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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE OF
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June 3, 2013

To the Honorable Mayor and City Council
City of Denver City, Texas

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) for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 30, 2012. Professional standards also require that we communicate to you the following information related to your audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was depreciation expense.

Management's estimate of depreciation expense is based on the estimated useful life of each fixed asset. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 17, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Mayor, the City Council, and management of the City of Denver City, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Myatt, Blume, & Fidaleo, Ltd., L.L.P.
Certified Public Accountants

CITY OF DENVER CITY

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CITY OF DENVER CITY, TEXAS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2012
(Unaudited)

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, 2012. 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 $14,569,120. Of this amount, $7,355,118 was unrestricted net assets.

- The City of Denver City's net assets increased $1,164,096, or 8.75% as a result of this year's operations. Net assets of the City's business-type activities increased $344,633, or 3.95%, and net assets of the City's governmental activities increased $819,463, or 17.85%. Net assets for governmental activities also increased $88,915, or 1.94%, due to a prior period adjustment.

- During the year, the City's governmental funds had expenditures of $2,535,014, which was $836,630 less than the $3,371,644 generated in tax and other revenues for governmental programs. This compares to last year when expenditures were less than revenues by $12,882.

- The General Fund ended the year with a fund balance of $4,197,798 after the prior period adjustment. The Unassigned portion of the General Fund's fund balance is 152.18% of total general fund expenditures.

- Net cash provided by operating activities in the Proprietary Funds was $471,456.

- The City received $304,111 in principal payments on its $2.5 million loan to the Denver City Economic Development Corporation, leaving an amount that accounts for $80,635 of governmental activities total assets and $207,348 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.

**Table I
City of Denver City, Texas
NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Assets:						
Current and Other Assets	$3,484,473	$4,471,370	$3,777,678	$3,466,610	$ 7,262,151	$ 7,937,980
Capital Assets	1,338,643	1,319,386	5,322,496	5,894,616	6,661,139	7,214,002
Total Assets	$4,823,116	$5,790,756	$9,100,174	$9,361,226	$13,923,290	$15,151,982
Liabilities:						
Long-Term Liabilities	42,673	42,620	16,658	12,329	59,331	54,949
Short-Term and Other Liabilities	190,218	249,533	357,632	278,380	547,850	527,913
Total Liabilities	232,891	292,153	374,290	290,709	607,181	582,862
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,338,643	1,319,386	5,322,496	5,894,616	6,661,139	7,214,002
Unrestricted	3,251,582	4,179,217	3,403,388	3,175,901	6,654,970	7,355,118
Total Net Assets	$4,590,225	$5,498,603	$8,725,884	$9,070,517	$13,316,109	$14,569,120

Net assets of the City's governmental activities increased from $4,590,225 to $5,498,603. Net assets of the City's business-type activities increased from $8,725,884 to $9,070,517. 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 – totaled $7,355,118 as of September 30, 2012.

Table II
City of Denver City, Texas
CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program Revenues:						
Charges for Services	$ 273,218	$ 214,645	$2,334,272	$2,480,263	$ 2,607,490	$ 2,694,908
Operating Grants and Contributions	13,015	398,478	-	-	13,015	398,478
Capital Grants and Contributions	-	93,765	-	-	-	93,765
General Revenues:						
Property Taxes	1,436,680	1,524,222	-	-	1,436,680	1,524,222
Sales Taxes	664,655	888,670	-	-	664,655	888,670
Franchise Taxes	157,376	171,512	-	-	157,376	171,512
Hotel and Motel Occupancy Tax	27,001	38,791	-	-	27,001	38,791
Penalty and Interest	15,195	11,499	-	-	15,195	11,499
Miscellaneous Revenue	127,003	20,195	4,689	5,184	131,692	25,379
Investment Earnings	18,267	11,904	39,342	25,095	57,609	36,999
Total Revenue	2,732,410	3,373,681	2,378,303	2,510,542	5,110,713	5,884,223
Expenses:						
General Government	657,822	752,031	-	-	657,822	752,031
Public Safety	1,369,773	1,355,998	-	-	1,369,773	1,355,998
Highways And Streets	571,123	253,232	-	-	571,123	253,232
Culture and Recreation	99,615	192,957	-	-	99,615	192,957
Water & Sewer Services	-	-	1,359,150	999,248	1,359,150	999,248
Sanitation Services	-	-	495,041	529,867	495,041	529,867
Gas Services	-	-	743,922	636,794	743,922	636,794
Total Expenses	2,698,333	2,554,218	2,598,113	2,165,909	5,296,446	4,720,127
Increase in Net Assets	34,077	819,463	(219,810)	344,633	(185,733)	1,164,096
Net Assets at the Beginning of the Year	4,556,148	4,590,225	8,945,694	8,725,884	13,501,842	13,316,109
Prior Period Adjustment	-	88,915	-	-	-	88,915
Net Assets at the End of the Year	$4,590,225	$5,498,603	$8,725,884	$9,070,517	$13,316,109	$14,569,120

The cost of all governmental activities this year was $2,554,218. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only $1,815,231 because some of the costs were paid with charges for services of $214,645, grants and contributions of $492,243, and interest income and other various general revenues of $32,099.

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

1. Property tax revenue increased about 6.1% from the previous year's figures, mainly due to increased mineral valuations.

2. The local economy was very strong and led to sales tax revenues being up 33.7%, franchise tax revenues being up 9.0% and occupancy tax revenues were up 43.7%.

3. The TxDOT Denver City Airport Grant accounted for most of the grant revenue and provided for some much-needed improvements to the airport lights and runways.

4. The number of customers for garbage, water, and sewer service were up, providing for an overall increase of about 6.3% in collection revenues.

5. Investment Earnings were down about 35.8% from the prior year due to the continued low interest rates paid on invested funds and a decrease in reserves due to the water project.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of $4,197,798, which is 28.3% above last year's total of $3,272,253. Included in this year's total change in fund balance is an increase of $836,630 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 2011-2012, actual expenditures on a budgetary basis were $2,535,014, compared to the original budget expenditures of $2,473,069. Actual revenue on a budgetary basis was $3,371,644 compared to the original budget of $2,473,069. Exhibit G-1 provides a detailed comparison of these changes. Some reasons the actual numbers varied from the budget follow:

1. Sales tax, franchise tax, and property tax revenues were all up due to the strength of the local economy.

2. Investment earnings were less than expected due to low interest rates.

3. The cemetery expansion project was initiated sooner than previously anticipated.

Over the course of the year, the City Council revised the City's budget. 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 hotel/motel tax revenue;
- an increase in permit and license fees, subdivision lot sales, City farm and property rental income and curb & gutter assessment revenue;
- an increase in contribution revenue from Yoakum County;
- a decrease in airport hangar rental income and ambulance revenue;
- the purchase of a new vehicle for the police department;
- additional costs associated with the necessary expansion of the cemetery;
- a decrease in interest income;
- 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;
- and additional costs associated with the continued expansion of the water system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the end of fiscal year 2012, the City had $17,120,764 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure.

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

- the purchase of a vehicle and special equipment for the police department;
- the runway and lighting improvements at the airport;
- the expansion project at the cemetery;
- the continued expansion of the City's water well field.

The City's fiscal year 2013 capital budget calls for expenditures of $183,000. This includes the following:

- funds for the continued expansion of the cemetery;
- the grant match portion for construction on the airport rehabilitation project;
- two new pickups with costs to be shared among several departments;
- a new vehicle for the police department;
- and some new equipment and facilities for the parks 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 G to the financial statements.

Debt – 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 H 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 2013 budget and tax rates. Some key items that should be noted are as follows:

1. Taxable values were up by 12.2% from last year's figures. The tax rate was set at 53.77 cents ($0.5377) per one hundred dollars valuation.

2. Projected General Fund revenues and expenses are increased by 8.2% compared to last year's figures. The increase in revenues is primarily due to the expected increase in property tax revenue and sales tax revenue.

3. Additional expenses expected include: a new vehicle for the police department; two new vehicles for public works departments; and additional funds earmarked for park, cemetery, and street improvements.

4. The budget allowed for 32 full-time positions and eight part-time positions. Base pay increases averaging about 6% were budgeted for employees this year and benefits remained at attractive levels.

5. The purchase of about 75 additional dumpsters is a necessary expense to try and keep up with the increased demand for the sanitation department.

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

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

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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Denver City, Texas
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, 2012, 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, 2012, 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 May 17, 2013, 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.
Certified Public Accountants
Levelland, TX 79336

May 17, 2013

BASIC FINANCIAL STATEMENTS

CITY OF DENVER CITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	DC Economic Development Corporation
ASSETS				
Cash and Investments	$ 4,112,356	$ 2,369,200	$ 6,481,556	$ 433,672
Receivables, Net of Uncollectible Allowance	266,232	401,014	667,246	-
Other Receivables	12,147	-	12,147	-
Due from Primary Government	-	-	-	44,870
Inventories	-	65,257	65,257	-
Loan Receivable - EDC	80,635	207,348	287,983	-
Restricted Assets:				
Restricted Cash - Customer Utility Deposits	-	101,575	101,575	-
Capital Assets:				
Land	202,665	419,089	621,754	55,807
Improvements other than Buildings, net	-	-	-	331,409
Capital Assets, net	1,116,721	5,475,527	6,592,248	-
Incentive Loans, Net of Uncollectible Allowance	-	322,216	322,216	460,839
Total Assets	5,790,756	9,361,226	15,151,982	1,326,597
LIABILITIES				
Accounts Payable	203,091	144,912	348,003	1,674
Due to EDC	44,870	-	44,870	-
Loan Payable to Primary Government	-	-	-	287,983
Curb and Gutter Assessment Liability	1,572	-	1,572	-
Deferred Revenues	-	31,893	31,893	-
Customer Utility Deposits	-	101,575	101,575	-
Noncurrent Liabilities				
Accrued Compensated Absences - Long Term	42,620	12,329	54,949	-
Total Liabilities	292,153	290,709	582,862	289,657
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,319,386	5,894,616	7,214,002	387,216
Unrestricted Net Assets	4,179,217	3,175,901	7,355,118	649,724
Total Net Assets	$ 5,498,603	$ 9,070,517	$ 14,569,120	$ 1,036,940

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

CITY OF DENVER CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	$ 752,031	$ 88,967	$ 111,915	$ 93,765
Public Safety	1,355,998	94,506	40,000	-
Highways and Streets	253,232	8,957	246,563	-
Culture and Recreation	192,957	22,215	-	-
Total Governmental Activities:	2,554,218	214,645	398,478	93,765
BUSINESS-TYPE ACTIVITIES:				
Water & Sewer Fund	999,248	1,175,762	-	-
Sanitation Fund	529,867	544,558	-	-
Gas Fund	636,794	759,943	-	-
Total Business-Type Activities:	2,165,909	2,480,263	-	-
TOTAL PRIMARY GOVERNMENT:	$ 4,720,127	$ 2,694,908	$ 398,478	$ 93,765
Component Unit:				
DC Economic Development Corporation	$ 111,854	$ -	$ 15,807	$ -
TOTAL COMPONENT UNITS:	$ 111,854	$ -	$ 15,807	$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Sales Taxes
Franchise Taxes
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
$ (457,384)	$ -	$ (457,384)	$ -
(1,221,492)	-	(1,221,492)	-
2,288	-	2,288	-
(170,742)	-	(170,742)	-
(1,847,330)	-	(1,847,330)	-
-	176,514	176,514	-
-	14,691	14,691	-
-	123,149	123,149	-
-	314,354	314,354	-
(1,847,330)	314,354	(1,532,976)	-
-	-	-	(96,047)
-	-	-	(96,047)
1,524,222	-	1,524,222	-
888,670	-	888,670	222,168
171,512	-	171,512	-
38,791	-	38,791	-
11,499	-	11,499	-
20,195	5,184	25,379	-
11,904	25,095	36,999	23,965
2,666,793	30,279	2,697,072	246,133
819,463	344,633	1,164,096	150,086
4,590,225	8,725,884	13,316,109	886,854
88,915	-	88,915	-
$ 5,498,603	$ 9,070,517	$ 14,569,120	$ 1,036,940

CITY OF DENVER CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund
ASSETS	
Cash and Cash Equivalents	$ 4,112,356
Interest Receivable	1,128
Property Taxes Receivable, Net	28,453
Franchise Tax Receivable	38,395
Receivable from Yoakum County	19,252
Curb and Gutter Assessment	1,572
Sales Tax Receivable	179,478
Other Receivables	12,147
Loan Receivable - EDC	80,635
Total Assets	$ 4,473,416
LIABILITIES	
Accounts Payable	$ 119,582
Wages and Salaries Payable	39,890
Compensated Absences Payable - Short Term	32,712
Land Lease Liability	10,907
Due to EDC	44,870
Curb and Gutter Assessment	1,572
Deferred Property Tax Revenue	26,085
Total Liabilities	275,618
FUND BALANCES	
Committed Fund Balance:	
Capital Expenditures	340,053
Unassigned Fund Balance	3,857,745
Total Fund Balances	4,197,798
Total Liabilities and Fund Balances	$ 4,473,416

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

CITY OF DENVER CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	$	4,197,798
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the end of the fiscal year, the cost of these assets was $3,309,361 and the accumulated depreciation was $(1,989,975). The net effect of including the capital assets (net of depreciation) in the governmental activities is to increase net assets.		1,319,386
The City reports an amount for the liability for the employee's accrued compensated absences. The net effect of including this compensated absence liability is to decrease net assets.		(42,620)
Property taxes are reported on the modified accrual basis for the General Fund, but are reported on the full accrual basis for the Statement of Net Assets. Reclassification of Deferred Tax Revenues of $26,085 from the General Fund and establishing an allowance for uncollectible taxes of $(2,046) for the Statement of Net Assets effectively increases net assets.		24,039
Net Assets of Governmental Activities	$	5,498,603

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

CITY OF DENVER CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund
REVENUES:	
Taxes:	
Property Taxes	$ 1,522,185
General Sales and Use Taxes	888,670
Franchise Tax	171,512
Motel/Hotel Tax Revenue	38,791
Penalty and Interest on Taxes	11,499
Licenses and Permits	6,667
Intergovernmental Revenue and Grants	340,328
Charges for Services	104,270
Fines	30,236
Special Assessments	8,957
Investment Earnings	11,904
Rents and Royalties	76,952
Other Revenue	159,673
Total Revenues	3,371,644
EXPENDITURES:	
Current:	
General Government	719,933
Public Safety	1,285,869
Highways and Streets	252,692
Culture and Recreation	83,050
Capital Outlay:	
Capital Outlay	193,470
Total Expenditures	2,535,014
Net Change in Fund Balances	836,630
Fund Balance - October 1 (Beginning)	3,272,253
Prior Period Adjustment	88,915
Fund Balance - September 30 (Ending)	$ 4,197,798

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

CITY OF 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, 2012

Total Net Change in Fund Balances - Governmental Funds	$	836,630
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 reclassing the 2012 capital outlays increases net assets.		193,470
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.		(212,727)
Property taxes are reported on the full accrual basis for government-wide financial statement, but on the modified accrual basis for governmental funds. The net effect of recognizing the following adjustments from the modified accrual to the full accrual basis was to increase net assets .		2,037

Current Year Receivables Reclassed to Revenue	$ 16,753
Prior Year Taxes Collected This Year	(17,380)
Prior Year Taxes Change in Estimated Allowance	2,664
Net Change in Property Taxes	$ 2,037

The long term portion of compensated absences are reported only on the government-wide financial statements because the amount is not being funded by current year revenues and is not considered a current year expense. The net change of the long term portion of compensated absences increases net assets.		53
Change in Net Assets of Governmental Activities	$	819,463

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

EXHIBIT D-1

CITY OF DENVER CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Business-Type Activities - Enterprise Funds							
		Water & Sewer Fund		Sanitation Fund		Gas Fund		Total Enterprise Funds
ASSETS								
Current Assets:								
Cash and Cash Equivalents	$	(554,064)	$	435,737	$	2,487,527	$	2,369,200
Restricted Assets - Current:								
Restricted Cash and Investments		50,675		9,150		41,750		101,575
Interest Receivable - Investments		277		202		1,036		1,515
Accounts Receivable-Net of Uncollectible Allowance		200,660		102,605		96,234		399,499
Inventories		51,140		-		14,117		65,257
Loan Receivable - EDC		83,515		18,719		105,114		207,348
Total Current Assets		(167,797)		566,413		2,745,778		3,144,394
Noncurrent Assets:								
Capital Assets:								
Land Purchase and Improvements		411,151		1,938		6,000		419,089
Capital Assets		11,716,145		856,523		819,646		13,392,314
Accumulated Depreciation - Capital Assets		(6,615,614)		(579,002)		(722,171)		(7,916,787)
Incentive Loans, Net of Uncollectible Allowance		-		-		322,216		322,216
Total Noncurrent Assets		5,511,682		279,459		425,691		6,216,832
Total Assets		5,343,885		845,872		3,171,469		9,361,226
LIABILITIES								
Current Liabilities:								
Accounts Payable		78,461		21,721		4,257		104,439
Wages and Salaries Payable		7,317		5,362		8,037		20,716
Accrued Compensated Absences - Short Term		7,272		9,718		2,767		19,757
Deferred Revenue		31,893		-		-		31,893
Payable from Restricted Assets - Current:								
Customer Utility Deposits		50,675		9,150		41,750		101,575
Total Current Liabilities		175,618		45,951		56,811		278,380
NonCurrent Liabilities:								
Accrued Compensated Absences - Long Term Portion		4,590		5,825		1,914		12,329
Total Noncurrent Liabilities		4,590		5,825		1,914		12,329
Total Liabilities		180,208		51,776		58,725		290,709
NET ASSETS								
Investments in Capital Assets, Net of Debt		5,511,682		279,459		103,475		5,894,616
Unrestricted Net Assets		(348,005)		514,637		3,009,269		3,175,901
Total Net Assets	$	5,163,677	$	794,096	$	3,112,744	$	9,070,517

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

CITY OF DENVER CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Water Services	$ 901,846	$ -	$ -	$ 901,846
Charges for Gas Services	-	-	759,943	759,943
Charges for Sewerage Service	273,916	-	-	273,916
Sanitation Charges for Services	-	544,558	-	544,558
Other Revenue	-	5,184	-	5,184
Total Operating Revenues	1,175,762	549,742	759,943	2,485,447
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	211,508	159,453	81,752	452,713
Personnel Services - Employee Benefits	99,050	66,746	39,063	204,859
Purchased Professional & Technical Services	48,097	70,925	9,773	128,795
Purchased Property Services	191,785	54,520	23,744	270,049
Other Operating Expenses	49,165	23,911	30,684	103,760
Supplies	65,667	119,733	437,639	623,039
Depreciation	333,976	34,579	14,139	382,694
Total Operating Expenses	999,248	529,867	636,794	2,165,909
Operating Income	176,514	19,875	123,149	319,538
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	3,897	2,055	19,143	25,095
Total Non-operating Revenue (Expenses)	3,897	2,055	19,143	25,095
Change in Net Assets	180,411	21,930	142,292	344,633
Total Net Assets - October 1 (Beginning)	4,983,266	772,166	2,970,452	8,725,884
Total Net Assets - September 30 (Ending)	$ 5,163,677	$ 794,096	$ 3,112,744	$ 9,070,517

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

CITY OF DENVER CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT D-3

	Business-Type Activities			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from User Charges	$ 1,147,239	$ 532,054	$ 693,995	$ 2,373,288
Cash Payments to Employees for Services	(218,205)	(148,408)	(82,226)	(448,839)
Cash Payments for Supplies	(522,614)	(313,100)	(513,489)	(1,349,203)
Cash Payments for Other Operating Expenses	(49,165)	(23,911)	(30,684)	(103,760)
Net Cash Provided by Operating Activities	357,255	46,635	67,596	471,486
Cash Flows from Capital & Related Financing Activities:				
Acquisition of Capital Assets	(647,351)	(307,464)	-	(954,815)
Cash Flows from Investing Activities:				
Payments on EDC Note Receivable	88,192	19,767	111,000	218,959
Interest and Dividends on Investments	4,983	2,339	20,079	27,401
Net Issuance of Incentive Loans	-	-	(75,239)	(75,239)
Net Cash Provided by Investing Activities	93,175	22,106	55,840	171,121
Net Increase(Decrease) in Cash and Cash Equivalents	(196,921)	(238,723)	123,436	(312,208)
Cash and Cash Equivalents at Beginning of the Year:	(306,468)	683,610	2,405,841	2,782,983
Cash and Cash Equivalents at the End of the Year:	$ (503,389)	$ 444,887	$ 2,529,277	$ 2,470,775
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:				
Operating Income:	$ 176,514	$ 19,875	$ 123,149	$ 319,538
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	333,976	34,579	14,139	382,694
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	(53,469)	(19,213)	(70,098)	(142,780)
Decrease (increase) in Inventories	(797)	-	(3,588)	(4,385)
Increase (decrease) in Accounts Payable	(117,218)	(1,176)	318	(118,076)
Increase (decrease) in Accrued Payroll	2,469	3,433	1,292	7,194
Increase (decrease) in Deferred Revenue	22,146	-	-	22,146
Increase (decrease) in Customer Utility Deposits	2,800	1,525	4,150	8,475
Increase (decrease) in Acc. Comp. Absences	(9,166)	7,612	(1,766)	(3,320)
Net Cash Provided by Operating Activities	$ 357,255	$ 46,635	$ 67,596	$ 471,486
Reconciliation of Total Cash and Cash Equivalents:				
Cash & Cash Equivalents - Statement of Net Assets	$ (554,064)	$ 435,737	$ 2,487,527	$ 2,369,200
Restricted Cash - Statement of Net Assets	50,675	9,150	41,750	101,575
Total Cash and Cash Equivalents	$ (503,389)	$ 444,887	$ 2,529,277	$ 2,470,775

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, 2012

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 accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

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, 2012.
  - 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, 2012, 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 IV 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 which reports 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 considered 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.

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.

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. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

   - Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as the principal balance of an endowment.

   - Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

   - Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council. This formal action is the passage of an ordinance specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.

   - Assigned fund balance includes amounts that are constrained by a responsible official's request for a specific purpose, but are neither restricted nor committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

   - Unassigned fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

3. 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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. 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.

3. 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.

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

5. 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.

6. 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.

7. The City 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 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. OTHER ACCOUNTING POLICIES (Cont.)

8. 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

9. 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.

10. 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 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. OTHER ACCOUNTING POLICIES (Cont.)

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, 2012, 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.

11. 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.

12. 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.

13. FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events though May 17, 2013, the date the financial statements were available to be issued.

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.

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 19, 2011, in accordance with the above process. The final fiscal 2012 budget revision was adopted by the City Council on September 17, 2012.

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 2012 General Fund budget was prepared on the modified accrual basis using estimated beginning and ending fund balances. The fiscal 2012 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.

Restricted Cash - The City collects deposits from utility customers. These deposits total $101,575 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.)

A. DEPOSITS AND INVESTMENTS (Cont.)

City Policies and Legal and Contractual Provisions Governing Deposits and Investments:

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

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

At September 30, 2012, 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 $2,272,978. The City's cash deposits during the year ended September 30, 2012 were properly secured at all times by FDIC insurance, by pledged collateral held by the City's agent bank in the City's name or by a letter of credit from the City's agent bank.

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, 2012, 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.

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

A. DEPOSITS AND INVESTMENTS (Cont.)

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

The City's investment policies further limit State statutes such that eligible investments include the following:

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

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

As of September 30, 2012, 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	$ 845,998	$ 845,998	$ -	$ -	$ -
TexPool	4,310,153	4,310,153	-	-	-
Total	$ 5,156,151	$ 5,156,151	$ -	$ -	$ -

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

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).

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 participants, 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, 2012 the City of Denver City, Texas had investments in TexPool with a market value totaling $4,310,153.

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 TAX RECEIVABLE

In accordance with state law, appraisals of City property for tax purposes are made by the 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.

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

C. PROPERTY TAX RECEIVABLE (Cont.)

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 to the Yoakum County Tax Assessor/Collector upon 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 may be attached to property by state law to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City's fiscal year.

The tax rate for fiscal 2012 (2011 tax levy) was $0.560 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 net taxable value upon which the 2011 tax levy was based was $273,334,271 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2012 were approximately 98.9% 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.

Concentration of 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.

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, 2012 represent all unpaid billings issued prior to September 30, 2012 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. 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. Balance due from Component Unit as of September 30, 2012 is $287,983. Additional details are disclosed in the Component Unit Notes below.

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

F. 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, 2012 the City had no interfund balances and no transfers occurred during the year.

G. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2012, was as follows:

Primary Government

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Governmental Activities:				
Land	$ 202,665	$ -	$ -	$ 202,665
Capital Assets	2,948,000	193,470	(34,774)	3,106,696
Totals at Historic Cost	3,150,665	193,470	(34,774)	3,309,361
Less Accumulated Depreciation	(1,812,022)	(212,727)	34,774	(1,989,975)
Governmental Activities Capital Assets, Net	$ 1,338,643	$ (19,257)	$ -	$ 1,319,386
Business-Type Activities:				
Land	$ 415,904	$ 3,185	$ -	$ 419,089
Construction in Progress	1,633,449	-	(1,633,449)	-
Capital Assets	10,807,235	2,585,079	-	13,392,314
Totals at Historic Cost	12,856,588	2,588,264	(1,633,449)	13,811,403
Less Accumulated Depreciation	(7,534,093)	(382,694)	-	(7,916,787)
Business-Type Activities Capital Assets, Net	$ 5,322,495	$ 2,205,570	$(1,633,449)	$ 5,894,616

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

Allocation of Depreciation Expense Charged to Governmental Functions	
General Government	$ 33,762
Public Safety	69,058
Culture and Recreation	109,907
Total	$ 212,727

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

H. LONG-TERM COMPENSATED ABSENCES

The only long-term debt carried by the City relates to the accrual of compensated absences payable in more than one year. Compensated absences due within one year are reported within the respective governmental and enterprise funds. Funds from the respective governmental or business-type activities are used to liquidate the long-term compensated absences when necessary.

Long-term activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Other Liabilities:				
Compensated Absences	$ 42,673	$ 10,642	$ (10,695)	$ 42,620
Business-Type Activities:				
Other Liabilities:				
Compensated Absences	$ 16,659	$ 5,871	$ (10,201)	$ 12,329

I. HEALTH CARE COVERAGE

The City of Denver City, Texas participates in a health insurance program with a third party provider. 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 fiscal year ending September 30, 2012 the City paid $183,830 for health insurance coverage on the City's employees.

J. DEFINED BENEFIT PLANS

1. Texas Municipal Retirement System (TMRS)

<u>Plan Description</u>: 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 851 currently administered by TMRS, an agent multiple-employer public employee retirement system. 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 participating municipalities has an annual, individual actuarial valuation performed.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information (RSI) for TMRS. The report 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. The report is also available on TMRS' website at www.tmrs.com.

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

J. DEFINED BENEFIT PLANS (Cont.)

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.

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).

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

J. DEFINED BENEFIT PLANS (Cont.)

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 2011 and 2012 plan years were as follows:

Employee Deposit Rate:	5%
Matching Ratio (City to Employee):	2 to 1
Employer Contribution Rate (2011/2012):	16.64%/13.81%
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

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

Annual Required Contribution (ARC)	$ 239,516
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost	239,516
Contributions Made	(239,516)
Increase (Decrease) in Net Pension Obligation	-
Net Pension Obligation/(Asset), (NPO) at the Beginning of the Period	-
NPO at the End of the Period	$ -

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2010	$200,976	$200,976	100%	$ -
2011	$209,336	$209,336	100%	$ -
2012	$239,516	$239,516	100%	$ -

The schedule of funding progress presents the funded status as of December 31, 2011, 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
12/31/09	$ 4,233,780	$ 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%
12/31/11	$ 6,369,419	$ 6,856,779	$ 487,360	92.9%	$ 1,230,887	39.6%

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

J. DEFINED BENEFIT PLANS (Cont.)

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows.

Actuarial Assumptions

	12-31-09	12-31-10	12-31-11
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 –	28 Years – Closed Period	26.9 Years – Closed Period	25.8 Years – Closed Period
Amortization Period for New Gains/Losses –	30 Years	30 Years	30 Years
Asset Valuation Method –	10-Yr Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Investment Rate of Return* –	7.5%	7.0%	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%

2. Texas Emergency Services Retirement System (TESRS)

<u>Plan Description</u>: 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. TESRS provides bi-annual actuarial report disclosures to the member department participants. The latest actuarial report is for the period ending August 31, 2010 and is dated June 9, 2011.

At August 31, 2010, there were 199 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, 2010, 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

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

J. DEFINED BENEFIT PLANS (Cont.)

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: The Plan's contribution provisions were originally established by S.B. 411, 65th Legislature, Regular Session (1977), and were amended in 2006 by Board rule. 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.

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, 2010 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, 2010 actuarial valuation. The City contributed $24,500 for their fiscal year ended September 30, 2012.

Schedule of Employer Contributions

Fiscal Year Ending August 31,	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
2012	$ 2,875,103[2]	$ 2,875,103	100%
2011	$ 2,875,103[2]	$ 2,875,103	100%
2010	$ 2,875,103[1]	$ 2,875,103	100%

Notes:
[1] Based on the August 31, 2008 actuarial valuation.
[2] Estimated ARC pending release of bi-annual actuarial disclosure report

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

J. DEFINED BENEFIT PLANS (Cont.)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability[1] (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
08/31/2010[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.

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

K. OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* 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.

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

K. OTHER POSTEMPLOYMENT BENEFITS (Cont.)

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.

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 0.20% for calendar years 2011 and 2012, respectively, of which 0.07% and 0.06% represented the retiree-only portion for 2011 and 2012, 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 2012, 2011, 2010, and 2009 were approximately $2,665, $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 approximately $843, $827, $760, and $734 for the fiscal years ended 2012, 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.

L. DEFERRED COMPENSATION PLAN

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

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

M. 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, 2012, the adjusted annual lease payment was approximately $10,907, of which the City is holding payment pending the resolution of a lease ownership discrepancy due to lessor corporate reorganization and mergers. The City and the County are both obligated, under the lease through the fiscal year ending September 30, 2032, for total payments of approximately $218,140, calculated at the present adjusted annual rate.

The minimum rental requirements for the airport lease is disclosed below.

Year Ended September 30	City's Share	County's Share	Total
2013	$ 5,454	$ 5,453	$ 10,907
2014	5,453	5,454	10,907
2015	5,454	5,453	10,907
2016	5,453	5,454	10,907
2017	5,454	5,453	10,907
2018-2022	27,267	27,268	54,535
2023-2027	27,268	27,267	54,535
2028-2032	27,267	27,268	54,535
Total	$ 109,070	$ 109,070	$ 218,140

N. FEDERAL AND STATE GRANTS

The City had $269,593 in Federal award expenditures and $65,920 in state award expenditures for the year ended September 30, 2012. Because 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.

The following schedule discloses the grants awarded to the City:

Project Title	Contract Number	Current Year Expenditures
Federal Awards		
CDBG Grant Passthrough Tx Dept Rural Affairs	710169	$ 246,563
SECO Stimulus Grant – ARRA	4103MM – CFDA 81.128	23,030
Total Federal Awards		$ 269,593
State Awards		
TxDOT – Airport Project Participation Agreement	1205DENVER	$ 64,910
TxDOT – Airport Routine Maintenance Program	M005DENVR	1,010
Total State Awards		$ 65,920

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

O. PRIOR PERIOD ADJUSTMENTS

Franchise and sales taxes collected within 60 days are to be considered receivables in the governmental funds. Receivables in the prior year audit reflected only 30 days collections as receivables. The prior period adjustment of $88,915 consisted of $34,193 in franchise tax and $54,722 in sales tax increases over prior year receivable balances represent the additional 30 days of collections for each respective tax category. The result of the adjustment increases the General Fund's fund balance as well as the government-wide net assets as of September 30, 2011.

IV. DISCRETE COMPONENT UNIT - DENVER CITY ECONOMIC DEVELOPMENT CORPORATION

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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 3/8 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 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.

The significant accounting policies followed are described below.

Basis of Accounting - The accounting records and the financial statements of EDC are prepared on the accrual basis.

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.

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 it has been approved by the City Council.

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.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial Statement Preparation - The EDC has elected to adopt FASB ASC 958, Financial Statements of Not-for-Profit Organizations.", formerly known as Statement of Financial Accounting Standards (SFAS) No. 117. Under this standard, the 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.

Presentation – Certain prior year amounts may have been reclassified in order to present comparatively with the current period classifications.

Cash and Cash Equivalents - The EDC maintains only cash and short-term certificates of deposit. Thus, for financial reporting purposes all such money is classified as cash.

Restricted Cash - When the EDC 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.

Allowance for Doubtful Receivables – The EDC provides allowances for doubtful receivables equal to the estimated collection losses potentially incurred in the collection of the Notes Receivable. Management has taken the position that the full amount of the Notes Receivable is collectible, and subsequently has not established an allowance as of September 30, 2012 and 2011. Management continually reviews the collectability of the Notes Receivable and may establish an allowance at a later time.

Advertising – The EDC advertises through various means, and the cost is expensed when incurred.

Related Parties – The City of Denver City provides office space, utilities, and other operational support to the EDC. These services and expenditures paid by the City of Denver City are donated to the Corporation, but have not been recorded in the Corporation's financial statements because the value of the donated services cannot be substantially determined.

Contributions - EDC also elected to adopt FASB No. 116, *Accounting for Contributions Received and Contributions Made.* In accordance with FASB 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.

Capital Assets - The cost of office equipment is recorded at historical 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.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Functional Allocation of Expenses - The costs of providing the Organization's services and activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated between the program services and the supporting services benefited.

Subsequent Events - FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events though January 31, 2013, the date the financial statements were available to be issued.

Risk Management - The Corporation 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 the Corporation's 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. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas.

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.

The City of Denver City pays annual TML premiums for liability and property damage. The City has elected not to provide worker's compensation or health insurance for the EDC director. EDC has bonded the director for additional coverage.

NOTE 2: SALES TAX RECEIVABLE

The majority of the Corporation's funding is dependent upon a 3/8 percent tax assessed on retail sales within the city limits of the City of Denver City. The Comptroller of the State of Texas remits the monthly sales tax receipts to the City of Denver City which in turn sends the appropriate amount to the Corporation.

Sales tax receivable due from the City of Denver City totaled approximately $44,870 and $35,137 for the fiscal years ended September 30, 2012 and 2011, respectively. The Corporation received $222,168 and $175,295 in sales tax revenue for the fiscal years ended September 30, 2012 and 2011, respectively.

Concentration of Risk - This revenue source is subject to the normal economic fluctuations experienced by the City of Denver City and the surrounding region and therefore could negatively impact the amount of revenue designated for the Corporation. If the citizens of the City of Denver City vote to rescind the assessment on retail, the operation of the Corporation would be severely impacted.

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

NOTE 3: NOTES PAYABLE AND RECEIVABLE

During 2004, the 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 the EDC to loan the same amount to a company as part of an incentive package to build a rubber plant within the city limits. The term of the loan is 10 years at 3% annual interest. Principal and interest payments commenced in January of 2005 and are semiannual until maturity. The EDC uses the payments from the note receivable to fund the note payable to the City of Denver City. Balance due the City of Denver City was $287,983 and $592,094 as of September 30, 2012 and 2011, respectively. The schedule of future payments to be made to the City of Denver City is as follows.

Year Ending September 30	Principal	Interest	Total
2013	$ 92,415	$ 7,574	$ 99,989
2014	195,568	4,411	199,979
TOTAL	$ 287,983	$ 11,985	$ 299,968

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 principal payments to EDC but did maintain interest payments. EDC continued to service the note payable to the City.

EDC restructured its loan with the plant in order to allow pay back of the missing payment over time while not missing additional 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. The balance due to EDC was $460,829 and $759,909 as of September 30, 2012 and 2011, respectively. The schedule of future payments to be received from the plant is as follows.

Year Ending September 30	Principal	Interest	Total
2013	$ 147,886	$ 12,120	$ 160,006
2014	312,953	7,054	320,007
TOTAL	$ 460,839	$ 19,174	$ 480,013

Concentration of Risk – The Corporation invested in the plant to promote economic development within the City of Denver City, to stimulate business and commercial activity within the City, and to increase sales tax revenue within the municipality boundaries. The possibility exists of the plant defaulting on the agreement before fulfilling the terms of the agreement. Although the Corporation maintains collateral on the loan issued, the likelihood of collection on the outstanding note receivable balance if the plant owners should default would be significantly impacted, and may result in a reduction of subsequent investments.

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

NOTE 4: CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2012 and 2011 is as follows:

	Balance 2011	Additions	Deletions	Balance 2012
Land	$ 40,000	$ 15,807	$ -	$ 55,807
Land Improvements	364,450	-	-	364,450
Furniture and Equipment	4,741	1,013	-	5,754
	409,191	16,820	-	426,011
Less Accumulated Depreciation	(14,181)	(24,614)	-	(38,795)
Capital Assets, Net	$ 395,010	$ (7,794)	$ -	$ 387,216

	Balance 2010	Additions	Deletions	Balance 2011
Land	$ 40,000	$ -	$ -	$ 40,000
Land Improvements	-	364,450	-	364,450
Impaired Assets	12,000	-	(12,000)	-
Furniture and Equipment	4,741	-	-	4,741
	56,741	364,450	(12,000)	409,191
Less Accumulated Depreciation	(3,830)	(10,351)	-	(14,181)
Capital Assets, Net	$ 52,911	$ 354,099	$ (12,000)	$ 395,010

During the 2012 fiscal year, the City of Denver City donated vacant property to EDC which had a carrying value of approximately $15,807 on the City's asset schedule. The EDC expects to transfer the property to a local organization within the next fiscal year.

During the 2011 fiscal year, EDC received a contribution of ground rubber to be used in the construction of soccer fields for an athletic complex for the City. The inkind contribution was valued at $364,450. The rubber was used to improve the City soccer fields.

NOTE 5: RELATED PARTY TRANSACTIONS

A member of the EDC Board of Directors holds a minority interest in the company that received and is repaying the note receivable described above in Note 3. The board member has abstained from voting on any actions taken with this company. The company also has benefitted from incentives for its relocation to the City of Denver City. The City Council of Denver City has approved these incentives with full knowledge of the related party relationship in effect.

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

NOTE 5: RELATED PARTY TRANSACTIONS (Cont.)

A member of the EDC Board of Directors owns a retail hardware store in Denver City from which the EDC occasionally purchases supplies at retail prices. No material transactions occurred during the 2012 or 2011 fiscal years.

NOTE 6: PRIOR PERIOD ADJUSTMENTS

September sales tax revenues are remitted by city vendors to the Texas Comptroller in October who then remits to the City and subsequently EDC in November. Previous financial statements reported only thirty (30) days of receivables outstanding instead of the sixty (60) days of collections as indicated by the Texas Comptroller. A prior period adjustment to Sales Tax Receivable of $10,107 is made for the year ended September 30, 2011 to reflect the adjustment in receivables.

A review of the capital assets noted that an error had been made regarding the land on which the soccer fields were constructed. The property 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 in the fiscal year ended September 30, 2011 to properly report the basis EDC maintains in its land.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

CITY OF DENVER CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	$ 1,493,271	$ 1,515,168	$ 1,522,185	$ 7,017
General Sales and Use Taxes	500,000	849,742	888,670	38,928
Franchise Tax	156,895	156,895	171,512	14,617
Motel/Hotel Tax Revenue	32,000	36,671	38,791	2,120
Penalty and Interest on Taxes	15,000	15,000	11,499	(3,501)
Licenses and Permits	5,000	6,410	6,667	257
Intergovernmental Revenue and Grants	-	29,634	340,328	310,694
Charges for Services	80,000	62,144	104,270	42,126
Fines	26,000	25,344	30,236	4,892
Special Assessments	5,000	8,857	8,957	100
Investment Earnings	10,868	8,086	11,904	3,818
Rents and Royalties	76,035	81,991	76,952	(5,039)
Other Revenue	73,000	99,703	159,673	59,970
Total Revenues	2,473,069	2,895,645	3,371,644	475,999
EXPENDITURES:				
Current:				
General Government	758,231	925,338	719,933	205,405
Public Safety	1,384,492	1,419,492	1,285,869	133,623
Highways and Streets	262,736	262,736	252,692	10,044
Culture and Recreation	67,610	67,610	83,050	(15,440)
Capital Outlay:				
Capital Outlay	-	-	193,470	(193,470)
Total Expenditures	2,473,069	2,675,176	2,535,014	140,162
Net Change	-	220,469	836,630	616,161
Fund Balance - October 1 (Beginning)	3,361,168	3,361,168	3,272,253	(88,915)
Prior Period Adjustment	-	-	88,915	88,915
Fund Balance - September 30 (Ending)	$ 3,361,168	$ 3,581,637	$ 4,197,798	$ 616,161

OTHER SUPPLEMENTARY INFORMATION

CITY OF DENVER CITY, TEXAS
SCHEDULE OF INSURANCE COVERAGE
FISCAL YEAR ENDED SEPTEMBER 30, 2012

Company	Policy Number	Date Effective	Date Expired
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-06	10/1/2011	10/1/2012
TML Intergovernmental Risk Pool	0463-05	10/1/2011	10/1/2012
Kizer Insurance Agency	CBB-2108306	3/28/2012	3/28/2013
Kizer Insurance Agency	69892384	12/31/2011	12/31/2013
Tank Owner's Members Insurance Company	1516	5/22/2012	5/22/2013

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	
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	$ 932

COMPLIANCE AND INTERNAL CONTROL SECTION

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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Honorable Mayor and City Council
City of Denver City, Texas
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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 17, 2013. 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 or 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.
Certified Public Accountants
Levelland, TX 79336

May 17, 2013