

CITY OF DENVER CITY  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CITY OF DENVER CITY, TEXAS  
FISCAL YEAR ENDED SEPTEMBER 30, 2014

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FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

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 (the City), as of and for the year ended September 30, 2014, 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 schedules listed as Other Supplementary Information in the table of contents are presented for the purposes of additional analysis and are 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 28, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Respectfully submitted,



Myatt, Blume, & Fidaleo, Ltd., L.L.P.  
Certified Public Accountants  
Levelland, Texas  
February 28, 2015

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

As management of the City of Denver City, Texas, we offer readers of the City's annual financial this narrative overview, discussion and analysis of the City's financial performance as of and for the fiscal year ended September 30, 2014. Please read it in conjunction with the accompanying independent auditor's report on page 1 and the City's basic financial statements, which follows this section on page 10.

**FINANCIAL HIGHLIGHTS**

- At the close of the most recent fiscal year, the City of Denver City's assets exceeded its liabilities by \$15,501,386. Of this amount, \$7,080,382 was categorized as unrestricted.
- The City of Denver City's net position increased \$166,955, or 1.1% as a result of this year's operations. Net position of the City's business-type activities decreased \$110,480, or 1.2%, and net position of the City's governmental activities increased \$277,435, or 4.4%.
- During the year, the City's governmental funds had expenditures of \$2,919,395, which was \$201,582 less than the \$3,120,977 generated in tax and other revenues for governmental programs. This compares to last year when revenues exceeded expenditures by \$314,502.
- The General Fund ended the year with a fund balance of \$4,713,882. The Unassigned portion of the General Fund's fund balance is 161.5% of total general fund expenditures.
- The City received \$135,551 in principal payments on its \$2.5 million loan to the Denver City Economic Development Corporation, which paid off the loan during the fiscal year.

**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, a schedule and reconciliation of delinquent taxes receivable.

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

**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.

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

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 is presented on an "after-elimination" basis.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Assets:</b>						
Current and Other Assets	\$ 1,490,284	\$ 4,828,239	\$ 7,199,574	\$ 3,131,298	\$ 8,689,858	\$ 7,959,537
Capital Assets	<u>1,965,945</u>	<u>1,881,073</u>	<u>6,455,059</u>	<u>6,067,181</u>	<u>8,421,004</u>	<u>7,948,254</u>
<b>Total Assets</b>	<u>3,456,229</u>	<u>6,709,312</u>	<u>13,654,633</u>	<u>9,198,479</u>	<u>17,110,862</u>	<u>15,907,791</u>
<b>Liabilities:</b>						
Long-Term Liabilities	51,544	44,812	118,200	108,975	169,744	153,787
Short-Term and Other Liabilities	<u>454,408</u>	<u>292,113</u>	<u>985,324</u>	<u>127,460</u>	<u>1,439,732</u>	<u>419,573</u>
<b>Total Liabilities</b>	<u>505,952</u>	<u>336,925</u>	<u>1,103,524</u>	<u>236,435</u>	<u>1,609,476</u>	<u>573,360</u>
<b>Net Position:</b>						
Invested in Capital Assets	1,965,945	1,881,073	6,455,059	6,067,181	8,421,004	7,948,254
Unrestricted	<u>984,332</u>	<u>4,491,314</u>	<u>6,096,050</u>	<u>2,894,863</u>	<u>7,080,382</u>	<u>7,386,177</u>
<b>Total Net Position</b>	<u>\$ 2,950,277</u>	<u>\$ 6,372,387</u>	<u>\$ 12,551,109</u>	<u>\$ 8,962,044</u>	<u>\$ 15,501,386</u>	<u>\$ 15,334,431</u>

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

Net position of the City's governmental activities decreased to \$2,950,277 from \$6,372,387. Net position of the City's business-type activities decreased to \$12,551,109 from \$8,962,044. The change in each type's net position is largely attributed to an interfund loan of \$3,699,545 from the governmental fund to the proprietary funds.

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 \$7,080,382 as of September 30, 2014.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 65,601	\$ 90,603	\$ 2,461,416	\$ 2,318,302	\$ 2,527,017	\$ 2,408,905
Operating Grants and Contributions	45,242	47,431	-	-	45,242	47,431
Capital Grants and Contributions	-	428,380	-	-	-	428,380
<b>General Revenues:</b>						
Property Taxes	1,636,390	1,639,139	-	-	1,636,390	1,639,139
Sales Taxes	959,794	1,000,510	-	-	959,794	1,000,510
Franchise Taxes	205,273	188,798	-	-	205,273	188,798
Occupancy Tax	32,659	42,019	-	-	32,659	42,019
Penalty and Interest	12,985	9,967	-	-	12,985	9,967
Miscellaneous Revenue	154,105	139,025	-	5,664	154,105	144,689
Investment Earnings	<u>6,639</u>	<u>11,574</u>	<u>9,553</u>	<u>20,231</u>	<u>16,192</u>	<u>31,805</u>
<b>Total Revenue</b>	3,118,688	3,597,446	2,470,969	2,344,197	5,589,657	5,941,643
<b>Expenses:</b>						
General Government	611,459	917,176	-	-	611,459	917,176
Public Safety	1,426,391	1,450,569	-	-	1,426,391	1,450,569
Highways And Streets	449,940	268,139	-	-	449,940	268,139
Culture and Recreation	163,732	87,778	-	-	163,732	87,778
Depreciation	189,731	-	-	-	189,731	-
Water & Sewer Services	-	-	1,216,192	1,211,676	1,216,192	1,211,676
Sanitation Services	-	-	534,008	555,625	534,008	555,625
Gas Services	-	-	<u>831,249</u>	<u>685,371</u>	<u>831,249</u>	<u>685,371</u>
<b>Total Expenses</b>	<u>2,841,253</u>	<u>2,723,662</u>	<u>2,581,449</u>	<u>2,452,672</u>	<u>5,422,702</u>	<u>5,176,334</u>
<b>Increase in Net Position</b>	277,435	873,784	(110,480)	(108,475)	166,955	765,309
<b>Interfund Loan</b>	(3,699,545)	-	3,699,545	-	-	-
<b>Net Position - Beginning of Year</b>	<u>6,372,387</u>	<u>5,498,603</u>	<u>8,962,044</u>	<u>9,070,519</u>	<u>15,334,431</u>	<u>14,569,122</u>
<b>Net Position - End of Year</b>	<u>\$ 2,950,277</u>	<u>\$ 6,372,387</u>	<u>\$ 12,551,109</u>	<u>\$ 8,962,044</u>	<u>\$ 15,501,386</u>	<u>\$ 15,334,431</u>

The cost of all governmental activities this year was \$2,841,253. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$2,556,681 because some of the costs were paid with charges for services of \$65,601, operating grants and contributions of \$45,242, and penalties and interest, interest income and other various general revenues of \$173,729.

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

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

1. Property tax revenue decreased about 1.2% from the previous year's figures.
2. The local economy was starting to reflect the oil industry downturn with sales tax revenues being down 4.1%, franchise tax revenues up 1.7% and occupancy tax revenues down 2.2%.
3. 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 increase of about 5.3% in collection revenues.
4. Investment earnings were down about 49.1% 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 \$4,713,882, which is 4.5% above last year's total of \$4,512,300. Included in this year's total change in fund balance is an increase of \$201,582 in the City's General Fund. Reasons for the increase to the General Fund mirror the ones for governmental activities above.

For the 2013-2014 fiscal year, actual expenditures on a budgetary basis were \$2,919,395, compared to the original budget expenditures of \$2,904,162. Actual revenue on a budgetary basis was \$3,120,977 compared to the original budget of \$2,904,178. 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 automated meter project was approved and in process of being installed
4. The museum construction started during the fiscal year.

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;
- the completion of the airport capital improvement project grant.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – At the end of fiscal year 2014, the City had \$19,573,665, 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 start of the museum construction project
- the water and gas automated meter replacement project
- the continued expansion of the City's water well field.

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

The City's fiscal year 2015 capital budget calls for expenditures of \$1,304,750. This includes the following:

- continued construction of the new museum;
- a new vehicle for the police department;
- a curb and gutter project;
- a new vehicle for the fire department;
- a continuation of the cemetery expansion project;
- the engineering portion of the airport runway improvement project;
- the addition of some facilities for the parks;
- the purchase of a new backhoe.

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 G to the financial statements.

**Debt** – Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note H to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget and tax rates. Some key items that should be noted are as follows:

1. Taxable values increased by 3.3% from last year's figures. The tax rate was set at 56.0 cents (\$0.56) per one hundred dollars valuation, a slight decrease from last year.
2. Projected General Fund revenues and expenses are increased by 5.2% compared to last year's figures. The increase in revenues is primarily due to an increase in budgeted sales tax revenue. There has also been budgeted a transfer of reserves from the General Fund in order to cover the construction of the new Denver City Museum and also to continue the street improvement project which was begun last year.
3. The budget allowed for 32 full-time positions and 8 part-time positions. Base pay increases averaging about 3.5% 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 and there have also been small increases in the water, sewer and sanitation rates. The average residential bill increases by approximately 4.4% while the average commercial bill increases by approximately 2.1%.
5. Increased demand for the sanitation department will again require the purchase of about 100 new dumpsters. With the aging of trash containers in service and the continued increase in customers, the need for new dumpsters has been a constant. The additional customer numbers also relate to the increased costs in the sanitation department.
6. Pump replacement is accounted for in both the water production and water distribution departments as well as both the wastewater collection and wastewater treatment departments.
7. Funds have also been set aside for the purchase of a new backhoe.

CITY OF DENVER CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014  
(Unaudited)

**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. 3<sup>rd</sup> 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. 3<sup>rd</sup> St., Denver City, Texas, 79323.

## BASIC FINANCIAL STATEMENTS

**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2014

	Primary Government			Total Primary Government	Component Unit
	Governmental Activities	Business Type Activities	Eliminations		Denver City Economic Development Corporation
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 1,173,255	\$ 6,323,354	\$ -	\$ 7,496,609	\$ 947,287
Property Taxes Receivable, Net	27,404	-	-	27,404	-
Sales Tax Receivable	190,438	-	-	190,438	47,610
Franchise Tax Receivable	43,512	-	-	43,512	-
Accounts Receivable, Net	21,821	379,017	-	400,838	-
Incentive Accounts Receivable, Net	-	266,580	-	266,580	-
Interest Receivable	240	305	-	545	-
Other Receivables	568	-	-	568	-
Due from Other Governments	33,046	-	-	33,046	-
Inventory	-	112,118	-	112,118	-
<b>Total Current Assets</b>	<b>1,490,284</b>	<b>7,081,374</b>	<b>-</b>	<b>8,571,658</b>	<b>994,897</b>
<b>NONCURRENT ASSETS</b>					
Restricted Cash and Cash Equivalents	-	118,200	-	118,200	-
Due from Other Funds	3,699,545	-	(3,699,545)	-	-
Capital Assets, Net	1,965,945	6,455,059	-	8,421,004	353,845
<b>Total Noncurrent Assets</b>	<b>5,665,490</b>	<b>6,573,259</b>	<b>(3,699,545)</b>	<b>8,539,204</b>	<b>353,845</b>
<b>Total Assets</b>	<b>\$ 7,155,774</b>	<b>\$ 13,654,633</b>	<b>\$ (3,699,545)</b>	<b>\$ 17,110,862</b>	<b>\$ 1,348,742</b>
<b>LIABILITIES AND NET POSITION</b>					
<b>CURRENT LIABILITIES</b>					
Cash Overdrafts	\$ -	\$ 776,548	\$ -	\$ 776,548	\$ -
Accounts Payable	289,897	147,793	-	437,690	-
Unapplied Credits	-	14,931	-	14,931	-
Accrued Payroll	20,846	7,923	-	28,769	-
Accrued Payroll Liabilities	18,172	4,869	-	23,041	983
Accrued Vacation - Current	40,013	13,708	-	53,721	-
Sales Tax Payable	-	6,341	-	6,341	-
Due to Component Unit	47,610	-	-	47,610	-
Airport Lease Liability	32,721	-	-	32,721	-
Accrued Court Security Payable	5,149	-	-	5,149	-
<b>Total Current Liabilities</b>	<b>454,408</b>	<b>972,113</b>	<b>-</b>	<b>1,426,521</b>	<b>983</b>
<b>NONCURRENT LIABILITIES</b>					
Accrued Vacation - Long Term	51,544	13,211	-	64,755	-
Due to General Fund	-	3,699,545	(3,699,545)	-	-
Customer Deposits	-	118,200	-	118,200	-
<b>Total Noncurrent Liabilities</b>	<b>51,544</b>	<b>3,830,956</b>	<b>(3,699,545)</b>	<b>182,955</b>	<b>-</b>
<b>Total Liabilities</b>	<b>505,952</b>	<b>4,803,069</b>	<b>(3,699,545)</b>	<b>1,609,476</b>	<b>983</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	1,965,945	6,455,059	-	8,421,004	353,845
Unrestricted	4,683,877	2,396,505	-	7,080,382	993,914
<b>Total Net Position</b>	<b>6,649,822</b>	<b>8,851,564</b>	<b>-</b>	<b>15,501,386</b>	<b>1,347,759</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 7,155,774</b>	<b>\$ 13,654,633</b>	<b>\$ (3,699,545)</b>	<b>\$ 17,110,862</b>	<b>\$ 1,348,742</b>

**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
Year Ended September 30, 2014

	<b>Program Revenues</b>		
<b>Expenses</b>	<b>Charges for Service</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>PRIMARY GOVERNMENT:</b>			
<b>Governmental Activities</b>			
General Government			
Legislative	\$ 430,851	\$ -	\$ -
Executive	64,917	-	-
Finance	92,766	-	-
Judicial	22,925	21,349	-
Public Safety			
Police	928,071	-	-
Fire	98,392	-	15,000
Ambulance/EMS	340,194	20,116	20,000
Code Enforcement	5,851	9,202	-
Animal Control	53,883	3,322	-
Streets	449,940	5,715	-
Culture and Recreation			
Parks	87,865	-	-
Cemetery	61,347	4,400	-
Airport	14,520	1,497	10,242
Depreciation	189,731	-	-
<b>Total Governmental Activities</b>	<b>2,841,253</b>	<b>65,601</b>	<b>45,242</b>
<b>Business-type Activities</b>			
Water/Wastewater Fund	1,216,192	1,079,186	-
Sanitation Fund	534,008	557,509	-
Gas Fund	831,249	824,721	-
<b>Total Business-type Activities</b>	<b>2,581,449</b>	<b>2,461,416</b>	<b>-</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,422,702</b>	<b>\$ 2,527,017</b>	<b>\$ 45,242</b>
<b>COMPONENT UNIT:</b>			
Denver City Economic Development Corporation	\$ 128,844	\$ -	\$ 50,000

**GENERAL REVENUES**

Taxes  
Property  
Sales  
Franchise  
Occupancy  
Penalties & Interest  
Rentals  
Sales of Capital Assets  
Interest  
Other

**Total General Revenues**

**Change in Net Position**

**Net Position, Beginning of Year**

**Net Position, End of Year**

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Denver City Economic Development Corporation</b>
\$ (430,851)	\$ -	\$ (430,851)	\$ -
(64,917)	-	(64,917)	-
(92,766)	-	(92,766)	-
(1,576)	-	(1,576)	-
(928,071)	-	(928,071)	-
(83,392)	-	(83,392)	-
(300,078)	-	(300,078)	-
3,351	-	3,351	-
(50,561)	-	(50,561)	-
(444,225)	-	(444,225)	-
(87,865)	-	(87,865)	-
(56,947)	-	(56,947)	-
(2,781)	-	(2,781)	-
(189,731)	-	(189,731)	-
<u>(2,730,410)</u>	<u>-</u>	<u>(2,730,410)</u>	<u>-</u>
-	(137,006)	(137,006)	-
-	23,501	23,501	-
-	(6,528)	(6,528)	-
-	(120,033)	(120,033)	-
<u>(2,730,410)</u>	<u>(120,033)</u>	<u>(2,850,443)</u>	<u>-</u>
-	-	-	(78,844)
1,636,390	-	1,636,390	-
959,794	-	959,794	252,579
205,273	-	205,273	-
32,659	-	32,659	-
12,985	-	12,985	-
85,259	-	85,259	-
20,870	-	20,870	-
6,639	9,553	16,192	9,317
47,976	-	47,976	-
<u>3,007,845</u>	<u>9,553</u>	<u>3,017,398</u>	<u>261,896</u>
277,435	(110,480)	166,955	183,052
<u>6,372,387</u>	<u>8,962,044</u>	<u>15,334,431</u>	<u>1,164,707</u>
<u>\$ 6,649,822</u>	<u>\$ 8,851,564</u>	<u>\$ 15,501,386</u>	<u>\$ 1,347,759</u>

**CITY OF DENVER CITY, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
September 30, 2014

	<b>General Fund</b>
<b>ASSETS</b>	
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,173,255
Sales Tax Receivable	190,438
Franchise Taxes Receivable	43,512
Property Taxes Receivable, Net	28,144
Interest Receivable	240
Ambulance Receivables, Net	21,821
Due from Other Governments	33,046
Due from Other Funds	3,699,545
Other Receivables	568
Curb and Gutter Assessment	1,572
<b>Total Assets</b>	<b>\$ 5,192,141</b>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 289,897
Accrued Payroll	20,846
Accrued Payroll Liabilities	18,172
Due to Component Unit	47,610
Accrued Vacation - Current	40,013
Airport Lease Liability	32,721
Accrued Court Security Payable	5,149
<b>Total Liabilities</b>	<b>454,408</b>
<b>DEFERRED INFLOWS</b>	
Curb and Gutter Assessment	1,572
Property Taxes	22,279
<b>Total Deferred Inflows</b>	<b>23,851</b>
<b>FUND BALANCE</b>	
Committed to Museum Construction	493,504
Unassigned	4,220,378
<b>Total Fund Balance</b>	<b>4,713,882</b>
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<b>\$ 5,192,141</b>

**CITY OF DENVER CITY, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
September 30, 2014

<b>Total Fund Balance - Governmental Funds</b>	\$	4,713,882
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not annual financial resources and therefore are not reported in the governmental funds.		1,965,945
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The City reports an amount for the liability for the employees' accrued compensated absences. The net effect of including this liability is to decrease net position.		(51,544)
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Property taxes are reported on the full accrual method for the government-wide financial statements, whereas the governmental funds report property taxes on the modified accrual method. An adjustment from the modified accrual to the full accrual method is necessary to properly report property taxes in the government-wide financial statements. The net effect of this adjustment increases net position.		21,539
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<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u><u>6,649,822</u></u></b>
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**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
Year Ended September 30, 2014

	<b>General Fund</b>
<b>REVENUES</b>	
Taxes	
Property	\$ 1,638,677
Sales	959,794
Franchise	205,273
Occupancy	32,659
Penalties and Interest	12,985
Charges for Services	13,437
Ambulance Runs	20,116
Licenses, Fees and Permits	9,202
Court Fines	21,349
Rentals and Royalties	86,756
Grants and Contributions	45,242
Cemetery and Subdivision Lots	20,870
Investment Earnings	6,639
Other	47,978
	3,120,977
<b>Total Revenues</b>	
<b>EXPENDITURES</b>	
<b>Current</b>	
General Government	
Legislative	430,851
Executive	64,916
Finance	86,033
Judicial	22,924
Public Safety	
Police	928,071
Fire	98,393
Ambulance/EMS	340,196
Code Enforcement	5,851
Animal Control	53,881
Streets	449,941
Culture and Recreation	
Parks	87,865
Cemetery	61,348
Airport	14,521
<b>Capital Outlay</b>	274,604
<b>Total Expenditures</b>	2,919,395
<b>Excess of Revenues over Expenditures</b>	201,582
<b>Fund Balance, Beginning of Year</b>	4,512,300
<b>Fund Balance, End of Year</b>	\$ 4,713,882

**CITY OF DENVER CITY, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF**  
**REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**TO THE STATEMENT OF ACTIVITIES**  
Year Ended September 30, 2014

<b>Net Changes in Fund Balance - Governmental Funds</b>	<b>\$</b>	<b>201,582</b>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of assets are allocated over their estimated useful lives in the form of depreciation.		274,604
Current year property taxes were reported on the modified accrual method for the governmental funds but are reported on the full accrual method for the government-wide financial statements.		(2,288)
Depreciation is recognized on the Statement of Activities as allocating the cost of the assets over their estimated useful lives.		(189,731)
The change in compensated absences liability is reported on the Statement of Activities but is not reflected in the Governmental funds.		(6,732)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>277,435</u></b>

**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2014

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Proprietary Funds
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ -	\$ 1,019,162	\$ 5,304,192	\$ 6,323,354
Utility Accounts Receivable, Net	191,817	90,117	97,083	379,017
Incentive Accounts Receivable, Net	-	-	266,580	266,580
Interest Receivable	137	63	105	305
Inventory	90,855	-	21,263	112,118
<b>Total Current Assets</b>	<b>282,809</b>	<b>1,109,342</b>	<b>5,689,223</b>	<b>7,081,374</b>
<b>NONCURRENT ASSETS</b>				
Restricted Cash and Cash Equivalents	56,825	13,450	47,925	118,200
Capital Assets, Net	5,976,548	184,905	293,606	6,455,059
<b>Total Noncurrent Assets</b>	<b>6,033,373</b>	<b>198,355</b>	<b>341,531</b>	<b>6,573,259</b>
<b>Total Assets</b>	<b>\$ 6,316,182</b>	<b>\$ 1,307,697</b>	<b>\$ 6,030,754</b>	<b>\$ 13,654,633</b>
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Cash Overdrafts	\$ 776,548	\$ -	\$ -	\$ 776,548
Accounts Payable	100,831	23,087	23,875	147,793
Unapplied Credits	14,931	-	-	14,931
Accrued Payroll	3,470	3,333	1,120	7,923
Accrued Payroll Liabilities	2,011	2,177	681	4,869
Accrued Vacation - Current	5,024	6,983	1,701	13,708
Sales Tax Payable	-	-	6,341	6,341
<b>Total Current Liabilities</b>	<b>902,815</b>	<b>35,580</b>	<b>33,718</b>	<b>972,113</b>
<b>NONCURRENT LIABILITIES</b>				
Accrued Vacation - Long-Term	4,336	7,381	1,494	13,211
Due to General Fund	422,297	456,606	2,820,642	3,699,545
Customer Deposits	56,825	13,450	47,925	118,200
<b>Total Noncurrent Liabilities</b>	<b>483,458</b>	<b>477,437</b>	<b>2,870,061</b>	<b>3,830,956</b>
<b>Total Liabilities</b>	<b>1,386,273</b>	<b>513,017</b>	<b>2,903,779</b>	<b>4,803,069</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	5,976,548	184,905	293,606	6,455,059
Unrestricted	(1,046,639)	609,775	2,833,369	2,396,505
<b>Total Net Position</b>	<b>4,929,909</b>	<b>794,680</b>	<b>3,126,975</b>	<b>8,851,564</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 6,316,182</b>	<b>\$ 1,307,697</b>	<b>\$ 6,030,754</b>	<b>\$ 13,654,633</b>

**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
Year Ended September 30, 2014

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Proprietary Funds
<b>OPERATING REVENUES</b>				
Charges for Service	\$ 1,051,882	\$ 552,493	\$ 824,646	\$ 2,429,021
Late Fees and Penalties	17,404	-	-	17,404
Tap and Reconnect Fees	9,900	-	75	9,975
Other	-	5,016	-	5,016
	<u>1,079,186</u>	<u>557,509</u>	<u>824,721</u>	<u>2,461,416</u>
<b>OPERATING EXPENDITURES</b>				
Salaries and Wages	175,998	176,716	58,794	411,508
Retirement Expense	19,457	20,758	6,581	46,796
Employee Taxes and Benefits	52,530	48,888	21,072	122,490
Gas Purchases	-	-	586,677	586,677
Purchases Services	75,328	73,609	34,603	183,540
Property and Facility	66,464	-	1,061	67,525
Supplies	52,187	59,444	15,184	126,815
Repairs and Maintenance	357,479	76,251	65,425	499,155
Other Expenses	28,643	15,820	24,281	68,744
Depreciation	388,106	62,522	17,571	468,199
	<u>1,216,192</u>	<u>534,008</u>	<u>831,249</u>	<u>2,581,449</u>
<b>Total Operating Expenses</b>	<u>1,216,192</u>	<u>534,008</u>	<u>831,249</u>	<u>2,581,449</u>
<b>Operating Income (Loss)</b>	(137,006)	23,501	(6,528)	(120,033)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	1,099	355	8,099	9,553
	<u>1,099</u>	<u>355</u>	<u>8,099</u>	<u>9,553</u>
<b>Total Nonoperating Income</b>	<u>1,099</u>	<u>355</u>	<u>8,099</u>	<u>9,553</u>
<b>Change in Net Position</b>	(135,907)	23,856	1,571	(110,480)
<b>Net Position - Beginning of Year</b>	<u>5,065,816</u>	<u>770,824</u>	<u>3,125,404</u>	<u>8,962,044</u>
<b>Net Position - End of Year</b>	<u>\$ 4,929,909</u>	<u>\$ 794,680</u>	<u>\$ 3,126,975</u>	<u>\$ 8,851,564</u>

**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year Ended September 30, 2014

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Proprietary Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts From Customers	\$ 1,093,276	\$ 555,399	\$ 812,017	\$ 2,460,692
Payments and Benefits to Employees	(247,675)	(247,829)	(80,164)	(575,668)
Payments to Suppliers and Contractors	(549,640)	(230,387)	(722,382)	(1,502,409)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>295,961</b>	<b>77,183</b>	<b>9,471</b>	<b>382,615</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund Lending	400,404	445,351	2,806,118	3,651,873
<b>Net Cash Flows Provided by Noncapital Financing Activities</b>	<b>400,404</b>	<b>445,351</b>	<b>2,806,118</b>	<b>3,651,873</b>
<b>CASH FLOWS FROM CAPITAL and RELATED FINANCING ACTIVITIES</b>				
Purchase of Capital Assets	(627,827)	(30,254)	(197,995)	(856,076)
<b>Net Cash Flows Used by Capital Financing Activities</b>	<b>(627,827)</b>	<b>(30,254)</b>	<b>(197,995)</b>	<b>(856,076)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments on EDC Note Receivable	39,310	8,811	49,476	97,597
Interest income	1,087	471	8,763	10,321
Net Activity on Incentive Loans	-	-	79,162	79,162
<b>Net Cash Flows Provided by Investing Activities</b>	<b>40,397</b>	<b>9,282</b>	<b>137,401</b>	<b>187,080</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>108,935</b>	<b>501,562</b>	<b>2,754,995</b>	<b>3,365,492</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>(828,658)</b>	<b>531,050</b>	<b>2,597,122</b>	<b>2,299,514</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ (719,723)</b>	<b>\$ 1,032,612</b>	<b>\$ 5,352,117</b>	<b>\$ 5,665,006</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>				
Operating Income (Loss)	\$ (137,006)	\$ 23,501	\$ (6,528)	\$ (120,033)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities</b>				
Depreciation	388,106	62,522	17,571	468,199
<b>Changes in</b>				
Utility Accounts Receivable, Net	558	(6,935)	(1,179)	(7,556)
Inventory	(39,298)	-	(9,238)	(48,536)
Accounts Payable	69,759	(5,263)	12,757	77,253
Unapplied Credits	(2,393)	-	-	(2,393)
Accrued Payroll	(698)	(478)	(250)	(1,426)
Accrued Payroll Liabilities	(416)	119	6,285	5,988
Accrued Vacation - Current	1,960	(930)	619	1,649
Accrued Vacation - Long Term	(536)	(178)	(371)	(1,085)
Sales Tax Payable	-	-	1,330	1,330
Customer Deposits	15,925	4,825	(11,525)	9,225
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 295,961</b>	<b>\$ 77,183</b>	<b>\$ 9,471</b>	<b>\$ 382,615</b>
<b>Reconciliation to Balance Sheet</b>				
Cash and Cash Equivalents	\$ -	\$ 1,019,162	\$ 5,304,192	\$ 6,323,354
Cash Overdrafts	(776,548)	-	-	(776,548)
Restricted Cash - Deposits	56,825	13,450	47,925	118,200
	<b>\$ (719,723)</b>	<b>\$ 1,032,612</b>	<b>\$ 5,352,117</b>	<b>\$ 5,665,006</b>

See accompanying notes and independent auditors' report.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2014

**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 through a three-eighths of one percent sales tax.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**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 or refinancing of, or providing public facilities 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, 2014, 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, 2014.
- 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. Interfund balances between governmental and business-type activities are eliminated on the Statement of Net Position.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

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

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, deferred inflows and outflows, 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.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**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 net investment in capital assets, restricted net position, and unrestricted net position.

**IMPLEMENTATION OF GASB 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.

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.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, became 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.

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 payments received in advance with time restrictions, property taxes received in advance, or deferred amounts from debt refunding.

The Statement defines *deferred outflows of resources* as a consumption of net position by the government that is applicable to a future reporting period. Items such as grants paid to sub-recipients 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 outflows of resources. Debt issuance costs are now expensed under GASB No. 65.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

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

*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.
- 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.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

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

**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 expenses in the year of issue 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.

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**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. 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.

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.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

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

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 a local insurance agency. For the year ended September 30, 2014, the City of Denver City, Texas contributed approximately \$79,899 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.

10. The City sometimes 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.
11. 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.
12. 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 through 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 as Required Supplementary Information after the notes to the financial statements.

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

1. Article VII of the City Charter requires the City Manager to prepare an annual budget using the zero-based budgeting concept at least 45 days prior to the beginning of the fiscal year. The operating budget includes proposed expenditures and the means of financing them. Budgeted funds include the General Fund and enterprise funds. Enterprise funds are budgeted for management purposes.
2. The budget is filed in the City Manager's office not less than 30 days prior to the adoption of the tax levy and is open to public inspection. The City Council is required to hold a minimum of two public hearings on the budget no less than 15 days subsequent to the filing by the City Manager.
3. The budget is then adopted at the conclusion of the last public hearing by the favorable votes of a majority of the members of the City Council. The original budget was adopted by the City Council on September 16, 2014, 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.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**NOTE B - BUDGETARY DATA (Cont.)**

5. The fiscal 2014 General Fund budget was prepared on the modified accrual basis using estimated beginning and ending fund balances. The fiscal 2014 enterprise fund budgets were prepared on the accrual basis using estimated beginning and ending net position.

**NOTE C – CASH AND CASH EQUIVALENTS**

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 position 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 \$118,200 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 governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the government entity and held by the entity or its agents. The City's deposits were properly secured during the year through a combination of FDIC insurance and a letter of credit from the financial institution. The City is in substantial compliance with the law for the year ended September 30, 2014, and has no custodial credit risk for its deposits.

**Compliance with the Public Funds Investment Act** - 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 a governmental entity 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, (9) and bid solicitation preferences for certificates of deposit.

These policies authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) certificates of deposit by state and national banks doing business in Texas that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or, (b) secured by obligations in a manner and amount provided by law for deposits of the City; (3) fully collateralized repurchase agreements with a bank in Texas or a primary dealer, executed under the Bond Market Master Repurchase Agreement in accordance with the PFIA not to exceed 120 days; (4) money market mutual funds that are (a) registered and regulated by the Securities and Exchange Commission, (b) have a dollar weighted average stated maturity of 90 days or less, (c) rated AAA by at least one nationally recognized rating service, and (d) seek to maintain a net asset value of \$1.00 per share; (5) constant-dollar, Texas local government investment pools, which (a) meet the requirements of PFIA, (b) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, (c) are authorized by resolution or ordinance by the City Council.

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

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE C – CASH AND CASH EQUIVALENTS (Cont.)**

**Interest Rate Risk** – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 365. The maximum allowable stated maturity of any individual investment owned by the City shall not exceed one year from the time of purchase.

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, 2014.

	<b>General Fund</b>	<b>Water and Sewer Fund</b>	<b>Sanitation Fund</b>	<b>Gas Fund</b>	<b>Total</b>
Unrestricted Funds	\$ 1,155,996	\$ (791,479)	\$ 1,019,162	\$ 5,304,192	\$ 6,687,871
Restricted Funds	-	56,825	13,450	47,925	118,200
Chamber Certificate of Deposit	14,459	-	-	-	14,459
Unapplied Cash	-	14,931	-	-	14,931
Petty Cash	<u>2,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,800</u>
<b>Total</b>	<u><b>\$ 1,173,255</b></u>	<u><b>\$ (719,723)</b></u>	<u><b>\$ 1,032,612</b></u>	<u><b>\$ 5,352,117</b></u>	<u><b>\$ 6,838,261</b></u>

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

<b>Category</b>	<b>Amount</b>
TexPool Deposits	\$ 4,550,961
Bank Deposits	1,272,671
Certificates of Deposit	<u>864,239</u>
<b>Total</b>	<u><b>\$ 6,687,871</b></u>

As of September 30, 2014, no holdings included in the cash deposits (certificates of deposit or TexPool) had a stated maturity beyond twelve months and the weighted average maturity of TexPool was 49 days.

**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 10<sup>th</sup> Street, Austin, TX, 78701. The report is also available on the Trust's website at [www.ttstc.com](http://www.ttstc.com).

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**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 is 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 2014 (2013 tax levy) was \$0.5614 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 2013 tax levy was based was \$292,956,003 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2014 were approximately 98.3% of the tax levies available to be collected.

**Concentration of Risk** - During the year, the City collected approximately 46.5% 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, or if the company's assessed values significantly decline.

**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 \$21,539 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	\$ 28,144	\$ 28,144
Allowance for Uncollectible Taxes	(740)	-
Deferred Inflows	-	(22,279)
Net Property Taxes Receivable	<u>\$ 27,404</u>	<u>\$ 5,865</u>

**NOTE E – ACCOUNTS RECEIVABLE**

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, ambulance service calls, and receivables from Yoakum County and other governmental entities.

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, 2014 represent all unpaid billings issued prior to September 30, 2014 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.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**Concentrations of Risk** – The City grants credit to its customers without collateral other than a nominal security deposit. Ambulance activity within the Governmental Activities is generated from emergency service calls within the city and county. Most enterprise activity occurs within the City limits, except for sanitation, which provides services to selected parts of the county.

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, 2014.

	Governmental Activities	Business-type Activities			Totals
	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	
Utilities Receivable	\$ -	\$ 326,812	\$ 140,200	\$ 286,647	\$ 753,659
Ambulance Receivable	218,201	-	-	-	-
Allowance for Uncollectibles	<u>(196,380)</u>	<u>(134,995)</u>	<u>(50,083)</u>	<u>(189,564)</u>	<u>(374,642)</u>
Net Accounts Receivable	<u>\$ 21,821</u>	<u>\$ 191,817</u>	<u>\$ 90,117</u>	<u>\$ 97,083</u>	<u>\$ 379,017</u>

**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 payments in lieu of franchise tax to the General Fund from the proprietary funds as of September 30, 2014, as well as other operational expenditures the General Fund makes on behalf of the proprietary funds. No other transfers occurred during the fiscal year.

These interfund balances are eliminated in the government-wide financial statements.

Due From	Due to General Fund
Water and Sewer Fund	\$ 422,297
Sanitation Fund	456,606
Gas Fund	<u>2,820,642</u>
Total	<u>\$ 3,699,545</u>

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**NOTE G - CAPITAL ASSETS**

Capital asset activity for the City for the year ended September 30, 2014 was as follows:

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
<b>Governmental Activities:</b>				
Land	\$ 186,858	\$ 16,487	\$ -	\$ 203,345
Infrastructure	246,859	-	-	246,859
Improvements	844,993	101,837	-	946,830
Buildings	1,023,759	116,494	-	1,140,253
Vehicles	1,085,547	39,786	-	1,125,333
Machinery and Equipment	<u>607,722</u>	<u>-</u>	<u>-</u>	<u>607,722</u>
Totals at Historic Cost	<u>3,995,738</u>	<u>274,604</u>	<u>-</u>	<u>4,270,342</u>
Less Accumulated Depreciation				
Infrastructure	(91,981)	(9,874)	-	(101,855)
Improvements	(119,214)	(34,929)	-	(154,143)
Buildings	(688,111)	(25,695)	-	(713,806)
Vehicles	(743,734)	(85,422)	-	(829,156)
Machinery and Equipment	<u>(471,626)</u>	<u>(33,811)</u>	<u>-</u>	<u>(505,437)</u>
Totals Accumulated Depreciation	<u>(2,114,666)</u>	<u>(189,731)</u>	<u>-</u>	<u>(2,304,397)</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 1,881,072</u>	<u>\$ 84,873</u>	<u>\$ -</u>	<u>\$ 1,965,945</u>

Depreciation expense for governmental activities is reported as a separate line item in the Statement of Activities to better facilitate disclosure. The depreciation expense is allocated to the major functions as follows:

Function	Amount
General Government	\$ 22,477
Public Safety	98,702
Streets	22,194
Culture and Recreation	<u>46,358</u>
Total	<u>\$ 189,731</u>

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
<b>Business-type Activities:</b>				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Water Rights	631,521	-	-	631,521
Construction in Progress	-	717,683	-	717,683
Infrastructure	6,852,480	58,183	-	6,910,663
Improvements	4,748,929	-	-	4,748,929
Buildings	54,546	15,873	-	70,419
Vehicles	778,243	-	-	778,243
Machinery and Equipment	<u>941,528</u>	<u>64,337</u>	<u>-</u>	<u>1,005,865</u>
Totals at Historic Cost	<u>14,447,247</u>	<u>856,076</u>	<u>-</u>	<u>15,303,323</u>
Less Accumulated Depreciation				
Water Rights	(631,521)	-	-	(631,521)
Infrastructure	(2,934,057)	(216,445)	-	(3,150,502)
Improvements	(3,424,387)	(151,416)	-	(3,575,803)
Buildings	(31,994)	(2,699)	-	(34,693)
Vehicles	(513,108)	(73,130)	-	(586,238)
Machinery and Equipment	<u>(844,998)</u>	<u>(24,509)</u>	<u>-</u>	<u>(869,507)</u>
Total Accumulated Depreciation	<u>(8,380,065)</u>	<u>(468,199)</u>	<u>-</u>	<u>(8,848,264)</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>\$ 6,067,182</u>	<u>\$ 387,877</u>	<u>\$ -</u>	<u>\$ 6,455,059</u>

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE H - LONG-TERM COMPENSATED ABSENCES**

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

Long-term activity for the year ended September 30, 2014, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Other Liabilities:				
Compensated Absences	<u>\$ 44,812</u>	<u>\$ 41,636</u>	<u>\$ (34,904)</u>	<u>\$ 51,544</u>
<b>Business-Type Activities:</b>				
Other Liabilities:				
Compensated Absences	<u>\$ 14,296</u>	<u>\$ 20,639</u>	<u>\$ (21,724)</u>	<u>\$ 13,211</u>

**NOTE I - COMPONENT UNIT**

The City loaned \$2,500,000 to a component unit, the Denver City Economic Development Corporation (EDC) during the 2005 fiscal year. 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 note was paid in full during the fiscal year.

The City receives the sales remittances from the State Comptroller's office electronically each month. In turn, the City remits the appropriate dedicated sales tax amounts to the Denver City Economic Development Corporation. During the fiscal year, the City received and remitted the following amounts. The remaining balance due to EDC is expected to clear out in the next fiscal year.

	<b>Beginning Balance</b>	<b>Collections</b>	<b>Remittances</b>	<b>Ending Balance</b>
Due to Component Unit	<u>\$ 37,704</u>	<u>\$ 252,943</u>	<u>\$ (243,037)</u>	<u>\$ 47,610</u>

**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, 2014 the City paid approximately \$195,605 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.

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE K - DEFINED BENEFIT PLANS (Cont.)**

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](http://www.TMRS.com).

**Contributions:** Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

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 2014 and 2013 plan years were as follows:

	Plan Year 2014	Plan Year 2013
Employee Deposit Rate	5%	5%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Employer Contribution Rate	12.67%	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 as described in Note L.

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

Annual Required Contribution (ARC)	\$ 222,279
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost	<u>222,279</u>
Contributions Made	<u>(222,279)</u>
Increase (Decrease) in Net Pension Obligation	-
Net Pension Obligation/(Asset), (NPO) at the Beginning of the Period	-
NPO at the End of the Period	<u><u>\$ -</u></u>

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**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
9/30/14	\$ 222,279	\$ 222,279	100%	\$ -0-
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, 2013, the most recent actuarial valuation date, as well as prior 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)
12/31/13	\$ 7,263,803	\$ 8,064,920	\$ 801,117	90.1%	\$ 1,295,510	61.8%
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 2014 were determined as part of the December 31, 2012 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows.

**TMRS ACTUARIAL VALUATION INFORMATION**

Actuarial Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed Period	Level Percentage of Payroll, Closed Period	Level Percentage of Payroll, Closed Period
Amortization Period	25.8 years	24.8 years	12.0 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	3.0%	3.0%	3.0%
Cost of Living Adjustment	2.1%	2.1%	2.1%
*Includes inflation at stated rate			

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE K - DEFINED BENEFIT PLANS (Cont.)**

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

**Plan Description:** The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

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](http://www.tesrs.texas.gov).

At August 31, 2014, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,073
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,161
Active Participants (Vested and Non-vested)	<u>4,036</u>
Total	<u>9,270</u>

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified 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. There is no provision for automatic postretirement benefit increases.

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

**Funding Policy:** Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE K - DEFINED BENEFIT PLANS (Cont.)**

The state is required to contribute an amount necessary to make the System “actuarially sound” each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year. The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

**Annual Required Contributions:** The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,530,343 for the fiscal year ending August 31, 2014. The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System’s administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761. The City contributed \$16,044 for the fiscal year ended September 30, 2014.

**TESRS RETIREMENT PLAN SCHEDULE OF FUNDING PROGRESS – STATE-WIDE**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>1</sup> (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered ((b-a)/c)
8/31/14	\$ 83,761,038	\$ 109,854,799	\$ 26,093,761	76.2%	9,270	\$ 2,815
8/31/12 <sup>2</sup>	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585
8/31/10 <sup>3</sup>	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984

Notes:

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions were reflected in this valuation

<sup>3</sup> Changes in an actuarial assumption and method were reflected in this valuation

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE K - DEFINED BENEFIT PLANS (Cont.)**

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

Valuation Date	August 31, 2014	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 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 the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (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](http://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 0.21% and 0.21% for calendar years 2014 and 2013, respectively, of which 0.07% and 0.07% represented the retiree-only portion for 2014 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.

CITY OF DENVER CITY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED SEPTEMBER 30, 2014

**NOTE L - OTHER POSTEMPLOYMENT BENEFITS**

**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
9/30/14	\$ 2,627	\$ 2,627	100%	\$ 876
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 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, 2014 is approximately \$32,721, with approximately \$16,360 due from Yoakum County, representing three 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
2015	\$ 5,454	\$ 5,453	\$ 10,907
2016	5,453	5,454	10,907
2017	5,454	5,453	10,907
2018	5,453	5,454	10,907
2019	5,454	5,453	10,907
2020-2024	27,267	27,268	54,535
2025-2029	27,268	27,267	54,535
2030-2032	<u>16,359</u>	<u>16,359</u>	<u>32,718</u>
Total	<u>\$ 98,162</u>	<u>\$ 98,161</u>	<u>\$ 193,323</u>

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**NOTE O – FEDERAL, STATE AND OTHER GRANTS**

The City had \$50,000 in state award expenditures and no Federal expenditures for the year ended September 30, 2014. As a result, the City is not subject to the Texas Single Audit Circular. The City also received \$35,000 in public safety grants from Yoakum County to support the EMS and fire departments.

**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 and TESRS plans. 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.

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.

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**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, 2014, the EDC had \$697,287 of deposits subject to custodial credit risk.

**Contributions** - EDC also elected to adopt FASB ASC 958-605, formally SFAS 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.

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

CITY OF DENVER CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
YEAR ENDED SEPTEMBER 30, 2014

**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.

The Corporation received \$252,579 in sales tax revenue and has a sales tax receivable due from the City of Denver City of approximately \$47,610 for the fiscal year ended September 30, 2014.

**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. The balance due the City of Denver City at the beginning of the year of \$135,551 was paid off during the fiscal year.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2014 is as follows:

	Balance 2013	Additions	Deletions	Balance 2014
Land	\$ 55,807	\$ -	\$ -	\$ 55,807
Land Improvements	364,450	-	-	364,450
Furniture and Equipment	<u>30,614</u>	<u>986</u>	<u>-</u>	<u>31,600</u>
	450,871	986	-	451,857
Less Accumulated Depreciation	<u>(68,140)</u>	<u>(29,872)</u>	<u>-</u>	<u>(98,012)</u>
Capital Assets, Net	<u>\$ 382,731</u>	<u>\$ (28,886)</u>	<u>\$ -</u>	<u>\$ 353,845</u>

Depreciation expense of \$29,872 for the 2014 fiscal year had \$26,885 allocated to Program Services and \$2,987 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 2014 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF DENVER CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS - BUDGET AND ACTUAL**  
**Year Ended September 30, 2014**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes				
Property	\$ 1,604,750	\$ 1,604,750	\$ 1,638,677	\$ 33,927
Sales	800,000	970,696	959,794	(10,902)
Franchise	167,669	167,669	205,273	37,604
Occupancy	35,000	35,000	32,659	(2,341)
Penalties and Interest	15,000	15,000	12,985	(2,015)
Charges for Services	13,000	13,000	13,437	437
Ambulance Runs	85,000	20,000	20,116	116
Licenses, Fees and Permits	9,500	11,318	9,202	(2,116)
Court Fines	23,000	23,000	21,349	(1,651)
Rentals and Royalties	79,525	86,156	86,756	600
Grants and Contributions	35,000	35,000	45,242	10,242
Cemetery and Subdivision Lots	8,000	19,780	20,870	1,090
Investment Earnings	8,734	8,734	6,639	(2,095)
Other	20,000	27,945	47,978	20,033
	<u>2,904,178</u>	<u>3,038,048</u>	<u>3,120,977</u>	<u>82,929</u>
<b>Total Revenues</b>	2,904,178	3,038,048	3,120,977	82,929
<b>EXPENDITURES</b>				
<b>Current</b>				
General Government				
Legislative	480,763	536,637	430,851	105,786
Executive	67,644	67,644	64,916	2,728
Finance	105,898	105,898	86,033	19,865
Judicial	23,308	23,308	22,924	384
Public Safety				
Police	997,892	997,892	928,071	69,821
Fire	139,464	158,464	98,393	60,071
Ambulance/EMS	368,228	373,829	340,196	33,633
Code Enforcement	5,500	5,500	5,851	(351)
Animal Control	65,040	65,040	53,881	11,159
Streets	300,071	520,071	449,941	70,130
Culture and Recreation				
Parks	94,364	94,364	87,865	6,499
Cemetery	57,212	57,212	61,348	(4,136)
Airport	20,778	20,778	14,521	6,257
Capital Outlay	178,000	1,054,324	274,604	779,720
	<u>2,904,162</u>	<u>4,080,961</u>	<u>2,919,395</u>	<u>1,161,566</u>
<b>Total Expenditures</b>	2,904,162	4,080,961	2,919,395	1,161,566
<b>Net Change in Fund Balance</b>	16	(1,042,913)	201,582	1,244,495
<b>Fund Balance, Beginning of Year</b>	<u>4,512,300</u>	<u>4,512,300</u>	<u>4,512,300</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 4,512,316</u>	<u>\$ 3,469,387</u>	<u>\$ 4,713,882</u>	<u>\$ 1,244,495</u>

OTHER SUPPLEMENTARY INFORMATION



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	2,905
	Law Enforcement Liability	1,000,000	4,371
	Public Officials Liability (E & O)	1,000,000	6,402
	Automobile	1,000,000	7,944
	Auto Medical Payment	25,000	
	Fire Truck	340,000	
Physical Damage	Auto Physical Damage	1,075,676	14,909
Property	Real and Personal Property	3,586,010	6,751
	Boiler and Machinery	3,586,010	
	Mobile Equipment	196,956	757
	Transit	1,000,000	
Workers Compensation	Employees & Volunteers		32,021
Employee Bonds	Employees in Business Office	100,000	698
Employee Bonds	Employees in Business Office		223
	Airport Underground Fuel Tanks	1,000,000	1,685

CITY OF DENVER CITY, TEXAS  
RECONCILIATION OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED SEPTEMBER 30, 2014

2013 Tax Roll

Assessed Valuation (Adjusted for Correction)		<u>\$ 292,956,003</u>
Tax Rate \$0.5614 per \$100	\$ 1,644,655	
Adjustments and Supplements	<u>(5,752)</u>	
Current Year Tax Available To Be Collected		1,638,903
Prior Years Delinquent Taxes		<u>27,918</u>
Net Taxes to be Collected		1,666,821
Fiscal Year Collections		
Current Year	1,625,821	
Prior Year Delinquent	<u>12,856</u>	<u>1,638,677</u>
Delinquent Taxes at Year End		<u>28,144</u>
Percentage of Collection		<u>98.31%</u>

**CITY OF DENVER CITY, TEXAS**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
September 30, 2014

Year Ended September 30,	Beginning Balance 10/1/2013	Current Year Levy	Fiscal Year Collections	Adjustments	Ending Balance 9/30/2014
2005 and Prior	\$ 2,105	\$ -	\$ 59	\$ (1,034)	\$ 1,012
2006	451	-	65	38	424
2007	420	-	51	(37)	332
2008	463	-	51	(37)	375
2009	479	-	174	(25)	280
2010	714	-	431	(33)	250
2011	2,733	-	593	(120)	2,020
2012	5,724	-	2,305	(269)	3,150
2013	14,829	-	9,127	(1,017)	4,685
2014	<u>-</u>	<u>1,644,655</u>	<u>1,625,821</u>	<u>(3,218)</u>	<u>15,616</u>
	<u>\$ 27,918</u>	<u>\$ 1,644,655</u>	<u>\$ 1,638,677</u>	<u>\$ (5,752)</u>	<u>\$ 28,144</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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MEMBERS  
TEXAS SOCIETY AND AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT 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*

Board of Directors  
City of Denver City  
P.O. Box 1539  
Denver City, Texas 79323

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2015.

### **Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information and use of the City Council, management, others within the City of Denver City, Texas, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



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

Certified Public Accountants

Levelland, TX 79336

February 28, 2015