CITY OF DENVER CITY

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

CITY OF DENVER CITY, TEXAS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

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CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2013
(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, 2013. 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 $15,334,430. Of this amount, $7,386,176 was categorized as unrestricted.

- The City of Denver City's net position increased $765,309, or 5.25% as a result of this year's operations. Net position of the City's business-type activities decreased $108,475, or 1.2 %, and net position of the City's governmental activities increased $873,784, or 15.89%.

- During the year, the City's governmental funds had expenditures of $3,283,157, which was $314,502 less than the $3,597,659 generated in tax and other revenues for governmental programs. This compares to last year when revenues exceeded expenditures by $836,630.

- The General Fund ended the year with a fund balance of $4,512,300. The Unassigned portion of the General Fund's fund balance is 137.44% of total general fund expenditures.

- Net cash provided by operating activities in the Proprietary Funds was $337,957.

- The City received $152,432 in principal payments on its $2.5 million loan to the Denver City Economic Development Corporation, leaving an amount that accounts for $37,954 of governmental activities total assets and $97,597 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 Position 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 Position 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 position 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 position and changes in it. The City's net position (the difference between assets plus deferred outflows less liabilities and deferred inflows) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position 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 Position 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. 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 Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Table I
City of Denver City, Texas
NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and Other Assets	$ 4,828,239	$ 4,471,370	$ 3,131,298	$3,466,610	$ 7,959,537	$ 7,937,980
Capital Assets	1,881,073	1,319,386	6,067,181	5,894,616	7,948,254	7,214,002
Total Assets	$ 6,709,312	$ 5,790,756	$ 9,198,479	$9,361,226	$ 15,907,791	$ 15,151,982
Liabilities:						
Long-Term Liabilities	44,812	42,620	14,296	12,329	59,108	54,949
Short-Term and Other Liabilities	292,113	249,533	222,140	278,379	514,253	527,912
Total Liabilities	336,925	292,153	236,436	290,708	573,361	582,861
Net Position:						
Invested in Capital Assets, Net of Related Debt	1,881,073	1,319,386	6,067,181	5,894,616	7,948,254	7,214,002
Unrestricted	4,491,314	4,179,217	2,894,862	3,175,902	7,386,176	7,355,119
Total Net Position	$ 6,372,387	$ 5,498,603	$ 8,962,043	$ 9,070,518	$ 15,334,430	$ 14,569,121

Net position of the City's governmental activities increased to $6,372,387 from $5,498,603. Net position of the City's business-type activities decreased to $8,962,043 from $9,070,518.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – totaled $7,386,176 as of September 30, 2013.

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	$ 90,603	$ 214,645	$ 2,318,302	$2,480,263	$ 2,408,905	$ 2,694,908
Operating Grants and Contributions	47,431	398,478	-	-	47,431	398,478
Capital Grants and Contributions	428,380	93,765	-	-	428,380	93,765
General Revenues:						
Property Taxes	1,639,139	1,524,222	-	-	1,639,139	1,524,222
Sales Taxes	1,000,510	888,670	-	-	1,000,510	888,670
Franchise Taxes	188,798	171,512	-	-	188,798	171,512
Hotel and Motel Occupancy Tax	42,019	38,791	-	-	42,019	38,791
Penalty and Interest	9,967	11,499	-	-	9,967	11,499
Miscellaneous Revenue	139,025	20,195	5,664	5,184	144,689	25,379
Investment Earnings	11,574	11,904	20,231	25,095	31,805	36,999
Total Revenue	3,597,446	3,373,681	2,344,197	2,510,542	5,941,643	5,884,223
Expenses:						
General Government	917,176	752,031	-	-	917,176	752,031
Public Safety	1,450,569	1,355,998	-	-	1,450,569	1,355,998
Highways And Streets	268,139	253,232	-	-	268,139	253,232
Culture and Recreation	87,778	192,957	-	-	87,778	192,957
Water & Sewer Services	-	-	1,211,676	999,248	1,211,676	999,248
Sanitation Services	-	-	555,625	529,867	555,625	529,867
Gas Services	-	-	685,371	636,794	685,371	636,794
Total Expenses	2,723,662	2,554,218	2,452,672	2,165,909	5,176,334	4,720,127
Increase in Net Position	873,784	819,463	(108,475)	344,633	765,309	1,164,096
Prior Period Adjustment	-	88,915	-	-	-	88,915
Net Position - Beginning of Year	5,498,603	4,590,225	9,070,518	8,725,885	14,569,121	13,316,110
Net Position - End of Year	$ 6,372,387	$ 5,498,603	$ 8,962,043	$9,070,518	$ 15,334,430	$ 14,569,121

The cost of all governmental activities this year was $2,723,662. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only $2,006,649 because some of the costs were paid with charges for services of $90,603, grants and contributions of $475,811, and interest income and other various general revenues of $150,599.

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

1. Property tax revenue increased about 7.5% from the previous year's figures.

2. The local economy was very strong and led to sales tax revenues being up 12.69%, franchise tax revenues being up 10.1% and occupancy tax revenues were up 8.3%.

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. Although the number of customers for garbage, water, and sewer service were up, a mild winter and water conservation during the drought impacted business-type revenue for an overall decrease of about 6.6% in collection revenues.

5. Investment earnings were down about 19.4% 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 fund balance of $4,512,300, which is 7.49% above last year's total of $4,197,798. Included in this year's total change in fund balance is an increase of $314,502 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 the 2012-2013 fiscal year, actual expenditures on a budgetary basis were $3,283,157, compared to the original budget expenditures of $2,675,643. Actual revenue on a budgetary basis was $3,597,659 compared to the original budget of $2,675,643. 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. The cemetery expansion project was initiated sooner and on a larger scale than previously anticipated.

3. The airport project was completed during the fiscal year with grant funding.

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;
- additional costs associated with the necessary expansion of the cemetery;
- special equipment purchases for the police, fire and EMS departments;
- 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 the completion of the airport capital improvement project grant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the end of fiscal year 2013, the City had $18,442,984 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 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 2014 capital budget calls for expenditures of $420,000. This includes the following:

- funds for the continued expansion of the cemetery;
- a new vehicle for the police department;
- a curb and gutter project;
- some new equipment and facilities for the parks department;
- and new automated meters for the water and gas departments.

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 H 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 I 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 2014 budget and tax rates. Some key items that should be noted are as follows:

1. Taxable values decreased by 3.7% from last year's figures. The tax rate was set at 56.14 cents ($0.5614) per one hundred dollars valuation, an increase of 4.4% from last year.

2. Projected General Fund revenues and expenses are increased by 8.3% compared to last year's figures. The increase in revenues is primarily due to an increase in budgeted sales tax revenue.

3. The budget allowed for 31 full-time positions and eight part-time positions. Base pay increases averaging about 4% were budgeted for employees this year and benefits remained at attractive levels.

4. The number of customers for water, sewer and garbage service has continued to slightly increase so revenues have been raised accordingly. Rates for all services have been left at current levels.

5. The purchase of about 100 additional dumpsters is a necessary expense to try and keep up with the increased demand for the sanitation department. The additional dumpster numbers also relate to the increased costs to maintain the garbage collection vehicles and equipment.

6. Funds have been set aside in the Water and Gas Funds to allow for the transition towards an automated meter reading operation.

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. 3rd 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, 104 W. 3rd St., Denver City, Texas, 79323.

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Denver City, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement. The financial statements of the Denver City Economic Development Corporation, a discretely presented component unit of the City of Denver City, Texas, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Denver City, Texas as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Denver City, Texas' basic financial statements. The accompanying schedule listed as Other Supplementary Information in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2014, on our consideration of the City of Denver City, Texas' 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* in considering the City of Denver City, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

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

Myatt, Blume and Fidaleo, LTD., L.L.P.
Certified Public Accountants
Levelland, TX
February 17, 2014

BASIC FINANCIAL STATEMENTS

EXHIBIT A-1

CITY OF DENVER CITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Denver City Econ. Dev. Corporation
ASSETS				
Cash and Cash Equivalents	$ 4,451,514	$ 2,190,540	$ 6,642,054	$ 576,158
Property Taxes Receivable, net	26,777	-	26,777	-
Utility and Other Receivables, net	225,073	372,534	597,607	-
Receivable from Yoakum County	39,249	-	39,249	-
Internal Balances	47,672	(47,672)	-	-
Due from Primary Government	-	-	-	37,704
Inventories	-	63,582	63,582	-
Loan Receivable - Component Unit	37,954	97,597	135,551	-
Incentive Loans Receivable, net	-	345,742	345,742	312,954
Restricted Assets:				
Restricted Cash - Utility Deposits	-	108,975	108,975	-
Capital Assets:				
Land	186,858	440,000	626,858	55,807
Capital Assets, net	1,694,215	5,627,181	7,321,396	326,924
Total Assets	6,709,312	9,198,479	15,907,791	1,309,547
LIABILITIES				
Accounts Payable	247,688	101,439	349,127	9,289
Court Security Fund Payable	5,149	-	5,149	-
Due to Component Unit	37,704	-	37,704	-
Due to Primary Government	-	-	-	135,551
Curb and Gutter Assessment	1,572	-	1,572	-
Unapplied Utility Payments	-	11,726	11,726	-
Utility Deposits	-	108,975	108,975	-
Noncurrent Liabilities				
Compensated Absences - Long Term	44,812	14,296	59,108	-
Total Liabilities	336,925	236,436	573,361	144,840
NET POSITION				
Net Investment in Capital Assets	1,881,073	6,067,181	7,948,254	382,731
Unrestricted Net Position	4,491,314	2,894,862	7,386,176	781,976
Total Net Position	$ 6,372,387	$ 8,962,043	$ 15,334,430	$ 1,164,707

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, 2013

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	$ 917,176	$ 11,160	$ 9,431	$ 428,380
Public Safety	1,450,569	79,443	38,000	-
Highways and Streets	268,139	-	-	-
Culture and Recreation	87,778	-	-	-
Total Governmental Activities:	2,723,662	90,603	47,431	428,380
BUSINESS-TYPE ACTIVITIES:				
Water and Sewer Fund	1,211,676	1,110,986	-	-
Sanitation Fund	555,625	525,526	-	-
Gas Fund	685,371	681,790	-	-
Total Business-Type Activities:	2,452,672	2,318,302	-	-
TOTAL PRIMARY GOVERNMENT:	$ 5,176,334	$ 2,408,905	$ 47,431	$ 428,380
Component Unit:				
Denver City Economic Development Corporation	$ 141,334	$ -	$ -	$ -
TOTAL COMPONENT UNITS:	$ 141,334	$ -	$ -	$ -

General Revenues:

Taxes:

Property Tax, Levied for General Purposes
Sales Tax
Franchise Tax
Motel Occupancy Tax
Penalty and Interest
Rental Income
Miscellaneous Revenue
Investment Earnings

Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position--Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Denver City Econ. Dev. Corporation
$ (468,205)	$ -	$ (468,205)	$ -
(1,333,126)	-	(1,333,126)	-
(268,139)	-	(268,139)	-
(87,778)	-	(87,778)	-
(2,157,248)	-	(2,157,248)	-
-	(100,690)	(100,690)	-
-	(30,099)	(30,099)	-
-	(3,581)	(3,581)	-
-	(134,370)	(134,370)	-
(2,157,248)	(134,370)	(2,291,618)	-
-	-	-	(141,334)
-	-	-	(141,334)
1,639,139	-	1,639,139	-
1,000,510	-	1,000,510	250,128
188,798	-	188,798	-
42,019	-	42,019	-
9,967	-	9,967	-
83,187	-	83,187	5,000
55,838	5,664	61,502	-
11,574	20,231	31,805	13,973
3,031,032	25,895	3,056,927	269,101
873,784	(108,475)	765,309	127,767
5,498,603	9,070,518	14,569,121	1,036,940
$ 6,372,387	$ 8,962,043	$ 15,334,430	$ 1,164,707

EXHIBIT C-1

CITY OF DENVER CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund
ASSETS	
Cash and Cash Equivalents	$ 4,451,514
Interest Receivable	715
Property Taxes Receivable	27,918
Franchise Taxes Receivable	43,512
Ambulance Receivable, net	20,061
Receivable from Yoakum County	39,249
Curb and Gutter Assessment	1,572
Sales Tax Receivable	150,818
State Grant Receivable	8,395
Due from Other Funds	47,672
Loan Receivable - Component Unit	37,954
Total Assets	$ 4,829,380
LIABILITIES	
Accounts Payable	$ 149,388
Wages and Salaries Payable	38,942
Compensated Absences Payable - Current	37,544
Court Security Fund Payable	5,149
Airport Lease Liability	21,814
Due to Component Unit	37,704
Curb and Gutter Assessment	1,572
Total Liabilities	292,113
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue - Property Taxes	24,967
Total Deferred Inflows of Resources	24,967
FUND BALANCES	
Unassigned Fund Balance	4,512,300
Total Fund Balances	4,512,300
Total Liabilities, Deferred Inflows & Fund Balances	$ 4,829,380

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-2

CITY OF DENVER CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	$	4,512,300
The Governmental Funds Fund Balance differs from the Net Position - Governmental Activities because:		
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 $3,995,738 and the accumulated depreciation was $2,114,665. The net effect of including the capital assets net of depreciation in the governmental activities is to increase net position.		1,881,073
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 position.		(44,812)
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 Position. Reclassification of Deferred Tax Revenues of $24,967 from the General Fund and establishing an allowance for uncollectible taxes of $(1,141) for the Statement of Net Position effectively increases net position.		23,826
Net Assets of Governmental Activities	$	6,372,387

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-3

CITY OF DENVER CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

		General Fund
REVENUES:		
Taxes:		
Property Taxes	$	1,639,352
General Sales and Use Taxes		1,000,510
Franchise Tax		188,798
Other Taxes		42,019
Penalty and Interest on Taxes		9,967
Licenses and Permits		6,160
Intergovernmental Revenue and Grants		437,810
Charges for Services		84,643
Fines		37,799
Special Assessments		7,404
Investment Earnings		11,574
Rents and Royalties		83,187
Other Revenue		48,436
Total Revenues		3,597,659
EXPENDITURES:		
Current:		
General Government		886,514
Public Safety		1,356,275
Highways and Streets		249,141
Culture and Recreation		71,385
Capital Outlay:		
Capital Outlay		719,842
Total Expenditures		3,283,157
Net Change in Fund Balances		314,502
Fund Balance - October 1 (Beginning)		4,197,798
Fund Balance - September 30 (Ending)	$	4,512,300

The notes to the financial statements are an integral part of this statement.

EXHIBIT C-4

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, 2013

Total Net Change in Fund Balances - Governmental Funds	$	314,502
The net change in Fund Balance for Governmental Funds differs from the Change in Net Position for Governmental Actvities on the Statement of Activities because:		
Current year capital outlays are expenditures in the fund financial statements, but they are reported as increases in capital assets in the government-wide financial statements. The net effect of reclassifying capital outlays increases net position.		719,842
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 position.		(158,155)
Property taxes are reported on the full accrual basis for government-wide financial statements, whereas the governmental funds report on the modifed accrual basis. The net effect of recognizing the adjustment from the modified accrual to the full accrual basis is to increase net position.		(213)
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 decreases net position.		(2,192)
Change in Net Position of Governmental Activities	$	873,784

The notes to the financial statements are an integral part of this statement.

EXHIBIT D-1

CITY OF DENVER CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ (869,558)	$ 522,427	$ 2,537,671	$ 2,190,540
Restricted Assets - Current:				
Customer Utility Deposits	40,900	8,625	59,450	108,975
Interest Receivable	125	179	769	1,073
Utility Accounts Receivable, net	192,375	83,182	95,904	371,461
Inventories	51,557	-	12,025	63,582
Loan Receivable - EDC	39,310	8,811	49,476	97,597
Total Current Assets	(545,291)	623,224	2,755,295	2,833,228
Noncurrent Assets:				
Incentive Loans Receivable, net	-	-	345,742	345,742
Capital Assets:				
Land Purchase and Improvements	432,062	1,938	6,000	440,000
Capital Assets	12,305,525	856,523	845,198	14,007,246
Less Accumulated Depreciation	(7,000,760)	(641,289)	(738,016)	(8,380,065)
Total Noncurrent Assets	5,736,827	217,172	458,924	6,412,923
Total Assets	5,191,536	840,396	3,214,219	9,246,151
LIABILITIES				
Current Liabilities:				
Accounts Payable	31,072	28,352	11,117	70,541
Wages and Salaries Payable	12,193	5,869	777	18,839
Compensated Absences Payable - Current	3,064	7,913	1,082	12,059
Due to Other Funds	21,893	11,255	14,524	47,672
Deferred Revenue	11,726	-	-	11,726
Payable from Restricted Assets - Current:				
Customer Utility Deposits	40,900	8,625	59,450	108,975
Total Current Liabilities	120,848	62,014	86,950	269,812
NonCurrent Liabilities:				
Accrued Compensated Absences - Long-Term	4,872	7,559	1,865	14,296
Total Noncurrent Liabilities	4,872	7,559	1,865	14,296
Total Liabilities	125,720	69,573	88,815	284,108
NET POSITION				
Net Investment in Capital Assets	5,736,827	217,172	113,182	6,067,181
Unrestricted Net Position	(671,011)	553,651	3,012,222	2,894,862
Total Net Position	$ 5,065,816	$ 770,823	$ 3,125,404	$ 8,962,043

The notes to the financial statements are an integral part of this statement.

EXHIBIT D-2

CITY OF DENVER CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Water Services	$ 830,556	$ -	$ -	$ 830,556
Charges for Gas Services	-	-	681,790	681,790
Charges for Sewerage Service	280,430	-	-	280,430
Sanitation Charges for Services	-	525,526	-	525,526
Other Revenue	-	5,664	-	5,664
Total Operating Revenues	1,110,986	531,190	681,790	2,323,966
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	215,729	172,400	78,848	466,977
Personnel Services - Employee Benefits	95,600	65,819	35,694	197,113
Purchased Professional & Technical Services	36,470	70,584	7,997	115,051
Purchased Property Services	374,411	37,172	34,848	446,431
Other Operating Expenses	47,537	23,181	33,220	103,938
Supplies	76,509	124,182	478,920	679,611
Depreciation	365,420	62,287	15,844	443,551
Total Operating Expenses	1,211,676	555,625	685,371	2,452,672
Operating Income (Loss)	(100,690)	(24,435)	(3,581)	(128,706)
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	2,828	1,162	16,241	20,231
Total Non-operating Revenue (Expenses)	2,828	1,162	16,241	20,231
Change in Net Position	(97,862)	(23,273)	12,660	(108,475)
Total Net Position - October 1 (Beginning)	5,163,678	794,096	3,112,744	9,070,518
Total Net Position - September 30 (Ending)	$ 5,065,816	$ 770,823	$ 3,125,404	$ 8,962,043

The notes to the financial statements are an integral part of this statement.

EXHIBIT D-3

CITY OF DENVER CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities			
	Water & Sewer Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
Cash Flows from Operating Activities:				
Cash Received from User Charges	$ 1,089,329	$ 550,088	$ 715,334	$ 2,354,751
Cash Payments to Employees for Services	(316,205)	(231,588)	(105,548)	(653,341)
Cash Payments to Suppliers	(555,014)	(243,428)	(565,011)	(1,363,453)
Net Cash Provided by Operating Activities	218,110	75,072	44,775	337,957
Cash Flows from Capital & Related Financing Activities:				
Acquisition of Capital Assets	(590,564)	-	(25,552)	(616,116)
Cash Flows from Investing Activities:				
Payments on EDC Note Receivable	44,205	9,908	55,638	109,751
Net Activity in Incentive Loans	-	-	(23,526)	(23,526)
Interest and Dividends on Investments	2,980	1,185	16,509	20,674
Net Cash Provided by Investing Activities	47,185	11,093	48,621	106,899
Net Increase(Decrease) in Cash and Cash Equivalents	(325,269)	86,165	67,844	(171,260)
Cash and Cash Equivalents at Beginning of the Year:	(503,389)	444,887	2,529,277	2,470,775
Cash and Cash Equivalents at the End of the Year:	$ (828,658)	$ 531,052	$ 2,597,121	$ 2,299,515
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:				
Operating Income (Loss):	$ (100,690)	$ (24,435)	$ (3,581)	$ (128,706)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	365,420	62,287	15,844	443,551
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	8,285	19,423	330	28,038
Decrease (increase) in Inventories	(417)	-	2,092	1,675
Increase (decrease) in Accounts Payable	(47,389)	6,631	6,860	(33,898)
Increase (decrease) in Wages & Salaries Payable	4,876	507	(7,260)	(1,877)
Increase (decrease) in Compensated Absences	(3,926)	(71)	(1,734)	(5,731)
Increase (decrease) in Due to Other Funds	21,893	11,255	14,524	47,672
Increase (decrease) in Deferred Revenue	(20,167)	-	-	(20,167)
Increase (decrease) in Customer Utility Deposits	(9,775)	(525)	17,700	7,400
Net Cash Provided by Operating Activities	$ 218,110	$ 75,072	$ 44,775	$ 337,957
Reconciliation of Total Cash and Cash Equivalents:				
Cash & Cash Equivalents - Statement of Net Assets	$ (869,558)	$ 522,427	$ 2,537,671	$ 2,190,540
Restricted Cash - Customer Deposits	40,900	8,625	59,450	108,975
Total Cash and Cash Equivalents	$ (828,658)	$ 531,052	$ 2,597,121	$ 2,299,515

The notes to the financial statements are an integral part of this statement.

NOTE A - 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.

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. The City shares funding responsibilities with Yoakum County.

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.

Discretely Presented Component Units

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 though a three-eighths of one percent sales tax.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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, 2013, no financial transactions have taken place.

Denver City Industrial Development Corporation – The "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, 2013.
- 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).

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Interfund activities within governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position 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 Position.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

All interfund transactions within governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the Statement of Net Position 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 three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. 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 nonoperating 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 nonoperating. 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 nonoperating.

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 and fiduciary 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).

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. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The proprietary fund types and fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize 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. 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 position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

IMPLEMENTATION OF NEW PRONOUNCEMENTS

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of GASB Statement No. 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. Management believes GASB Statement No. 62 will have little effect on its financial statements for the year ended September 30, 2013.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of GASB Statement No. 63 is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of assets by the government that is applicable to a future reporting period, and an acquisition of assets by the government that is applicable to a future reporting period, respectively.

Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Management believes the effect of implementing GASB Statement No. 63 will not have a material impact on its financial statements for the year ended September 30, 2013.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. The objective of GASB Statement No. 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and to recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, such as deferred bond issuance costs. Management believes the effect of implementing GASB Statement No. 65 will not have a material impact on its financial statements for the year ended September 30, 2013.

The Statement defines ***deferred inflows of resources*** as an acquisition of net position by the government that is applicable to a future reporting period. Examples of deferred inflows of resources are grant advance payments, property taxes received in advance, or deferred amounts from debt refunding.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Statement defines ***deferred outflow of resources*** as a consumption of net position by the government that is applicable to a future reporting period. Items such as grants paid in advance of the time requirement, deferred amounts from the refunding of debt, or costs to acquire rights to future revenues are to be reported as deferred outflow of resources. Debt issuance costs are now expensed under GASB No. 65.

Net Position represents the difference between all other elements in a **Statement of Financial Position** and is displayed in three components—*net investment in capital assets; restricted* (distinguishing between major categories of restrictions); and *unrestricted.* The calculation of *net investment in capital assets* is similar to the prior calculation of investment in capital assets, net of related debt; however, with the implementation of GASB Statement No. 63, the deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Financial reporting for **Governmental Funds** requires deferred outflows of resources and deferred inflows of resources that are required to be reported in a governmental fund balance sheet be presented in a format that displays *assets plus deferred outflows of resources, equals liabilities plus deferred inflows of resources, plus fund balance.*

FUND ACCOUNTING

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.

With the implementation of GASB 54, the City now reports the fund balance of governmental funds in the following classifications depending on the relative strength of the spending constraints placed on the purpose for which resources can be used:

a. **Nonspendable Fund Balance** – Represents the amount that cannot be spent because the assets are not in a spendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

b. **Restricted Fund Balance** – Represents the amounts that are constrained by external parties, constitutional provisions or enabling legislation.

c. **Committed Fund Balance** – Represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes the restrictions by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balances amounts differ from restricted balances in that the constraints on the funds' usage is internally generated, rather than from external sources, constitutional provisions, or enabling legislation.

d. **Assigned Fund Balance** – Represents amounts which the City intends to use for a specific purpose but does not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of the amounts is for a specific purpose that is narrower than the general purpose of the City itself. The Councilors have not yet delegated authority to assign fund balance amounts to a specific individual.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. **Unassigned Fund Balance** – Represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative fund balance in this classification because of overspending for specific purposes for which amounts have been restricted, committed or assigned.

Enterprise Funds report the City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The City reports its three enterprise funds as major funds: Water and Sewer Fund, Sanitation Fund, and Gas Fund. These funds are used to account for the acquisition, operation, and maintenance of water and wastewater, sanitation and gas facilities. These funds are intended to be entirely or predominantly self-supported through user charges to customers.

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 position. 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 expenditures in accordance with GASB No. 65 – *Items Previously Reported as Assets and Liabilities.*

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.

NOTE A - SUMMARY OF SIGNIFICANT 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.

    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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 $77,606 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 the date of the auditor's report, the date the financial statements were available to be issued.

NOTE B - BUDGETARY DATA

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

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

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

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

NOTE B - BUDGETARY DATA (Cont.)

3. The budget is then adopted at the conclusion of the last public hearing by the favorable votes of a majority of the members of the City Council. The original budget was adopted by the City Council on September 7, 2012, in accordance with the above process.

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 2013 General Fund budget was prepared on the modified accrual basis using estimated beginning and ending fund balances. The fiscal 2013 enterprise fund budgets were prepared on the accrual basis using estimated beginning and ending net position.

NOTE C - 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 $108,975 and are legally restricted by state law for the purpose of offsetting against delinquent accounts or refunding to the customer upon termination of service.

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.

The carrying amount of the City's deposits (cash, including restricted cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $1,953,890 as of September 30, 2013. The City's cash deposits were properly secured at all times during the year by a combination of FDIC insurance, pledged collateral held by the City's financial institution in the City's name and by a letter of credit from the financial institution.

NOTE C - DEPOSITS AND INVESTMENTS (Cont.)

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).

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 financial institution.

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.

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 **Public Funds Investment Act** and with local policies.

NOTE C - DEPOSITS AND INVESTMENTS (Cont.)

The City utilizes a pooled cash method of disbursements, whereby one bank account is used by both types of activities to pay expenditures, and the bank account is reimbursed by each fund for the proportionate amount spent by each fund. The total carrying value of the cash and cash equivalents by fund type is reported below as of September 30, 2013

	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	Total
Unrestricted Funds	$ 4,434,130	$ (881,284)	$ 522,427	$ 2,537,671	$ 6,612,944
Restricted Funds	-	40,900	8,625	59,450	108,975
Chamber Certificate of Deposit	14,411	-	-	-	14,411
Unapplied Cash	-	11,726	-	-	11,726
Petty Cash	2,800	-	-	-	2,800
Returned Checks	173	-	-	-	173
Total	$ 4,451,514	$ (828,658)	$ 531,052	$ 2,597,121	$ 6,751,029

Unrestricted funds are an aggregate of several types of deposits. A breakdown of the unrestricted funds is below.

Category	Amount
TexPool Deposits	$ 4,794,166
Bank Deposits	971,324
Certificates of Deposit	847,454
Total	$ 6,612,944

TexPool - The City maintain accounts with TexPool which is a public funds investment pool established under the authority of the Interlocal Cooperation Act and subject to the provisions of the Act. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires the pool to: 1) Have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) Maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by Standard and Poor's or other nationally recognized rating services; and 3) Maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. Participation in the pool as allowed under the guidelines of the PFIA is voluntary and may be terminated and the funds withdrawn at the discretion of the City Council.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. 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. The Advisory Board members review the investment policy and management fee structure. 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 operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. 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. The report is also available on the Trust's website at www.ttstc.com.

NOTE D - 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.

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 2013 (2012 tax levy) was $0.5377 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 2012 tax levy was based was $306,778,373 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2013 were approximately 98.6% of the tax levy.

Concentration of Risk - During the year, the City collected approximately 46.49% 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.

Delinquent Taxes Receivable - Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. 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. The $23,826 difference between the Governmental Activities and the General Fund is a reconciling item between the two financial statements.

	Governmental Activities	General Fund
Property Taxes Receivable	$ 27,918	$ 27,918
Allowance for Uncollectibles	(1,141)	-
Deferred Inflows	-	(24,967)
Net Property Taxes Receivable	$ 26,777	$ 2,951

NOTE E – UTILITY AND OTHER RECEIVABLES

The City's General Fund reports various receivables as of the fiscal year end to be collected within the following fiscal year, including sales and franchise taxes.

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, 2013 represent all unpaid billings issued prior to September 30, 2013 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.

NOTE E – UTILITY AND OTHER RECEIVABLES

Concentrations of Risk – The City grants credit to its customers without collateral other than a nominal security deposit. Most enterprise activity occurs within the City limits. The gas fund purchases the gas product from a single supplier. Should that supplier elect to or not be able to service the Denver City area, the City would be severely impacted.

The schedule detailed below are reported net of allowances on the government-wide and fund financial statements as of September 30, 2013.

	Governmental Activities	Business-type Activities			
	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	Totals
Utilities Receivable	$ -	$ 327,370	$ 133,265	$ 285,468	$ 746,103
Sales Tax Receivable	150,818	-	-	-	150,818
Ambulance Receivable	80,244	-	-	-	80,244
Franchise Tax Receivable	43,512	-	-	-	43,512
State Grant Receivable	8,395	-	-	-	8,395
Curb and Gutter Assessment	1,572	-	-	-	1,572
Interest Receivable	715	125	179	769	1,788
Allowance for Uncollectibles	(60,183)	(134,995)	(50,083)	(189,564)	(434,825)
Net Accounts Receivable	$ 225,073	$ 192,500	$ 83,361	$ 96,673	$ 597,607

NOTE F - INTERFUND BALANCES

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.

The City had the following interfund balances from payment in lieu of franchise tax to the General Fund from the business-type funds as of September 30, 2013. No other transfers occurred during the fiscal year.

Due From	Due to General Fund
Water and Sewer Fund	$ 21,893
Sanitation Fund	11,255
Gas Fund	14,524
Total	$ 47,672

NOTE G - LOAN TO COMPONENT UNIT

In an earlier year, the City loaned $2,500,000 to a component unit, the Denver City Economic Development Corporation (EDC). EDC then loaned this money to a company, as part of an incentive package, to aid the company in building a plant facility in the City. As EDC receives payment from the company, the City gets paid back by EDC. The balance due from the EDC as of September 30, 2013 is $135,551. Additional details are disclosed in the Component Unit Notes below:

NOTE H - CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2013 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Governmental Activities:				
Land	$ 186,858	$ -	$ -	$ 186,858
Construction in Progress	143,669	-	(143,669)	-
Infrastructure	246,859	-	-	246,859
Improvements	155,051	689,942	-	844,993
Buildings	980,909	42,850	-	1,023,759
Vehicles	1,053,635	65,377	(33,465)	1,085,547
Machinery and Equipment	542,380	65,342	-	607,722
Totals at Historic Cost	3,309,361	863,511	(177,134)	3,995,738
Less Accumulated Depreciation				
Infrastructure	(82,107)	(9,874)	-	(91,981)
Improvements	(112,911)	(6,303)	-	(119,214)
Buildings	(662,491)	(25,620)	-	(688,111)
Vehicles	(687,773)	(89,426)	33,465	(743,734)
Machinery and Equipment	(444,693)	(26,932)	-	(471,625)
Totals Accumulated Depreciation	(1,989,975)	(158,155)	33,465	(2,114,665)
Governmental Activities Capital Assets, Net	$ 1,319,386	$ 705,356	$ (143,669)	$ 1,881,073

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

Function	Amount
General Government	$ 28,470
Public Safety	94,294
Streets	18,998
Culture and Recreation	16,393
Total	$ 158,155

NOTE H - CAPITAL ASSET ACTIVITY (Cont.)

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Business-type Activities:				
Land	$ 440,000	$ -	$ -	$ 440,000
Water Rights	631,520	-	-	631,520
Construction in Progress	644,166	-	(644,166)	-
Infrastructure	5,683,248	1,169,232	-	6,852,480
Improvements	4,748,929	-	-	4,748,929
Buildings	54,546	-	-	54,546
Vehicles	710,466	67,777	-	778,243
Machinery and Equipment	898,528	43,000	-	941,528
Totals at Historic Cost	13,811,403	1,280,009	(644,166)	14,447,246
Less Accumulated Depreciation				
Water Rights	(631,521)	-	-	(631,521)
Infrastructure	(2,737,049)	(197,008)	-	(2,934,057)
Improvements	(3,272,870)	(151,517)	-	(3,424,387)
Buildings	(30,155)	(1,839)	-	(31,994)
Vehicles	(444,030)	(69,078)	-	(513,108)
Machinery and Equipment	(820,889)	(24,109)	-	(844,998)
Totals Accumulated Depreciation	(7,936,514)	(443,551)	-	(8,380,065)
Business-type Activities Capital Assets, Net	$ 5,874,889	$ 836,458	$ (644,166)	$ 6,067,181

NOTE I - 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, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Other Liabilities:				
Compensated Absences	$ 42,620	$ 34,904	$ (32,712)	$ 44,812
Business-Type Activities:				
Other Liabilities:				
Compensated Absences	$ 12,329	$ 21,724	$ (19,757)	$ 14,296

NOTE J - HEALTH CARE COVERAGE

The City 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, 2013 the City paid $185,188 for health insurance coverage on the City's employees.

NOTE K - DEFINED BENEFIT PLANS

Texas Municipal Retirement System (TMRS)

Plan Description: The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan administered by the state-wide Texas Municipal Retirement System (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.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

Contributions: Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to 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 rate and the calendar year when the rate goes into effect.

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 2012 and 2013 plan years were as follows:

	Plan Year 2012	Plan Year 2013
Employee Deposit Rate	5%	5%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Employer Contribution Rate	13.81%	12.79%
Years Required for Vesting	5	5
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100%	100%
Annuity Increase (to retirees)	70% of CPI	70% of CPI

The plan also provides supplemental death benefits and disability benefits.

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

Annual Required Contribution (ARC)	$ 238,197
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost	238,197
Contributions Made	(238,197)
Increase (Decrease) in Net Pension Obligation	-
Net Pension Obligation/(Asset), (NPO) at the Beginning of the Period	-
NPO at the End of the Period	$ -

NOTE K - DEFINED BENEFIT PLANS (Cont.)

DENVER CITY EMPLOYEES' TMRS RETIREMENT PLAN COST TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contributions Made	APC Contribution Percentage	Net Pension Obligation
9/30/13	$ 238,197	$ 238,197	100%	$ -0-
9/30/12	239,516	239,516	100%	-0-
9/30/11	209,336	209,336	100%	-0-
9/30/10	200,976	200,976	100%	-0-

The schedule of funding progress presents the funded status as of December 31, 2012, 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.

DENVER CITY EMPLOYEES' TMRS RETIREMENT PLAN SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Under/(Over) Funded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/12	$ 6,808,888	$ 7,207,647	$ 398,759	94.5%	$ 1,226,413	32.5%
12/31/11	6,369,419	6,856,779	487,360	92.9%	1,230,887	39.6%
12/31/10	5,912,865	6,660,091	747,226	88.8%	1,224,292	61.0%
12/31/09	4,233,780	5,484,479	1,250,699	77.2%	1,159,330	107.9%

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows.

TMRS ACTUARIAL VALUATION INFORMATION

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percentage of Payroll, Closed Period	Level Percentage of Payroll, Closed Period	Level Percentage of Payroll, Closed Period
Amortization Period	26.9 years	25.8 years	24.8 years
Amortization Period for Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10 year smoothed market	10 year smoothed market	10 year smoothed market
Actuarial Assumptions*:			
Investment Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies	Varies	Varies
Inflation	2.1%	2.1%	2.1%

*Includes inflation at stated rate – no cost of living adjustments

NOTE K - DEFINED BENEFIT PLANS (Cont.)

Texas Emergency Services Retirement System (TESRS)

Plan Description: The Fire Fighters' Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS provides bi-annual actuarial report disclosures to the member department participants. The latest actuarial report is for the period ending August 31, 2012 and is dated March 15, 2013.

At August 31, 2012, there were 188 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. The report is also available on TESRS' website at www.tesrs.texas.gov.

At August 31, 2012, TESRS membership consisted of:	
Retirees and Beneficiaries Currently Receiving Benefits	2,750
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,252
Active Participants (Vested and Non-vested)	4,446
Total	9,448

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 during the 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.

NOTE K - DEFINED BENEFIT PLANS (Cont.)

Annual Required Contributions: The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule. For the fiscal year ending August 31, 2012 total contributions (dues and prior service) of $3,517,455 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, 2012 and 2013. Total contributions made were less than the contributions required by the State statute and based on the August 31, 2010 actuarial valuation. The City contributed $13,596 for their fiscal year ended September 30, 2013.

TESRS RETIREMENT PLAN COST TREND INFORMATION – STATE-WIDE

State Fiscal Year Ending August 31,	Annual Required Contributions (ARC)	Actual Contributions	Percentage of ARC Contributed
2012	$ 4,423,898[2,3]	$ 3,517,455	80%
2011	3,125,329[2]	3,125,329	100%
2010	2,875,103[1]	2,875,103	100%

Notes:
[1] Based on the August 31, 2008 actuarial valuation.
[2] Based on the revised August 31, 2010 actuarial valuation.
[3] Includes a requested state contribution of $906,443.

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, 2010	August 31, 2012
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Dollar, Open	Level Dollar, Open
Amortization Period	30 Years	Infinity
Asset Valuation Method	Market Value Smoothed by a 5-year Deferred Recognition Method with a 80%/120% 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*	7.75% 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

NOTE K - DEFINED BENEFIT PLANS (Cont.)

SCHEDULE OF FUNDING PROGRESS – STATE-WIDE

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)
08/31/12[2]	$ 67,987,487	$ 101,856,042	$ 33,868,555	66.7%	9,448	$ 3,585
08/31/10[3]	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984
08/31/08[2]	60,987,157	64,227,341	3,240,184	95.0%	8,254	393

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.

NOTE L - 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 730 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. The report is also available on TMRS' website at www.TMRS.com.

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

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

Contributions: The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. These rates were 0.20% and 0.21% for calendar years 2012 and 2013, respectively, of which 0.07% and 0.07% represented the retiree-only portion for 2012 and 2013, 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.

DENVER CITY EMPLOYEES' TMRS RETIREMENT PLAN COST TREND INFORMATION

Fiscal Year Ending	Annual SDBF Cost (APC)	Actual SDBF Contributions Made	APC Contribution Percentage	Retiree Portion of Contributions
9/30/13	$ 2,694	$ 2,694	100%	$ 911
9/30/12	2,665	2,665	100%	843
9/30/11	2,874	2,874	100%	827
9/30/10	2,814	2,814	100%	760

NOTE M - 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.

NOTE N - 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 are both obligated, under the lease through the fiscal year ending September 30, 2032, for total payments of approximately $229,046, calculated at the present adjusted annual rate. The City and the County each are responsible for one half of the payment. For the year ended September 30, 2013, the adjusted annual lease expense 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 balance due on the lease liability at September 30, 2013 is $21,814, with $10,907 due from Yoakum County, representing two years of lease expense being held pending the lessor corporate resolution.

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

Year Ended September 30	City's Share	County's Share	Total
2014	$ 5,454	$ 5,453	$ 10,907
2015	5,453	5,454	10,907
2016	5,454	5,453	10,907
2017	5,453	5,454	10,907
2018	5,454	5,453	10,907
2019-2023	27,267	27,268	54,535
2024-2028	27,268	27,267	54,535
2029-2032	21,813	21,814	43,627
Total	$ 103,616	$ 103,616	$ 207,232

NOTE O – FEDERAL, STATE AND OTHER GRANTS

The City had $437,811 in state award expenditures and no Federal expenditures for the year ended September 30, 2013. Because state expenditures were below $500,000, the City is not subject to the Texas Single Audit Circular. The City also received $38,000 in public safety grants from Yoakum County and a local industrial corporation to support the EMS and fire departments.

NOTE O – FEDERAL, STATE AND OTHER GRANTS (Cont.)

The following schedule details the State grants awarded to the City:

Project Title	Contract Number	Current Year Expenditures
State Awards		
TxDOT – Airport Project Participation Agreement	1205DENVER	$ 428,380
TxDOT – Airport Routine Maintenance Program	M305DENVR	9,431
Total State Awards		$ 437,811

NOTE P - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement* 27. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will require the City to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the TMRS plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for periods beginning after June 15, 2014.

The City will fully analyze the impact of the new statement prior to the effective date for the statement listed above.

NOTE Q - DISCRETE COMPONENT UNIT – DENVER CITY ECONOMIC DEVELOPMENT CORPORATION

Paragraph 44 of GASB No. 39 - *Determining Whether Certain Organizations are Component Units – An amendment to GASB Statement No. 14*, requires certain disclosures for each discretely presented component unit. As a discrete component unit, selected information from Denver City Economic Development Corporation's separately-presented financial statements has been included in the City's notes to the financial statements as the primary government. A full and complete audited financial statement of Denver City Economic Development Corporation may be obtained by writing to Denver City Economic Development Corporation, P. O. Box 2, 102 W. Third St., Denver City, TX, 79323

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.

NOTE Q - DISCRETE COMPONENT UNIT – DENVER CITY ECONOMIC DEVELOPMENT CORPORATION (Cont.)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Financial Statement Preparation - The EDC has elected to adopt FASB ASC 958-205, *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.

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.

Custodial Credit Risk - In accordance with the FDIC, time deposits, savings deposits and interest bearing NOW accounts held at each financial institution will be insured up to $250,000 in aggregate. At September 30, 2013, the EDC had $326,158 of deposits subject to custodial credit risk.

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, 2013. Management continually reviews the collectability of the Notes Receivable and may establish an allowance at a later time.

Contributions - EDC also elected to adopt FASB ASC 958-605, formally No. 116, *Accounting for Contributions Received and Contributions Made.* In accordance with this standard, 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.

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

NOTE Q - DISCRETE COMPONENT UNIT – DENVER CITY ECONOMIC DEVELOPMENT CORPORATION (Cont.)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

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 the date of the auditor's report, which is the date the financial statements were available to be issued.

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 $37,705 for the fiscal year ended September 30, 2013. The Corporation received $250,128 in sales tax revenue for the fiscal year ended September 30, 2013.

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.

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 $135,551 as of September 30, 2013. The schedule of future payments to be made to the City of Denver City is as follows.

NOTE Q - DISCRETE COMPONENT UNIT – DENVER CITY ECONOMIC DEVELOPMENT CORPORATION (Cont.)

NOTE 3: NOTES PAYABLE AND RECEIVABLE (Cont.)

Year Ending September 30	Principal	Interest	Total
2014 TOTAL	$ 135,551	$ 2,033	$ 137,584

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 $312,954 as of September 30, 2013. The schedule of future payments to be received from the plant is as follows.

Year Ending September 30	Principal	Interest	Total
2014	$ 155,312	$ 4,694	$ 160,006
2015	157,642	2,365	160,007
TOTAL	$ 312,954	$ 7,059	$ 320,013

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.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 is as follows:

	Balance 2012	Additions	Deletions	Balance 2013
Land	$ 55,807	$ -	$ -	$ 55,807
Land Improvements	364,450	-	-	364,450
Furniture and Equipment	5,754	24,860	-	30,614
	426,011	24,860	-	450,871
Less Accumulated Depreciation	(38,795)	(29,345)	-	(68,140)
Capital Assets, Net	$ 387,216	$ (4,485)	$ -	$ 382,731

Depreciation expense of $29,345 for the 2013 fiscal year had $26,410 allocated to Program Services and $2,935 to Management and General Expenses.

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.

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 2013 fiscal year.

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, 2013

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	$ 1,596,401	$ 1,629,191	$ 1,639,352	$ 10,161
General Sales and Use Taxes	600,000	1,017,195	1,000,510	(16,685)
Franchise Tax	154,837	154,837	188,798	33,961
Other Taxes	30,000	40,049	42,019	1,970
Penalty and Interest on Taxes	15,000	15,000	9,967	(5,033)
Licenses and Permits	6,000	5,821	6,160	339
Intergovernmental Revenue and Grants	20,000	20,000	437,810	417,810
Charges for Services	88,000	28,064	84,643	56,579
Fines	23,000	32,899	37,799	4,900
Special Assessments	5,000	7,304	7,404	100
Investment Earnings	8,880	8,880	11,574	2,694
Rents and Royalties	75,525	82,587	83,187	600
Other Revenue	53,000	56,550	48,436	(8,114)
Total Revenues	2,675,643	3,098,377	3,597,659	499,282
EXPENDITURES:				
Current:				
General Government	635,362	779,680	886,514	(106,834)
Public Safety	1,449,971	1,429,302	1,356,275	73,027
Highways and Streets	268,582	268,582	249,141	19,441
Culture and Recreation	168,728	297,903	71,385	226,518
Capital Outlay:				
Capital Outlay	153,000	494,977	719,842	(224,865)
Total Expenditures	2,675,643	3,270,444	3,283,157	(12,713)
Net Change	-	(172,067)	314,502	486,569
Fund Balance - October 1 (Beginning)	4,197,798	4,197,798	4,197,798	-
Fund Balance - September 30 (Ending)	$ 4,197,798	$ 4,025,731	$ 4,512,300	$ 486,569

OTHER SUPPLEMENTARY INFORMATION

CITY OF DENVER CITY, TEXAS
SCHEDULE OF INSURANCE COVERAGE
FISCAL YEAR ENDED SEPTEMBER 30, 2013

Company	Policy Number	Date Effective	Date Expired
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
TML Intergovernmental Risk Pool	0463-06	10/1/2012	10/1/2013
Kizer Insurance Agency	CBB-2108306	3/28/2013	3/28/2014
Kizer Insurance Agency	69892384	12/31/2012	12/31/2014
Tank Owner's Members Insurance Company	1516	5/22/2013	5/22/2014

Coverage Type	Coverage	Amount of Coverage	Premium Amount
Liability	Airport Premises/Personal/Advertising Injury	$ 1,000,000	$ 1,233
	Products/Completed Operations	1,000,000	
	Hangarkeepers' Liability	1,000,000	
	Non-Owned Aircraft	1,000,000	
	General Liability	2,000,000	2,647
	Law Enforcement Liability	1,000,000	4,279
	Public Officials Liability (E & O)	1,000,000	5,653
	Automobile	1,000,000	7,718
	Auto Medical Payment	25,000	
	Fire Truck	340,000	
Physical Damage	Auto Physical Damage	1,075,676	14,287
Property	Real and Personal Property	3,586,010	7,239
	Boiler and Machinery	3,586,010	
	Mobile Equipment	196,956	757
	Transit	1,000,000	
Workers Compensation	Employees & Volunteers		31,941
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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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Denver City, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Denver City, Texas' basic financial statements, and have issued our report thereon dated February 17, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Myatt, Blume and Fidaleo, LTD., L.L.P.
Certified Public Accountants
Levelland, TX
February 17, 2014