CITY OF DENVER CITY

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

CITY OF DENVER CITY, TEXAS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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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, 2011. 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 assets exceeded its liabilities by $13,316,109. Of this amount, $6,654,970 was unrestricted net assets.

- The City of Denver City's net assets decreased $185,733, or 1.38% as a result of this year's operations. Net assets of the City's business-type activities decreased $219,810, or 2.46%, and net assets of the City's governmental activities increased $34,077, or 0.75%.

- During the year, the City's governmental funds had expenditures of $2,724,890, which was $12,882 less than the $2,737,772 generated in tax and other revenues for governmental programs. This compares to last year when expenditures were less than revenues by $95,769.

- The General Fund ended the year with a fund balance of $3,272,253. The fund balance of the General Fund is unreserved and undesignated and is 120.09% of total general fund expenditures.

- Net cash provided by operating activities in the Proprietary Funds was $145,938.

- The City received $266,541 in principal payments on its $2.5 million loan to the Denver City Economic Development Corporation, leaving an amount that accounts for $165,787 of governmental activities total assets and $426,307 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 $4,556,148 to $4,590,225. Net assets of the City's business-type activities decreased from $8,945,694 to $8,725,884. 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 – were $6,654,970 at September 30, 2011.

The cost of all governmental activities this year was $2,698,333. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only $2,266,830 because some of the costs were paid with charges for services of $273,218, grants and contributions of $13,015, and other various general revenues of $145,270.

Table I
City of Denver City, Texas
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and Other Assets	3,484,473	3,477,809	3,777,678	5,449,405	7,262,151	8,927,214
Capital Assets	1,338,643	1,301,444	5,322,496	3,978,314	6,661,139	5,279,758
Total Assets	4,823,116	4,779,253	9,100,174	9,427,719	13,923,290	14,499,293
Liabilities:						
Long-Term Liabilities Outstanding	42,673	32,031	16,658	18,468	59,331	50,499
Other Liabilities	190,218	191,074	357,632	463,557	547,850	654,631
Total Liabilities	232,891	223,105	374,290	482,025	607,181	705,130
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,338,643	1,301,444	5,322,496	3,853,314	6,661,139	5,154,758
Restricted	0	0	0	0	0	0
Unrestricted	3,251,582	3,254,704	3,403,388	5,092,380	6,654,970	8,347,084
Total Net Assets	4,590,225	4,556,148	8,725,884	8,945,694	13,316,109	13,501,842

Table II City of Denver City, Texas CHANGES IN NET ASSETS						
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	273,218	328,032	2,334,272	2,232,821	2,607,490	2,560,853
Operating Grants and Contributions	13,015	12,281	0	0	13,015	12,281
Capital Grants and Contributions	0	26,385	0	0	0	26,385
General Revenues:						
Property Taxes	1,436,680	1,272,849	0	0	1,436,680	1,272,849
Sales Taxes	664,655	518,905	0	0	664,655	518,905
Franchise Taxes	157,376	156,150	0	0	157,376	156,150
Hotel and Motel Occupancy Tax	27,001	25,475	0	0	27,001	25,475
Penalty and Interest	15,195	11,019	0	0	15,195	11,019
Miscellaneous Revenue	127,003	205,979	4,689	6,607	131,692	212,586
Investment Earnings	18,267	23,637	39,342	48,336	57,609	71,973
Total Revenue	2,732,410	2,580,712	2,378,303	2,287,764	5,110,713	4,868,476
Expenses:						
General Government	657,822	718,120	0	0	657,822	718,120
Public Safety	1,369,773	1,322,094	0	0	1,369,773	1,322,094
Highways And Streets	571,123	325,542	0	0	571,123	325,542
Culture and Recreation	99,615	82,680	0	0	99,615	82,680
Water & Sewer Services	0	0	1,359,150	1,430,068	1,359,150	1,430,068
Sanitation Services	0	0	495,041	481,924	495,041	481,924
Gas Services	0	0	743,922	927,107	743,922	927,107
Total Expenses	2,698,333	2,448,436	2,598,113	2,839,099	5,296,446	5,251,682
Increase in Net Assets Before Transfers and Special Items	34,077	132,276	(219,810)	(551,335)	(185,733)	(419,059)
Transfers	0	0	0	0	0	0
Special Items	0	0	0	0	0	0
Increase in Net Assets	34,077	132,276	(219,810)	(551,335)	(185,733)	(419,059)
Net Assets at the Beginning of the Year	4,556,148	4,423,872	8,945,694	9,497,029	13,501,842	13,920,901
Prior Period Adjustment	0	0	0	0	0	0
Net Assets at the End of the Year	4,590,225	4,556,148	8,725,884	8,945,694	13,316,109	13,501,842

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

1. Property tax revenue increased about 11.4% from the previous year's figures. The local economy was strong and led to sales tax revenues being up 21.9% from last fiscal year.

2. Investment earnings were down due to continued low interest rates and a decrease in reserves.

3. The number of customers for garbage, water, and sewer service increased, providing for an overall increase in collection revenues. Natural gas prices were down from the prior year which decreased revenues and expenses in the gas fund.

4. The TxCDBG street project accounted for the increase in expenses for governmental activities.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of $3,272,253, which is .40% above last year's total of $3,259,371. Included in this year's total change in fund balance is an increase of $12,882 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 2010-2011, actual expenditures on a budgetary basis were $2,724,890, compared to the original budget expenditures of $2,644,196. Actual revenue on a budgetary basis was $2,737,772 compared to the original budget of $2,644,196. Some reasons the actual numbers varied from the budget follow:

1. Sales tax, franchise tax, and property tax revenues were all up.

2. Investment earnings were less than expected due to low interest rates and a decrease in reserves.

3. The street work through the TxCDBG project was completed during fiscal year 2011 but had not yet been reimbursed at the close of the fiscal year.

4. Additional work on the water system was deemed a necessary emergency along with the need to purchase two new vehicles for the police department and a new ambulance for the EMS department.

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 revenue, sales tax revenue, and franchise tax revenue;
- an increase in permit and license fees, traffic fine revenue and ambulance revenue;
- an increase in subdivision lot sales, farm rental income and miscellaneous income;
- an increase in contribution revenue from Yoakum County;
- a decrease in hotel/motel tax revenue;
- a decrease in airport hangar rental income;
- a decrease in interest income;
- a decrease in grant revenue due to unreimbursed expenses for the street project at the close of FY 2011;
- two new vehicles for the police department and a new ambulance for the EMS department;
- additional equipment for the parks;
- an increase in water, sewer and garbage collection revenue;
- a decrease in both expenses and revenues for the gas department due to lower gas costs;
- a decrease in expenses for the sanitation department due to a delay in delivery of the new garbage trucks;
- and additional costs associated with the expansion of the water system.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the end of fiscal year 2011, the City had $16,007,253 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 two video camera systems, three trucks , and a watch guard video for the police department;
- the purchase of a truck for the EMS department;
- the purchase of a mower, and a fence for the park
- and a purchase of one tractor for the water department.

The City's fiscal year 2012 capital budget calls for expenditures of $392,694. This includes the following:

- funds for the expansion of the cemetery;
- the grant match portion for construction on the airport rehabilitation project;
- a new dump truck with costs to be shared among several departments;
- a new sewer machine for the wastewater department;
- and two new garbage trucks for the sanitation collection department.

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 III, Item H to the financial statements.

Debt – By year-end, the City had paid off their outstanding bonds versus a $125,000 balance last year–a decrease of 100.00%.

Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note III, Item N 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 2012 budget and tax rates. Some key items that should be noted are as follows:

1. Taxable values were basically the same as last year's figures, with a total increase of less than one percent. The tax rate was set at 56.0 cents ($0.56) per one hundred dollars valuation.

2. Projected General Fund revenues and expenses are decreased by 6.4% compared to last year's figures. The decrease in revenues and expenses is primarily due to the completion of last year's street improvement grant. There is an expected increase in sales tax revenue and property tax revenue and an expected decrease in revenue from the City's invested funds due to continued low interest rates and an overall decrease in reserves.

3. Additional expenses expected include: shared funding with Yoakum County for the Youth Center; a new server and computers for the finance department; new digital video camera systems for the police department; new cardiac equipment for the EMS department; the match portion for the airport runway repair project; extra funds earmarked for park, cemetery and street improvements; and increased employee salary and benefit expenses and municipal court contract expenses.

4. The budget allowed for 32 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 purchase of additional dumpsters and two new garbage trucks are a large part of the Sanitation Fund expenses. The garbage truck purchases are expected to require a transfer of $300,000 from the sanitation fund balance.

6. A continuation in the water system expansion and water tower maintenance were accounted for in the Water Fund.

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.

This financial report also includes financial reporting for the Denver City Economic Development Corporation (EDC), a component unit of the City. Its financial information is in a separate column on each of the government-wide statements. EDC also issues its own set of financial statements. For questions concerning EDC, please contact Denver City Economic Development Corporation, P.O. Box 2, 102 W. Third St., Denver City, Texas, 79323.

FINANCIAL SECTION

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TEXAS SOCIETY AND AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Members of the Council:

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Denver City Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 1, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Denver City, Texas' financial statements as a whole. 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 financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Myatt, Blume, and Fidaleo, Ltd., L.L.P.

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

June 1, 2012

BASIC FINANCIAL STATEMENTS

EXHIBIT A-1

DENVER CITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DC Economic Development Corporation
ASSETS				
Cash and Investments	$ 3,193,917	$ 2,689,883	$ 5,883,800	$ 295,146
Receivables, Net of Uncollectible Allowance	111,692	260,539	372,231	-
Due from Primary Government	-	-	-	16,897
Inventories	-	60,872	60,872	-
Loan Receivables - EDC	165,787	426,307	592,094	-
Other Assets	13,077	-	13,077	-
Restricted Assets:				
Restricted Cash and Investments	-	93,100	93,100	-
Capital Assets:				
Land Purchase and Improvements	202,665	415,904	618,569	40,000
Capital Assets, Net of Accumulated Depreciation	1,135,978	3,273,143	4,409,121	355,010
Construction in Progress	-	1,633,449	1,633,449	-
Incentive Loans, Net of Uncollectible Allowance	-	246,977	246,977	759,909
Total Assets	4,823,116	9,100,174	13,923,290	1,466,962
LIABILITIES				
Accounts Payable	171,749	254,785	426,534	6,255
Due to EDC	16,897	-	16,897	-
Loan Payable to Primary Government	-	-	-	592,094
Liability for Curb and Gutter Assessmernt	1,572	-	1,572	-
Unearned Utility Revenue	-	9,747	9,747	-
Payable from Restricted Cash - Customer Deposits	-	93,100	93,100	-
Noncurrent Liabilities				
Due in More Than One Year	42,673	16,658	59,331	-
Total Liabilities	232,891	374,290	607,181	598,349
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,338,643	5,322,496	6,661,139	395,010
Unrestricted Net Assets	3,251,582	3,403,388	6,654,970	473,603
Total Net Assets	$ 4,590,225	$ 8,725,884	$ 13,316,109	$ 868,613

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

DENVER CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	$ 657,822	$ 121,718	$ 11,866	$ -
Public Safety	1,369,773	118,987	-	-
Highways and Streets	571,123	27,258	1,149	-
Culture and Recreation	99,615	5,255	-	-
Total Governmental Activities:	2,698,333	273,218	13,015	-
BUSINESS-TYPE ACTIVITIES:				
Water & Sewer Fund	1,359,150	1,122,847	-	-
Sanitation Fund	495,041	512,987	-	-
Gas Fund	743,922	698,438	-	-
Total Business-Type Activities:	2,598,113	2,334,272	-	-
TOTAL PRIMARY GOVERNMENT:	$ 5,296,446	$ 2,607,490	$ 13,015	$ -
Component Unit:				
Economic Development	$ 144,754	$ -	$ 169,161	$ 364,450
TOTAL COMPONENT UNITS:	$ 144,754	$ -	$ 169,161	$ 364,450

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
Prior Period Adjustment
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
$ (524,238)	$ -	$ (524,238)	$ -
(1,250,786)	-	(1,250,786)	-
(542,716)	-	(542,716)	-
(94,360)	-	(94,360)	-
(2,412,100)	-	(2,412,100)	-
-	(236,303)	(236,303)	-
-	17,946	17,946	-
-	(45,484)	(45,484)	-
-	(263,841)	(263,841)	-
(2,412,100)	(263,841)	(2,675,941)	-
-	-	-	388,857
-	-	-	388,857
1,436,680	-	1,436,680	-
664,655	-	664,655	-
157,376	-	157,376	-
27,001	-	27,001	-
15,195	-	15,195	-
127,003	4,689	131,692	-
18,267	39,342	57,609	33,975
2,446,177	44,031	2,490,208	33,975
34,077	(219,810)	(185,733)	422,832
4,556,148	8,945,694	13,501,842	406,781
-	-	-	39,000
$ 4,590,225	$ 8,725,884	$ 13,316,109	$ 868,613

EXHIBIT C-1

DENVER CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund
ASSETS	
Cash and Investments	$ 3,193,917
Interest Receivable - Investments	1,879
Taxes Receivable	28,745
Receivables - Net of Uncollectible Allowance	15,670
Curb and Gutter Assessment Receivable	1,572
Sales Tax Receivable (Due from State)	67,587
Grants Receivable	780
Loan Receivable - EDC	165,787
Other Assets	13,077
Total Assets	$ 3,489,014
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 92,819
Other Accrued Liabilities	47,492
Compensated Absences Payable	31,438
Due to EDC	16,897
Liability for Curb and Gutter Assessment	1,572
Deferred Revenues	26,543
Total Liabilities	216,761
Fund Balances:	
Reported in the General Fund	3,272,253
Total Fund Balances	3,272,253
Total Liabilities and Fund Balances	$ 3,489,014

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

EXHIBIT C-2

DENVER CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total Fund Balances - Governmental Funds	$	3,272,253
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 $2,956,196 and the accumulated depreciation was $1,654,751. 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.		1,269,414
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 2011 capital outlays is to increase net assets.		214,049
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(176,850)
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, removing disposed fixed assets, 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.		11,359
Net Assets of Governmental Activities	$	4,590,225

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

EXHIBIT C-3

DENVER CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund
REVENUES:	
Taxes:	
Property Taxes	$ 1,442,042
General Sales and Use Taxes	664,655
Franchise Tax	157,376
Hotel and Motel Occupancy Tax	27,001
Penalty and Interest on Taxes	15,195
Licenses and Permits	9,767
Grants	13,015
Charges for Services	118,987
Fines	30,287
Curb and Gutter Assessment Revenue	5,255
Investment Earnings	18,267
Rents and Royalties	86,897
Other Revenue	149,028
Total Revenues	2,737,772
EXPENDITURES:	
Current:	
General Government	619,885
Public Safety	1,241,812
Highways and Streets	555,743
Culture and Recreation	93,401
Capital Outlay:	
Capital Outlay	214,049
Total Expenditures	2,724,890
Net Change in Fund Balances	12,882
Fund Balance - October 1 (Beginning)	3,259,371
Fund Balance - September 30 (Ending)	$ 3,272,253

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

DENVER CITY
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, 2011

Total Net Change in Fund Balances - Governmental Funds	$	12,882
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 2011 capital outlays is to increase net assets.		214,049
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.		(176,850)
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, writing off the net basis of disposed fixed assets, 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.		(16,004)
Change in Net Assets of Governmental Activities	$	34,077

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

EXHIBIT D-1

DENVER CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Investments	$ (354,343)	$ 675,985	$ 2,368,241	$ 2,689,883
Restricted Assets - Current:				
Restricted Cash and Investments	47,875	7,625	37,600	93,100
Interest Receivable - Investments	1,363	485	1,972	3,820
Accounts Receivable-Net of Uncollectible Allowance	147,191	83,392	26,136	256,719
Inventories	50,343	-	10,529	60,872
Loan Receivable - EDC	171,707	38,486	216,114	426,307
Total Current Assets	64,136	805,973	2,660,592	3,530,701
Noncurrent Assets:				
Capital Assets:				
Land Purchase and Improvements	407,966	1,938	6,000	415,904
Capital Assets	9,438,530	549,059	819,646	10,807,235
Accumulated Depreciation - Capital Assets	(6,281,638)	(544,422)	(708,032)	(7,534,092)
Construction in Progress	1,633,449	-	-	1,633,449
Incentive Loans - Net of Uncollectible Allowance	-	-	246,977	246,977
Total Noncurrent Assets	5,198,307	6,575	364,591	5,569,473
Total Assets	5,262,443	812,548	3,025,183	9,100,174
LIABILITIES				
Current Liabilities:				
Accounts Payable	195,679	22,897	3,939	222,515
Other Accrued Liabilities	4,848	1,929	6,745	13,522
Compensated Absences Payable	10,568	5,104	3,076	18,748
Deferred Revenue	9,747	-	-	9,747
Payable from Restricted Assets - Current:				
Customer Utility Deposits	47,875	7,625	37,600	93,100
Total Current Liabilities	268,717	37,555	51,360	357,632
NonCurrent Liabilities:				
Long-Term Portion of Compensated Absences	10,460	2,827	3,371	16,658
Total Noncurrent Liabilities	10,460	2,827	3,371	16,658
Total Liabilities	279,177	40,382	54,731	374,290
NET ASSETS				
Investments in Capital Assets, Net of Debt	5,198,307	6,575	117,614	5,322,496
Unrestricted Net Assets	(215,041)	765,591	2,852,838	3,403,388
Total Net Assets	$ 4,983,266	$ 772,166	$ 2,970,452	$ 8,725,884

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

EXHIBIT D-2

DENVER CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Water Services	$ 857,644	$ -	$ -	$ 857,644
Charges for Gas Services	-	-	698,438	698,438
Charges for Sewerage Service	265,203	-	-	265,203
Sanitation Charges for Services	-	512,987	-	512,987
Other Revenue	-	4,689	-	4,689
Total Operating Revenues	1,122,847	517,676	698,438	2,338,961
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	286,580	139,459	95,050	521,089
Personnel Services - Employee Benefits	126,893	67,231	44,688	238,812
Purchased Professional & Technical Services	21,881	67,891	9,867	99,639
Purchased Property Services	491,029	77,987	18,719	587,735
Other Operating Expenses	80,334	33,130	57,497	170,961
Supplies	62,085	82,621	502,132	646,838
Depreciation	278,591	26,722	15,969	321,282
Interest Expense	6,750	-	-	6,750
Amortization of Bonds	5,007	-	-	5,007
Total Operating Expenses	1,359,150	495,041	743,922	2,598,113
Operating Income (Loss)	(236,303)	22,635	(45,484)	(259,152)
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	11,106	3,859	24,377	39,342
Total Non-operating Revenue (Expenses)	11,106	3,859	24,377	39,342
Change in Net Assets	(225,197)	26,494	(21,107)	(219,810)
Total Net Assets - October 1 (Beginning)	5,208,463	745,672	2,991,559	8,945,694
Total Net Assets - September 30 (Ending)	$ 4,983,266	$ 772,166	$ 2,970,452	$ 8,725,884

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

EXHIBIT D-3

DENVER CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-Type Activities			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from User Charges	$ 1,162,043	$ 524,208	$ 726,734	$ 2,412,985
Cash Payments to Employees for Services	(399,855)	(207,791)	(153,697)	(761,343)
Cash Payments for Supplies	(62,085)	(82,621)	(502,132)	(646,838)
Cash Payments for Other Operating Expenses	(595,805)	(180,895)	(82,166)	(858,866)
Net Cash Provided by (Used for) Operating Activities	104,298	52,901	(11,261)	145,938
Cash Flows from Non-Capital Financing Activities:				
Increase (Decrease) in Customer Deposits	5,525	1,950	4,650	12,125
Increase (Decrease) in Long-Term Comp. Absences	(449)	(1,090)	(271)	(1,810)
Payments on Bond Principal	(125,000)	-	-	(125,000)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(119,924)	860	4,379	(114,685)
Cash Flows from Capital & Related Financing Activities:				
Acquisition of Capital Assets	(1,665,464)	-	-	(1,665,464)
Cash Flows from Investing Activities:				
Interest and Dividends on Investments	11,106	3,859	24,377	39,342
Payments Received on Loan to EDC	77,297	17,325	97,288	191,910
Decrease (Increase) in Incentive Loans	-	-	(34,833)	(34,833)
Net Cash Provided by Investing Activities	88,403	21,184	86,832	196,419
Net Increase(Decrease) in Cash and Cash Equivalents	(1,592,687)	74,945	79,950	(1,437,792)
Cash and Cash Equivalents at Beginning of the Year:	1,286,219	608,665	2,325,891	4,220,775
Cash and Cash Equivalents at the End of the Year:	$ (306,468)	$ 683,610	$ 2,405,841	$ 2,782,983

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

EXHIBIT D-3

DENVER CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	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):	$ (236,303)	$ 22,635	$ (45,484)	$ (259,152)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Depreciation	278,591	26,722	15,969	321,282
Amortization	5,007	-	-	5,007
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (Increase) in Receivables	38,829	6,532	28,296	73,657
Decrease (Increase) in Inventories	(3,721)	-	1,915	(1,806)
Increase (Decrease) in Accounts Payable	7,910	(1,887)	2,002	8,025
Increase (Decrease) in Payroll Deductions	13,618	(1,101)	(13,959)	(1,442)
Increase (Decrease) in Deferred Revenue	367	-	-	367
Net Cash Provided by (Used for) Operating Activities	$ 104,298	$ 52,901	$ (11,261)	$ 145,938
Reconciliation of Total Cash and Cash Equivalents:				
Cash & Cash Equivalents - Statement of Net Assets	$ (354,343)	$ 675,985	$ 2,368,241	$ 2,689,883
Restricted Cash - Statement of Net Assets	47,875	7,625	37,600	93,100
Total Cash and Cash Equivalents	$ (306,468)	$ 683,610	$ 2,405,841	$ 2,782,983

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

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

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, 2011.
  - 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, 2011, no financial transactions have taken place.

- *Denver City Economic Development Corporation* – "EDC" 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.

  EDC 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 EDC may be found in Note X of these notes to the financial statements.

  EDC also issues its own financial report. This report may be obtained by writing to Denver City Economic Development Corporation, P. O. Box 2, 102 W. Third St., Denver City, TX, 79323 or by calling 806-592-3160.

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

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.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. OTHER ACCOUNTING POLICIES (Cont.)

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. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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.

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

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.

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 20, 2010, in accordance with the above process. The final fiscal 2011 budget revision was adopted by the City Council on September 19, 2011.

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 2011 General Fund budget was prepared on the modified accrual basis using estimated beginning and ending fund balances. The fiscal 2011 enterprise fund budgets were prepared on the accrual basis using estimated beginning and ending net assets.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the corresponding statements of net assets and balance sheet as "Cash and Investments." Income from the earnings on the cash and investments in the pool is allocated to the funds in accordance with the ratio of each fund's investment. Each fund's investment is affected by the recording of transactions affecting the pool relating to each specific fund. In addition certain items such as restricted cash are separately held by various funds.

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.

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

A. DEPOSITS AND INVESTMENTS (Cont.)

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

Custodial Credit Risk for Deposits (Cont.) – At September 30, 2011, 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 $1,944,981. The City's cash deposits during the year ended September 30, 2011 were 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's deposits are not exposed to foreign currency risk.

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.

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

A. DEPOSITS AND INVESTMENTS (Cont.)

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

Compliance with the Public Funds Investment Act (Cont.)

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

As of September 30, 2011, 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	$ 853,942	$ 853,942	$ 0	$ 0	$ 0
TexPool	4,015,613	4,015,452	0	0	0
Total	$ 4,869,555	$ 4,869,394	$ 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 its investments to those earning the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of September 30, 2011, the City's investments in TexPool were rated AAAm 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's investments are not exposed to foreign currency risk.

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). 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).

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

B. TEXPOOL (Cont.)

The Trust created the Texas Local Government Investment Pool (TexPool) for governmental entities in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. Finally, TexPool is rated AAAm by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review. TexPool is established as a trust fund, segregated from all other trustors, investments, and activities of the Trust Company.

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.

Investments are carried at amortized cost, which approximates fair value, as provided for by the GASB in its publication *Codification of Governmental Accounting and Financial Reporting Standards*, Section In5. Investments are priced daily and compared to TexPool's carrying value. If the ratio of the fair value of the portfolio of investments to the carrying value of investments is less than 0.995 or greater than 1.005, TexPool will sell investment securities, as required, to maintain the ratio at a point between 0.995 and 1.005.

As of September 30, 2011 the City of Denver City, Texas had investments totaling $4,015,452 with TexPool. These investments had a market value of $4,015,613.

TexPool issues a separately stated annual financial report with an August 31 fiscal year-end. A copy of this report may be obtained by writing to Texas Treasury Safekeeping Trust Company, 208 East 10th Street, Austin, TX, 78701 or by calling 512-463-4300; in addition, the report is available on the Trust's website at www.ttstc.com.

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.

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

C. PROPERTY TAXES

The tax rate for fiscal 2011 (2010 tax levy) was $0.530 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 value upon which the 2010 tax levy was based was $272,087,874 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2011 were approximately 99.07% 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, 2011 represent all unpaid billings issued prior to September 30, 2011 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.

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, 2011 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 $93,100 and are legally restricted by state law for the purpose of offsetting against delinquent accounts or refunding to the customer upon termination of service.

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

G. LOAN TO COMPONENT UNIT

In an earlier year, the City loaned $2,500,000 to a component unit, the Denver City Economic Development Corporation (EDC). EDC 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 EDC receives payment from the company, the City gets paid back by EDC. See Note X for further information.

H. CAPITAL ASSET ACTIVITY

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

	Primary Government			
	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Governmental Activities:				
Land	$ 202,665	$ 0	$ 0	$ 202,665
Capital Assets	2,753,531	214,049	(19,580)	2,948,000
Totals at Historic Cost	2,956,196	214,049	(19,580)	3,150,665
Less Accumulated Depreciation	(1,654,751)	(176,850)	19,579	(1,812,022)
Governmental Activities Capital Assets, Net	$ 1,301,445	$ 37,199	$ 0	$ 1,338,643
Business-Type Activities:				
Land	$ 415,904	$ 0	$ 0	$ 415,904
Construction in Progress	0	1,633,449	0	1,633,449
Capital Assets	10,775,220	32,015	0	10,807,235
Totals at Historic Cost	11,191,124	1,665,464	0	12,856,588
Less Accumulated Depreciation	(7,212,810)	(321,282)	0	(7,534,092)
Business-Type Activities Capital Assets, Net	$ 3,978,314	$ 1,344,182	$ 0	$ 5,322,496

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

Allocation of Depreciation Expense Charged to Governmental Functions	
General Government	$ 37,931
Public Safety	117,281
Highways and Streets	15,424
Culture and Recreation	6,214
Total	$ 176,850

I. DEFINED BENEFIT PLANS

1. Texas Municipal Retirement System (TMRS)

Plan Description: The City provides pension benefits for all of its eligible, full-time employees (except for volunteer fire fighters who are covered under another plan – see No. 2 below) through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 842 currently administered by TMRS, an agent multiple-employer public employee retirement system. The City of Denver City is one of 842 municipalities having their benefit plan administered by TMRS. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. Each of the 842 municipalities has an annual, individual actuarial valuation performed.

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

I. DEFINED BENEFIT PLANS

1. Texas Municipal Retirement System (TMRS) (Cont.)

Plan Description (Cont.): TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the system. This report may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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 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 for both the 2010 and 2011 plan years were as follows:

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

I. DEFINED BENEFIT PLANS (Cont.)

1. Texas Municipal Retirement System (TMRS) (Cont.)

Benefits (Cont.):

Employee Deposit Rate:	5%
Matching Ratio (City to Employee):	2 to 1
Employer Contribution Rate (2010/2011):	16.91%/16.64%
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

Contributions: Under the state law governing TMRS, the actuary annually determines the City contribution rate using the Projected Unit Credit actuarial cost method. 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 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. 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, 2010 valuation is effective for rates beginning January 2012).

Annual Pension Cost: The annual pension cost and net pension obligation/ (asset) for the current year are as follows:

Annual Required Contribution (ARC)	$ 209,336
Interest on Net Pension Obligation	-0-
Adjustment to the ARC	-0-
Annual Pension Cost	209,336
Contributions Made	(209,336)
Increase (Decrease) in Net Pension Obligation	-0-
Net Pension Obligation/(Asset), (NPO) at the Beginning of the Period	-0-
NPO at the End of the Period	$ -0-

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

I. DEFINED BENEFIT PLANS (Cont.)

1. Texas Municipal Retirement System (TMRS) (Cont.)

Annual Pension Cost (Cont.):

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2009	$172,089	$172,089	100%	$ .00
2010	$200,976	$200,976	100%	$ .00
2011	$209,336	$209,336	100%	$ .00

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

Actuarial Assumptions

	12-31-08	12-31-09	12-31-10
Actuarial Cost Method –	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method –	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period –	29 Years – Closed Period	28 Years – Closed Period	26.9 Years – Closed Period
Amortization Period for New Gains/Losses –	30 Years	30 Years	30 Years
Asset Valuation Method –	Amortized Cost	10-Year Smoothed Market	10-Year Smoothed Market
Investment Rate of Return* –	7.5%	7.5%	7.0%
Projected Salary Increases* –	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
*Includes Inflation at –	3.0%	3.0%	3.0%
Cost-of-Living Adjustments –	2.1%	2.1%	2.1%

The schedule of funding progress presents the funded status as of December 31, 2010, the most recent actuarial valuation date, as well as the prior two years to provide multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL As a % of Covered Payroll
12/31/08	$ 3,990,696	$ 5,229,864	$ 1,239,168	76.3%	$ 1,141,059	108.6%
12/31/09	$ 4,223,780	$ 5,484,479	$ 1,250,699	77.2%	$ 1,159,330	107.9%
12/31/10	$ 5,912,865	$ 6,660,091	$ 747,226	88.8%	$ 1,224,292	61.0%

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

I. DEFINED BENEFIT PLANS (Cont.)

2. Texas Emergency Services Retirement System (TESRS)

Plan Description: The Fire Fighters' 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. At August 31, 2011, there were 199 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department. The City's volunteer fire fighters are covered under this plan.

TESRS issues a publicly available annual financial report that includes financial statements and required supplementary information (RSI) for TESRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the system. This report may be obtained by writing to The Office of the Fire Fighters' Pension Commissioner, P. O. Box 12577, Austin, TX 78711-2577 or by calling 512-936-3372; in addition, the report is available on TESRS' website at www.ffpc.state.tx.us.

At August 31, 2011, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,231
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,106
Active Participants (Vested and Non-vested)	4,371
Total	8,708

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

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

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

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

I. DEFINED BENEFIT PLANS (Cont.)

2. Texas Emergency Services Retirement System (TESRS) (Cont.)

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, 2011 total contributions (dues and prior service) of $2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State did not appropriate any maximum State contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the State statute and equal to the contributions required based on the August 31, 2008 actuarial valuation. The City contributed $14,220 for their fiscal year ended September 30, 2011.

Schedule of Employer Contributions

Fiscal Year Ending August 31,	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
2011	$ 2,875,103[4]	$ 2,875,103	100%
2010	$ 2,875,103[4]	$ 2,875,103	100%
2009	$ 2,698,271[3]	$ 2,698,271[8]	100%
2008	$ 3,160,764[3]	$ 11,239,339[7]	356%
2007	$ 3,162,742[2]	$ 3,162,742[6]	100%
2006	$ 2,753,035[1]	$ 2,753,035[5]	100%

Notes:
[1] Based on the original August 31, 2004 actuarial valuation.
[2] Based on the revised August 31, 2004 actuarial valuation.
[3] Based on the August 31, 2006 actuarial valuation.
[4] Based on the August 31, 2008 actuarial valuation.
[5] A change in billing procedures resulted in a one-time change in the timing of dues contributions, resulting in an atypical amount of dues contributions for this fiscal year.
[6] Includes a State contribution of $675,307.
[7] Includes a State contribution of $709,072.
[8] Includes a State contribution of $8,800,000.

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)
08/31/2010[3]	$ 64,113,803	$ 79,953,215	$15,839,412	80.2%	8,708	$ 1,819
08/31/2008[2]	$ 60,987,157	$ 64,227,341	$ 3,240,184	95.0%	8,254	$ 393
08/31/2006	$ 42,268,305	$ 58,082,828	$15,814,523	72.8%	8,061	$ 1,962

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

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

I. DEFINED BENEFIT PLANS (Cont.)

2. Texas Emergency Services Retirement System (TESRS) (Cont.)

Annual Required Contributions (Cont.):

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, 2008	August 31, 2010
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Dollar, Open	Level Dollar, Open
Amortization Period	6 Years	30 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 80%/120% Corridor on Market Value
Actuarial Assumptions:		
Investment Rate of Return*	8.00% per Year, Net of Investment Expenses	7.75% per Year, Net of Investment Expenses
Projected Salary Increases	N/A	N/A
* Includes Inflation At	3.50%	3.50%
Cost-of-Living Adjustments	None	None

J. OTHER POSTEMPLOYMENT BENEFITS

During the prior year, the City adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires certain disclosures regarding any postemployment benefits other than pensions offered by the City. The only postemployment benefits other than pensions offered by the City are discussed below.

Supplemental Death Benefits Fund: The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City is one of 720 municipalities participating in the SDBF. TMRS' CAFR includes the SDBF as a separately stated fiduciary fund in its financial statements. This report may be obtained by writing to Texas Municipal Retirement System, P. O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

J. OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Contributions: The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. These rates were 0.27% and 0.23% for calendar years 2011 and 2010, respectively, of which 0.07% and 0.06% represented the retiree-only portion for 2011 and 2010, respectively, as a percentage of the annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the SDBF for the fiscal years ended 2011, 2010, and 2009 were $2,874, $2,814, and $2,909, respectively, representing contributions for both active and retiree coverage, which equaled the contractually required contributions each year. The retiree-only portions were $827, $760, and $734 for the fiscal years ended 2011, 2010, and 2009, respectively, which, as stated above, equaled the contractually required contributions each year.

Transition Disclosure: The City elected to implement GASB Statement No. 45 prospectively; therefore the net OPEB obligation was zero at the transition to that statement effective October 1, 2009.

K. 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*. In accordance with this statement and recent tax law changes, the City has amended their trust agreement which establishes that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. Due to the implementation of these changes, the City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the plan trustee. Accordingly, the City has not presented the assets and income from the plan in its financial statements.

L. 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, 2011 the City paid $199,412 for health insurance coverage on the City's employees.

M. INSURANCE

The City is exposed to various risks of loss related to torts; errors and omissions; violations of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks, with the exception of the coverage on the underground fuel tanks at the airport, are covered by the City's

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

M. INSURANCE (Cont.)

participation in 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. The City pays annual premiums for liability, property, and workers' compensation coverage. 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 TML Pool also makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the TML Pool. In addition, the City has elected to include EDC for all of its coverage with the TML Pool except for workers' compensation. EDC does not contribute anything to the City for this coverage, but agrees to follow any actions recommended by the City or the TML Pool to reduce risks of loss.

The City also carries liability insurance for its underground gas tanks at the airport through Tank Owners Members 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, 2011, the City of Denver City, Texas contributed $75,173 for its bonding, property, liability, and workers' compensation coverage.

The City also carries commercial insurance on all other risks of loss including employee health and accident insurance.

No significant reductions in insurance coverage occurred in the past fiscal year, and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

N. 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 was also paid from revenues of the Water & Sewer Fund. Principal payments were due annually on September 1 and interest payments were due semi-annually on March 1 and September 1. The bonds' maturity date was September 1, 2011. Interest rates on the bonds began at 4.6% and rose over the life of the bonds to a final rate of 5.4% in the year of maturity. The bond was paid in full at the maturity date.

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.

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

N. LONG-TERM LIABILITIES (Cont.)

Long-Term Activity: Long-term activity for the year ended September 30, 2011, 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	$ 32,031	$ 10,642	$ 0	$ 42,673	$ 0
Total Other Liabilities	$ 32,031	$ 10,642	$ 0	$ 42,673	$ 0
Total Governmental Activities Long-Term Liabilities	$ 32,031	$ 10,642	$ 0	$ 42,673	$ 0
Business-Type Activities:					
Bonds and Notes Payable:					
Certificates of Obligation-Series 97, Refunding	$ 125,000	$ 0	$ (125,000)	$ 0	$ 0
Total Bonds and Notes Payable	$ 125,000	$ 0	$ (125,000)	$ 0	$ 0
Other Liabilities:					
Compensated Absences	$ 18,468	$ 0	$ (1,809)	$ 16,659	$ 0
Total Other Liabilities	$ 18,468	$ 0	$ (1,809)	$ 16,659	$ 0
Total Business-Type Activities Long-Term Liabilities	$ 143,468	$ 0	$ (126,809)	$ 59,332	$ 0

There were a number of limitations and restrictions contained in the bond indenture. The City was in compliance with all significant limitations and restrictions while the bonds were outstanding.

O. 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.

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.

P. 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, 2011, the adjusted annual lease payment was approximately $10,907, of which the City paid $5,453. The City and the County are both obligated, under the lease through the fiscal year ending September 30, 2032, for total payments of approximately $229,047, calculated at the present adjusted annual rate.

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

P. LEASE COMMITMENTS (Cont.)

Minimum Rental Requirements - Land Lease:

Year Ended September 30	City's Share	County's Share	Total
2012	$ 5,454	$ 5,453	$ 10,907
2013	5,453	5,454	10,907
2014	5,454	5,453	10,907
2015	5,453	5,454	10,907
2016	5,454	5,453	10,907
2017-2021	27,267	27,268	54,535
2021-2026	27,268	27,267	54,535
2027-2031	27,267	27,268	54,535
2032-2036	5,454	5,453	10,907
Total	$ 114,524	$ 114,523	$ 229,047

Q. RESTRICTED NET ASSETS

The City can record reserves to indicate that a portion of its net assets is restricted for a specific future use. At the present time, however, the City has no restricted net assets.

R. FEDERAL AWARDS

The City had $3,437 in expenditures of Federal awards for the year ended September 30, 2011. The Federal expenditures were as follows:

Project Number	Federal Grantor Pass-through Grantor/ Program Title	Federal CFDA Number	Expenditures, Indirect Cost and Refunds
	Texas Department of Rural Affairs:		
710169	TX Community Development Program Grant – FY2011 Regular Fund		$ 3,437
	Total All Programs		$ 3,437

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.

S. STATE AWARDS

The City had $9,578 in expenditures of State awards for the year ended September 30, 2011. The State expenditures were as follows:

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

S. STATE AWARDS (Cont.)

Project Number	State Grantor Program Title	Expenditures, Indirect Cost and Refunds
	Texas Department of Transportation:	
M005DENVR	Grant for Routine Airport Maintenance Program-2011	$ 1,178
	Texas Department of Agriculture:	
726302	Parks and Wildlife	8,400
	Total All Programs	$ 9,578

IV. 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.

V. 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.

VI. 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.

VII. CONCENTRATIONS OF CREDIT RISK

During the year, the City collected approximately 58% 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.

VIII. SUBSEQUENT EVENTS

No subsequent events occurred after September 30, 2011 that were material to these financial statements.

IX. RELATED PARTY TRANSACTIONS

There were no significant related party transactions that occurred during the year.

X. DISCRETE COMPONENT UNIT - DENVER CITY ECONOMIC DEVELOPMENT CORPORATION

A. SIGNIFICANT ACCOUNTING POLICIES

1. Definition and Nature of Entity

The Denver City Economic Development Corporation (EDC) 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 EDC, and EDC's annual operating budgets, as well as projects undertaken by it, are subject to approval by the City Council.

Because of this oversight responsibility, EDC 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 EDC 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 EDC 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 EDC, the Board shall adopt a proposed budget of expected revenues and projected 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 EDC's revenues are received from the exercise of an essential governmental function through the City of Denver City, any net revenues of EDC are exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986, as amended.

6. Financial Statement Preparation

EDC has elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, EDC 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.

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

A. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

7. Contributions

EDC 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 fifteen to 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. Donated assets are recorded at fair market value at the date of donation.

B. 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.

C. CONCENTRATIONS OF RISK

As described in Item A-1 of Note X, EDC'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.

D. SUBSEQUENT EVENTS

No subsequent events occurred after September 30, 2011 that were material to these financial statements.

E. SUMMARY OF FIXED ASSETS

A summary of changes in fixed assets for the year ended September 30, 2011 is as follows:

	Balance 10/01/10	Additions	Retirements	Balance 09/30/11
Land	$ 40,000	$ 0	$ 0	$ 40,000
Land Improvements	0	364,450	0	364,450
Buildings	0	0	0	0
Idled Assets (due to Impairment)	12,000	0	(12,000)	0
Equipment	4,741	0	0	4,741
Less Accumulated Depreciation	(3,830)	(10,351)	0	(14,181)
Total	$ 52,911	$ 354,099	$ (12,000)	$ 395,010

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

E. SUMMARY OF FIXED ASSETS (Cont.)

Last year the City of Denver City donated a building to EDC. It was determined that the building and a building that EDC already owned alongside the donated building were impaired due to asbestos contamination. The two buildings were successfully sold during the current year; however, the City of Denver City retained all proceeds from the sale.

Also during the current year, EDC received a contribution of ground rubber to be used in the construction of soccer fields for an athletic complex for the City. This contribution was valued at $364,450 according to similar contributions around the region. Since this went into improving the land, it has been listed as a land improvement with a depreciable life of 15 years.

While working on the soccer fields, it was determined that a mistake had been made regarding the land on which the fields were being built. It had been listed as being sold previously, but the wrong lot number had been used. After reviewing and correcting for the proper land disposal, a prior period adjustment of $39,000 was made to increase land.

F. RELATED PARTY TRANSACTIONS

Two members of the Board of Directors and one key employee hold an approximate 14% combined interest in a company that received and is repaying a substantial loan from EDC 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.

G. COMMITMENTS AND CONTINGENCIES

During 2004, EDC received a loan from the City of Denver City in the amount of $2,500,000. The purpose of this loan was to allow EDC 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 currently 3.00%. Principal and interest payments commenced in January of 2005 and continue every six months thereafter until the loan is paid off. EDC, after receiving payments from the company immediately pays the City of Denver City. A schedule of future payments to be made follows.

Year Ending September 30	Principal	Interest	Total
2012	$ 109,640	$ 15,530	$ 125,170
2013	237,636	12,705	250,341
2014	244,818	5,522	250,340
2015	0	0	0
Total	$ 592,094	$ 33,757	$ 625,851

In 2008, 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 EDC. They did, however, pay the interest on the loan.

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

G. COMMITMENTS AND CONTINGENCIES (cont.)

EDC 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
2012	$ 140,715	$ 19,932	$ 160,647
2013	304,989	16,306	321,295
2014	314,205	7,087	321,292
2015	0	0	0
Total	$ 759,909	$ 43,325	$ 803,234

H. RISK MANAGEMENT

EDC is exposed to various risks of loss related to torts; errors and omissions; violations of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks are covered by EDC's participation through the City in 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. The City pays on behalf of EDC annual premiums for liability and property coverage. 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 TML Pool also makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the TML Pool. In addition, the City has elected to include EDC for all of its coverage with the TML Pool except for workers' compensation. EDC does not contribute anything to the City for this coverage, but agrees to follow any actions recommended by the City or the TML Pool to reduce risks of loss.

EDC has also bonded its single employee for additional coverage. However EDC does not carry workers' compensation or health insurance for this employee

No significant reductions in insurance coverage occurred in the past fiscal year, and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

DENVER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	$ 1,409,712	$ 1,442,153	$ 1,442,042	$ (111)
General Sales and Use Taxes	480,000	640,000	664,655	24,655
Franchise Tax	156,864	156,864	157,376	512
Hotel and Motel Occupancy Tax	32,000	27,001	27,001	-
Penalty and Interest on Taxes	15,000	15,000	15,195	195
Licenses and Permits	5,000	9,630	9,767	137
Grants	250,000	15,249	13,015	(2,234)
Charges for Services	80,000	118,511	118,987	476
Fines	26,000	29,437	30,287	850
Curb and Gutter Assessment Revenue	6,000	6,000	5,255	(745)
Investment Earnings	29,585	13,460	18,267	4,807
Rents and Royalties	81,035	87,408	86,897	(511)
Other Revenue	73,000	145,924	149,028	3,104
Total Revenues	2,644,196	2,706,637	2,737,772	31,135
EXPENDITURES:				
Current:				
General Government	636,721	684,229	619,885	64,344
Public Safety	1,336,706	1,349,206	1,241,812	107,394
Highways and Streets	518,993	518,993	555,743	(36,750)
Culture and Recreation	83,776	91,376	93,401	(2,025)
Capital Outlay:				
Capital Outlay	68,000	238,000	214,049	23,951
Total Expenditures	2,644,196	2,881,804	2,724,890	156,914
Net Change	-	(175,167)	12,882	188,049
Fund Balance - October 1 (Beginning)	3,259,371	3,259,371	3,259,371	-
Fund Balance - September 30 (Ending)	$ 3,259,371	$ 3,084,204	$ 3,272,253	$ 188,049

OTHER SUPPLEMENTARY INFORMATION

CITY OF DENVER CITY, TEXAS
SCHEDULE OF INSURANCE COVERAGE
FISCAL YEAR ENDED SEPTEMBER 30, 2011

Company	Policy Number	Date Effective	Date Expired
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
Tank Owner's Members Insurance Company	1516	5/22/2010	5/22/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-06	10/1/2010	10/1/2011
TML Intergovernmental Risk Pool	0463-05	10/1/2010	10/1/2011
Kizer Insurance Agency	CBB-2108306	3/28/2011	3/28/2012
Kizer Insurance Agency	69892384	12/31/2008	12/31/2012
Tank Owner's Members Insurance Company	1516	5/22/2011	5/22/2012

Coverage Type	Coverage	Amount of Coverage	Premium Amount
Liability	Airport Premises/Personal/Advertising Injury	$ 1,000,000	$ 1,749
	Products/Completed Operations	$ 1,000,000	
	Hangarkeepers' Liability	$ 1,000,000	
	Non-Owned Aircraft	$ 1,000,000	
	General Liability	$ 2,000,000	$ 3,044
	Law Enforcement Liability	$ 1,000,000	$ 4,071
	Public Officials Liability (E & O)	$ 1,000,000	$ 5,312
	Automobile	$ 1,000,000	$ 6,604
	Auto Medical Payment	$ 25,000	
	Fire Truck	$ 340,000	
	Airport Underground Fuel Tanks	$ 1,000,000	$ 932
Physical Damage	Auto Physical Damage	$ 1,075,676	$ 10,117
Property	Real and Personal Property	$ 4,104,710	$ 10,358
	Boiler and Machinery	$ 4,104,710	
	Mobile Equipment	$ 196,956	$ 757
	Transit	$ 1,000,000	
Workers Compensation	Employees & Volunteers		$ 31,660
Employee Bonds	Employees in Business Office	$ 100,000	$ 698
Employee Bonds	Employees in Business Office		$ 222
	Airport Underground Fuel Tanks	$ 1,000,000	$ 581

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

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

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

Independent 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in 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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Myatt, Blume, and Fidaleo, Ltd., L.L.P.

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June 1, 2012