CITY OF DENVER CITY

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

CITY OF DENVER CITY, TEXAS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, the management of the City of Denver City, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2008. Please read it in conjunction with the independent auditor's report and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- At the close of the most recent fiscal year, the City of Denver City's net assets exceeded its liabilities by $13,833,892. Of this amount, $8,016,546 was unrestricted net assets.
- The City of Denver City's net assets increased $71,268, or .52% as a result of this year's operations. Net assets of the City's business-type activities decreased $27,966, or .29%, and net assets of the City's governmental activities increased $99,234, or 2.46%.
- During the year, the City's governmental funds had expenditures of $2,440,663, which was $222,757 less than the $2,663,420 generated in tax and other revenues for governmental programs. This compares to last year when expenditures were less than revenues by $467,995.
- The General Fund ended the year with a fund balance of $2,767,882. The fund balance of the General Fund is unreserved and undesignated and is 113.41% of total general fund expenditures.
- Net cash provided by operating activities in the Proprietary Funds was $174,888.
- The City received $227,265 in principal payments on its $2.5 million loan to the Denver City Economic Development Corporation, leaving an amount that accounts for $459,830 of governmental activities total assets and $1,182,420 of business-type activities total assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Denver City's basic financial statements. The City of Denver City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external consumers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget compliance and other supplementary information for additional analysis that is not required to be reported under generally accepted accounting principles regarding insurance coverage.

REPORTING THE CITY AS A WHOLE – THE GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements present an analysis of the City's overall financial condition and operations. Their primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods (e.g. uncollected taxes and earned but unused compensated absences). The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the Texas Department of Transportation to maintain the City's airport and fees for services such as charges for water usage, and revenues provided by the taxpayers and other general revenues. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including general administration, police, fire, emergency medical services, municipal court, street, cemetery, parks, airport, building & inspections, and animal control. Property taxes, sales taxes, and franchise taxes finance most of these activities.

- **Business-type activities** – The City charges a fee to consumers to help it cover all or most of the cost of certain services it provides. These include water, sewer, sanitation, and gas services.

- **Component unit** – The City includes a separate legal entity in its report, the Denver City Economic Development Corporation. Although legally separate, this component unit is important because the City is financially accountable for it.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS – THE FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. A fund is a group 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. Laws and contracts require the City to establish some funds. The City's administration can establish many other funds to help it control and manage money for particular purposes (e.g. capital projects). All of the funds of the City can be divided into two categories: governmental funds and proprietary funds. Each category uses a different accounting approach.

- ***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 statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) to reflect that focus. The governmental fund statements provide a detailed near-term view of the City's general operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Following each of the governmental fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance) is a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- ***Proprietary funds*** – The City reports the activities for which it charges users (whether outside consumers or other units of the City) in proprietary funds using the same accounting method employed in the government-wide statements. In fact, the City's enterprise funds (one category of proprietary funds) make up the business-type activities reported in the government-wide statements. Internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the City's other programs and activities. Currently, the City has no internal service funds.

  The proprietary fund statements present each major fund separately, providing more detail about these activities than the government-wide statements. The major proprietary funds of the City are the Water & Sewer Fund, the Sanitation Fund, and the Gas Fund. The proprietary fund financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Fund Net Assets, and the Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased from $4,038,871 to $4,138,105. Net assets of the City's business-type activities decreased from $9,723,753 to $9,695,787. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was $8,016,546 at September 30, 2008.

The cost of all governmental activities this year was $2,559,197. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only $1,967,181 because some of the costs were paid with charges for services of $283,598, grants and contributions of $148,523, and other various general revenues of $156,895.

Table I
City of Denver City, Texas
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and Other Assets	3,092,339	2,764,410	5,999,279	5,286,335	9,091,618	8,050,745
Capital Assets	1,176,241	1,482,374	4,234,337	5,027,355	5,410,578	6,509,729
Total Assets	4,268,580	4,246,784	10,233,616	10,313,690	14,502,196	14,560,474
Liabilities:						
Long-Term Liabilities Outstanding	23,633	24,374	262,845	375,351	286,478	399,725
Other Liabilities	106,842	183,539	274,984	214,586	381,826	398,125
Total Liabilities	130,475	207,913	537,829	589,937	668,304	797,850
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,363,099	1,482,374	4,290,241	4,562,335	5,653,340	6,044,729
Restricted	0	0	164,006	290,911	164,006	290,911
Unrestricted	2,775,006	2,556,497	5,241,540	4,870,487	8,016,546	7,426,984
Total Net Assets	4,138,105	4,038,871	9,695,787	9,723,753	13,833,892	13,762,624

Table II City of Denver City, Texas CHANGES IN NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	283,598	341,643	2,383,823	2,264,190	2,667,421	2,605,833
Operating Grants and Contributions	148,523	205,933	0	0	148,523	205,999
Capital Grants and Contributions	0	182,001	0	0	0	182,001
General Revenues:						
Property Taxes	1,265,815	1,215,125	0	0	1,265,815	1,215,125
Sales Taxes	583,383	505,249	0	0	583,383	505,249
Franchise Taxes	162,973	152,779	0	0	162,973	152,779
Hotel and Motel Occupancy Tax	42,115	33,875	0	0	42,115	33,875
Penalty and Interest	15,129	15,874	0	0	15,129	15,874
Miscellaneous Revenue	56,594	84,713	6,278	6,090	62,872	90,803
Investment Earnings	100,301	131,845	209,498	272,376	309,799	404,221
Total Revenue	2,658,431	2,869,037	2,599,599	2,542,656	5,258,030	5,411,693
Expenses:						
General Government	1,056,309	866,007	0	0	1,056,309	866,007
Public Safety	1,224,865	1,176,341	0	0	1,224,865	1,176,341
Highways And Streets	222,805	288,590	0	0	222,805	288,590
Culture and Recreation	55,218	45,887	0	0	55,218	45,887
Water & Sewer Services	0	0	1,127,873	1,220,168	1,127,873	1,220,168
Sanitation Services	0	0	457,526	484,391	457,526	484,391
Gas Services	0	0	1,042,166	923,277	1,042,166	923,277
Total Expenses	2,559,197	2,376,825	2,627,565	2,627,836	5,186,762	5,004,661
Increase in Net Assets Before Transfers and Special Items	99,234	492,212	(27,966)	(85,180)	71,268	407,032
Transfers	0	0	0	0	0	0
Special Items	0	0	0	0	0	0
Increase in Net Assets	99,234	492,212	(27,966)	(85,180)	71,268	407,032
Net Assets at the Beginning of the Year	4,038,871	3,546,659	9,723,753	9,808,933	13,762,624	13,355,592
Prior Period Adjustment	0	0	0	0	0	0
Net Assets at the End of the Year	4,138,105	4,038,871	9,695,787	9,723,753	13,833,892	13,762,624

Key factors related to the City's financial performance over the last year include the following:

1. Taxable values increased about 4% from the previous year's figures, causing property tax revenue to also be up about 4% over the past year.
2. A healthy local economy led to sales tax revenues being up over 15% from last fiscal year.
3. Investment earnings dropped due to interest rate decreases.
4. The number of customers for garbage, water and sewer service increased slightly. The additional consumers provided for a slight increase in collection revenues.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of $2,767,882, which is 8.75% above last year's total of $2,545,125. Included in this year's total change in fund balance is an increase of $222,757 in the City's General Fund. Reasons for the increase to the General Fund mirror the ones for governmental activities on the previous page.

For fiscal year 2007-2008, actual expenditures on a budgetary basis were $2,440,663, compared to the original budget expenditures of $2,244,585. Actual revenue on a budgetary basis was $2,663,420 compared to the original budget of $2,244,585. Some reasons the actual numbers varied from the budget follow:

1. Sales tax, franchise tax, and hotel and motel occupancy tax figures were up significantly.
2. Investment earnings were less than expected due to decreases in interest rates.
3. Farm rental income was greater than expected.
4. Caliche sales generated more income than budgeted.
5. More lots in the new subdivision were sold than anticipated.
6. The downtown sidewalk renovation project was expanded to include more areas.
7. Additional funds were allocated to the Civic Center.
8. Fuel price increases caused vehicle expenses to be greater than expected.

Over the course of the year, the City Council revised the City's budget several times. These revisions include amendments and supplemental appropriations that were approved during the year to address mid-year situational changes and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The primary amendments include:

- an increase in property tax revenues, sales tax revenues, hotel/motel tax revenues and franchise tax revenues;
- an increase in revenues from caliche sales, permits, traffic fines and curb & gutter assessments;
- an increase in subdivision lot sales;
- an increase in farm rental income;
- a decrease in interest income;
- an increase in water, sewer and garbage collection revenue;
- a decrease in natural gas cost and revenue;
- the receipt of grant funds for trees, airport maintenance, and homes;
- the purchase of an additional vehicle for the police department;
- and final work on the new subdivision.

Exhibit G-1 provides a detailed comparison of these changes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the end of fiscal year 2008, the City had $14,165,145 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure.

Major capital asset acquisitions during the current fiscal year included the following:

- the purchase of a two police vehicles for the police department;
- the purchase of a copier the finance department.

The City's fiscal year 2009 capital budget calls for expenditures of around $178,400. This includes the following:

- a curb and gutter project in the southwest part of town;
- a new vehicle for the animal control department;
- a new vehicle and a new mower for the parks & cemetery departments;
- and a new copy machine for city hall.

There are no plans to issue additional debt to finance these expenditures. More detailed information about the City's capital assets is presented in Note IV, Item I to the financial statements.

Debt – At year-end, the City had $360,000 in bonds outstanding versus $465,000 last year–a decrease of 22.58%.

Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note IV, Item O to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2009 budget and tax rates. Some key items that should be noted are as follows:

1. Mineral and Related taxable values increased this year. Local Property taxable values are up slightly but are consistent with values over the last several years. Overall, there was another 22% increase in valuations from last year's figures. The increase in valuations allowed money in the General Fund for a curb and gutter project, two new vehicles, a new mower, and a new copy machine while lowering the tax rate to 47.4 cents ($0.474) per one hundred dollars valuation.

2. Projected General Fund revenues are similar to last year. There was an expected increase in sales tax revenue, franchise tax revenue, hotel/motel tax revenue and property tax revenue. These increases are offset by a reduction in grant funds due to a completion in the downtown sidewalk project and a reduction in projected interest income from the City's invested funds due to interest rate decreases.

3. Projected expenses in the General Fund were also similar to last year, expected to be up less than 1%. The curb and gutter project, new vehicle and mower for the parks and cemetery department, and new copy machine expenses were offset by the reduced expenses resulting from the completion of the downtown sidewalk project.

4. The budget allowed for 37 full-time positions and eight part-time positions. Base pay increases were budgeted for employees this year and benefits remained at attractive levels.

5. The number of customers for water, sewer and garbage service has continued to increase slightly over the last year. The additional customers provided for a slight increase in projected revenues. There was a projected decrease in interest income for all utility funds due to the lower interest rates mentioned earlier. Gas Fund revenues and expenses were both expected to increase this year due to the predicted price for natural gas.

6. The agriculture industry and the oil industry in our area have been strong the last few years and have helped maintain a healthy economic environment. They remain the largest parts of our local business activity but are currently in a slower period similar to the downturn being experienced by the world economy as a whole. Other economic development opportunities will continue to be explored and pursued to help create stability and diversification for our local economy.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, and investors and creditors with a general overview of the City of Denver City's finances and to show the City's accountability for the money it receives. For questions concerning any information provided in this report or requests for additional financial information, contact City Hall, City of Denver City, Texas, 102 W. Third St., Denver City, Texas, 79323.

FINANCIAL SECTION

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TEXAS SOCIETY AND AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER SUPPLEMENTARY INFORMATION

Independent Auditor's Report

Honorable Mayor and City Council
City of Denver City, Texas
P. O. Box 1539
Denver City, TX 79323

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Denver City, Texas (the "City") as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Denver City, Texas as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated April 29, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Denver City, Texas' basic financial statements. The accompanying schedule listed as Other Supplementary Information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Myatt, Blume, & Fidaleo, LTD., L.L.P.

Myatt, Blume, and Fidaleo, LTD., L.L.P.
Certified Public Accountants
Levelland, TX 79336

April 29, 2009

BASIC FINANCIAL STATEMENTS

CITY OF DENVER CITY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DC Economic Development Corporation
ASSETS				
Cash and Cash Equivalents	$ 2,197,389	$ 3,460,461	$ 5,657,850	$ 144,346
Receivables, Net of Uncollectible Allowance	248,262	362,399	610,661	-
Due from Primary Government	-	-	-	13,633
Inventories	-	42,925	42,925	-
Loan Receivable - EDC	459,830	1,182,420	1,642,250	-
Bond Issue Costs, Net of Accumulated Amortization	-	15,020	15,020	-
Incentive Loans, Net of Uncollectible Allowance	-	185,819	185,819	1,757,561
Restricted Assets:				
Temporarily Restricted:				
Restricted Cash and Investments	-	334,331	334,331	-
Capital Assets:				
Land Purchase and Improvements	186,858	415,904	602,762	9,560
Capital Assets, Net of Accumulated Depreciation	1,176,241	4,234,337	5,410,578	67,361
Total Assets	4,268,580	10,233,616	14,502,196	1,992,461
LIABILITIES				
Accounts Payable	91,637	103,274	194,911	5,734
Due to EDC	13,633	-	13,633	-
Due to Primary Government	-	-	-	1,642,250
Liability for Curb and Gutter Assessment	1,572	-	1,572	-
Unearned Utility Revenue	-	1,385	1,385	-
Payable from Restricted Cash - Customer Deposits	-	170,325	170,325	-
Noncurrent Liabilities				
Due in More Than One Year	23,633	262,845	286,478	-
Total Liabilities	130,475	537,829	668,304	1,647,984
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,363,099	4,290,241	5,653,340	76,921
Restricted for Debt Service	-	164,006	164,006	-
Unrestricted Net Assets	2,775,006	5,241,540	8,016,546	267,556
Total Net Assets	$ 4,138,105	$ 9,695,787	$ 13,833,892	$ 344,477

The notes to the Financial Statements are an integral part of this statement.

CITY OF DENVER CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	$ 1,056,309	$ 141,242	$ 145,338
Public Safety	1,224,865	82,161	685
Highways and Streets	222,805	54,513	-
Culture and Recreation	55,218	5,682	2,500
Total Governmental Activities:	2,559,197	283,598	148,523
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer	1,127,873	938,829	-
Sanitation	457,526	431,815	-
Gas	1,042,166	1,013,179	-
Total Business-Type Activities:	2,627,565	2,383,823	-
TOTAL PRIMARY GOVERNMENT:	$ 5,186,762	$ 2,667,421	$ 148,523
Component Unit:			
Economic Development	$ 179,630	$ -	$ 146,246
TOTAL COMPONENT UNITS:	$ 179,630	$ -	$ 146,246

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Sales Taxes

Franchise Taxes

Hotel and Motel Occupancy Tax

Penalty and Interest

Miscellaneous Revenue

Investment Earnings

Total General Revenues

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	DC Economic Development Corporation
$ (769,729)	$ -	$ (769,729)	$ -
(1,142,019)	-	(1,142,019)	-
(168,292)	-	(168,292)	-
(47,036)	-	(47,036)	-
(2,127,076)	-	(2,127,076)	-
-	(189,044)	(189,044)	-
-	(25,711)	(25,711)	-
-	(28,987)	(28,987)	-
-	(243,742)	(243,742)	-
(2,127,076)	(243,742)	(2,370,818)	-
-	-	-	(33,384)
-	-	-	(33,384)
1,265,815	-	1,265,815	-
583,383	-	583,383	-
162,973	-	162,973	-
42,115	-	42,115	-
15,129	-	15,129	-
56,594	6,278	62,872	1,875
100,301	209,498	309,799	114,431
2,226,310	215,776	2,442,086	116,306
99,234	(27,966)	71,268	82,922
4,038,871	9,723,753	13,762,624	261,555
$ 4,138,105	$ 9,695,787	$ 13,833,892	$ 344,477

EXHIBIT C-1

CITY OF DENVER CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

		General Fund
ASSETS		
Cash and Cash Equivalents	$	2,197,389
Interest Receivable - Investments		2,154
Taxes Receivable		49,342
Receivables - Net of Uncollectible Allowance		10,508
Curb and Gutter Assessment Receivable		1,572
Sales Tax Receivable (Due from State)		54,532
Grants Receivable		143,311
Loan Receivable - EDC		459,830
Total Assets	$	2,918,638
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$	66,933
Other Accrued Liabilities		1,402
Compensated Absences Payable		23,302
Due to EDC		13,633
Liability for Curb and Gutter Assessment		1,572
Deferred Revenues		43,914
Total Liabilities		150,756
Fund Balances:		
Unreserved and Undesignated:		
Reported in the General Fund		2,767,882
Total Fund Balances		2,767,882
Total Liabilities and Fund Balances	$	2,918,638

The notes to the Financial Statements are an integral part of this statement.

CITY OF DENVER CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	$	2,767,882
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $2,800,091 and the accumulated depreciation was $1,317,717. In addition, long-term liabilities, including compensated absences, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		1,458,000
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2008 capital outlays is to increase net assets.		46,929
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(166,204)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting the allowance for uncollectible taxes to full accrual, and recognizing the change in long-term compensated absences due to employees. The net effect of these reclassifications and recognitions is to increase net assets.		31,498
Net Assets of Governmental Activities	$	4,138,105

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT C-3

CITY OF DENVER CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund
REVENUES:	
Taxes:	
Property Taxes	$ 1,270,804
General Sales and Use Taxes	583,383
Franchise Tax	162,973
Hotel and Motel Occupancy Tax	42,115
Penalty and Interest on Taxes	15,129
Licenses and Permits	6,370
Grants	146,023
Charges for Services	78,208
Fines	30,404
Curb and Gutter Assessment Revenue	5,682
Investment Earnings	100,301
Rents and Royalties	90,981
Other Revenue	131,047
Total Revenues	2,663,420
EXPENDITURES:	
Current:	
General Government	1,017,524
Public Safety	1,117,159
Highways and Streets	207,499
Culture and Recreation	51,552
Capital Outlay:	
Capital Outlay	46,929
Total Expenditures	2,440,663
Net Change in Fund Balances	222,757
Fund Balance - October 1 (Beginning)	2,545,125
Fund Balance - September 30 (Ending)	$ 2,767,882

The notes to the Financial Statements are an integral part of this statement.

CITY OF DENVER CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Total Net Change in Fund Balances - Governmental Funds	$	222,757
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2008 capital outlays is to increase net assets.		46,929
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(166,204)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and the adjustment to the allowance for uncollectible taxes, and recognizing the change in expenses related to long-term compensated absences due to employees. The net effect of these reclassifications and recognitions is to decrease net assets.		(4,248)
Change in Net Assets of Governmental Activities	$	99,234

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT D-1

CITY OF DENVER CITY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 995,941	$ 514,138	$ 1,950,382	$ 3,460,461
Restricted Assets - Current:				
Restricted Cash and Investments	311,131	-	23,200	334,331
Interest Receivable - Investments	1,323	489	1,867	3,679
Accounts Receivable-Net of Uncollectible Allowance	164,699	83,692	110,329	358,720
Inventories	33,283	-	9,642	42,925
Loan Receivable - EDC	476,252	106,747	599,421	1,182,420
Bond Issue Costs - Net of Accumulated Amortization	15,020	-	-	15,020
Total Current Assets	1,997,649	705,066	2,694,841	5,397,556
Noncurrent Assets:				
Capital Assets:				
Land Purchase and Improvements	407,966	1,938	6,000	415,904
Capital Assets	9,421,469	648,517	870,119	10,940,105
Accumulated Depreciation - Capital Assets	(5,465,112)	(535,168)	(705,488)	(6,705,768)
Incentive Loans - Net of Uncollectible Allowance	-	-	185,819	185,819
Total Noncurrent Assets	4,364,323	115,287	356,450	4,836,060
Total Assets	6,361,972	820,353	3,051,291	10,233,616
LIABILITIES				
Current Liabilities:				
Accounts Payable	23,195	16,625	24,361	64,181
Other Accrued Liabilities	8,462	3,690	3,533	15,685
Compensated Absences Payable	14,001	5,141	4,266	23,408
Deferred Revenue	1,385	-	-	1,385
Payable from Restricted Assets - Current:				
Customer Utility Deposits	32,125	-	23,200	55,325
Bonds Payable - Current Maturity	115,000	-	-	115,000
Total Current Liabilities	194,168	25,456	55,360	274,984
NonCurrent Liabilities:				
Bonds Payable - Less Current Maturity	245,000	-	-	245,000
Long-Term Portion of Compensated Absences	9,600	4,797	3,448	17,845
Total Noncurrent Liabilities	254,600	4,797	3,448	262,845
Total Liabilities	448,768	30,253	58,808	537,829
NET ASSETS				
Investments in Capital Assets, Net of Debt	4,004,323	115,287	170,631	4,290,241
Restricted for Debt Service	164,006	-	-	164,006
Unrestricted Net Assets	1,744,875	674,813	2,821,852	5,241,540
Total Net Assets	$ 5,913,204	$ 790,100	$ 2,992,483	$ 9,695,787

The notes to the Financial Statements are an integral part of this statement.

CITY OF DENVER CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Water Services	$ 694,651	$ -	$ -	$ 694,651
Charges for Gas Services	-	-	1,013,179	1,013,179
Charges for Sewerage Service	244,178	-	-	244,178
Charges for Sanitation Services	-	431,815	-	431,815
Other Revenue	80	6,156	42	6,278
Total Operating Revenues	938,909	437,971	1,013,221	2,390,101
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	271,808	126,287	84,608	482,703
Personnel Services - Employee Benefits	114,508	53,585	35,135	203,228
Purchased Professional & Technical Services	13,082	57,597	8,811	79,490
Purchased Property Services	303,856	92,210	24,708	420,774
Other Operating Expenses	52,514	14,586	45,174	112,274
Supplies	35,981	61,476	825,013	922,470
Depreciation	306,612	51,785	18,717	377,114
Interest Expense	24,505	-	-	24,505
Amortization of Bond Issue Costs	5,007	-	-	5,007
Total Operating Expenses	1,127,873	457,526	1,042,166	2,627,565
Operating Income (Loss)	(188,964)	(19,555)	(28,945)	(237,464)
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	72,782	23,014	113,702	209,498
Total Non-operating Revenue (Expenses)	72,782	23,014	113,702	209,498
Change in Net Assets	(116,182)	3,459	84,757	(27,966)
Total Net Assets - October 1 (Beginning)	6,029,386	786,641	2,907,726	9,723,753
Total Net Assets - September 30 (Ending)	$ 5,913,204	$ 790,100	$ 2,992,483	$ 9,695,787

The notes to the Financial Statements are an integral part of this statement.

CITY OF DENVER CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-Type Activities			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from User Charges	$ 950,517	$ 434,735	$ 997,626	$ 2,382,878
Cash Payments to Employees for Services	(384,701)	(181,528)	(119,379)	(685,608)
Cash Payments for Supplies	(22,783)	(50,917)	(800,883)	(874,583)
Cash Payments for Other Operating Expenses	(403,919)	(164,393)	(79,487)	(647,799)
Net Cash Provided by (Used for) Operating Activities	139,114	37,897	(2,123)	174,888
Cash Flows from Non-Capital Financing Activities:				
Increase (Decrease) in Customer Deposits	1,625	-	925	2,550
Increase (Decrease) in Long-Term Comp. Absences	1,988	(81)	587	2,494
Payments on Bond Principal	(105,000)	-	-	(105,000)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(101,387)	(81)	1,512	(99,956)
Cash Flows from Investing Activities:				
Interest and Dividends on Investments	72,782	23,014	113,702	209,498
Payments Received on Loan to EDC	65,907	14,772	82,952	163,631
Decrease (Increase) in Incentive Loans	-	-	(43,134)	(43,134)
Net Cash Provided by Investing Activities	138,689	37,786	153,520	329,995
Net Increase in Cash and Cash Equivalents	176,416	75,602	152,909	404,927
Cash and Cash Equivalents at Beginning of the Year:	1,130,656	438,536	1,820,673	3,389,865
Cash and Cash Equivalents at the End of the Year:	$ 1,307,072	$ 514,138	$ 1,973,582	$ 3,794,792

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT D-3

CITY OF DENVER CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business-Type Activities			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:				
Operating Income (Loss):	$ (188,964)	$ (19,555)	$ (28,945)	$ (237,464)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Depreciation	306,612	51,785	18,717	377,114
Amortization	5,007	-	-	5,007
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (Increase) in Receivables	11,970	(3,236)	(15,595)	(6,861)
Decrease (Increase) in Inventories	(9,962)	-	(794)	(10,756)
Increase (Decrease) in Accounts Payable	13,198	10,559	24,130	47,887
Increase (Decrease) in Payroll Deductions	1,615	(1,656)	364	323
Increase (Decrease) in Deferrred Revenue	(362)	-	-	(362)
Net Cash Provided by (Used for) Operating Activities	$ 139,114	$ 37,897	$ (2,123)	$ 174,888
Reconciliation of Total Cash and Cash Equivalents:				
Cash & Cash Equivalents - Statement of Net Assets	$ 995,941	$ 514,138	$ 1,950,382	$ 3,460,461
Restricted Cash - Statement of Net Assets	311,131	-	23,200	334,331
Total Cash and Cash Equivalents	$ 1,307,072	$ 514,138	$ 1,973,582	$ 3,794,792

The notes to the Financial Statements are an integral part of this statement.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Denver City, Texas (the "City") is a municipal corporation which was incorporated under the laws of the State of Texas in 1939 and is exempt from federal income taxes. The City operates under a Home Rule Charter adopted in an election on April 6, 1985. The City operates under the Council-Manager form of government and provides the following services for the community: public safety, highways and streets, sanitation, water, sewer, natural gas, culture and recreation, public improvements, planning and zoning, and general administrative services.

The City prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board, other authoritative sources identified in ***Statement on Auditing Standards No. 69*** of the American Institute of Certified Public Accountants, and the requirements of contracts and grants of agencies from which it receives funds. The following is a summary of the more significant accounting policies the City utilizes to prepare its basic financial statements.

A. REPORTING ENTITY

The City Council ("Council") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *The Financial Reporting Entity*. Accounting principles generally accepted in the United States of America require that these financial statements present the City (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The component units discussed in this note are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units

- *Denver City Civic Center* – This entity is included in the financial statements as the City has ownership of one-half of the assets, and funds one-half of all deficits.

- *Denver City Youth Center* – This entity is included in the general fund of the financial statements as the City provides one-half of the funding for the entity's operation. The City shares funding responsibilities with Yoakum County.

- *Economic Development Board* – This entity is included in the general fund of the financial statements as the entity's operating budget is funded entirely by the City. The City provides funding on a contract basis.

- *Denver City Crime Stoppers* – The City appoints the majority of the board and can impose its will, thus Crime Stoppers is a component unit of the City. However, assets and transactions of Crime Stoppers are not included in the financial statements due to the fact that assets and transactions are immaterial.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. REPORTING ENTITY (Cont.)

Discretely Presented Component Units

- *Denver City Industrial Development Corporation* – "Development Corporation" is a non-profit corporation of the State of Texas created by the City to act on its behalf pursuant to the Development Corporation Act of 1979, as amended, for the purpose of issuing Industrial Development Revenue Bonds. A majority of the Development Corporation's board is appointed by the City.

  The financial information for the discretely presented component unit is as follows:

  - The Corporation does not have any net assets at September 30, 2008.
  - The Corporation had issued revenue bonds in 1983 which have been paid. The bonds were not a liability to either the Corporation or the City as all liability transferred to the trustee of the bond issue (no commitment debt).

- *Denver City Public Facility Corporation* – The Corporation is a non-profit public corporation of the State of Texas created under the Public Facility Corporation Act, for the purpose of assisting the City in financing, refinancing, or providing public facilities of or for the City. A majority of the Public Facility Corporation's board is appointed by the City and is removable at will. The Public Facility Corporation was started during the fiscal year ended September 30, 1999, and as of September 30, 2008, no financial transactions have taken place.

- *Denver City Economic Development Corporation* – The Corporation is a quasi-governmental organization created on June 5, 2000 as a public instrumentality and non-profit industrial development corporation under provisions of the Development Corporation Act of 1979 of the State of Texas and is funded by the City with a three-eighths of one percent sales tax.

  The Corporation is considered to be a part of the City's financial reporting entity because the City Council appoints its Board of Directors (who are removable at will), approves its budget, and exercises final authority over its operations. It is discretely presented in a separate column of the City's financial statements to emphasize that it is legally separate from the City. Further information concerning the Corporation may be found in Note XI of these notes to the financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Denver City, Texas' and its component units' non-fiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include water charges for water services provided to the residents of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Examples include grants for emergency response equipment. If revenues are not program revenues, they are general revenues used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column for each major fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Cont.)

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end. Revenues not considered available are recorded as deferred revenues.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the "susceptible-to-accrual" concept, that is, when they are both measurable and available. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one type, monies are expended on the specific purpose or project before any amounts will be paid to the City: therefore, revenues are recognized based upon the expenditures incurred. In the other type, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Property taxes are recognized as revenues in the year for which the taxes are levied if they will be collected within 60 days of the end of the fiscal year. Sales taxes, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The proprietary funds use the economic resources measurement focus and the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. This basis allows the City to accrue unbilled service revenue in the proprietary funds.

Pursuant to GASB Statement No. 20, the City applies all GASB pronouncements as well as all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. FUND ACCOUNTING

1. Governmental funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in the proprietary funds). Currently, the City's only governmental fund is its General Fund. The City reports the General Fund as a major fund. The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

2. Proprietary funds are used to account for activities that are similar to those often found in the private sector. Currently, all of the City's proprietary funds consist of enterprise funds. The City reports all three of its proprietary funds as major funds. These funds are used to account for the acquisition, operation, and maintenance of water and sewer, sanitation, and gas facilities. These funds are intended to be entirely or predominantly self-supported through user charges to customers. The City reports the following proprietary funds as major funds:

   - Water & Sewer Fund
   - Sanitation Fund
   - Gas Fund

3. Additionally, the City reports the following fund type(s):

   Governmental Funds:

   a. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in special revenue funds. Most federal and some state financial assistance is accounted for in special revenue funds and sometimes unused balances must be returned to the grantor at the close of specified project periods. The City at this time has no special revenue funds.

   b. **Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in debt service funds. The City at this time has no debt service funds.

   c. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in capital projects funds. The City at this time has no capital projects funds.

   d. **Permanent Funds** – The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs in permanent funds. The City at this time has no permanent funds.

   Proprietary Funds:

   a. **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in enterprise funds. The City has no non-major enterprise funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. FUND ACCOUNTING (Cont.)

3. Additionally, the City reports the following fund type(s) (Cont.):

Proprietary Funds (Cont.):

b. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in internal service funds. The City at this time has no internal service funds.

Fiduciary Funds:

a. **Private Purpose Trust Funds** – The City accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the City in private purpose trust funds. The City at this time has no private purpose trust funds.

b. **Pension (and Other Employee Benefit) Trust Funds** – These funds are used to account for local pension and other employee benefit funds that are provided by the City in lieu of or in addition to the Texas Municipal Retirement System. The City at this time has no pension trust funds.

c. **Investment Trust Funds** – These funds are ones in which the City holds assets in trust for other entities participating in investment programs managed by the City. The City at this time has no investment trust funds.

d. **Agency Funds** – The City accounts for resources held for others in a custodial capacity in agency funds. The City at this time has no agency funds.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

2. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the General Fund. All appropriations lapse at the end of each fiscal year, and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget. Encumbrances do not constitute expenditures or liabilities.

3. Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists primarily of water and gas meters and pipe.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. OTHER ACCOUNTING POLICIES (Cont.)

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

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

6. Capital assets, which include land, buildings, furniture, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets (1) with an initial individual cost of more than $5,000 for equipment and machinery, $100,000 for buildings (and building improvements), and $500,000 for infrastructure; and (2) an estimated useful life in excess of two years. Land is always capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   The costs 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. Buildings, furniture, and equipment of the City and the component units are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30-40
Building Improvements	20-25
Infrastructure	20-25
Vehicles	5
Office Equipment	5-10
Machinery & Equipment	5-30
Water Rights	12-40

7. Since internal service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the City as a whole.

8. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including compensated absences, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year are as follows:

Capital Assets at the Beginning of the Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Assets
Land	$ 186,858	$ 0	$ 186,858	
Capital Assets	2,613,233	1,317,717	1,295,516	
Change in Net Assets				$ 1,482,374
Long-term Liabilities at the Beginning of the Year			**Payable at the Beginning of the Year**	
Compensated Absences			$ (24,374)	$ (24,374)
Net Adjustment to Net Assets				$ 1,458,000

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay			
Land	$ 0	$ 0	$ 0
Capital Assets	46,929	46,929	46,929
Total Capital Outlay	$ 46,929	$ 46,929	$ 46,929
Debt Principal Payments			
None	$ 0	$ 0	$ 0
Total Adjustments	$ 46,929	$ 46,929	$ 46,929

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Cont.)

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
Adjustments to Revenue and Deferred Revenue			
Taxes Collected from Prior Year Levies	$ 22,657	$ (22,657)	$ 0
Uncollected Taxes (assumed collectible) from Current Year Levy	13,573	13,573	13,573
Uncollected Taxes (assumed collectible) from Prior Year Levy	17,184	0	17,184
Change in Estimate of Collectibility of Prior Year Tax Revenues	4,095	4,095	0
Reclassify Proceeds of Bonds, Loans & Capital Leases			
New Bond Issue	0	0	0
Discount (Premium) on Issuance of Bonds	0	0	0
Capital Lease Proceeds	0	0	0
Other	0	0	0
Reclassify Liabilities Incurred but not Liquidated this Year			
Unused Vacation Pay and/or Unused Sick Leave	741	741	741
Reclassify Certain Expenditures to Prepaid Assets			
Prepaid Insurance Premiums	0	0	0
Total Adjustments		$ (4,248)	$ 31,498

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY DATA

The City Council has prepared an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget comparison report appears in Exhibit G-1.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Article VII of the City Charter requires the City Manager to prepare an annual budget using the zero-based budgeting concept at least 45 days prior to the beginning of the fiscal year. The operating budget includes proposed expenditures and the means of financing them. Budgeted funds include the General Fund and enterprise funds. Enterprise funds are budgeted for management purposes.

2. The budget is filed in the City Manager's office not less than 30 days prior to the adoption of the tax levy and is open to public inspection. The City Council is required to hold a minimum of two public hearings on the budget no less than 15 days subsequent to the filing by the City Manager.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Cont.)

BUDGETARY DATA (Cont.)

3. The budget is then adopted at the conclusion of the last public hearing by the favorable votes of a majority of the members of the City Council. The original budget was adopted by the City Council on September 24, 2007, in accordance with the above process. The final fiscal 2008 budget revision was adopted by the City Council on September 22, 2008.

4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that increase the total expenditures of any fund must be approved by the City Council after appropriate public notice and citizen participation.

5. The fiscal 2008 budget was prepared on the cash basis using estimated beginning and ending cash balances. There is not a significant difference in the budgeted revenues and expenditures of the general fund between the cash basis and modified accrual basis.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

City Policies and Legal and Contractual Provisions Governing Deposits:

Custodial Credit Risk for Deposits – State statute requires that public funds in the City's depository institution be secured by eligible securities, as defined by V.T.C.A., Local Government Code Chapter 2257, in an amount not less than the amount on deposit plus any accrued interest less any amount provided for by insurance of the United States or an instrumentality thereof.

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law.** The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The City's depository agreement provides that as security for the deposits of the City their bank will pledge to the City securities at 100% of the amount of City funds on deposit including interest accrued to date. Value of the securities comprising the pledge will be set at the lower of par value or estimated market value. The securities pledged must satisfy the requirements of Article 2560 of the Texas Revised Civil Statutes Annotated. Furthermore, the pledged securities are subject to the approval of the City Council as to type and value. Substitutions of securities or change of total amounts of securities may be made only by and with proper written authorization by the City. A copy of the safekeeping receipts for securities pledged will be issued to the City at the conclusion of each investment transaction.

At September 30, 2008, the carrying amount of the City's deposits (cash, including restricted cash; certificates of deposit; and interest-bearing savings accounts included in temporary investments) was $349,710. Due to a bank error, the City's cash deposits during the year ended September 30, 2008 were not properly secured at all times by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Foreign Currency Risk for Deposits – The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency to less than 5% of all deposits.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

A. DEPOSITS AND INVESTMENTS (Cont.)

City Policies and Legal and Contractual Provisions Governing Investments:

Compliance with the Public Funds Investment Act

The City's investment policies are governed by State statutes. The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City's investment policies further limit State statutes such that eligible investments include the following:

- Obligations, including letters of credit, of the United States and/or its agencies and instrumentalities;
- Direct obligations of this state and/or its agencies and instrumentalities;
- Collateralized mortgage obligations directly issued by a federal agency and/or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
- Certificates of deposit if issued by a state or national bank domiciled in this state, savings bank domiciled in this state, or a state or federal credit union domiciled in this state;
- Certain repurchase agreements as defined by the policy;
- Certain bankers' acceptances as defined by the policy;
- Certain no-load money market mutual funds as defined by the policy;
- Certain no-load mutual funds as defined by the policy; and
- Investment pools.

The City is in substantial compliance with the requirements of the **Public Funds Investment Act** and with local policies.

Investments by the City in investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

A. DEPOSITS AND INVESTMENTS (Cont.)

City Policies and Legal and Contractual Provisions Governing Investments (Cont.):

As of September 30, 2008, the City of Denver City, Texas had the following investments:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Certificates of Deposit	$ 303,988	$ 303,988	$ 0	$ 0	$ 0
Investment Pools	5,636,705	5,639,299	0	0	0
Total	$ 5,940,693	$ 5,943,287	$ 0	$ 0	$ 0

Additional policies and contractual provisions governing deposits and investments for the City of Denver City, Texas are specified below:

Credit Risk – To limit the risk that an insurer or other counter-party to an investment will not fulfill its obligations, the City limits investments in commercial paper, corporate bonds, and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of September 30, 2008, the City's investments were rated AAA or higher by Standard & Poor's.

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counter-party to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the City requires counter-parties to register the securities in the name of the City and hand them over to the City or its designated agent. This includes securities in securities lending transactions. All of the securities are in the City's name and held by the City's agent.

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City limits investments in a single issuer to less than 5% of its total investments. The City further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities and individual major funds than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires the investment portfolio to have maturities of one year or less.

Foreign Currency Risk for Investments – The City limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to less than 5% of all investments.

B. TEXPOOL

During 1986 the 69th Texas Legislature authorized the State Treasurer to incorporate a special-purpose trust company called the Texas Treasury Safekeeping Trust Company. The Trust has direct access to the services of the Federal Reserve Bank and performs other trust company activities. It is specifically authorized to manage, disburse, transfer, safe-keep, and invest public funds and securities more efficiently and economically (Sec. 404.102 et seq., Texas Government Code).

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

B. TEXPOOL (Cont.)

The Trust created the Texas Local Government Investment Pool ("TexPool") as a public funds investment pool. TexPool is established as a trust fund, segregated from all other trustors, investments, and activities of the Trust Company. Only local governments having contracted to participate in TexPool have an investment interest in its pool of assets.

The primary objective of TexPool is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments. While safety is the primary goal of TexPool, liquidity is a simultaneous objective. After meeting the first two objectives, TexPool seeks to provide a competitive yield for the invested funds.

As of September 30, 2008 the City of Denver City, Texas had investments totaling $5,639,299 with TexPool. These investments had a market value of $5,636,705.

C. PROPERTY TAXES

In accordance with state law, all appraisals of City property for tax purposes are made by the county-wide appraisal authority, Yoakum County Appraisal District. Assessed values are based upon 100 percent of appraised market value and are reviewed every three years. Taxpayers have the right to challenge the assessed value.

The City's property taxes are levied each October 1 based upon 100 percent of the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property by state law to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City's fiscal year.

The tax rate for fiscal 2008 (2007 tax levy) was $0.544 per $100 assessed value. The maximum allowable tax rate for the City is $2.50 for each $100 assessed value. The City is subject to a tax rate rollback if the total amount of property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceding year, as defined by statute, by 8%.

The original appraised taxable values upon which the 2007 tax levy was based were $156,586,420 and $75,927,498 for mineral and non-mineral real and personal property, respectively. Current tax collections for fiscal year 2008 were approximately 98.91% of the tax levy.

Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. ENTERPRISE RECEIVABLES

The City's enterprise funds operate on a monthly billing cycle, issuing billings continuously during the month. The accounts receivable for the enterprise funds at September 30, 2008 represent all unpaid billings issued prior to September 30, 2008 that have not been written off and the unbilled services provided before that date. An allowance account has been established based on 90% of the outstanding inactive account balance and accounts aged over 120 days.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

D. ENTERPRISE RECEIVABLES (Cont.)

Most enterprise activity is within City limits and as such it is subject to that concentration of credit risk. The gas fund purchases its gas from a single source of supply, and the water and sewer fund pumps water from a single source.

E. INTERFUND BALANCES AND TRANSFERS

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved. Reimbursements from one fund to another for expenditures or expenses already made are recorded as expenditures or expenses in the reimbursing fund.

Non-recurring or non-routine transfers of equity between funds are treated as residual equity transfers and are reported as additions to or deductions from the fund balance of governmental funds. Residual equity transfers to/from proprietary funds are treated as increases/decreases to unrestricted net assets. All other transfers are treated as operating transfers and are included in the results of operations of both governmental and proprietary funds.

As of September 30, 2008 the City had no interfund balances and no transfers occurred during the year.

F. RESTRICTED CASH

The City collects deposits from utility customers. These deposits total $55,325 and are legally restricted by state law for the purpose of offsetting against delinquent accounts or refunding to the customer upon termination of service. Restricted cash also includes $279,006 separated as a reserve to pay for current and future bond principal and interest requirements.

G. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2008, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	$ 49,342	$ 197,843	$ 0	$ 14,234	$ 261,419
Total – Governmental Activities	$ 49,342	$ 197,843	$ 0	$ 14,234	$ 261,419
Amounts not Scheduled for Collection During the Subsequent Year	$ 13,157	$ 0	$ 0	$ 0	$ 13,157
Business-Type Activities:					
Water & Sewer Fund	$ 0	$ 0	$ 0	$ 323,484	$ 323,484
Sanitation Fund	0	0	0	111,829	111,829
Gas Fund	0	0	0	250,991	250,991
Total – Business-Type Activities	$ 0	$ 0	$ 0	$ 686,304	$ 686,304

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

G. DISAGGREGATION OF RECEIVABLES AND PAYABLES (Cont.)

Receivables of the City's business-type activities are reported net of uncollectible amounts. Total estimated uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles – Enterprise Funds:	
Water & Sewer Fund	$ 157,462
Sanitation Fund	27,648
Gas Fund	138,795
Total Uncollectibles at the Current Fiscal Year End	$ 323,905

Payables at September 30, 2008, were as follows:

	Accounts	Loans, Leases and Bonds Payable - Current Year	Salaries & Benefits	Due to Other Governments	Other	Total Payables
Governmental Activities:						
General Fund	$ 68,335	$ 0	$ 23,302	$ 0	$ 0	$ 91,637
Total – Governmental Activities	$ 68,335	$ 0	$ 23,302	$ 0	$ 0	$ 91,637
Business-Type Activities:						
Water & Sewer Fund	$ 31,657	$ 0	$ 14,001	$ 0	$ 0	$ 45,658
Sanitation Fund	20,315	0	5,141	0	0	25,456
Gas Fund	27,894	0	4,266	0	0	32,160
Total – Business-Type Activities	$ 79,866	$ 0	$ 23,408	$ 0	$ 0	$ 103,274

H. LOAN TO COMPONENT UNIT

In an earlier year, the City loaned $2,500,000 to a component unit, the Denver City Economic Development Corporation (the "Corporation"). The Corporation then loaned this money to a company, as part of an incentive package, to aid the company in building a plant facility in the City. As the Corporation receives payment from the company, the City gets paid back by the Corporation. See Note XI for further information.

I. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2008, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Governmental Activities:				
Land	$ 186,858	$ 0	$ 0	$ 186,858
Capital Assets	2,613,233	46,929	(37,884)	2,622,278
Totals at Historic Cost	2,800,091	46,929	(37,884)	2,809,136
Less Accumulated Depreciation	(1,317,717)	(166,204)	37,884	(1,446,037)
Governmental Activities Capital Assets, Net	$ 1,482,374	$ (119,275)	$ 0	$ 1,363,099
Business-Type Activities:				
Land	$ 415,904	$ 0	$ 0	$ 415,904
Capital Assets	10,940,105	0	0	10,940,105
Totals at Historic Cost	11,356,009	0	0	11,356,009
Less Accumulated Depreciation	(6,328,654)	(377,114)	0	(6,705,768)
Business-Type Activities Capital Assets, Net	$ 5,027,355	$ (377,114)	$ 0	$ 4,650,241

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

I. CAPITAL ASSET ACTIVITY (Cont.)

Depreciation expense for governmental activities is charged to functions as follows:

Allocation of Depreciation Expense Charged to Governmental Functions	
General Government	$ 38,355
Public Safety	109,153
Highways and Streets	15,030
Culture and Recreation	3,666
Total	$ 166,204

J. DEFINED BENEFIT PLAN

Plan Description: The City provides pension benefits for all of its full-time employees (except for volunteer firefighters who are covered under another plan – see Item K in this Note IV) through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of 827 currently administered by TMRS, an agent multiple-employer public employee retirement system. The City of Denver City is one of 827 municipalities having their benefit plan administered by TMRS. Each of the 827 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153, Austin, TX 78714-9153.

Benefits: Upon retirement, benefits depend on the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the inception of the plan (November 1, 1986), the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are 200% of the employee's accumulated contributions. In addition, the City has granted, on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the employee's account balance by assuming that the current employee deposit rate of the City (5%) has always been in effect. The computation also assumes that the employee's salary has always been the employee's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to employee accounts in previous years, and increased by the City match currently in effect (200%). The resulting sum is then compared to the employee's actual account balance increased by the actual City match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the employee is granted a monetary credit (or updated service credit) equal to 100% of the difference between the hypothetical calculation and the actual calculation. To receive any City-financed benefits, an employee's accumulated deposits and interest must remain in the plan. At retirement, death, or disability, 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 using annuity purchase rates prescribed by the TMRS Act. Employees may choose to receive their retirement benefit in one of seven payment options: retiree life only, one of three survivor options, or one of three guaranteed term options. Employees may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution ("PLSD") in an amount equal to 12, 24, or 36

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

J. DEFINED BENEFIT PLAN (Cont.)

Benefits (Cont.):

monthly payments under the retiree life only option, which cannot exceed 75% of the total employee deposits and interest. The City has elected the option to increase the annuities of its retirees based on 70% of the Consumer Price Index – all Urban Consumers ("CPI-U"). The plan also provides supplemental death benefits and disability benefits.

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

Employee Deposit Rate:	5%
Matching Ratio (City to Employee):	2 to 1
Years Required for Vesting:	5 Years
Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City, Expressed as Years of Service/Age:	
	5 Years/Age 60, 25 Years/Any Age
Updated Service Credit/Annually Repeating (Y/N):	100%/Y
Annuity Increase to Retirees/Annually Repeating (Y/N):	70%/Y
Supplemental Death Benefit for Active Employees (Y/N)/Retirees (Y/N):	Y/Y

Contributions: Under the state law governing TMRS, the actuary annually determines the City contribution rate using the Projected Unit Credit actuarial cost method (effective with the December 31, 2007 actuarial valuation). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percentage, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate finances the portion of an active employee's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as updated service credits. The City contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the City matching percentage. Both the employees and the City make contributions monthly. Since the City must know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect (i.e. December 31, 2007 valuation is effective for rates beginning January 2009).

Change in Funding Method and Amortization Period: At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

J. DEFINED BENEFIT PLAN (Cont.)

Change in Funding Method and Amortization Period (Cont.):

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. On the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been $856,378 and the funded ratio would have been 82.2%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return ("IRR") assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009 actuarial valuation.

Annual Pension Cost: The City's annual pension cost for the current year and related information including actuarial assumptions follows:

Annual Pension Costs	$ 135,262
Contributions Made	$ 135,262
Actuarial Valuation Date	12/31/07
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years – Closed Period
Asset Valuation Method	Amortized Cost
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by Age and Service
Includes Inflation At	3.0%
Cost-of-Living Adjustments	2.1% (3.0% CPI)
Payroll Growth Assumption	3.0%
Withdrawal Rates for Male/Female	Mid-Low/Mid-Low

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

J. DEFINED BENEFIT PLAN (Cont.)

Trend Information: Information for each of the three most recent actuarial valuations is as follows:

Fiscal Year Ending	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Obligation
2007	$ 133,550	100%	$ -0-
2006	$ 121,644	100%	$ -0-
2005	$ 120,322	100%	$ -0-

Schedule of Funding Progress: An analysis of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL As a % of Covered Payroll
12/31/07	$ 3,948,982	$ 5,105,771	$ 1,156,789	77.3%	$ 1,068,760	108.2%
12/31/06	$ 3,996,550	$ 4,754,918	$ 758,368	84.1%	$ 1,053,315	72.0%
12/31/05	$ 3,851,585	$ 4,636,684	$ 785,099	83.1%	$ 967,481	81.1%

K. DEFINED BENEFIT PENSION PLAN

Plan Description: The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. A report may be obtained by contacting the Texas Comptroller (Post Office Box 13528, Capitol Station, Austin, Texas 78711-3528). At August 31, 2008, there were 186 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2008, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	1,939
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,975
Active Participants (Vested and Non-vested)	4,340
Total	8,254

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS, and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service. Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

K. DEFINED BENEFIT PENSION PLAN (Cont.)

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

Funding Policy: Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by Board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. The City contributes $48 per month for each active member. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

Annual Required Contributions: The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule. For the fiscal year ending August 31, 2008 total contributions (dues and prior service) of $2,439,339 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. In addition, the State appropriated $8,800,000 for the fiscal year ending August 31, 2008. Total contributions made were greater than the contributions required by the State statute and were greater than the contributions required based on the August 31, 2006 actuarial valuation. The City contributed $20,287 for their fiscal year ended September 30, 2008.

Schedule of Employer Contributions

Fiscal Year Ending August 31,	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
2008	$ 3,160,764[6]	$ 11,239,339[8]	356%
2007	$ 3,162,742[6]	$ 3,162,742[7]	100%
2006	$ 2,753,035[3]	$ 2,753,035[5]	100%
2005	$ 3,206,300[2]	$ 1,606,759[4]	50%
2004	$ 2,896,557[1]	$ 1,891,243	65%
2003	$ 2,896,557[1]	$ 1,833,310	63%

Notes:
[1] Based on the August 31, 2002 actuarial valuation.
[2] Based on the original August 31, 2004 actuarial valuation.
[3] Based on the revised August 31, 2004 actuarial valuation.
[4] A change in billing procedures resulted in a one-time change in the timing of dues contributions, resulting in an atypical amount of dues contributions for this fiscal year.
[5] Includes a State contribution of $675,307.
[6] Based on the August 31, 2006 actuarial valuation.
[7] Includes a State contribution of $709,072.
[8] Includes a State contribution of $8,800,000.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

K. DEFINED BENEFIT PENSION PLAN (Cont.)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability[1] (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
08/31/2008[3]	$ 60,987,157	$ 64,227,341	$ 3,240,184	95.0%	8,254	$ 393
08/31/2006[2]	$ 42,268,305	$ 58,082,828	$15,814,523	72.8%	8,061	$ 1,962
08/31/2004	$ 38,140,501	$ 51,567,426	$13,426,925	74.0%	7,994	$ 1,680

Notes:
[1] The actuarial accrued liability is based upon the entry age actuarial cost method.
[2] Changes in actuarial assumptions and methods as well as benefit and contribution provisions were first reflected in this valuation.
[3] Changes in actuarial assumptions were reflected in this valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial assumptions and methods for the two most recent biennial valuations are shown below.

Valuation Date	August 31, 2006	August 31, 2008
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Dollar, Open	Level Dollar, Open
Amortization Period	30 Years	6 Years
Asset Valuation Method	Market Value Smoothed by a 5-year Deferred Recognition Method with a 90%/110% Corridor on Market Value	Market Value Smoothed by a 5-year Deferred Recognition Method with a 90%/110% Corridor on Market Value
Actuarial Assumptions:		
Investment Rate of Return*	8.00% per Year, Net of Investment Expenses	8.00% per Year, Net of Investment Expenses
Projected Salary Increases	N/A	N/A
* Includes Inflation At	3.75%	3.50%
Cost-of-Living Adjustments	None	None

L. DEFERRED COMPENSATION PLAN

The City of Denver City participates in a deferred compensation plan as described under Internal Revenue Code Section 457. All employees are eligible for inclusion on the first day of employment. Each employee can voluntarily elect whether to participate or not. Deferral is withheld from an employee's check by a payroll deduction and then the deferral amounts are remitted to the plan by City personnel. During 1998, the City adopted GASB Statement No. 32, *Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which states that the City does not include the reporting of the plan in its financial statements.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

M. HEALTH CARE COVERAGE

The City of Denver City, Texas participates in a health insurance program with FirstCare. Specific benefits and requirements may vary from year to year, according to changes in the plan itself and in funding decisions by the City Council. The City pays 100% of the health insurance premiums for all full-time employees enrolled in this plan. For the twelve-month period ending September 30, 2008 the City paid $194,782 for health insurance coverage on the City's employees.

N. INSURANCE

The City of Denver City, Texas' workers' compensation, liability and property insurance coverage is obtained through the Texas Municipal League Intergovernmental Risk Pool ("TML Pool"). The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under $1,000,000 for workers' compensation and liability, and losses under $500,000 for property that are incurred by TML Pool members are paid with TML Pool funds. Claims in excess of these limits are paid under terms of insurance policies obtained by the TML Pool. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML Pool has established Claims Reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated.

The City also carries liability insurance for its underground gas tanks at the airport through Tank Owners Mutual Insurance Company. It has also bonded the employees either required to be bonded or deemed necessary by the City. These bonds have been purchased through Kizer Insurance Agency.

For the year ended September 30, 2008, the City of Denver City, Texas contributed $83,083 for its bonding, property, liability, and workers' compensation coverage.

O. LONG-TERM LIABILITIES

In 1997, the City issued bonds in defeasement of an earlier issue. The original bonds were issued for use in and paid from revenues of the Water & Sewer Fund. The new issue is also being paid from revenues of the Water & Sewer Fund. The City expects to continue paying the bonds from these revenues, but the bonds are secured by General Obligation tax revenue in the case of a lack of surplus revenues in the Water & Sewer Fund. The City has set aside a sum of cash for the purpose of covering this contingent liability. Principal payments are due annually on September 1 and interest payments are due semi-annually on March 1 and September 1.

The only other long-term debts carried by the City relate to the accrual of compensated absences that are payable in more than one year.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

O. LONG-TERM LIABILITIES (Cont.)

Long-Term Activity: Long-term activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation	$ 0	$ 0	$ 0	$ 0	$ 0
Equipment Note	0	0	0	0	0
Total Bonds and Notes Payable	$ 0	$ 0	$ 0	$ 0	$ 0
Other Liabilities:					
Compensated Absences	$ 24,374	$ 0	$ (741)	$ 23,633	$ 0
Total Other Liabilities	$ 24,374	$ 0	$ (741)	$ 23,633	$ 0
Total Governmental Activities Long-Term Liabilities	$ 24,374	$ 0	$ (741)	$ 23,633	$ 0
Business-Type Activities:					
Bonds and Notes Payable:					
Certificates of Obligation-Series 97, Refunding	$ 465,000	$ 0	$ (105,000)	$ 360,000	$ 115,000
Total Bonds and Notes Payable	$ 465,000	$ 0	$ (105,000)	$ 360,000	$ 115,000
Other Liabilities:					
Compensated Absences	$ 15,351	$ 2,494	$ 0	$ 17,845	$ 0
Total Other Liabilities	$ 15,351	$ 2,494	$ 0	$ 17,845	$ 0
Total Business-Type Activities Long-Term Liabilities	$ 480,351	$ 2,494	$ (105,000)	$ 377,845	$ 115,000

Debt Service Requirements - Bonds Payable:

Year Ended September 30	Principal	Interest	Total
2009	$ 115,000	$ 19,150	$ 134,150
2010	120,000	13,170	133,170
2011	125,000	6,750	131,750
2012	0	0	0
2013	0	0	0
2014-2018	0	0	0
Total	$ 360,000	$ 39,070	$ 399,070

There are a number of limitations and restrictions contained in the bond indenture. The City is in compliance with all significant limitations and restrictions.

P. ACCUMULATED SICK LEAVE AND VACATION

The City of Denver City, Texas has established a policy which allows employees to accumulate sick leave on the basis of 1 working day for each month of service. Unused sick leave may be accumulated from year to year to an accumulated total of 72 working days. In the event of employee termination, voluntary or involuntary, there shall be no compensation for unused sick leave.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

P. ACCUMULATED SICK LEAVE AND VACATION (Cont.)

The City of Denver City, Texas has established policies allowing employees vacation time. Employees may earn vacation leave of up to 20 days per year, depending on the length of service with the City. No employee may accrue more than 20 days of vacation leave. Employees may be compensated for up to 1 week of vacation pay should their work situation require their presence.

Q. LEASE COMMITMENTS

The City, in a joint agreement with Yoakum County, leases land for its airport under an operating lease with a stated annual lease payment of $3,000. The terms of the lease provide for the lease payment to be adjusted annually by the Consumer Price Index. The City and the County each are responsible for one half of the payment. For the year ended September 30, 2008, the adjusted annual lease payment was approximately $9,944, of which the City paid $4,972. The City and the County are both obligated, under the lease through the fiscal year ending September 30, 2032, for total payments of approximately $238,656, calculated at the present adjusted annual rate.

R. RESTRICTED NET ASSETS

The City records reserves to indicate that a portion of its net assets is restricted for a specific future use. Currently, the City has restricted net assets in its Water & Sewer Fund in the amount of $164,006 in order to meet future obligations of principal and interest on its long-term bonds.

S. FEDERAL AWARDS

The City had $142,820 in expenditures of Federal awards for the year ended September 30, 2008. The Federal expenditures were as follows:

Project Number	Federal Grantor Pass-through Grantor/ Program Title	Federal CFDA Number	Expenditures, Indirect Cost and Refunds
	U.S. Department of Housing and Urban Development – CDBG		
	Passed Through the Texas Department of Agriculture – ORCA:		
726302	Texas Capital Fund Downtown Revitalization Program	14.228	$ 142,135
	U.S. Department of Justice – Office of Justice Programs:		
	Bulletproof Vest Partnership Grant – FY2005 Regular Fund	16.607	317
	Bulletproof Vest Partnership Grant – FY2006 Zylon Replacement Fund	16.607	368
	Total All Programs		$ 142,820

Since the Federal expenditures were below $500,000, the City is not subject to the Federal Single Audit as described in the U.S. Office of Management and Budget (OMB) Circular A-133.

T. STATE AWARDS

The City had $3,203 in expenditures of State awards for the year ended September 30, 2008. The State expenditures were as follows:

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Cont.)

T. STATE AWARDS (Cont.)

Project Number	State Grantor Program Title	Expenditures, Indirect Cost and Refunds
	Texas Department of Transportation:	
M805DENVR	Grant for Routine Airport Maintenance Program-2008	$ 3,203
	Total All Programs	$ 3,203

V. 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.

VI. COMMITMENTS AND CONTINGENCIES

The City participates in federally-assisted programs. In connection with grants under these programs, the City is required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives. In the opinion of management, the City has complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, the City expects the resulting liability to be immaterial.

VII. CONTINGENT LIABILITY

Under the terms of the issuance of the Combination Limited Tax and Revenue Refunding Bonds, Series 1997, the City agreed to secure the debt with General Obligation tax revenues in the case that the surplus revenues of the Water & Sewer Fund could not cover the payments. A sum of cash from the Water & Sewer Fund has been set aside into an investment account and restricted for this purpose.

VIII. CONCENTRATIONS OF CREDIT RISK

During the year, the City collected approximately 56% of its property tax revenue from one oil and gas company operating within the City. This poses a potential risk to the City, which could be adversely affected if a situation arose where this company could or would not pay the assessed taxes.

IX. SUBSEQUENT EVENTS

No subsequent events occurred after September 30, 2008 that were material to these financial statements.

X. RELATED PARTY TRANSACTIONS

One member of the City Council holds an approximate 6% interest in a company that has received a substantial loan from the Denver City Economic Development Corporation to build a plant facility in the City. See Note IV, Item H and Note XI for more information on this loan.

XI. DISCRETE COMPONENT UNIT - DENVER CITY ECONOMIC DEVELOPMENT CORPORATION

A. SIGNIFICANT ACCOUNTING POLICIES

1. Definition and Nature of Entity

The Denver City Economic Development Corporation (the "Corporation") is a quasi-governmental organization created on June 5, 2000 as a public instrumentality and non-profit industrial development corporation under provisions of the Development Corporation Act of 1979 of the State of Texas, and is funded by the City of Denver City with a three-eighths percent sales tax.

A five-member Board of Directors appointed by the City Council governs the Corporation, and the Corporation's annual operating budgets, as well as projects undertaken by it, are subject to approval by the City Council.

Because of this oversight responsibility, the Corporation is considered to be a component unit of the City of Denver City, and in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, its financial affairs are included in the City's annual financial report as a discretely-presented entity separately presented in the government-wide statements.

The purpose of the Corporation is to promote, assist, and enhance economic development activities for Denver City as provided by the Development Corporation Act of 1979 as amended.

2. Basis of Accounting

The accounting records and the financial statements of the Corporation are prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

3. Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Budget

At least sixty days prior to the commencement of each fiscal year of the Corporation, the Board shall adopt a proposed budget of expected revenues and proposed expenditures for the ensuing fiscal year. The budget shall not be effective until the same has been approved by the City Council.

5. Income Taxes

Since the Corporation's revenues are received from the exercise of an essential governmental function through the City of Denver City, any net revenues of the Corporation are exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986, as amended.

XI. DISCRETE COMPONENT UNIT - DENVER CITY ECONOMIC DEVELOPMENT CORPORATION (Cont.)

A. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. Financial Statement Preparation

The Corporation has elected to adopt Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

7. Contributions

The Corporation also elected to adopt SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

8. Property, Plant & Equipment

The cost of office equipment is recorded at cost and is depreciated over the estimated useful life of three to seven years. Land improvements are depreciated over twenty years. Buildings are depreciated over forty years. Depreciation is computed using the straight-line method for financial purposes. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred. Significant renewals and betterments are capitalized.

B. DEPOSITS, SECURITIES, & INVESTMENTS

The Corporation's funds are required to be deposited and invested under the terms of a depository contract. The depository bank is required to insure the Corporation's deposits with pledged securities. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

In addition, the following is disclosed regarding coverage of combined balances on the date of the highest deposit:

1. Name of the bank: Sundown State Bank – Denver City Branch
2. The amount of bond and/or the market value of securities pledged as of the date of the highest combined balance on deposit was $560,000.
3. The largest combined balances of cash, savings, and time deposit accounts amounted to $237,557 in the month of June 2008.
4. The total amount of FDIC coverage at the time of the largest combined balance was $100,000.

XI. DISCRETE COMPONENT UNIT - DENVER CITY ECONOMIC DEVELOPMENT CORPORATION (Cont.)

B. DEPOSITS, SECURITIES, & INVESTMENTS (Cont.)

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 – Deposits, which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 – Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Deposits which are not collateralized.

Based on these three levels of risk, all of the Corporation's cash deposits are classified as Category 1.

C. CASH AND CASH EQUIVALENTS

The Denver City Economic Development Corporation maintains only cash and short-term certificates of deposit. Thus, for financial reporting purposes all such money is classified as cash.

D. CONCENTRATIONS OF RISK

As described in Item A-1 of Note XI, the Corporation's funding is dependent upon a three-eighths percent tax assessed on retail sales within the city limits of the City of Denver City. This revenue source is subject to the normal economic fluctuations experienced by the City and the surrounding region.

E. SUBSEQUENT EVENTS

No subsequent events occurred after September 30, 2008 that were material to these financial statements.

F. SUMMARY OF FIXED ASSETS

A summary of changes in fixed assets for the year ended September 30, 2008 is as follows:

	Balance 10/01/07	Additions	Retirements	Balance 09/30/08
Land	$ 12,560	$ 0	$ (3,000)	$ 9,560
Buildings	73,140	0	0	73,140
Equipment	3,602	0	0	3,602
Less Accumulated Depreciation	(7,442)	(1,939)	0	(9,381)
Total	$ 81,860	$ (1,939)	$ (3,000)	$ 76,921

G. RELATED PARTY TRANSACTIONS

Two members of the Board of Directors and one key employee hold an approximate 15% combined interest in a company that is receiving a substantial loan from the Corporation to build a plant facility in the city. This company has also received and will receive several incentives for its decision to move to the City of Denver City. The City Council of Denver City has approved these incentives.

XI. DISCRETE COMPONENT UNIT - DENVER CITY ECONOMIC DEVELOPMENT CORPORATION (Cont.)

H. COMMITMENTS AND CONTINGENCIES

During 2004, the Corporation received a loan from the City of Denver City in the amount of $2,500,000. The purpose of this loan was to allow the Corporation to loan the same amount to a company as part of an incentive package to have them build a plant within the city. The term of the loan is 10 years and the annual interest rate is 6.00%. Principal and interest payments commenced in January of 2005 and continue every six months thereafter until the loan is paid off. The Corporation, after receiving payments from the company immediately pays the City of Denver City the same amounts. A schedule of future payments to be received/made follows.

Year Ending September 30	Principal	Interest	Total
2009	$ 241,107	$ 94,972	$ 336,079
2010	255,790	80,288	336,078
2011	271,368	64,711	336,079
2012	287,894	48,184	336,078
2013	305,427	30,652	336,079
2014-2018	280,664	12,051	292,715
Total	$ 1,642,250	$ 330,858	$ 1,973,108

During the current year, the primary customer for the plant suffered a destructive fire that prevented them from maintaining their business with the plant for several months. Due to this event, the plant was unable to make the second loan payment to the Corporation. They did, however, pay the interest on the loan. The Corporation did make the full payment to the City.

The Corporation has restructured its loan with the plant in order to allow the plant to pay back the missing payment over time while not missing any other payments. The interest rate on the missing payment is 4.00% and it is to be paid with the other loan payments on their schedule. A schedule of future payments to be received follows.

Year Ending September 30	Principal	Interest	Total
2009	$ 17,368	$ 4,440	$ 21,808
2010	18,069	3,739	21,808
2011	18,799	3,009	21,808
2012	19,558	2,250	21,808
2013	20,349	1,459	21,808
2014-2018	21,168	640	21,808
Total	$ 115,311	$ 15,537	$ 130,848

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DENVER CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	$ 1,248,605	$ 1,261,197	$ 1,270,804	$ 9,607
General Sales and Use Taxes	360,000	569,000	583,383	14,383
Franchise Tax	141,404	161,950	162,973	1,023
Hotel and Motel Occupancy Tax	20,000	39,897	42,115	2,218
Penalty and Interest on Taxes	19,000	19,000	15,129	(3,871)
Licenses and Permits	4,000	6,967	6,370	(597)
Grants	140,000	140,685	146,023	5,338
Charges for Services	65,000	71,881	78,208	6,327
Fines	21,500	32,956	30,404	(2,552)
Curb and Gutter Assessment Revenue	1,000	5,682	5,682	-
Investment Earnings	113,076	96,115	100,301	4,186
Rents and Royalties	76,000	90,496	90,981	485
Other Revenue	35,000	114,467	131,047	16,580
Total Revenues	2,244,585	2,610,293	2,663,420	53,127
EXPENDITURES:				
Current:				
General Government	778,782	1,059,566	1,017,524	42,042
Public Safety	1,188,047	1,235,271	1,117,159	118,112
Highways and Streets	191,389	191,389	207,499	(16,110)
Culture and Recreation	57,867	57,867	51,552	6,315
Capital Outlay:				
Capital Outlay	28,500	50,500	46,929	3,571
Total Expenditures	2,244,585	2,594,593	2,440,663	153,930
Net Change	-	15,700	222,757	207,057
Fund Balance - October 1 (Beginning)	2,545,125	2,545,125	2,545,125	-
Fund Balance - September 30 (Ending)	$ 2,545,125	$ 2,560,825	$ 2,767,882	$ 207,057

OTHER SUPPLEMENTARY INFORMATION

CITY OF DENVER CITY, TEXAS
SCHEDULE OF INSURANCE COVERAGE
FISCAL YEAR ENDED SEPTEMBER 30, 2008

Company	Policy Number	Date Effective	Date Expired
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
Tank Owner's Mutual Insurance Company	1516	5/22/2008	5/22/2009
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
TML Intergovernmental Risk Pool	0463-06	10/1/2007	10/1/2008
Kizer Insurance Agency	BD 0431379	3/28/2008	3/28/2009
Kizer Insurance Agency	LND11159	6/18/2007	6/18/2011
Kizer Insurance Agency	Dispatchers	2/28/2008	2/28/2009
Kizer Insurance Agency	LND014487	10/19/2006	10/19/2010
Kizer Insurance Agency	906569	7/22/2008	7/22/2011

Coverage Type	Coverage	Amount of Coverage	Premium Amount
Liability	Airport Premises	$ 1,000,000	$ 2,304
	Products	$ 1,000,000	
	Chartered Non-Owned Aircraft	$ 1,000,000	
	General Liability	$ 2,000,000	$ 4,331
	Law Enforcement Liability	$ 1,000,000	$ 3,845
	Public Officials Liability (E & O)	$ 1,000,000	$ 6,562
	Automobile	$ 1,000,000	$ 6,564
	Auto Medical Payment	$ 25,000	
	Airport Underground Fuel Tanks	$ 1,000,000	$ 1,415
Physical Damage	Auto Physical Damage	$ 1,075,676	$ 10,364
Property	Real and Personal Property	$ 4,208,710	$ 12,689
	Mobile Equipment	$ 196,956	$ 904
	Transit	$ 1,000,000	
Workers Compensation	Employees & Volunteers		$ 35,497
Employee Bonds	Employees in Business Office	$ 100,000	$ 1,531
Notary Bonds		$ 50,000	$ 71
Notary Bonds	Dispatchers	$ 50,000	$ 71
Notary Bonds		$ 50,000	$ 71
	Tax Assessor Collector	$ 100,000	$ 222

OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION

MYATT, BLUME, AND FIDALEO LTD., L.L.P.

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OF CERTIFIED PUBLIC ACCOUNTANTS

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 Auditor's Report

Honorable Mayor and City Council
City of Denver City, Texas
P. O. Box 1539
Denver City, TX 79323

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Denver City, Texas (the "City") as of and for the year ended September 30, 2008. These collectively comprise the City's basic financial statements. We have issued our report on them dated April 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

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

Compliance and Other Matters

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

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

Respectfully submitted,

Myatt, Blume, & Fidaleo, LTD., L.L.P.

Myatt, Blume, and Fidaleo, LTD., L.L.P.
Certified Public Accountants
Levelland, TX 79336

April 29, 2009