

CITY OF DENVER CITY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

CITY OF DENVER CITY, TEXAS
FISCAL YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	<u>Page No.</u>
FINANCIAL SECTION	
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
<u>Basic Financial Statements</u>	
Government-Wide Financial Statements:	
Statement of Net Position	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	14
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position – Proprietary Funds.....	16
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds.....	18
Notes to the Financial Statements	19
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	39
Schedule of Changes in Net Pension Liability and Related Ratios – (GASB 68)	40
Schedule of Contributions – (GASB 68)	41
Notes to Schedule of Contributions – (GASB 68).....	42
<u>Other Supplementary Information</u>	
Schedule of Insurance Coverage	43
Reconciliation of Delinquent Taxes Receivable.....	45
Schedule of Delinquent Taxes Receivable	46

COMPLIANCE AND INTERNAL CONTROL SECTION

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*.....

FINANCIAL SECTION

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

Sham L. Myatt CPA
E. Phelps Blume CPA
Sarah J. Osburn CPA
Buford A. Duff CPA

CERTIFIED PUBLIC ACCOUNTANTS
812 9TH STREET
LEVELLAND, TX 79336
PHONE: 806-894-7324/ FAX: 806-894-8693

MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUT
OF CERTIFIED PUBLIC ACCOUNTANTS

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, 2015, 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 of Denver City, as of September 30, 2015, 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 April 6, 2016, on our consideration of the City of Denver 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 of Denver City's internal control over financial reporting and compliance.

Respectfully submitted,



Myatt, Blume, & Osburn, Ltd., L.L.P.
Certified Public Accountants
Levelland, Texas
April 6, 2016

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2015
(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, 2015. Please read it in conjunction with the 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 \$15,755,034. Of this amount, \$6,868,178 was categorized as unrestricted.
- The City of Denver City's net position increased \$253,648, or 1.6% as a result of this year's operations. Net position of the City's business-type activities decreased \$65,147, or .74%, and net position of the City's governmental activities increased \$318,795, or 4.8%.
- During the year, the City's governmental funds had expenditures of \$3,507,580, which was \$221,462 more than the \$3,286,118 generated in tax and other revenues for governmental programs. This compares to last year when revenues exceeded expenditures by \$201,582.
- The General Fund ended the year with a fund balance of \$4,492,420. The Unassigned portion of the General Fund's fund balance is 128.08% of total general fund expenditures.

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's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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

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

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

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

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

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

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED SEPTEMBER 30, 2015
(Unaudited)

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, regardless of whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

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

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

- **Governmental activities** – Most of the City's basic services are reported here, including general administration, police, fire, emergency medical services, municipal court, street, cemetery, parks, airport, building & inspections, and animal control. Property taxes, sales taxes, and franchise taxes finance most of these activities.
- **Business-type activities** – The City charges a fee to consumers to help it cover all or most of the cost of certain services it provides. These include water, sewer, sanitation, and gas services.
- **Component unit** – The City includes a separate legal entity in its report, the Denver City Economic Development Corporation. Although legally separate, this component unit is important because the City is financially accountable for it.

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

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Laws and contracts require the City to establish some funds. The City's administration can establish many other funds to help it control and manage money for particular purposes (e.g. capital projects). All of the funds of the City can be divided into two categories: governmental funds and proprietary funds. Each category uses a different accounting approach.

- **Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide statements, governmental funds focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) to reflect that focus.

The governmental fund statements provide a detailed near-term view of the City's general operations and the basic services it provides.

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

- **Proprietary funds** – The City reports the activities for which it charges users (whether outside consumers or other units of the City) in proprietary funds using the same accounting method employed in the government-wide statements. In fact,

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED SEPTEMBER 30, 2015
(Unaudited)

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	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and Other Assets	\$ 4,774,223	\$ 1,490,284	\$ 2,980,669	\$ 7,199,574	\$ 7,754,892	\$ 8,689,858
Capital Assets	2,630,780	1,965,945	6,256,076	6,455,059	8,886,856	8,421,004
Pension Deferred Outflow	<u>133,124</u>	<u>-</u>	<u>51,770</u>	<u>-</u>	<u>184,894</u>	<u>-</u>
Total Assets	<u>\$ 7,538,127</u>	<u>\$ 3,456,229</u>	<u>\$ 9,288,515</u>	<u>\$ 13,654,633</u>	<u>\$ 16,826,642</u>	<u>\$ 17,110,862</u>
Liabilities:						
Long-Term Liabilities	263,080	51,544	226,194	118,200	489,274	169,744
Short-Term and Other Liabilities	258,585	454,408	257,297	985,324	515,882	1,439,732
Pension Deferred Inflow	<u>47,845</u>	<u>-</u>	<u>18,607</u>	<u>-</u>	<u>66,452</u>	<u>-</u>
Total Liabilities	<u>569,510</u>	<u>505,952</u>	<u>502,098</u>	<u>1,103,524</u>	<u>1,071,608</u>	<u>1,609,476</u>
Net Position:						
Invested in Capital Assets	2,630,780	1,965,945	6,256,076	6,455,059	8,886,856	8,421,004
Unrestricted	<u>4,337,837</u>	<u>984,332</u>	<u>2,530,341</u>	<u>6,096,050</u>	<u>6,868,178</u>	<u>7,080,382</u>
Total Net Position	<u>\$ 6,968,617</u>	<u>\$ 2,950,277</u>	<u>\$ 8,786,417</u>	<u>\$ 12,551,109</u>	<u>\$ 15,755,034</u>	<u>\$ 15,501,386</u>

Net position of the City's governmental activities increased to \$6,968,543 from \$2,950,277. Net position of the City's business-type activities decreased to \$8,786,417 from \$12,551,109. The change in each type's net position is largely attributable to an inter-fund loan between the proprietary funds and the governmental 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 \$6,868,178 as of September 30, 2015.

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED SEPTEMBER 30, 2015
(Unaudited)

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for Services	\$ 133,800	\$ 65,601	\$ 2,469,674	\$ 2,461,416	\$ 2,603,474	\$ 2,527,017
Operating Grants and Contributions	119,934	45,242	-	-	119,934	45,242
Capital Grants and Contributions	-	-	-	-	-	-
General Revenues:						
Property Taxes	1,683,209	1,636,390	-	-	1,683,209	1,636,390
Sales Taxes	928,932	959,794	-	-	928,932	959,794
Franchise Taxes	204,659	205,273	-	-	204,659	205,273
Occupancy Tax	36,707	32,659	-	-	36,707	32,659
Penalty and Interest	13,251	12,985	-	-	13,251	12,985
Miscellaneous Revenue	159,698	154,105	-	-	159,698	154,105
Investment Earnings	<u>7,660</u>	<u>6,639</u>	<u>3,529</u>	<u>9,553</u>	<u>11,189</u>	<u>16,192</u>
Total Revenue	3,287,850	3,118,688	2,473,203	2,470,969	5,761,053	5,589,657
Expenses:						
General Government	562,595	611,459	-	-	562,595	611,459
Public Safety	1,434,887	1,426,391	-	-	1,434,887	1,426,391
Highways And Streets	415,980	449,940	-	-	415,980	449,940
Culture and Recreation	186,723	163,732	-	-	186,723	163,732
Depreciation	196,331	189,731	-	-	196,331	189,731
Water & Sewer Services	-	-	1,189,062	1,216,192	1,189,062	1,216,192
Sanitation Services	-	-	553,225	534,008	553,225	534,008
Gas Services	-	-	<u>728,985</u>	<u>831,249</u>	<u>728,985</u>	<u>831,249</u>
Total Expenses	<u>2,796,516</u>	<u>2,841,253</u>	<u>2,471,272</u>	<u>2,581,449</u>	<u>5,267,788</u>	<u>5,422,702</u>
Increase in Net Position	491,334	277,435	1,931	(110,480)	493,265	166,955
Interfund Loan	-	(3,699,545)	-	3,699,545	-	-
Prior Period Adjustment	(172,539)	-	(67,078)	-	(239,617)	-
Net Position - Beginning of Year	<u>6,649,822</u>	<u>6,372,387</u>	<u>8,851,564</u>	<u>8,962,044</u>	<u>15,501,386</u>	<u>15,334,431</u>
Net Position - End of Year	<u>\$ 6,968,617</u>	<u>\$ 2,950,277</u>	<u>\$ 8,786,417</u>	<u>\$12,551,109</u>	<u>\$ 15,755,034</u>	<u>\$15,501,386</u>

The cost of all governmental activities this year was \$2,796,516. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$2,362,173 because some of the costs were paid with charges for services of \$133,800, operating grants and contributions of \$119,934, and penalties and interest, interest income and other various general revenues of \$180,609.

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

1. Property tax revenue increased about 2.9% from the previous year's figures.
2. The local economy continued to reflect the oil industry downturn with sales tax revenues being down 3.2%, franchise tax revenues down .3% and occupancy tax revenues up 12.4%.
3. A year with above-average rainfall and continued water conservation impacted water sales while a rise in out-of-town dumpster service generated additional funds for an overall increase of about .09% in business-type revenue collections.

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED SEPTEMBER 30, 2015
(Unaudited)

4. Investment earnings were down about 63.06% 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 \$4,492,420, which is 4.7% below last year's total of \$4,713,882. Included in this year's total change in fund balance is a decrease of \$221,426 in the City's General Fund. \$1,250,000 was budgeted to be transferred from reserves in order to complete the museum construction and to continue a street sealcoat project. However, the oil industry downturn was not as negatively impactful as projected and the museum completion and street project did not require the level of funding expected during the budget process. Therefore, the use of reserve funds was much less than anticipated.

For the 2014-2015 fiscal year, actual expenditures on a budgetary basis were \$3,507,580, compared to the original budget expenditures of \$4,303,944. Actual revenue on a budgetary basis was \$3,286,118 compared to the original budget of \$4,303,944. Exhibit G-1 provides a detailed comparison of these changes. Some reasons the actual numbers varied from the budget are as follows:

1. Property taxes increased but sales tax and franchise tax revenues were down compared to prior years, however were higher than projected.
2. The museum construction started during last fiscal year was completed during FY2015 and did not require the draw on reserve funds to finish.
3. Weather issues delayed completion of some of the street sealcoat project which also lessened the need for reserves.
4. A budgeted police officer position remained unfilled after being vacated.

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 actual property tax, sales tax and franchise tax revenue as numbers were slightly better than projected with the expected slowing in the oil economy;
- a reduction in budgeted personnel in the police department;
- the purchase of a brush truck for the fire department and a new vehicle for the police department;
- the reduced cost and revenue figures in the gas department due to lower than projected natural gas prices.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – At the end of fiscal year 2015, the City had \$20,659,045 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:

- completion of the museum construction project;
- and the purchase of a new vehicle for the both the fire department and police department.

The City's fiscal year 2016 capital budget calls for expenditures of \$130,000. This includes the following:

- a new vehicle for the utility departments;
- and continuation of the curb and gutter and street projects;

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

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

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED SEPTEMBER 30, 2015
(Unaudited)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2016 budget and tax rates. Some key items that should be noted are as follows:

1. Taxable values decreased by 23.5% from last year's figures. The tax rate was set at the effective rate of 73.2637 cents (\$0.732637) per one hundred dollars valuation, an increase of 23.6% from last year.
2. Without the inclusion of FY2014's budgeted reserve transfer, projected General Fund revenues and expenses are decreased by 1.3% compared to last year's figures. The decrease in revenues is primarily due to a reduction in budgeted sales tax revenue. Ambulance revenue has also been projected slightly lower until there are clearer expectations on how governmental changes in the medical industry will impact future collections
3. The budget allowed for 31 full-time positions and 8 part-time positions. Due to budget constraints, the open position in the police department was eliminated and will not be filled during the current dip in the local economy. No pay increases were budgeted for employees this year, however benefits remained at attractive levels.
4. The number of customers for water, sewer and garbage service was steady this year and rates were left at previous levels.
5. Continued demand for the sanitation department will again require the purchase of about 100 new dumpsters. With the aging of trash containers in service the need for new dumpsters has been a constant. The high 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 pickup for the utility departments.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, and investors and creditors with a general overview of the City of Denver City's finances and to show the City's accountability for the money it receives. For questions concerning any information provided in this report or requests for additional financial information, contact City Hall, City of Denver City, Texas, 102 W. 3rd St., Denver City, Texas, 79323.

This financial report also includes financial reporting for the Denver City Economic Development Corporation (EDC), a component unit of the City. Its financial information is in a separate column on each of the government-wide statements. EDC also issues its own set of financial statements. For questions concerning EDC, please contact Denver City Economic Development Corporation, P.O. Box 2, 104 W. 3rd St., Denver City, Texas, 79323.

BASIC FINANCIAL STATEMENTS

CITY OF DENVER CITY, TEXAS
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total Primary Government	Denver City Economic Development Corporation
ASSETS & DEFERRED OUTFLOWS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 4,504,004	\$ 2,021,449	\$ 6,525,453	\$ 1,031,977
Property Taxes Receivable, Net	25,763	-	25,763	-
Sales Tax Receivable	158,590	-	158,590	39,648
Franchise Tax Receivable	43,512	-	43,512	-
Accounts Receivable, Net	12,895	403,413	416,308	-
Incentive Accounts Receivable, Net	-	213,878	213,878	-
Interest Receivable	750	1,125	1,875	-
Other Receivables	1,572	-	1,572	-
Due from Other Governments	27,137	-	27,137	-
Inventory	-	215,354	215,354	-
Total Current Assets	4,774,223	2,855,219	7,629,442	1,071,625
NONCURRENT ASSETS				
Restricted Cash and Cash Equivalents	-	125,450	125,450	-
Capital Assets, Net	2,630,780	6,256,076	8,886,856	351,755
Total Noncurrent Assets	2,630,780	6,381,526	9,012,306	351,755
Total Assets	\$ 7,405,003	\$ 9,236,745	\$ 16,641,748	\$ 1,423,380
DEFERRED OUTFLOWS				
Pension Deferred Outflow	\$ 133,124	\$ 51,770	\$ 184,894	-
Total Deferred Outflows	133,124	51,770	184,894	-
Total Assets & Deferred Outflows	\$ 7,538,127	\$ 9,288,515	\$ 16,826,642	\$ 1,423,380
LIABILITIES, DEFERRED INFLOWS AND NET POSITION				
CURRENT LIABILITIES				
Accounts Payable	\$ 145,839	\$ 220,463	\$ 366,302	\$ 19,351
Unapplied Credits	-	14,887	14,887	-
Accrued Payroll Liabilities	12,462	5,004	17,466	978
Accrued Vacation - Current	37,555	11,986	49,541	-
Sales Tax Payable	-	4,957	4,957	-
Due to Component Unit	39,647	-	39,647	-
Airport Lease Liability	16,361	-	16,361	-
Accrued Court Security Payable	5,149	-	5,149	-
Other Payable	1,572	-	1,572	-
Total Current Liabilities	258,585	257,297	515,882	20,329
NONCURRENT LIABILITIES				
Accrued Vacation - Long Term	56,747	20,504	77,251	-
Net Pension Liability	206,333	80,240	286,573	-
Customer Deposits	-	125,450	125,450	-
Total Noncurrent Liabilities	263,080	226,194	489,274	-
Total Liabilities	521,665	483,491	1,005,156	20,329
DEFERRED INFLOWS				
Pension Deferred Inflow	\$ 47,845	\$ 18,607	\$ 66,452	-
Total Deferred Inflows	47,845	18,607	66,452	-
NET POSITION				
Net Investment in Capital Assets	2,630,780	6,256,076	8,886,856	351,755
Unrestricted	4,337,837	2,530,341	6,868,178	1,051,296
Total Net Position	6,968,617	8,786,417	15,755,034	1,403,051
Total Liabilities and Net Position	\$ 7,538,127	\$ 9,288,515	\$ 16,826,642	\$ 1,423,380

See accompanying notes and independent auditors' report.

CITY OF DENVER CITY, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2015

	Program Revenues			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities				
General Government				
Legislative	\$ 379,190	\$ -	\$ -	\$ -
Executive	61,747	-	-	-
Finance	120,347	-	-	-
Judicial	24,954	23,239	-	-
Public Safety				
Police	974,424	-	-	-
Fire	163,747	-	15,000	-
Ambulance/EMS	350,418	75,188	103,000	-
Code Enforcement	5,572	9,244	-	-
Animal Control	40,581	4,131	-	-
Streets	442,752	1,385	-	-
Culture and Recreation				
Parks	82,672	-	-	-
Cemetery	71,828	19,050	-	-
Airport	78,284	1,563	1,934	-
Total Governmental Activities	<u>2,796,516</u>	<u>133,800</u>	<u>119,934</u>	<u>-</u>
Business-type Activities				
Water/Wastewater Fund	1,189,062	1,115,904	-	-
Sanitation Fund	553,225	613,154	-	-
Gas Fund	728,985	740,616	-	-
Total Business-type Activities	<u>2,471,272</u>	<u>2,469,674</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,267,788</u>	<u>\$ 2,603,474</u>	<u>\$ 119,934</u>	<u>\$ -</u>
COMPONENT UNIT:				
Denver City Economic Development Corporation	<u>\$ 174,435</u>	<u>\$ -</u>	<u>\$ 675</u>	<u>\$ -</u>

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

Prior Year Adjustment

Net Position, End of Year

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Denver City Economic Development Corporation
\$ (379,190)	\$ -	\$ (379,190)	\$ -
(61,747)	-	(61,747)	-
(120,347)	-	(120,347)	-
(1,715)	-	(1,715)	-
(974,424)	-	(974,424)	-
(148,747)	-	(148,747)	-
(172,230)	-	(172,230)	-
3,672	-	3,672	-
(36,450)	-	(36,450)	-
(441,367)	-	(441,367)	-
(82,672)	-	(82,672)	-
(52,778)	-	(52,778)	-
(74,787)	-	(74,787)	-
<u>(2,542,782)</u>	<u>-</u>	<u>(2,542,782)</u>	<u>-</u>
-	(73,158)	(73,158)	-
-	59,929	59,929	-
-	11,631	11,631	-
-	(1,598)	(1,598)	-
<u>(2,542,782)</u>	<u>(1,598)</u>	<u>(2,544,380)</u>	<u>-</u>
-	-	-	(173,760)
1,683,209	-	1,683,209	-
928,932	-	928,932	219,602
204,659	-	204,659	-
36,707	-	36,707	-
13,251	-	13,251	-
87,272	-	87,272	-
15,640	-	15,640	-
7,660	3,529	11,189	4,102
56,786	-	56,786	5,348
<u>3,034,116</u>	<u>3,529</u>	<u>3,037,645</u>	<u>229,052</u>
491,334	1,931	493,265	55,292
6,649,822	8,851,564	15,501,386	1,347,759
(172,539)	(67,078)	(239,617)	-
<u>\$ 6,968,617</u>	<u>\$ 8,786,417</u>	<u>\$ 15,755,034</u>	<u>\$ 1,403,051</u>

See accompanying notes and independent auditors' report.

CITY OF DENVER CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2015

	General Fund
ASSETS	
ASSETS	
Cash and Cash Equivalents	\$ 4,504,004
Sales Tax Receivable	158,590
Franchise Taxes Receivable	43,512
Property Taxes Receivable, Net	26,590
Interest Receivable	750
Ambulance Receivables, Net	12,895
Due from Other Governments	27,137
Curb and Gutter Assessment	<u>1,572</u>
Total Assets	<u>\$ 4,775,050</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 145,839
Accrued Payroll Liabilities	12,462
Due to Component Unit	39,647
Accrued Vacation - Current	37,555
Airport Lease Liability	16,361
Accrued Court Security Payable	<u>5,149</u>
Total Liabilities	<u>257,013</u>
DEFERRED INFLOWS	
Curb and Gutter Assessment	1,572
Property Taxes	<u>24,045</u>
Total Deferred Inflows	<u>25,617</u>
FUND BALANCE	
Unassigned	<u>4,492,420</u>
Total Fund Balance	<u>4,492,420</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 4,775,050</u>

CITY OF DENVER CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2015

Total Fund Balance - Governmental Funds	\$	4,492,420
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.		2,630,780
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.		(56,747)
Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of (\$206,332), a deferred inflow in the amount of (\$47,845), and a deferred outflow in the amount of \$133,124. This resulted in a decrease in net position by (\$121,054).		(121,054)
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.		23,218
		23,218
Net Position of Governmental Activities	\$	6,968,617
		6,968,617

CITY OF DENVER CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended September 30, 2015

	General Fund
REVENUES	
Taxes	
Property	\$ 1,681,477
Sales	928,932
Franchise	204,659
Occupancy	36,707
Penalties and Interest	13,251
Charges for Services	24,566
Ambulance Runs	75,188
Licenses, Fees and Permits	9,244
Court Fines	23,239
Rentals and Royalties	88,835
Grants and Contributions	119,934
Cemetery and Subdivision Lots	15,640
Investment Earnings	7,660
Other	56,786
	3,286,118
Total Revenues	3,286,118
 EXPENDITURES	
Current	
General Government	
Legislative	379,190
Executive	64,604
Finance	94,358
Judicial	24,954
Public Safety	
Police	961,951
Fire	140,970
Ambulance/EMS	328,931
Code Enforcement	5,572
Animal Control	39,608
Streets	416,694
Culture and Recreation	
Parks	78,904
Cemetery	62,756
Airport	47,922
Capital Outlay	861,166
	3,507,580
Total Expenditures	3,507,580
Excess of Revenues over Expenditures	(221,462)
Fund Balance, Beginning of Year	4,713,882
Fund Balance, End of Year	\$ 4,492,420

See accompanying notes and independent auditors' report.

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, 2015

Net Changes in Fund Balance - Governmental Funds \$ (221,462)

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. 861,166

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. 1,732

Depreciation is recognized on the Statement of Activities as allocating the cost of the assets over their estimated useful lives. (196,331)

The change in compensated absences liability is reported on the Statement of Activities but is not reflected in the Governmental funds. (5,203)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred outflows. The contributions made after the measurement date of 12/31/14 caused the change in the ending net position increase in the amount of \$76,239. Contributions made before the measurement date but after the previous measurement date were reversed from deferred outflows and recorded as current year expense. This caused a decrease in the change in net position totaling (\$77,820). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by \$53,013. The result of these changes is to increase the change in net position by \$51,432. 51,432

Change in Net Position of Governmental Activities \$ 491,334

CITY OF DENVER CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2015

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Proprietary Funds
ASSETS & DEFERRED OUTFLOWS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ (1,160,818)	\$ 610,221	\$ 2,572,046	\$ 2,021,449
Utility Accounts Receivable, Net	205,060	114,845	83,508	403,413
Incentive Accounts Receivable, Net	-	-	213,878	213,878
Interest Receivable	131	188	806	1,125
Inventory	200,452	-	14,902	215,354
Total Current Assets	(755,175)	725,254	2,885,140	2,855,219
NONCURRENT ASSETS				
Restricted Cash and Cash Equivalents	58,850	17,975	48,625	125,450
Capital Assets, Net	5,807,726	169,451	278,899	6,256,076
Total Noncurrent Assets	5,866,576	187,426	327,524	6,381,526
Total Assets	\$ 5,111,401	\$ 912,680	\$ 3,212,664	\$ 9,236,745
DEFERRED OUTFLOWS				
Pension Deferred Outflow	\$ 24,036	\$ 16,640	\$ 11,094	\$ 51,770
Total Deferred Outflows	24,036	16,640	11,094	51,770
Total Assets & Deferred Outflows	\$ 5,135,437	\$ 929,320	\$ 3,223,758	\$ 9,288,515
LIABILITIES, DEFERRED INFLOWS AND NET POSITION				
CURRENT LIABILITIES				
Accounts Payable	172,196	35,392	12,875	220,463
Unapplied Credits	14,887	-	-	14,887
Accrued Payroll Liabilities	2,023	2,298	683	5,004
Accrued Vacation - Current	5,433	3,737	2,816	11,986
Sales Tax Payable	-	-	4,957	4,957
Total Current Liabilities	194,539	41,427	21,331	257,297
NONCURRENT LIABILITIES				
Accrued Vacation - Long-Term	9,573	4,563	6,368	20,504
Net Pension Liability	37,254	25,792	17,194	80,240
Customer Deposits	58,850	17,975	48,625	125,450
Total Noncurrent Liabilities	105,677	48,330	72,187	226,194
Total Liabilities	300,216	89,757	93,518	483,491
DEFERRED INFLOWS				
Pension Deferred Inflow	\$ 8,639	\$ 5,980	\$ 3,988	\$ 18,607
Total Deferred Inflows	8,639	5,980	3,988	18,607
NET POSITION				
Net investment in Capital Assets	5,807,726	169,451	278,899	6,256,076
Unrestricted	(981,144)	664,132	2,847,353	2,530,341
Total Net Position	4,826,582	833,583	3,126,252	8,786,417
Total Liabilities and Net Position	\$ 5,135,437	\$ 929,320	\$ 3,223,758	\$ 9,288,515

See accompanying notes and independent auditors' report.

CITY OF DENVER CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2015

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Proprietary Funds
OPERATING REVENUES				
Charges for Service	\$ 1,090,150	\$ 607,963	\$ 740,491	\$ 2,438,604
Late Fees and Penalties	16,829	-	-	16,829
Tap and Reconnect Fees	8,925	-	125	9,050
Other	-	5,191	-	5,191
	<u>1,115,904</u>	<u>613,154</u>	<u>740,616</u>	<u>2,469,674</u>
Total Operating Revenues				
OPERATING EXPENDITURES				
Salaries and Wages	189,310	144,435	74,312	408,057
Retirement Expense	12,647	7,755	3,813	24,215
Employee Taxes and Benefits	58,746	42,756	24,815	126,317
Gas Purchases	-	-	469,539	469,539
Purchases Services	69,355	81,633	20,076	171,064
Property and Facility	77,542	-	1,288	78,830
Supplies	56,131	80,816	28,153	165,100
Repairs and Maintenance	308,545	111,636	67,325	487,506
Other Expenses	27,992	17,086	20,063	65,141
Depreciation	388,794	67,108	19,601	475,503
	<u>1,189,062</u>	<u>553,225</u>	<u>728,985</u>	<u>2,471,272</u>
Total Operating Expenses				
Operating Income (Loss)	(73,158)	59,929	11,631	(1,598)
NONOPERATING REVENUES (EXPENSES)				
Interest income	974	535	2,020	3,529
	<u>974</u>	<u>535</u>	<u>2,020</u>	<u>3,529</u>
Total Nonoperating Income				
Change in Net Position	(72,184)	60,464	13,651	1,931
Net Position - Beginning of Year	4,929,909	794,680	3,126,975	8,851,564
Prior Year Adjstment	(31,143)	(21,561)	(14,374)	(67,078)
Net Position - End of Year	<u>\$ 4,826,582</u>	<u>\$ 833,583</u>	<u>\$ 3,126,252</u>	<u>\$ 8,786,417</u>

See accompanying notes and independent auditors' report.

CITY OF DENVER CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2015

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts From Customers	\$ 1,104,641	\$ 592,950	\$ 754,891	\$ 2,452,482
Payments and Benefits to Employees	(267,800)	(210,650)	(102,356)	(580,806)
Payments to Suppliers and Contractors	<u>(577,797)</u>	<u>(278,866)</u>	<u>(612,467)</u>	<u>(1,469,130)</u>
Net Cash Flows Provided by Operating Activities	259,044	103,434	40,068	402,546
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund Lending	<u>(422,297)</u>	<u>(456,606)</u>	<u>(2,820,642)</u>	<u>(3,699,545)</u>
Net Cash Flows Provided by Noncapital Financing Activities	(422,297)	(456,606)	(2,820,642)	(3,699,545)
CASH FLOWS FROM CAPITAL and RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	<u>(219,972)</u>	<u>(51,654)</u>	<u>(4,893)</u>	<u>(276,519)</u>
Net Cash Flows Used by Capital Financing Activities	(219,972)	(51,654)	(4,893)	(276,519)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	980	410	1,319	2,709
Net Activity on Incentive Loans	<u>-</u>	<u>-</u>	<u>52,702</u>	<u>52,702</u>
Net Cash Flows Provided by Investing Activities	980	410	54,021	55,411
Net Change in Cash and Cash Equivalents	(382,245)	(404,416)	(2,731,446)	(3,518,107)
Cash and Cash Equivalents at Beginning of Year	<u>(719,723)</u>	<u>1,032,612</u>	<u>5,352,117</u>	<u>5,665,006</u>
Cash and Cash Equivalents at End of Year	<u>\$ (1,101,968)</u>	<u>\$ 628,196</u>	<u>\$ 2,620,671</u>	<u>\$ 2,146,899</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ (73,158)	\$ 59,929	\$ 11,631	\$ (1,598)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities				
Depreciation	388,794	67,108	19,601	475,503
Changes in				
Utility Accounts Receivable, Net	(13,244)	(24,729)	13,575	(24,398)
Inventory	(109,597)	-	6,361	(103,236)
Accounts Payable	71,365	12,305	(11,000)	72,670
Unapplied Credits	(44)	-	-	(44)
Accrued Payroll	(12,756)	(9,761)	(5,407)	(27,924)
Accrued Payroll Liabilities	13	121	2	136
Accrued Vacation - Current	409	(3,246)	1,115	(1,722)
Accrued Vacation - Long Term	5,237	(2,818)	4,874	7,293
Sales Tax Payable	-	-	(1,384)	(1,384)
Customer Deposits	<u>2,025</u>	<u>4,525</u>	<u>700</u>	<u>7,250</u>
Net Cash Provided By Operating Activities	<u>\$ 259,044</u>	<u>\$ 103,434</u>	<u>\$ 40,068</u>	<u>\$ 402,546</u>
Reconciliation to Balance Sheet				
Cash and Cash Equivalents	\$ -	\$ 610,221	\$ 2,572,046	\$ 3,182,267
Cash Overdrafts	(1,160,818)	-	-	(1,160,818)
Restricted Cash - Deposits	58,850	17,975	48,625	125,450
	<u>\$ (1,101,968)</u>	<u>\$ 628,196</u>	<u>\$ 2,620,671</u>	<u>\$ 2,146,899</u>

See accompanying notes and independent auditors' report.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2015

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, 2015

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, 2015, 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, 2015.
- 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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015, the City of Denver City, Texas contributed approximately \$74,244 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 21, 2015, 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, 2015

NOTE B - BUDGETARY DATA (Cont.)

5. The fiscal 2015 General Fund budget was prepared on the modified accrual basis using estimated beginning and ending fund balances. The fiscal 2015 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 \$125,450 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, 2015, 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, 2015

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, 2015.

	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	Total
Unrestricted Funds	\$ 4,486,686	\$ (1,175,705)	\$ 610,221	\$ 2,572,046	\$ 6,493,248
Restricted Funds	-	58,850	17,975	48,625	125,450
Chamber Certificate of Deposit	14,534	-	-	-	14,534
Unapplied Cash	-	14,887	-	-	14,887
Petty Cash	2,800	-	-	-	2,800
Returned Checks	<u>(16)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16)</u>
Total	<u>\$ 4,504,004</u>	<u>\$ (1,101,968)</u>	<u>\$ 628,196</u>	<u>\$ 2,620,671</u>	<u>\$ 6,650,903</u>

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

Category	Amount
TexPool Deposits	\$ 4,674,005
Bank Deposits	967,990
Certificates of Deposit	<u>851,253</u>
Total	<u>\$ 6,493,248</u>

As of September 30, 2015, 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.

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2015

NOTE C – CASH AND CASH EQUIVALENTS (Cont.)

The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor’s. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. TexPool issues a separately stated annual financial report with an August 31 fiscal year-end. A copy of this report may be obtained by writing to Texas Treasury Safekeeping Trust Company, 208 East 10th Street, Austin, TX, 78701. The report is also available on the Trust’s website at www.ttstc.com.

NOTE D - PROPERTY TAX RECEIVABLE

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

The City’s property taxes are levied each October 1 based upon 100 percent of the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due to the Yoakum County Tax Assessor/Collector upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien 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 2015 (2014 tax levy) was \$0.5917 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 2014 tax levy was based was \$282,152,336 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2015 were approximately 98.9% of the tax levies available to be collected.

Concentration of Risk - During the year, the City collected approximately 52.47% 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 \$23,218 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	\$ 26,590	\$ 26,590
Allowance for Uncollectible Taxes	(827)	-
Deferred Inflows	<u> -</u>	<u>(24,045)</u>
Net Property Taxes Receivable	<u>\$ 25,763</u>	<u>\$ 2,545</u>

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2015

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, 2015 represent all unpaid billings issued prior to September 30, 2015 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.

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, 2015.

	Governmental Activities	Business-type Activities			Totals
	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	
Utilities Receivable	\$ -	\$ 344,493	\$ 147,240	\$ 276,942	\$ 768,675
Sales tax Receivable	158,590				158,590
Ambulance Receivable	209,275	-	-	-	209,275
Interest Receivable	750	131	188	806	1,875
Allowance for Uncollectibles	<u>(196,380)</u>	<u>(139,433)</u>	<u>(32,395)</u>	<u>(193,434)</u>	<u>(561,642)</u>
Net Accounts Receivable	<u>\$ 172,235</u>	<u>\$ 205,191</u>	<u>\$ 115,033</u>	<u>\$ 84,314</u>	<u>\$ 576,773</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.

As of September 30, 2015 the City had no interfund balances and no transfers occurred during the year.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2015

NOTE G - CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Governmental Activities:				
Land	\$ 203,345	\$ -	\$ -	\$ 203,345
Infrastructure	246,859	-	-	246,859
Improvements	946,830	-	-	946,830
Buildings	1,140,253	884,572	(116,494)	1,908,331
Vehicles	1,125,333	93,088	(52,306)	1,166,115
Machinery and Equipment	<u>607,722</u>	<u>-</u>	<u>-</u>	<u>607,722</u>
Totals at Historic Cost	<u>4,270,342</u>	<u>977,660</u>	<u>(168,800)</u>	<u>5,079,202</u>
Less Accumulated Depreciation				
Infrastructure	(101,855)	(9,874)	-	(111,729)
Improvements	(154,143)	(39,217)	-	(193,360)
Buildings	(713,806)	(25,835)	-	(739,641)
Vehicles	(829,156)	(91,186)	52,306	(868,036)
Machinery and Equipment	<u>(505,437)</u>	<u>(30,219)</u>	<u>-</u>	<u>(535,656)</u>
Totals Accumulated Depreciation	<u>(2,304,397)</u>	<u>(196,331)</u>	<u>52,306</u>	<u>(2,448,422)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 1,965,945</u>	<u>\$ 781,329</u>	<u>\$ (116,494)</u>	<u>\$ 2,630,780</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	\$ 23,643
Public Safety	99,855
Streets	26,772
Culture and Recreation	<u>46,061</u>
Total	<u>\$ 196,331</u>

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Business-type Activities:				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Water Rights	631,521	-	-	631,521
Construction in Progress	717,683	63,700	(717,683)	63,700
Infrastructure	6,910,663	806,815	-	7,717,478
Improvements	4,748,929	-	-	4,748,929
Buildings	70,419	-	-	70,419
Vehicles	778,243	-	-	778,243
Machinery and Equipment	<u>1,005,865</u>	<u>123,687</u>	<u>-</u>	<u>1,129,552</u>
Totals at Historic Cost	<u>15,303,323</u>	<u>994,202</u>	<u>(717,683)</u>	<u>15,579,842</u>
Less Accumulated Depreciation				
Water Rights	(631,521)	-	-	(631,521)
Infrastructure	(3,150,502)	(220,146)	-	(3,370,648)
Improvements	(3,575,803)	(150,901)	-	(3,726,704)
Buildings	(34,693)	(2,453)	-	(37,146)
Vehicles	(586,238)	(69,484)	-	(655,722)
Machinery and Equipment	<u>(869,507)</u>	<u>(32,518)</u>	<u>-</u>	<u>(902,025)</u>
Total Accumulated Depreciation	<u>(8,848,264)</u>	<u>(475,502)</u>	<u>-</u>	<u>(9,323,766)</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 6,455,059</u>	<u>\$ 518,700</u>	<u>\$ (717,683)</u>	<u>\$ 6,256,076</u>

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2015

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, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Other Liabilities:				
Compensated Absences	<u>\$ 51,544</u>	<u>\$ 45,216</u>	<u>\$ (40,013)</u>	<u>\$ 56,747</u>
Business-Type Activities:				
Other Liabilities:				
Compensated Absences	<u>\$ 13,211</u>	<u>\$ 21,001</u>	<u>\$ (13,708)</u>	<u>\$ 20,504</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.

	Beginning Balance	Collections	Remittances	Ending Balance
Due to Component Unit	<u>\$ 47,610</u>	<u>\$ 219,602</u>	<u>\$ (227,564)</u>	<u>\$ 39,648</u>

NOTE J - DEFINED BENEFIT PLANS

1. Contribution

Employees for the City of Denver City, Texas were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contributions rates for the City were 12.46% and 12.29% in calendar 2014 and 2015, respectively. The City's contribution to the TMRS for the year ended September 30, 2015 was \$149,931 and was equal to the required contributions.

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2015

NOTE J - DEFINED BENEFIT PLANS (Cont.)

2. Net Pension Liability

	Total Pension Liability (a)	Increase/(Decrease) Plan Fiduciary Net Position (b)	Net Position Liability (a) – (b)
Balance at 12/31/13	\$ 8,064,920	\$ 7,717,274	\$ 347,646
Changes for the year:			
Service Cost	124,151	-	124,151
Interest	557,763	-	557,763
Change in benefit terms	-	-	-
Diff between expected/actual exp.	(93,596)	-	(93,596)
Changes of assumptions	-	-	-
Contributions – employer	-	151,881	(151,881)
Contributions – employee	-	61,046	(61,046)
Net investment income	-	441,452	(441,452)
Benefit Payments	(317,913)	(317,913)	-
Administrative expenses	-	(4,609)	4,609
Other charges	-	(379)	379
Net changes	<u>270,405</u>	<u>331,478</u>	<u>(61,073)</u>
Balance at 12/31/14	<u>\$ 8,335,325</u>	<u>\$ 8,048,752</u>	<u>\$ 286,573</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net position liability would have been if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate.

	Discount Rate	(8.1%)	Discount Rate
City's net pension liability	\$ 1,400,065	\$ 286,573	\$ (632,322)

3. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015 the City recognized pension expense in the amount of \$78,254.

At September 30, 2015 the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 66,452
Change in actuarial assumptions	\$ -	\$ -
Differences between projected and actual investment earnings (net of current year amortization)	\$ 79,006	\$ -
Contributions subsequent to the measurement date	<u>105,888</u>	<u>-</u>
Total	<u>\$ 184,894</u>	<u>\$ 66,452</u>

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2015

NOTE J - DEFINED BENEFIT PLANS (Cont.)

\$105,888 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reductions of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2015	\$ (7,393)
2016	\$ (7,393)
2017	\$ 7,587
2018	\$ 19,753
2019	\$ -
Thereafter	\$ -

NOTE K - 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, 2015 the City paid approximately \$230,714 for health insurance coverage on the City's employees.

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.

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 0.23% and 0.21% for calendar years 2015 and 2014, respectively, of which 0.07% and 0.07% represented the retiree-only portion for 2015 and 2014, 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, 2015

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
9/30/15	\$ 2,724	\$ 2,724	100%	\$ 851
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

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, 2015, the adjusted annual lease expense was approximately \$10,907, of which the City was 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, 2015 is approximately \$16,360, with approximately \$8,180 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
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	5,453	5,454	10,907
2021-2025	27,268	27,267	54,535
2026-2030	27,267	27,268	54,535
2031-2032	10,907	10,907	21,814
Total	<u>\$ 92,709</u>	<u>\$ 92,710</u>	<u>\$ 185,419</u>

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2015

NOTE O – FEDERAL, STATE AND OTHER GRANTS

The City did not have any state award expenditures or Federal expenditures for the year ended September 30, 2015. As a result, the City is not subject to the Texas Single Audit Circular. The City also received \$118,000 in public safety grants from Yoakum County to support the EMS and fire departments.

NOTE P - 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.

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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2015

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

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, 2015, the EDC was not 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.

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 approximately \$219,602 and \$252,579 in sales tax revenue and has a sales tax receivable due from the City of Denver City totaled approximately \$39,648 and \$47,610 for the fiscal years ended September 30, 2015 and 2014, respectively.

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

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2015

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015 is as follows:

	Balance 2014	Additions	Deletions	Balance 2015
Land	\$ 55,807	\$ 25,835	\$ -	\$ 81,642
Land Improvements	364,450	-	-	364,450
Furniture and Equipment	<u>31,600</u>	<u>2,173</u>	<u>-</u>	<u>33,773</u>
	451,857	28,008	-	479,865
Less Accumulated Depreciation	<u>(98,012)</u>	<u>(30,098)</u>	<u>-</u>	<u>(128,110)</u>
Capital Assets, Net	<u>\$ 353,845</u>	<u>\$ (2,090)</u>	<u>\$ -</u>	<u>\$ 351,755</u>

Depreciation expense of \$30,098 for the 2015 fiscal year had \$27,088 allocated to Program Services and \$3,010 to Management and General Expenses.

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, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes				
Property	\$ 1,643,654	\$ 1,669,079	\$ 1,681,477	\$ 12,398
Sales	900,000	910,000	928,932	18,932
Franchise	174,868	174,868	204,659	29,791
Occupancy	38,000	36,707	36,707	-
Penalties and Interest	15,000	15,000	13,251	(1,749)
Charges for Services	15,500	20,435	24,566	4,131
Ambulance Runs	80,000	73,358	75,188	1,830
Licenses, Fees and Permits	9,700	12,164	9,244	(2,920)
Court Fines	25,000	23,446	23,239	(207)
Rentals and Royalties	80,725	81,135	88,835	7,700
Grants and Contributions	35,000	115,000	119,934	4,934
Cemetery and Subdivision Lots	9,000	58,515	15,640	(42,875)
Investment Earnings	7,497	7,497	7,660	163
Transfers	1,250,000	1,250,000	-	(1,250,000)
Other	20,000	792	56,786	55,994
Total Revenues	<u>4,303,944</u>	<u>4,447,996</u>	<u>3,286,118</u>	<u>(1,161,878)</u>
EXPENDITURES				
Current				
General Government				
Legislative	448,210	449,417	379,190	70,227
Executive	70,903	70,903	64,604	6,299
Finance	110,283	110,283	94,358	15,925
Judicial	24,061	24,061	24,954	(893)
Public Safety				
Police	1,092,996	1,063,996	961,951	102,045
Fire	140,105	155,105	140,970	14,135
Ambulance/EMS	441,689	441,689	328,931	112,758
Code Enforcement	5,500	5,500	5,572	(72)
Animal Control	76,400	76,400	39,608	36,792
Streets	479,771	479,771	416,694	63,077
Culture and Recreation				
Parks	95,326	95,326	78,904	16,422
Cemetery	58,172	58,172	62,756	(4,584)
Airport	20,778	20,778	47,922	(27,144)
Capital Outlay	1,239,750	1,320,683	861,166	459,517
Total Expenditures	<u>4,303,944</u>	<u>4,372,084</u>	<u>3,507,580</u>	<u>864,504</u>
Net Change in Fund Balance	-	75,912	(221,462)	(297,374)
Fund Balance, Beginning of Year	<u>4,713,882</u>	<u>4,713,882</u>	<u>4,713,882</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 4,713,882</u>	<u>\$ 4,789,794</u>	<u>\$ 4,492,420</u>	<u>\$ (297,374)</u>

CITY OF DENVER CITY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	2014
Total Pension Liability	
Service cost	\$ 124,151
Interest (on the total pension liability)	557,763
Changes of benefit terms	-
Difference between expected and actual experience	(93,596)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(317,913)
Net Change in Total Pension Liability	270,405
Total Pension Liability - Beginning	8,064,920
Total Pension Liability - Ending (a)	\$ 8,335,325
 Plan Fiduciary Net Position	
Contributions - employer	\$ 151,881
Contributions - employee	61,046
Net investment income	441,452
Benefit payments, including refunds of employee contributions	(317,913)
Administrative expense	(4,609)
Other	(379)
Net Change in Plan Fiduciary Net Position	331,478
Plan Fiduciary Net Position - Beginning	7,717,274
Plan Fiduciary Net Position - Ending (b)	\$ 8,048,752
 Net Pension Liability - Ending (a) - (b)	\$ 286,573
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.56%
 Covered Employee Payroll	\$ 1,220,915
 Net Pension Liability as a Percentage of Covered Employee Payroll	23.47%

CITY OF DENVER CITY, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	2015	2014
Actuarially determined contribution	\$ 149,931	\$ 151,881
Contributions in relation to actuarially determined contribution	(149,931)	(151,881)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 1,215,052	\$ 1,220,915
Contributions as a percentage of covered employee payroll	12.34%	12.44%

CITY OF DENVER CITY, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	11 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

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, 2015

2013 Tax Roll

Assessed Valuation (Adjusted for Correction)		<u>\$ 282,152,336</u>
Tax Rate \$0.5917 per \$100	\$ 1,669,495	
Adjustments and Supplements	<u>(7,239)</u>	
Current Year Tax Available To Be Collected		1,662,256
Prior Years Delinquent Taxes		<u>28,144</u>
Net Taxes to be Collected		1,690,400
Fiscal Year Collections		
Current Year	1,667,101	
Prior Year Delinquent	<u>17,693</u>	<u>1,684,794</u>
Delinquent Taxes at Year End		<u>5,606</u>
Percentage of Collection		<u>99.67%</u>

CITY OF DENVER CITY, TEXAS
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
September 30, 2015

Year Ended September 30,	Beginning Balance 10/1/2014	Current Year Levy	Fiscal Year Collections	Adjustments	Ending Balance 9/30/2015
2006 and Prior	\$ 1,436	\$ -	\$ -	\$ (365)	\$ 1,071
2007	332	-	-		332
2008	375	-	-		375
2009	280	-	19		261
2010	250	-	52		198
2011	2,020	-	1,726	-	294
2012	3,150	-	2,659	(129)	362
2013	4,685	-	3,168	(133)	1,384
2014	15,616	-	10,069	(1,004)	4,543
2015	<u>-</u>	<u>1,690,479</u>	<u>1,667,101</u>	<u>(5,608)</u>	<u>17,770</u>
	<u>\$ 28,144</u>	<u>\$ 1,690,479</u>	<u>\$ 1,684,794</u>	<u>\$ (7,239)</u>	<u>\$ 26,590</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Sham L. Myatt CPA
E. Phelps Blume CPA
Sarah J. Osburn CPA
Buford A. Duff CPA

CERTIFIED PUBLIC ACCOUNTANTS
812 9TH STREET
LEVELLAND, TX 79336
PHONE: 806-894-7324/ FAX: 806-894-8693

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 6, 2016.

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 & OSBURN, LTD., L.L.P.
Certified Public Accountants
Levelland, TX 79336
April 6, 2016