310 | 1,165,570 |
| $ 4,499,864 | $ 50,436,144 | $ 1,248,796 |

*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, 2019

| | Business-Type Activities Enterprise Funds | |
|---|---|---|
| | Water and Sewer | Palo Pinto County Municipal Water District No. 1 |
| **Cash flows from operating activities** | | |
| Cash received from user charges | $ 9,301,730 | $ 2,975,354 |
| Cash payments to employees for services | (2,961,225) | (73,794) |
| Cash payments to suppliers for goods and services | (4,878,469) | (365,848) |
| Net cash provided (used) by operating activities | 1,462,036 | 2,535,712 |
| **Cash flows from noncapital financing activities** | | |
| Miscellaneous income | 5,429 | - |
| Transfers and interfund activity | (1,116,036) | - |
| Net cash provided (used) by noncapital financing activities | (1,110,607) | - |
| **Cash flows from investing activities** | | |
| Reclassification from cash to investments | 694,904 | - |
| Interest on investments | 162,420 | 164,346 |
| Net cash provided (used) by investing activities | 857,324 | 164,346 |
| **Cash flows from capital and related financing activities** | | |
| Acquisition of capital assets | (1,321,380) | (2,784,303) |
| Interest paid | (284,949) | (590,983) |
| Principal payments on bonds, loans, and notes payable | (58,995) | (1,070,000) |
| Net cash provided (used) by capital and related financing activities | (1,665,324) | (4,445,286) |
| Net (decrease) increase in cash and cash equivalents | (456,571) | (1,745,228) |
| Cash and cash equivalents - beginning of year | 3,741,087 | 20,573,801 |
| Cash and cash equivalents - end of year | $ 3,284,516 | $ 18,828,573 |

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

| Business-Type Activities Enterprise Funds | | Governmental Activities |
|---|---|---|
| Nonmajor Proprietary Fund | Total | Internal Service Fund |
| $ 1,156,045 | $ 13,433,129 | $ 1,908,972 |
| (253,310) | (3,288,329) | (121,642) |
| (793,426) | (6,037,743) | (1,490,912) |
| 109,309 | 4,107,057 | 296,418 |
| - | 5,429 | - |
| (45,304) | (1,161,340) | (113,273) |
| (45,304) | (1,155,911) | (113,273) |
| 121,761 | 816,665 | (12,672) |
| 3,239 | 330,005 | 13,260 |
| 125,000 | 1,146,670 | 588 |
| (133,708) | (4,239,391) | - |
| (20,123) | (896,055) | - |
| (92,680) | (1,221,675) | - |
| (246,511) | (6,357,121) | - |
| (57,506) | (2,259,305) | 183,733 |
| 361,784 | 24,676,672 | 771,984 |
| $ 304,278 | $ 22,417,367 | $ 955,717 |

*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, 2019

| | Business-Type Activities Enterprise Funds | |
|---|---|---|
| | Water and Sewer | Palo Pinto County Municipal Water District No. 1 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | $ 666,594 | $ 2,131,755 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 914,225 | 499,514 |
| Noncash pension and OPEB expense | 123,479 | - |
| Changes in assets, liabilities and deferred outflows of resources: | | |
| Receivables (Net of allowance) | (230,083) | 1,200 |
| Inventory | (13,477) | - |
| Prepaid expenses | - | - |
| Accounts payable | (66,580) | (92,107) |
| Accrued payroll | 11,770 | (4,650) |
| Compensated absences | 7,250 | - |
| Other accrued liabilities | 32 | - |
| Deposits held for others | 48,826 | - |
| Net cash provided (used) by operating activities | $ 1,462,036 | $ 2,535,712 |

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

| Business-Type Activities Enterprise Funds | | Governmental Activities |
|---|---|---|
| Nonmajor Proprietary Fund | Total | Internal Service Fund |
| $ (294,222) | $ 2,504,127 | $ 194,954 |
| 376,231 | 1,789,970 | - |
| 9,242 | 132,721 | - |
| 4,694 | (224,189) | - |
| 12,602 | (875) | - |
| - | - | 110,000 |
| - | (158,687) | - |
| 762 | 7,882 | (8,536) |
| - | 7,250 | - |
| - | 32 | - |
| - | 48,826 | - |
| $ 109,309 | $ 4,107,057 | $ 296,418 |

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

**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.

**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. 1 (the "District") is governed by a board appointed by the City of Mineral Wells' elected council. The rates for user charges and bond issuance authorizations are approved by the City's council and the legal liability for the District's debt remains with the City of Mineral Wells. The District is included in the City of Mineral Wells' "reporting entity" due to the financial accountability of the City of Mineral Wells for the District, and because the District provides services almost entirely for the benefit of the City of Mineral Wells. Approximately 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, 2019, in a blended format.

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

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

*B. Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

**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.

**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.

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

The City reports the following major proprietary funds:

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

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

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

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

**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 employee health, dental and life 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 employee health, dental and life 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.

**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, 2019 was $13,395,706.

**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 $161,083 in the general fund and $13,656 in the debt service fund. The EMS receivable allowance of $190,436 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.

**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 | 10 - 50 years |
| Infrastructure | 10 - 50 years |
| Distribution system | 25 - 50 years |
| Collection system | 50 years |
| Equipment and vehicles | 5 - 10 years |
| Furniture and fixtures | 5 - 10 years |

**Accrued Payroll:** Accrued payroll is comprised of the payroll expenditures based on amounts earned by the employees through September 30, 2019, along with accruals for applicable fringe benefits.

**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 six 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.

**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 260 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, 2019, the City had $560,048 of nonspendable fund balance categorized in the governmental funds balance sheet.

**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, 2019, the City has presented restricted fund balance on the governmental funds balance sheet in the amount of $5,059,069 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: I**ncludes 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.

**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. The City includes unspent bond proceeds in the amount of $13,395,706 in the Palo Pinto County Municipal Water District No. 1.

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.

**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 | $ | 6,687,240 |
| Restricted cash and cash equivalents | | 18,011,859 |
| Unrestricted Investments | | 9,747,337 |
| Restricted Investments | | 2,534,027 |
| Component unit: cash and cash equivalents | | 1,397,873 |
| Total cash and cash equivalents | | 38,378,336 |
| Plus: outstanding checks | | 1,154,865 |
| Less: outstanding checks | | (1,170,440) |
| Less: petty cash | | (3,117) |
| Bank balance of deposits | $ | 38,359,644 |

**Investments**

The City and its component units 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.

**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 objected 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, 2019 include the following:

| Investment | Credit Rating | Average Maturities | Percentage of Total Investments | Balance at September 30, 2019 |
|---|---|---|---|---|
| City of Mineral Wells | | | | |
| Tex-Pool | AAAm | 34 days | 0.01% | $ 976 |
| TexSTAR Pool | AAAm | 36 days | 48.68% | 5,978,536 |
| East West Bank | n/a | 349 days | 28.29% | 3,474,553 |
| Titan Bank | n/a | 1 year | 10.01% | 1,229,398 |
| Legacy Bank | n/a | 2 years | 4.44% | 545,001 |
| Southside Bank | n/a | 1 year | 8.57% | 1,052,900 |
| Total investments | | | 100.00% | $ 12,281,364 |

** 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.

**NOTE 4: RECEIVABLES**

Receivables as of September 30, 2019, are as follows:

**Governmental Activities**

| | General Fund | Debt Service Fund | Nonmajor Governmental Funds | Total |
|---|---|---|---|---|
| Property taxes | $ 277,730 | $ 23,546 | $ 162,712 | $ 463,988 |
| Other taxes: | | | | |
| Sales taxes | 541,227 | - | - | 541,227 |
| Franchise taxes | 164,049 | - | - | 164,049 |
| Accounts Receivable | 650,392 | - | - | 650,392 |
| Leases | - | 1,935,452 | - | 1,935,452 |
| Miscellaneous | 107,650 | - | - | 107,650 |
| Total receivable | 1,741,048 | 1,958,998 | 162,712 | 3,862,758 |
| Less: Allowance for doubtful accounts | (351,519) | (13,656) | - | (365,175) |
| Total receivable, net | $ 1,389,529 | $ 1,945,342 | $ 162,712 | $ 3,497,583 |

**Business-Type Activities**

| | Water and Sewer | Palo Pinto County Municipal Water District No. 1 | Nonmajor Proprietary Fund | Total |
|---|---|---|---|---|
| Utility | $ 1,297,054 | $ - | $ - | $ 1,297,054 |
| Accounts Receivable | | 3,440 | 69,356 | 72,796 |
| Miscellaneous | 477 | - | - | 477 |
| Total receivable | 1,297,531 | 3,440 | 69,356 | 1,370,327 |
| Less: Allowance for doubtful accounts | (36,435) | - | (29,214) | (65,649) |
| Total receivable (Net of allowance) | $ 1,261,096 | $ 3,440 | $ 40,142 | $ 1,304,678 |

**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, 2019, is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Hotel/Motel Occupancy Fund | TIF Zone #2 Fund | $ 2,946 |
| Water and Sewer | Street Capital Projects Fund | 2,895 |
| General Fund | Water and Sewer | 165,041 |
| General Fund | Internal Service Fund | 181,883 |
| General Fund | Airport Fund | 68,539 |
| General Fund | General Fund | 96,473 |
| Drainage Utility Fund | General Fund | 16,878 |
| Total | | $ 534,655 |

The composition of interfund transfers for the City's individual major funds and nonmajor funds at September 30, 2019, is as follows:

| Transfer In | Transfer Out | Amount |
|---|---|---|
| General Fund | Water Fund | 1,262,500 |
| General Fund | Drainage Utility | 35,000 |
| General Fund | Hotel/Motel Occupancy Tax Fund | 894 |
| General Fund | Internal Service Fund | 125,000 |
| General Fund | Airport Fund | 31,871 |
| General Fund | Woodland Park Trust Fund | 250 |
| General Fund | MW Comm Develop Corp | 1,000 |
| Total | | $ 1,456,515 |

**NOTE 6: CAPITAL ASSETS**

The following is a summary of capital assets and changes occurring during the year ended September 30, 2019. Land and Construction in Progress are not subject to depreciation.

**Governmental Activities:**

| | Beginning Balance October 1, 2018 | Increases | Transfers | Ending Balance September 30, 2019 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land | $ 1,845,102 | $ - | $ - | $ 1,845,102 |
| Construction in Progress | 479,624 | 622,780 | (444,664) | 657,740 |
| Total non-depreciable assets | 2,324,726 | 622,780 | (444,664) | 2,502,842 |
| Depreciable assets: | | | | |
| Buildings and improvements | 6,336,632 | 51,396 | - | 6,388,028 |
| Improvements other than buildings | 2,122,724 | - | - | 2,122,724 |
| Infrastructure | 52,653,491 | 44,149 | 444,664 | 53,142,304 |
| Equipment and vehicles | 6,568,625 | 298,678 | - | 6,867,303 |
| Furniture and fixtures | 826,538 | - | - | 826,538 |
| Total capital assets being depreciated | 68,508,010 | 394,223 | 444,664 | 69,346,897 |
| Total capital assets | 70,832,736 | 1,017,003 | - | 71,849,739 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (2,403,819) | (397,696) | - | (2,801,515) |
| Improvements other than buildings | (1,729,320) | - | - | (1,729,320) |
| Infrastructure | (32,848,503) | (794,091) | - | (33,642,594) |
| Equipment and vehicles | (5,206,849) | (309,466) | - | (5,516,315) |
| Furniture and fixtures | (577,856) | (76,501) | - | (654,357) |
| Total accumulated depreciation | (42,766,347) | (1,577,754) | - | (44,344,101) |
| Governmental activities capital assets, net | $ 28,066,389 | $ (560,751) | $ - | $ 27,505,638 |

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

Depreciation expense for the year ended September 30, 2019 was charged to the functions of the governmental activities as follows:

| | | |
|---|---|---|
| Administrative | $ | 66,846 |
| Finance | | 12,622 |
| Fleet Maintenance | | 3,287 |
| Police | | 175,719 |
| Fire & Emergency Medical Services | | 187,473 |
| Information Technology | | 15,145 |
| Streets, including infrastructure | | 794,090 |
| Parks & Recreation | | 283,701 |
| Cemetery | | 5,516 |
| Library | | 33,355 |
| Total depreciation expense - governmental activities | $ | 1,577,754 |

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

**Business-type Activities:**

| | Beginning Balance October 1, 2018 | Increases | Transfers | Ending Balance September 30, 2019 |
|---|---|---|---|---|
| Non-depreciable Assets: | | | | |
| Land | $ 4,130,492 | $ - | $ - | $ 4,130,492 |
| Construction in Progress | 11,626,270 | 2,853,795 | (532,633) | 13,947,432 |
| Total non-depreciable assets | 15,756,762 | 2,853,795 | (532,633) | 18,077,924 |
| Depreciable assets: | | | | |
| Buildings and improvements | 4,817,552 | - | - | 4,817,552 |
| Improvements other than buildings | 15,049,350 | - | - | 15,049,350 |
| Infrastructure | 5,943,565 | - | - | 5,943,565 |
| Distribution System | 14,504,265 | 986,265 | 532,633 | 16,023,163 |
| Collection System | 6,317,287 | - | - | 6,317,287 |
| Equipment and vehicles | 26,690,151 | 240,831 | - | 26,930,982 |
| Furniture and fixtures | 58,792 | - | - | 58,792 |
| Total capital assets being depreciated | 73,380,962 | 1,227,096 | 532,633 | 75,140,691 |
| Total capital assets | 89,137,724 | 4,080,891 | - | 93,218,615 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (2,515,023) | (479,849) | - | (2,994,872) |
| Improvements other than buildings | (7,525,497) | - | - | (7,525,497) |
| Infrastructure | (3,271,827) | (258,445) | - | (3,530,272) |
| Distribution System | (6,704,644) | (292,416) | - | (6,997,060) |
| Collection System | (3,969,174) | (128,644) | - | (4,097,818) |
| Equipment and Vehicles | (16,064,076) | (629,177) | - | (16,693,253) |
| Furniture and fixtures | (50,841) | (1,439) | - | (52,280) |
| Total accumulated depreciation | (40,101,082) | (1,789,970) | - | (41,891,052) |
| Business-type activities capital assets, net | $ 49,036,642 | $ 2,290,921 | $ - | $ 51,327,563 |

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

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 | $ | 914,225 |
| PPCMWD No. 1 | | 499,514 |
| Nonmajor proprietary funds | | 376,231 |
| Total depreciation expense -business-type activities | $ | 1,789,970 |

**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, 2019, the following changes occurred in the liabilities reported in the government-wide statement of net position:

| | Balance September 30, 2018 | Additions | Retirements | Balance September 30, 2019 | Due Within One Year |
|---|---|---|---|---|---|
| Go Bonds - Streets | $ 5,215,000 | $ - | $ 45,000 | $ 5,170,000 | $ 130,000 |
| 2018 Bond Premium | 340,072 | - | 13,603 | 326,469 | - |
| Sales Tax Payable | 886,896 | - | 73,908 | 812,988 | 73,908 |
| Note Payable - FFB - PD 2017 | 97,065 | - | 64,390 | 32,675 | 32,675 |
| Note Payable - FFB - PD 2018 | 176,352 | - | 69,112 | 107,240 | 71,003 |
| Note Payable - FFB - PD 2019 | - | 220,000 | 36,554 | 183,446 | 71,493 |
| Compensated absences | 142,247 | 67,793 | 105,020 | 105,020 | 105,020 |
| Special Assessment Debt | 2,133,993 | - | 198,541 | 1,935,452 | 13,603 |
| | $ 8,991,625 | $ 287,793 | $ 606,128 | $ 8,673,290 | $ 497,702 |

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

**General Obligation Bond – Streets**

At September 30, 2019, the City had one GO bond outstanding. The GO bond information is as follows:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| GO Bonds Streets | 03/08/18 | 02/01/43 | 4.000% | $ 5,215,000 | $ 5,170,000 |

The annual requirements to amortize the GO Bond as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 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 | 155,000 | 181,700 | 336,700 |
| 2025-2029 | 865,000 | 809,100 | 1,674,100 |
| 2030-2034 | 1,060,000 | 617,400 | 1,677,400 |
| 2035-2039 | 1,300,000 | 382,000 | 1,682,000 |
| 2040-2043 | 1,240,000 | 101,800 | 1,341,800 |
| | $ 5,170,000 | $ 2,876,200 | $ 8,046,200 |

**2019 Bond Premium**

At September 30, 2019, the City has a 2018 Bond Premium that it will straight-line amortize for the life of the bond.

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

**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, 2019 was $812,988.

| Fiscal Year Ending September 30, | Payments |
|---|---|
| 2020 | $ 73,908 |
| 2021 | 73,908 |
| 2022 | 73,908 |
| 2023 | 73,908 |
| 2024 | 73,908 |
| 2025-2029 | 369,540 |
| 2030 | 73,908 |
| | $ 812,988 |

**Note Payable – FFB – PD 2017**

At September 30, 2019, the City had one Note Payable – FFB – PD 2017 outstanding as follows:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| Note Payable - FFB - PD 2017 | 3/28/2017 | 3/28/2020 | 1.99% | $ 232,019 | $ 32,675 |

The annual requirements to amortize the Note Payable – FFB – PD 2017 as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2020 | $ 32,675 | $ 394 | $ 33,069 |

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

**Note Payable – FFB – PD 2018**

At September 30, 2019, the City had one Note Payable – FFB – PD 2018 as follows:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| Note Payable - FFB - PD 2018 | 2/6/2018 | 2/28/2021 | 1.99% | $ 210,000 | $ 107,240 |

The annual requirements to amortize the Note Payable – FFB – PD 2018 as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2020 | $ 71,003 | $ 2,487 | $ 73,490 |
| 2021 | 36,237 | 504 | 36,741 |
| | $ 107,240 | $ 2,991 | $ 110,231 |

**Note Payable – FFB – PD 2019**

At September 30, 2019, the City had one Note Payable – FFB – PD 2019 as follows:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| Note Payable - FFB - PD 2018 | 2/28/2019 | 2/28/2022 | 3.39% | $ 220,000 | $ 183,446 |

The annual requirements to amortize the Note Payable – FFB – PD 2019 as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 2020 | $ 71,493 | $ 5,676 | $ 77,169 |
| 2021 | 73,937 | 3,231 | 77,168 |
| 2022 | 38,016 | 673 | 38,689 |
| | $ 183,446 | $ 9,580 | $ 193,026 |

**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 $105,020 at year-end, which is a decrease of $37,227 from the prior year. Compensated absences are liquidated by the respective funds in which they are accrued.

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

**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, 2019:

| | Balance September 30, 2018 | Additions | Retirements | Balance September 30, 2019 | Due Within One Year |
|---|---|---|---|---|---|
| GO Bond WW&S Projects | $ 1,705,000 | $ - | $ 15,000 | $ 1,690,000 | $ 45,000 |
| GO Bond Hwy 180 W Project | 3,660,000 | - | 30,000 | 3,630,000 | 90,000 |
| 2018 Bond Premium | 349,853 | - | 13,995 | 335,858 | 13,994 |
| Note Payable - FFB | 368,997 | - | 43,957 | 325,040 | 45,441 |
| Revenue Bonds | 21,420,000 | - | 1,070,000 | 20,350,000 | 1,080,000 |
| Bond premium | 11,108 | - | 2,380 | 8,728 | - |
| Compensated absences | 57,037 | 63,827 | 60,432 | 60,432 | 60,432 |
| Capital Leases | 161,595 | - | 48,723 | 112,872 | 44,104 |
| | $ 27,733,590 | $ 63,827 | $ 1,284,487 | $ 26,512,930 | $ 1,378,971 |

**General Obligation Bond WW&S Projects**

At September 30, 2019, 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 | September 30, 2019 |
|---|---|---|---|---|---|
| GO Bond WW&S Projects | 03/08/18 | 02/01/43 | 4.000% | $ 1,705,000 | $ 1,690,000 |

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

The annual requirements to amortize the GO Bond WW&S Projects as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 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 | 50,000 | 59,200 | 109,200 |
| 2025-2029 | 280,000 | 264,000 | 544,000 |
| 2030-2034 | 345,000 | 201,500 | 546,500 |
| 2035-2039 | 425,000 | 124,700 | 549,700 |
| 2040-2043 | 405,000 | 33,100 | 438,100 |
| | $ 1,690,000 | $ 938,400 | $ 2,628,400 |

**GO Bond Hwy 180 W Project**

At September 30, 2019, 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 | September 30, 2019 |
|---|---|---|---|---|---|
| GO Hwy 180 W Project | 03/08/18 | 02/01/43 | 4.000% | $ 3,660,000 | $ 3,630,000 |

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

The annual requirements to amortize the GO Bond Hwy 180 W Project as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 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 | 110,000 | 127,400 | 237,400 |
| 2025-2029 | 605,000 | 567,100 | 1,172,100 |
| 2030-2034 | 745,000 | 432,900 | 1,177,900 |
| 2035-2039 | 910,000 | 267,600 | 1,177,600 |
| 2040-2043 | 870,000 | 71,200 | 941,200 |
| | $ 3,630,000 | $ 2,016,800 | $ 5,646,800 |

**Bond Premium**

At September 30, 2019, the City has a 2018 Bond Premium in the amount of $335,858 that it will straight-line amortize for the life of the bond.

**Note Payable**

At September 30, 2019, the City had one Note Payable outstanding as follows:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| Note Payable - FFB | 2/6/2018 | 2/28/2026 | 3.43% | $ 390,000 | $ 325,040 |

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

The annual requirements to amortize the Note Payable as of September 30, 2019, including interest payments, are as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 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 | 52,063 | 4,138 | 56,201 |
| 2025-2026 | 81,562 | 2,811 | 84,373 |
| | $ 325,040 | $ 40,338 | $ 365,378 |

**Capital Leases**

At September 30, 2019, the City had three business-type capital lease outstanding as follows:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| 2005 Master lease | 5/17/2005 | 5/17/2021 | 6.000% | $ 192,000 | $ 25,600 |
| 2007 Master lease | 2/15/2008 | 2/15/2020 | 6.000% | 225,000 | 59,916 |
| 2017 Master lease | 3/28/2017 | 3/28/2023 | 1.990% | 40,732 | 27,356 |
| | | | | | $ 112,872 |

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 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 |
| | $ 112,872 | $ 10,584 | $ 123,456 |

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

***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. Water revenues are used as a security for revenue bonds. At year end the following revenue bonds were outstanding:

| Description | Date of Issue | Due Date | Interest Rate | Original Amount of Issue | September 30, 2019 |
|---|---|---|---|---|---|
| Series 2015B | 11/19/2015 | 6/1/2045 | 0.77%-3.680% | $ 7,185,000 | $ 6,670,000 |
| Series 2015A | 11/19/2015 | 6/1/2045 | 0.45%-3.210% | 9,915,000 | 9,160,000 |
| Series 2011 | 11/8/2011 | 6/1/2023 | 2.00%-3.375% | 6,990,000 | 1,505,000 |
| Series 2009B | 6/26/2009 | 6/1/2028 | 2.63%-3.680% | 3,200,000 | 1,815,000 |
| Series 2009A | 6/26/2009 | 6/1/2029 | 0% | 2,400,000 | 1,200,000 |
| | | | | | $ 20,350,000 |

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

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|---|---|---|---|
| 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 | 785,000 | 471,875 | 1,256,875 |
| 2025-2029 | 3,975,000 | 2,089,779 | 6,064,779 |
| 2030-2034 | 2,870,000 | 1,650,676 | 4,520,676 |
| 2035-2039 | 3,360,000 | 1,171,352 | 4,531,352 |
| 2040-2044 | 3,985,000 | 566,477 | 4,551,477 |
| 2045-2049 | 880,000 | 30,034 | 910,034 |
| | $ 20,350,000 | $ 8,128,814 | $ 28,478,814 |

**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 in the fund.

**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 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 $406,951 and the balance in the reserve was $411,000 at September 30, 2019.

The provisions of the bond ordinance of the Revenue Refunding Bonds, Series 2011, 2015A and 2015B 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, 2019, the "Contingency Fund" had a balance of $250,000.

The provisions of the bond ordinance of the Series Revenue Bonds, Series 2015A and 2015B resolutions require a "Reserve Fund" equal to the average annual debt service requirements over the life of the bonds to be maintained. The average annual debt service requirement for the remaining life of the bonds was $903,597 and the balance in the reserve was $912,000 at September 30, 2019.

**Accrued Compensated Absences**

The liability for accrued compensated absences for business-type activities was $60,432 at year-end, which is an increase of $3,395 from the prior year. 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.

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.

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

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

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

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.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 118 |
| Inactive employees entitled to but not yet receiving benefits | 114 |
| Active employees | 164 |
| Total | 396 |

Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.97% and 9.09% in calendar years 2018 and 2019, respectively. The city's contributions to TMRS for the year ended September 30, 2019, were $701,889, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

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

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

*Actuarial Assumptions:*

The Total Pension Liability in the December 31, 2018 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, 2018, 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 3 1, 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.

**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:

| Asset Class | Target Allocation | Long-term expected rate of return (Arithmetic) |
|---|---|---|
| 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% |
| Total | 100.00% | |

*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.

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

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

*Changes in the Net Pension Liability*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total pension liability (a) | Plan fiduciary net position (b) | Net pension liability (a) - (b) |
| Balance at 12/31/2017 | $ 32,663,917 | $ 32,170,194 | $ 493,723 |
| Changes for the year: | | | |
| Service cost | 958,663 | - | 958,663 |
| Interest | 2,172,937 | - | 2,172,937 |
| Change of benefit terms | - | - | - |
| Difference between expected/actual experience | (13,653) | - | (13,653) |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 701,889 | (701,889) |
| Contributions - employee | - | 402,461 | (402,461) |
| Net investment income | - | (962,720) | 962,720 |
| Benefit payments, including refunds of employee contributions | (1,903,189) | (1,903,189) | - |
| Administrative expense | - | (18,624) | 18,624 |
| Other changes | - | (973) | 973 |
| Net changes | 1,214,758 | (1,781,156) | 2,995,914 |
| Balance at 12/31/2018 | $ 33,878,675 | $ 30,389,038 | $ 3,489,637 |

*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 | $ 8,019,667 | $ 3,489,637 | $ (228,603) |

**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*.

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

For the year ended September 30, 2019, the City recognized pension expense of $1,116,707.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 557 | $ 51,158 |
| Changes in actuarial assumptions | - | - |
| Difference between projected and actual investment earnings | 1,661,533 | - |
| Contributions subsequent to the measurement date | 569,553 | - |
| Total TMRS | $ 2,231,643 | $ 51,158 |

$569,553 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:

| | TMRS |
|---|---|
| Year ending September 30: | |
| 2019 | $ 550,233 |
| 2020 | 216,283 |
| 2021 | 217,577 |
| 2022 | 626,839 |
| 2023 | - |
| Thereafter | - |
| Total | $ 1,610,932 |

**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.

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 1 00% 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.

**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 affective 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, 2019, total contributions (dues, prior service, and interest on prior service financing) of $8,634 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.

**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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018.

| | System 100.00% | City 0.193% |
|---|---|---|
| Total pension liability | $ 143,501,039 | $ 276,957 |
| Plan fiduciary net position | 115,155,476 | $ 222,250 |
| Net pension liability | $ 28,345,563 | $ 54,707 |
| Plan fiduciary net position as a percentage of the total pension liability | | 80.2% |

*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:

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

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

| Asset Class | Target allocation | Long-term expected rate of return (arithmetic) |
|---|---|---|
| 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% |
| Total / Weighted Average | **100%** | **5.01%** |

*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:

| | 1% Decrease in Discount Rate (6.75%) | Discount Rate (7.75%) | 1% Increase in Discount Rate (8.75%) |
|---|---|---|---|
| City's proportional share of the net pension liability | $ 97,233 | $ 54,707 | $ 26,241 |

**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, 2019, the City reported a liability of $54,707 for its proportionate share of the TESRS's net pension liability. The net pension liability was measured as of August 31, 2019. 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 (.193%) 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, 2019, the City recognized pension expense of $12,963.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ - | $ 66 |
| Changes in actuarial assumptions | - | - |
| Difference between projected and actual experience | 7,044 | - |
| Net difference between projected and actual investment earnings on pension plan investments | - | - |
| Total TESRS | $ 7,044 | $ 66 |

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

| | TESRS |
|---|---|
| Year ending September 30: | |
| 2019 | $ 1,485 |
| 2020 | 779 |
| 2021 | 1,731 |
| 2022 | 2,982 |
| Total | $ 6,978 |

**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, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 79 |
| Inactive employees entitled to but not yet receiving benefits | 19 |
| Active employees | 164 |
| Total | 262 |

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 0.25% and 0.26% in calendar 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were $21,665 and were equal to the required contributions.

**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* | 3.71 |
| 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 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, 2018.

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

*Discount Rate*

| | | Total OPEB Liability (a) |
|---|---|---|
| Balance at 12/31/2017 | $ | 462,483 |
| Changes for the year: | | |
| Service cost | | 35,417 |
| Interest | | 15,814 |
| Change of benefit terms | | - |
| Difference between expected/actual experience | | 137,581 |
| Changes of assumptions | | (31,206) |
| Contributions - employer | | - |
| Contributions - employee | | - |
| Net investment income | | - |
| Benefit payments, including refunds of employee contributions | | (4,830) |
| Administrative expense | | - |
| Other changes | | - |
| Net changes | | 152,776 |
| Balance at 12/31/2018 | $ | 615,259 |

*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 3.71%, as well as what the City's total OPEB liability would have been of it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate:

| | 1% Decrease in Discount Rate (2.71%) | Discount Rate (3.71%) | 1% Increase in Discount Rate (4.71%) |
|---|---|---|---|
| City's net pension liability | $ 699,409 | $ 615,259 | $ 548,915 |

*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.*

**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, 2019 the City recognized OPEB expense of $76,585

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 112,657 | $ - |
| Changes in actuarial assumptions | 21,410 | 25,553 |
| Difference between projected and actual investment earnings | - | - |
| Contributions subsequent to the measurement date | 16,771 | - |
| Total OPEBs | $ 150,838 | $ 25,553 |

$16,771 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:

| | OPEB |
|---|---|
| Year ending September 30: | |
| 2019 | $ 25,354 |
| 2020 | 25,354 |
| 2021 | 25,354 |
| 2022 | 22,432 |
| 2023 | 10,020 |
| Thereafter | - |
| Total | $ 108,514 |

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 2019 was $21,665, which equaled the required contributions each year.

**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 $3,450,142 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 31, 2020, which is the date the financial statements were available to be issued.

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the City. As of the financial statement reporting date, the City does not expect to close any locations or to terminate any employees; there are no supply or worker shortages or issues accessing locations. However, impacts to the City's operations will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, (v) the effects on the economy overall, and (vi) the effects of the City's access to federal and state legislative actions and programs enacted to promote business stabilization due to the pandemic , all of which are uncertain. While we expect this matter to possibly have a negative impact on the City and its operations, the related financial impacts cannot be reasonably estimated at this time.

**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. $5,634,372 of the funds have been spent as of September 30, 2019.

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**NOTE 16: COMMITMENTS (Continued)**

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: SUBSEQUENT PRONOUNCEMENTS**

In January 2017, GASB Statement No. 84, *Fiduciary Activities,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2017, GASB Statement No. 87, *Leases,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier Application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2018, GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61,* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In May 2019, GASB Statement No. 91, *Conduit Debt Obligations,* was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In January 2020, GASB Statement No. 92, *Omnibus 2020*, was issued. The requirements of this statement that relate to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The requirements of this statement related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020. The requirements of this statement related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020. The requirements of this statement related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020. Earlier application is encouraged and is permitted by topic. The City is still evaluating how this pronouncement will affect the financial statements.

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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*

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Proportion of the net pension liability | 0.00193 | 0.0016 | 0.00174 |
| Proportionate share of the net pension liability | $ 54,707 | $ 34,641 | $ 50,683 |
| State's proportionate share of the net pension liability associated with the City | 34,265 | 17,321 | 26,727 |
| Total | $ 88,972 | $ 51,962 | $ 77,410 |
| Plan fiduciary net position as a percentage of the total pension liability | 80.20% | 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, the 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.*

| | 2015 | 2014 |
|---|---|---|
| | 0.00216 | 0.00251 |
| | $ 57,656 | $ 45,611 |
| | 30,652 | 23,297 |
| | $ 88,308 | $ 68,908 |
| | 76.89% | 83.46% |

*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*

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Actuarially determined contribution | $ 8,634 | $ 7,674 | $ 7,848 |
| Contributions in relation to the actuarially determined contribution | (8,634) | (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, the 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.*

| | 2016 | | 2015 | | 2014 |
|---|---|---|---|---|---|
| $ | 7,956 | $ | 10,224 | $ | 11,376 |
| | (7,956) | | (10,224) | | (11,376) |
| $ | - | $ | - | $ | - |

*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*

| | Plan Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Total Pension Liability** | | | |
| Service cost | $ 958,663 | $ 901,422 | $ 873,843 |
| Interest (on the total pension liability) | 2,172,937 | 2,083,766 | 2,005,609 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | (13,653) | 1,263 | (262,015) |
| Change of assumptions | - | - | - |
| Benefit payments, including refunds of employee contributions | (1,903,189) | (1,484,855) | (1,461,845) |
| **Net Change in Total Pension Liability** | 1,214,758 | 1,501,596 | 1,155,592 |
| **Total Pension Liability - Beginning** | 32,663,917 | 31,162,321 | 30,006,729 |
| **Total Pension Liability - Ending** | $ 33,878,675 | $ 32,663,917 | $ 31,162,321 |
| | | | |
| **Plan Fiduciary Net Position** | | | |
| Contributions - employer | $ 701,889 | $ 692,142 | $ 665,728 |
| Contributions - employee | 402,461 | 387,542 | 376,008 |
| Net investment income | (962,720) | 3,966,274 | 1,839,795 |
| Benefit payments, including refunds of employee contributions | (1,903,189) | (1,484,855) | (1,461,845) |
| Administrative expense | (18,624) | (20,564) | (20,786) |
| Other | (973) | (1,042) | (1,120) |
| **Net Change in Plan Fiduciary Net Position** | (1,781,156) | 3,539,497 | 1,397,780 |
| **Plan Fiduciary Net Position - Beginning** | 32,170,194 | 28,630,697 | 27,232,917 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 30,389,038 | $ 32,170,194 | $ 28,630,697 |
| **Net Pension Liability - Ending** | $ 3,489,637 | $ 493,723 | $ 2,531,624 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 89.70% | 98.49% | 91.88% |
| Covered Payroll | $ 8,049,224 | $ 7,750,836 | $ 7,520,165 |
| Net Pension Liability as a Percentage of Covered Payroll | 43.35% | 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, the 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, | |
|---|---|---|
| | 2015 | 2014 |
| | $ 793,213 | $ 721,608 |
| | 2,002,024 | 1,930,010 |
| | - | - |
| | (556,504) | (439,509) |
| | 154,810 | - |
| | (1,181,095) | (1,257,183) |
| | 1,212,448 | 954,926 |
| | 28,794,281 | 27,839,355 |
| | $ 30,006,729 | $ 28,794,281 |
| | $ 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) |
| | (130,720) | 1,265,426 |
| | 27,363,637 | 26,098,211 |
| | $ 27,232,917 | $ 27,363,637 |
| | $ 2,773,812 | $ 1,430,644 |
| | 90.76% | 95.03% |
| | $ 7,165,427 | $ 6,893,077 |
| | 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*

| | 2018 | 2017 |
|---|---|---|
| Actuarially determined contribution | $ 701,889 | $ 692,142 |
| Contributions in relation to the actuarially determined contribution | (701,889) | (692,142) |
| Contribution deficiency (excess) | $ - | $ - |
| Covered payroll | $ 8,049,224 | $ 7,750,836 |
| 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, the 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.*

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | $ 665,728 | $ 677,539 | $ 699,904 |
| | (665,728) | (677,539) | (699,904) |
| | $ - | $ - | $ - |
| | $ 7,520,165 | $ 7,165,427 | $ 6,893,077 |
| | 9.25% | 9.87% | 10.33% |

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

## Schedule of Changes in Net Pension Liability and Related Ratios
## Other Post-Employment Benefits
## Last 10 Fiscal Years*

| | Plan Year Ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| **Total OPEB Liability** | | |
| Service cost | $ 35,417 | $ 31,003 |
| Interest (on the total OPEB liability) | 15,814 | 15,156 |
| Changes of benefit terms | - | - |
| Difference between expected and actual experience | 137,581 | - |
| Change of assumptions | (31,206) | 33,576 |
| Benefit payments, including refunds of employee contributions | (4,830) | (5,426) |
| **Net Change in Total OPEB Liability** | 152,776 | 74,309 |
| **Total OPEB Liability - Beginning** | 462,483 | 388,174 |
| **Total OPEB Liability - Ending** | $ 615,259 | $ 462,483 |
| Covered Payroll | $ 8,049,224 | $ 7,750,836 |
| Total OPEB Liability as a Percentage of Covered Payroll | 7.64% | 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, the 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.*

**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 | 27 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. |

**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. |

**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. |

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# 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, 2019

| | Budgeted Amounts | | | Variances Favorable (Unfavorable) |
|---|---|---|---|---|
| | Original | Final | Actual | Final to Actual |
| Revenues | | | | |
| Taxes | | | | |
| Property taxes | $ 4,105,834 | $ 4,105,834 | $ 4,130,070 | $ 24,236 |
| Sales and use taxes | 3,076,000 | 3,076,000 | 3,403,995 | 327,995 |
| Franchise taxes | 1,295,000 | 1,295,000 | 1,303,410 | 8,410 |
| Intergovernmental | 872,076 | 872,076 | 624,257 | (247,819) |
| Charges for services | 408,500 | 408,500 | 366,882 | (41,618) |
| Permits and fees | 1,047,600 | 1,047,600 | 850,983 | (196,617) |
| Investment income | 55,000 | 55,000 | 139,386 | 84,386 |
| Other revenue | 197,750 | 197,750 | 106,834 | (90,916) |
| Total revenues | 11,057,760 | 11,057,760 | 10,925,817 | (131,943) |
| Expenditures | | | | |
| Current | | | | |
| General adminstration | 1,579,042 | 1,579,042 | 1,309,566 | 269,476 |
| Finance | 721,112 | 721,112 | 644,370 | 76,742 |
| Information technology | 420,342 | 420,342 | 446,027 | (25,685) |
| Fleet maintenance | 797,584 | 797,584 | 697,744 | 99,840 |
| Police department | 3,410,977 | 3,410,977 | 3,240,845 | 170,132 |
| Fire and EMS | 2,359,306 | 2,359,306 | 2,345,061 | 14,245 |
| Inspections | 376,897 | 376,897 | 353,452 | 23,445 |
| Streets | 1,223,841 | 1,223,841 | 1,075,815 | 148,026 |
| Sanitation department | 140,876 | 140,876 | 174,657 | (33,781) |
| Parks and recreation | 920,771 | 920,771 | 778,009 | 142,762 |
| Cemetery | 303,071 | 303,071 | 270,879 | 32,192 |
| Library | 407,807 | 407,807 | 368,008 | 39,799 |
| Capital outlay | 511,500 | 511,500 | 348,073 | 163,427 |
| Debt service | | | | |
| Principal | 232,303 | 232,303 | 243,963 | (11,660) |
| Interest | 11,000 | 11,000 | 8,021 | 2,979 |
| Total expenditures | 13,416,429 | 13,416,429 | 12,304,490 | 1,111,939 |
| Excess (deficiency) of revenues over expenditures | (2,358,669) | (2,358,669) | (1,378,673) | 979,996 |
| Other financing sources (uses) | | | | |
| Proceeds from sale of general capital assets | 271,750 | 271,750 | 220,000 | (51,750) |
| Transfers in | 1,476,471 | 1,476,471 | 1,456,515 | (19,956) |
| Total other financing sources (uses) | 1,748,221 | 1,748,221 | 1,676,515 | (71,706) |
| Net change in fund balance | (610,448) | (610,448) | 297,842 | 908,290 |
| Fund balance - beginning of year | 3,684,648 | 3,684,648 | 3,684,648 | - |
| Fund balance - end of year | $ 3,074,200 | $ 3,074,200 | 3,982,490 | $ 908,290 |

*See independent auditors' report.*

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# Supplementary Information

# City of Mineral Wells, Texas
# Nonmajor Governmental Funds
# Combining Balance Sheet
# September 30, 2019

| | Special Revenue | | |
|---|---|---|---|
| | Hotel/Motel Occupancy Tax | Police Department Forfeitures | TIF Zone #2 |
| Assets | | | |
| Unrestricted cash | $ 6,563 | $ 9,305 | $ 289,226 |
| Restricted cash | - | - | - |
| Receivables (net) | | | |
| Property tax receivable | - | - | 162,712 |
| Unrestricted investments | - | - | - |
| Due from other funds | 2,946 | - | - |
| Total assets | $ 9,509 | $ 9,305 | $ 451,938 |
| Liabilities | | | |
| Accounts payable | $ 2,946 | $ - | $ - |
| Due to other funds | - | - | 2,946 |
| Total liabilities | 2,946 | - | 2,946 |
| Fund balances | | | |
| Nonspendable | | | |
| Woodland park permanent fund | - | - | - |
| Restricted | | | |
| Police | - | 9,305 | - |
| Hotel/Motel occupancy | 6,563 | - | - |
| Economic development | - | - | 448,992 |
| Total fund balances | 6,563 | 9,305 | 448,992 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 9,509 | $ 9,305 | $ 451,938 |

*See independent auditors' report.*

| Special Revenue | | Permanent Fund | |
|---|---|---|---|
| Economic Development Fund | Total Special Revenue Funds | Woodland Park | Total Nonmajor Governmental Funds |
| $ 21,884 | $ 326,978 | $ - | $ 326,978 |
| - | - | 259,072 | 259,072 |
| - | 162,712 | - | 162,712 |
| 26,538 | 26,538 | 300,976 | 327,514 |
| - | 2,946 | - | 2,946 |
| $ 48,422 | $ 519,174 | $ 560,048 | $ 1,079,222 |
| $ - | $ 2,946 | $ - | $ 2,946 |
| - | 2,946 | - | 2,946 |
| - | 5,892 | - | 5,892 |
| - | - | 560,048 | 560,048 |
| - | 9,305 | - | 9,305 |
| - | 6,563 | - | 6,563 |
| 48,422 | 497,414 | - | 497,414 |
| 48,422 | 513,282 | 560,048 | 1,073,330 |
| $ 48,422 | $ 519,174 | $ 560,048 | $ 1,079,222 |

*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, 2019

| | Special Revenue | | |
|---|---|---|---|
| | Hotel/Motel Occupancy Tax | Police Department Forfeitures | TIF Zone #2 |
| Revenues | | | |
| Taxes | | | |
| Property taxes | $ - | $ - | $ 211,605 |
| Occupancy taxes | 178,877 | - | - |
| Charges for services | - | - | - |
| Investment income | 307 | 213 | 6,479 |
| Total revenues | 179,184 | 213 | 218,084 |
| Expenditures | | | |
| Current | | | |
| Economic development | - | - | 111,871 |
| Hotel/motel occupancy | 177,983 | - | - |
| Total expenditures | 177,983 | - | 111,871 |
| Excess (deficiency) of revenues over expenditures | 1,201 | 213 | 106,213 |
| Other financing sources (uses) | | | |
| Transfers out | (894) | - | - |
| Total other financing sources (uses) | (894) | - | - |
| Net change in fund balances | 307 | 213 | 106,213 |
| Fund balances - beginning of year | 6,256 | 9,092 | 342,779 |
| Fund balances - end of year | $ 6,563 | $ 9,305 | $ 448,992 |

*See independent auditors' report.*

| Special Revenue | | Permanent Fund | |
|---|---|---|---|
| Economic Development Fund | Total Special Revenue Funds | Woodland Park | Total Nonmajor Governmental Funds |
| $ - | $ 211,605 | $ - | $ 211,605 |
| - | 178,877 | - | 178,877 |
| - | - | 5,352 | 5,352 |
| 1,195 | 8,194 | 11,336 | 19,530 |
| 1,195 | 398,676 | 16,688 | 415,364 |
| 5,808 | 117,679 | - | 117,679 |
| - | 177,983 | - | 177,983 |
| 5,808 | 295,662 | - | 295,662 |
| (4,613) | 103,014 | 16,688 | 119,702 |
| - | (894) | (250) | (1,144) |
| - | (894) | (250) | (1,144) |
| (4,613) | 102,120 | 16,438 | 118,558 |
| 53,035 | 411,162 | 543,610 | 954,772 |
| $ 48,422 | $ 513,282 | $ 560,048 | $ 1,073,330 |

*See independent auditors' report.*

# City of Mineral Wells, Texas
# Nonmajor Proprietary Funds
# Combining Statement of Net Position
# September 30, 2019

| | Airport Operations | Drainage Utility | Total Nonmajor Proprietary Funds |
|---|---|---|---|
| **Assets** | | | |
| Unrestricted cash | $ 141,034 | $ 154,744 | $ 295,778 |
| Investments | 30,454 | - | 30,454 |
| Receivables (net of allowance): | | | |
| Accounts receivable | 25,932 | 14,210 | 40,142 |
| Inventory | 38,238 | - | 38,238 |
| Due from other funds | - | 16,878 | 16,878 |
| Total current assets | 235,658 | 185,832 | 421,490 |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents: | | | |
| Restricted cash | 8,500 | - | 8,500 |
| Capital assets: | | | |
| Capital assets non-depreciable | 371,409 | - | 371,409 |
| Capital assets depreciable | 8,756,176 | 382,500 | 9,138,676 |
| Less: accumulated depreciation | (4,860,833) | (22,313) | (4,883,146) |
| Total noncurrent assets | 4,275,252 | 360,187 | 4,635,439 |
| Total assets | 4,510,910 | 546,019 | 5,056,929 |
| **Deferred outflows of resources** | | | |
| Deferred outflows related to pension | 42,192 | - | 42,192 |
| Deferred outflows related to OPEB | 2,757 | - | 2,757 |
| Total deferred outflows of resources | 44,949 | - | 44,949 |
| Total assets and deferred outflows of resources | $ 4,555,859 | $ 546,019 | $ 5,101,878 |

*See independent auditors' report.*

| | | Airport Operations | | Drainage Utility | | Total Nonmajor Proprietary Funds |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Current liabilities | | | | | | |
| Fringe benefits payable | $ | 1,122 | $ | - | $ | 1,122 |
| Retainage payable | | 15,495 | | - | | 15,495 |
| Accrued payroll | | 4,584 | | - | | 4,584 |
| Other accrued liabilities | | 55 | | - | | 55 |
| Due to other funds | | 68,539 | | - | | 68,539 |
| Current liabilities payable from restricted assets | | | | | | |
| Notes payable | | - | | 45,441 | | 45,441 |
| Leases payable | | 44,104 | | - | | 44,104 |
| Compensated absences | | 4,739 | | - | | 4,739 |
| Total current liabilities | | 138,638 | | 45,441 | | 184,079 |
| Noncurrent liabilities | | | | | | |
| Long-term liabilities (net of current position) | | | | | | |
| Notes payable | | - | | 279,599 | | 279,599 |
| Leases payable | | 68,768 | | - | | 68,768 |
| Net pension liability | | 59,429 | | - | | 59,429 |
| Net OPEB liability | | 10,317 | | | | 10,317 |
| Total noncurrent liabilities | | 138,514 | | 279,599 | | 418,113 |
| Total liabilities | | 277,152 | | 325,040 | | 602,192 |
| **Deferred inflows of resources** | | | | | | |
| Deferred inflows related to OPEB | | 490 | | - | | 490 |
| Total deferred inflows of resources | | 490 | | - | | 490 |
| **Net position** | | | | | | |
| Net investment in capital assets | | 4,153,880 | | 35,147 | | 4,189,027 |
| Unrestricted net position | | 124,337 | | 185,832 | | 310,169 |
| Total Net Position | | 4,278,217 | | 220,979 | | 4,499,196 |
| Total liabilities, deferred inflows of resources, and net position | $ | 4,555,859 | $ | 546,019 | $ | 5,101,878 |

*See independent auditors' report.*

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## Nonmajor Proprietary Funds
## Combining Statement of Revenues, Expenses, and Changes in Net Position
## For the Year Ended September 30, 2019

| | Airport Operations | Drainage Utility | Total Nonmajor Proprietary Funds |
|---|---|---|---|
| Operating revenues | | | |
| Drainage utility fees | $ - | $ 172,847 | $ 172,847 |
| Oil and gas | 710,320 | - | 710,320 |
| Rentals | 257,318 | - | 257,318 |
| Other revenue | 10,866 | - | 10,866 |
| Total operating revenues | 978,504 | 172,847 | 1,151,351 |
| Operating expenses | | | |
| Drainage utility | - | 110,930 | 110,930 |
| Airport | 958,412 | - | 958,412 |
| Depreciation expense | 376,231 | - | 376,231 |
| Total operating expenses | 1,334,643 | 110,930 | 1,445,573 |
| Operating income (loss) | (356,139) | 61,917 | (294,222) |
| Non-operating revenues (expenses) | | | |
| Interest expense | (7,880) | (12,244) | (20,124) |
| Interest earned | 3,239 | - | 3,239 |
| Total non-operating revenues (expenses) | (4,641) | (12,244) | (16,885) |
| Income (loss) before contributions and transfers | (360,780) | 49,673 | (311,107) |
| Transfers out | (31,871) | (35,000) | (66,871) |
| Change in net position | (392,651) | 14,673 | (377,978) |
| Net position - beginning | 4,670,868 | 206,306 | 4,877,174 |
| Net position - end of year | $ 4,278,217 | $ 220,979 | $ 4,499,196 |

*See independent auditors' report.*

# City of Mineral Wells, Texas
# Nonmajor Proprietary Funds
# Combining Statement of Cash Flows
# For the Year Ended September 30, 2019

| | Airport Operations | Drainage Utility | Total Nonmajor Proprietary Funds |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash received from user charges | $ 983,639 | $ 172,406 | $ 1,156,045 |
| Cash payments to employees for services | (253,310) | - | (253,310) |
| Cash payments to suppliers for goods and services | (682,496) | (110,930) | (793,426) |
| Net cash provided (used) by operating activities | 47,833 | 61,476 | 109,309 |
| Cash flows from noncapital financing activities | | | |
| Transfers and interfund activity | (6,343) | (38,961) | (45,304) |
| Net cash provided (used) by noncapital financing activities | (6,343) | (38,961) | (45,304) |
| Cash flows from investing activities | | | |
| Reclassification from cash to investments | 121,761 | - | 121,761 |
| Interest on investments | 3,239 | - | 3,239 |
| Net cash provided (used) by investing activities | 125,000 | - | 125,000 |
| Cash flows from capital and related financing activities | | | |
| Acquisition of capital assets | (133,708) | - | (133,708) |
| Interest paid | (7,879) | (12,244) | (20,123) |
| Principal payments on bonds, loans, and notes payable | (48,723) | (43,957) | (92,680) |
| Net cash provided (used) by capital and related financing activities | (190,310) | (56,201) | (246,511) |
| Net (decrease) increase in cash and cash equivalents | (23,820) | (33,686) | (57,506) |
| Cash and cash equivalents - beginning of year | 173,354 | 188,430 | 361,784 |
| Cash and cash equivalents - end of year | $ 149,534 | $ 154,744 | $ 304,278 |

*See independent auditors' report.*

| | Airport Operations | Drainage Utility | Nonmajor Proprietary Funds |
|---|---|---|---|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | $ (356,139) | $ 61,917 | $ (294,222) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 376,231 | - | 376,231 |
| Noncash pension and OPEB expense | 9,242 | - | 9,242 |
| Changes in assets and liabilities: | | | |
| Receivables (Net of allowance) | 5,135 | (441) | 4,694 |
| Inventory | 12,602 | - | 12,602 |
| Accrued payroll | 762 | - | 762 |
| Net cash provided (used) by operating activities | $ 47,833 | $ 61,476 | $ 109,309 |

*See independent auditors' report.*

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# Compliance Section

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

**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, 2019, 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 31, 2020. Our report includes a reference to other auditors who audited the financial statements of the Palo Pinto County Municipal Water District No. as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free 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*.

**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C

Carr, Riggs & Ingram, LLC
Dallas, Texas
March 31, 2020

**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? | None noted |
| | c. Noncompliance material to the financial statements noted? | None noted |

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

None Noted.

**SECTION III – PRIOR YEAR AUDIT FINDINGS**

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

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

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