

CITY OF DENVER CITY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

CITY OF DENVER CITY, TEXAS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

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FINANCIAL SECTION

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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, 2017, 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, 2017, 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 January 31, 2018, 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
January 31, 2018

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017
(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, 2017. 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 \$15,729,784. Of this amount, \$7,394,745 was categorized as unrestricted.
- The City of Denver City's net position increased \$318,859, or 2.0% as a result of this year's operations. Net position of the City's business-type activities increased \$22,983, a minimal increase, and net position of the City's governmental activities increased \$295,876, or 4.5%.
- During the year, the City's governmental funds had expenditures of \$3,350,826, which was \$541,781 less than the \$3,892,607 generated in tax and other revenues for governmental programs. This compares to last year when expenses exceeded revenues by \$347,787.
- The General Fund ended the year with a fund balance of \$4,702,739. The Unassigned portion of the General Fund's fund balance is 140.35% 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
YEAR ENDED SEPTEMBER 30, 2017
(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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017
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Proprietary funds – The City reports the activities for which it charges users (whether outside consumers or other units of the City) in proprietary funds using the same accounting method employed in the government-wide statements. In fact, the City's enterprise funds (one category of proprietary funds) make up the business-type activities reported in the government-wide statements. Internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the City's other programs and activities. Currently, the City has no internal service funds.

The proprietary fund statements present each major fund separately, providing more detail about these activities than the government-wide statements. The major proprietary funds of the City are the Water & Sewer Fund, the Sanitation Fund, and the Gas Fund. The proprietary fund financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities. Table I is presented on an "after-elimination" basis.

Table I
City of Denver City, Texas
NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and Other Assets	\$ 4,970,084	\$ 4,375,594	\$ 4,109,420	\$ 4,263,323	\$ 9,079,504	\$ 8,638,917
Capital Assets	2,377,379	2,584,144	5,957,659	6,069,228	8,335,038	8,653,372
Pension Deferred Outflow	<u>372,908</u>	<u>462,779</u>	<u>145,019</u>	<u>179,968</u>	<u>517,927</u>	<u>642,747</u>
Total Assets	<u>\$ 7,720,371</u>	<u>\$ 7,422,517</u>	<u>\$10,212,098</u>	<u>\$10,512,519</u>	<u>\$ 17,932,469</u>	<u>\$ 17,935,036</u>
Liabilities:						
Long-Term Liabilities	632,297	652,394	395,439	379,442	1,027,736	1,031,836
Short-Term and Other Liabilities	224,919	187,251	925,349	1,259,297	1,150,268	1,446,548
Pension Deferred Inflow	<u>17,770</u>	<u>33,363</u>	<u>6,911</u>	<u>12,364</u>	<u>24,681</u>	<u>45,727</u>
Total Liabilities	<u>874,986</u>	<u>873,008</u>	<u>1,327,699</u>	<u>1,651,103</u>	<u>2,202,685</u>	<u>2,524,111</u>
Net Position:						
Invested in Capital Assets	2,377,379	2,584,144	5,957,659	6,069,228	8,335,038	8,653,372
Unrestricted	<u>4,468,006</u>	<u>3,965,365</u>	<u>2,926,740</u>	<u>2,792,188</u>	<u>7,394,746</u>	<u>6,757,553</u>
Total Net Position	<u>\$ 6,845,385</u>	<u>\$ 6,549,509</u>	<u>\$8,884,399</u>	<u>\$8,861,416</u>	<u>\$ 15,729,784</u>	<u>\$ 15,410,925</u>

Net position of the City's governmental activities increased to \$6,845,385 from \$6,549,509. Net position of the City's business-type activities increased to \$8,884,399 from \$8,861,416. 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 \$7,394,746 as of September 30, 2017.

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017
(Unaudited)

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 414,452	\$ 95,933	\$ 2,578,853	\$ 2,402,116	\$ 2,993,305	\$ 2,498,049
Operating Grants and Contributions	173,997	127,014	-	-	173,997	127,014
Capital Grants and Contributions	-	189,140	-	270,325	-	459,465
General Revenues:						
Property Taxes	1,620,637	1,680,482	-	-	1,620,637	1,680,482
Sales Taxes	926,623	842,132	-	-	926,623	842,132
Franchise Taxes	174,638	184,534	-	-	174,638	184,534
Occupancy Tax	89,027	30,550	-	-	89,027	30,550
Penalty and Interest	20,768	13,317	-	-	20,768	13,317
Rent and Royalties	110,130	90,876	-	-	110,130	90,876
Miscellaneous Revenue	345,662	27,402	4,672	4,446	350,334	31,848
Investment Earnings	33,287	13,608	40,153	19,102	73,440	32,710
Transfers In/(Out)	-	-	-	-	-	-
Total Revenue	3,909,221	3,294,988	2,623,678	2,695,989	6,532,899	5,990,977
Expenses:						
General Government	1,040,731	884,111	-	-	1,040,731	884,111
Public Safety	1,852,331	1,648,333	-	-	1,852,331	1,648,333
Highways And Streets	551,007	1,041,156	-	-	551,007	1,041,156
Culture and Recreation	169,276	156,821	-	-	169,276	156,821
Depreciation	-	-	-	-	-	-
Water & Sewer Services	-	-	1,357,556	1,540,070	1,357,556	1,540,070
Sanitation Services	-	-	567,070	499,650	567,070	499,650
Gas Services	-	-	638,255	581,270	638,255	581,270
Total Expenses	3,613,345	3,730,421	2,562,881	2,620,990	6,176,226	6,351,411
Increase in Net Position	295,876	(435,433)	60,797	74,999	356,673	(360,434)
Prior Period Adjustment	-	16,325	(37,814)	-	(37,814)	16,325
Net Position - Beginning of Year	6,549,509	6,968,617	8,861,416	8,786,417	15,410,925	15,755,034
Net Position - End of Year	\$ 6,845,385	\$ 6,549,509	\$ 8,884,399	\$ 8,861,416	\$15,729,784	\$15,410,925

The cost of all governmental activities this year was \$3,613,345. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$2,810,925 because some of the costs were paid with charges for services of \$414,452, operating grants and contributions of \$173,997, and penalties and interest, interest income and other various general revenues of \$509,847.

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

1. Property tax and franchise tax revenue decreased from the previous year's figures.
2. Sales tax revenue was up due to the strengthening economy and occupancy tax revenue was up due to the stronger economy and the completion of an additional hotel.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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3. A year with below-average rainfall along with a high-volume bulk water customer impacted water sales while dumpster service increased for an overall increase of about 7.3% in business-type revenue collections.
4. Investment earnings were up about 130.60% from the prior year due to the new market securities account doing well along with interest rate increases over the course of the year.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a fund balance of \$4,702,739, which is 13% above last year's total of \$4,160,958. Included in this year's total change in fund balance is an increase of \$541,781 in the City's General Fund. Reasons for the increase to the General Fund are attributable to an increase in sales tax, occupancy tax, investment earnings, and ambulance revenue.

For the 2016-2017 fiscal year, actual expenditures on a budgetary basis were \$3,350,826, compared to the original budget expenditures of \$3,247,536. Actual revenue on a budgetary basis was \$3,892,607 compared to the original budget of \$2,997,536. 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, sales tax and franchise tax revenues were down compared to prior years, however property taxes were slightly higher than projected.
2. Weather issues delayed completion of some of the street sealcoat project which also lessened the need for reserves.
3. Insurance payments for hail damage to several buildings were paid but not yet repaired at the end of the fiscal year.

Over the course of the year, the City Council revised the City's budget. These revisions include amendments and supplemental appropriations that were approved during the year to address mid-year situational changes and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The primary amendments include:

- an increase in actual property tax, sales tax and occupancy tax revenue as numbers were slightly better than projected with the strengthening of the oil economy;
- a reduction in franchise tax revenue and traffic fine revenue;
- an increase in ambulance revenue with the new billing/collections arrangement along with the added expense of that contract;
- an increase in farm rental income with the change to a cash lease agreement;
- an increase in permit and license fee revenue due to the number of vendors in town to work on roof repairs following the hail storm that hit the City;
- The purchase of two new vehicle camera systems for the police department;
- The purchase of new extrication tools for the fire department;
- an increase in the landfill tipping fees that had to be paid by the sanitation department;
- additional revenue for the water department with a purchase from a high-volume bulk water customer;
- and 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 2017, the City had \$21,572,322 invested in a broad range of capital assets, including land, buildings, equipment, and infrastructure.

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

- the purchase of garbage dumpsters for the sanitation collection department.

The City's fiscal year 2018 capital budget calls for expenditures of \$2,126,000. This includes the following:

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017
(Unaudited)

- playground equipment in the parks department;
- four new water storage tanks;
- new garbage dumpsters for the sanitation collection department;
- and continuation of the 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget and tax rates. Some key items that should be noted are as follows:

1. Taxable values increased by 5.46% from last year's figures, with the majority of that due to an increase in mineral valuations. The tax rate was set at 85.3967 cents (\$0.853967) per one hundred dollars valuation, which was equal to the effective rate and a 5.27% tax rate decrease from last year.
2. Projected General Fund revenues and expenses are increased slightly compared to last year's figures, not including last year's \$250,000 transfer from reserve funds. The sales tax collection projection for the coming year is 5% higher than last year's budget figure.
3. General Fund departments capital expenditures budgeted for the coming year have been limited and include the continuation of the street maintenance program, at a slight reduction from last year, and funds set aside for new park playground equipment.
4. An increase of 2% of total payroll has been budgeted this year with the intent to implement later in the fiscal year if revenue projections hold. There is also a significant increase in personnel expenses due to the continued rising cost of health insurance premiums. Other employee benefits remain at attractive levels. The budget allowed for 31 full-time positions and 8 part-time positions.
5. The number of utility customers has stayed fairly level. In order to help fund the cost or required infrastructure upgrades in the water department, water and sewer rates have been increased to provide approximately 4% additional revenue. There is also an increase proposed in sanitation rates projected to generate 16.7% additional revenue to help cover higher landfill expenses and the recent purchase of two new garbage trucks. With no increases proposed in the gas and rates, the rates mentioned will result in an overall 5.2% increase in the average monthly bill for residential customers and a 3.2% increase for the average commercial customer. The rate changes mentioned will leave customer costs significantly below state averages.
6. The main project for the City this year is the required construction of new ground storage tanks for the water system. This will require a transfer of funds from reserves but will be something that will satisfy regulatory agencies and eliminate costly repair bills on the current tanks. With the City operating 19 water wells, pump repair and replacement is an ongoing need and is accounted for in the water production department. There are also funds earmarked for pump, tank and line repairs in the water distribution department. Pump repair and replacement is also accounted for in both the wastewater collection and wastewater treatment departments.
7. Line replacement is funded in the gas distribution department in order to satisfy state requirements.

CITY OF DENVER CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017
(Unaudited)

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, consumers, and investors and creditors with a general overview of the City of Denver City's finances and to show the City's accountability for the money it receives. For questions concerning any information provided in this report or requests for additional financial information, contact City Hall, City of Denver City, Texas, 102 W. 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, 2017

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 4,694,906	\$ 2,378,653	\$ 7,073,559	\$ 903,916
Investments - Current	-	2,352	2,352	-
Interest Receivable	846	-	846	-
Property Taxes Receivable, Net	42,426	-	42,426	-
Accounts Receivable, Net	-	443,655	443,655	-
Franchise Tax Receivable	38,090	-	38,090	-
Curb and Gutter Assessments Receivable	1,572	-	1,572	-
Sales Tax Receivable	178,592	-	178,592	-
Due from Component Unit	-	-	-	44,648
Due from Other Governments	13,652	-	13,652	-
Inventories	-	177,716	177,716	-
Incentive Accounts Receivable, Net	-	133,518	133,518	-
Restricted Cash and Cash Equivalents	-	144,075	144,075	-
Capital Assets:				
Capital Assets, Net	2,377,379	5,957,659	8,335,038	444,909
Total Assets	7,347,463	9,237,628	16,585,091	1,393,473
DEFERRED OUTFLOW OF RESOURCES				
Deferred Outflow Related to Pension Plan	372,908	145,019	517,927	-
Total Deferred Outflows of Resources	372,908	145,019	517,927	-
LIABILITIES				
Accounts Payable	68,466	52,425	120,891	8,481
Accrued Payroll Liabilities	59,789	8,718	68,507	2,479
Accrued Vacation - Current	45,295	14,290	59,585	-
Accrued Court Security Payable	5,149	-	5,149	-
Sales Tax Payable	-	4,036	4,036	-
Due to Component Unit	44,648	-	44,648	-
Unapplied Credits	-	16,429	16,429	-
Noncurrent Liabilities:				
Customer Deposits	-	144,075	144,075	-
Accrued Vacation - Long-Term	59,921	28,775	88,696	-
Net Pension Liability	572,376	222,589	794,965	-
Total Liabilities	855,644	491,337	1,346,981	10,960
DEFERRED INFLOW OF RESOURCES				
Deferred Inflow Related to Pension Plan	17,770	6,911	24,681	-
Curb and Gutter Assessment	1,572	-	1,572	-
Total Deferred Inflows of Resources	19,342	6,911	26,253	-
NET POSITION				
Net Investment in Capital Assets	2,377,379	5,957,659	8,335,038	444,909
Unrestricted Net Position	4,468,006	2,926,740	7,394,746	937,604
Total Net Position	\$ 6,845,385	\$ 8,884,399	\$ 15,729,784	\$ 1,382,513

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

CITY OF DENVER CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,040,731	\$ 44,032	\$ 5,397
Public Safety	1,852,331	321,039	143,600
Highways and Streets	551,007	29,791	25,000
Culture and Recreation	169,276	19,590	-
Total Governmental Activities:	3,613,345	414,452	173,997
BUSINESS-TYPE ACTIVITIES:			
Water & Wastewater Fund	1,357,556	1,311,856	-
Sanitation Fund	567,070	663,867	-
Gas Fund	638,255	603,130	-
Total Business-Type Activities:	2,562,881	2,578,853	-
TOTAL PRIMARY GOVERNMENT:	\$ 6,176,226	\$ 2,993,305	\$ 173,997
Component Unit:			
Denver City Economic Development Corporation	\$ 174,072	\$ -	\$ -
TOTAL COMPONENT UNITS:	\$ 174,072	\$ -	\$ -

General Revenues:

Taxes:

Property Taxes
Sales Taxes
Franchise Tax
Occupancy Taxes
Penalty and Interest on Property Taxes
Rent and Royalties
Investment Earnings
Miscellaneous Revenue

Total General Revenues

Change in Net Position

Net Position - Beginning
Prior Period Adjustment
Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Nonmajor Component Unit
\$ (991,302)	\$ -	\$ (991,302)	\$ -
(1,387,692)	-	(1,387,692)	-
(496,216)	-	(496,216)	-
(149,686)	-	(149,686)	-
(3,024,896)	-	(3,024,896)	-
-	(45,700)	(45,700)	-
-	96,797	96,797	-
-	(35,125)	(35,125)	-
-	15,972	15,972	-
(3,024,896)	15,972	(3,008,924)	-
-	-	-	(174,072)
-	-	-	(174,072)
1,620,637	-	1,620,637	231,655
926,623	-	926,623	-
174,638	-	174,638	-
89,027	-	89,027	-
20,768	-	20,768	-
110,130	-	110,130	-
33,287	40,153	73,440	8,280
345,662	4,672	350,334	3,178
3,320,772	44,825	3,365,597	243,113
295,876	60,797	356,673	69,041
6,549,509	8,861,416	15,410,925	1,313,472
-	(37,814)	(37,814)	-
\$ 6,845,385	\$ 8,884,399	\$ 15,729,784	\$ 1,382,513

CITY OF DENVER CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

EXHIBIT C-1

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 4,694,906
Interest Receivable	846
Property Taxes Receivable, Net	5,026
Franchise Tax Receivable, Net	38,090
Curb and Gutter Assessment	1,572
Sales Tax Receivable	178,592
Due from Other Governments	13,652
Total Assets	<u>\$ 4,932,684</u>
LIABILITIES	
Accounts Payable	\$ 68,466
Accrued Payroll Liabilities	59,789
Compensated Absences Payable	45,295
Accrued Court Security Payable	5,149
Due to Component Unit	44,648
Total Liabilities	<u>223,347</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue - Property Taxes	5,026
Curb and Gutter Assessment	1,572
Total Deferred Inflows of Resources	<u>6,598</u>
FUND BALANCES	
Unassigned Fund Balance	4,702,739
Total Fund Balances	<u>4,702,739</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,932,684</u>

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

CITY OF DENVER CITY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$	4,702,739
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		2,584,144
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2017 capital outlays is to increase (decrease) net position.		19,281
Included in the noncurrent assets is the recognition of the City's net pension liability required by GASB 68 in the amount of \$(572,376), a deferred resource inflow in the amount of (\$17,770), and a deferred resource outflow in the amount of \$372,908. This resulted in an increase in net position by \$(217,238).		(217,238)
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(226,046)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with compensated absences. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(17,495)
Net Position of Governmental Activities	\$	6,845,385

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

CITY OF DENVER CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT C-3

	General Fund
REVENUES:	
Taxes:	
Property Taxes	\$ 1,604,023
General Sales and Use Taxes	926,623
Franchise Tax	174,638
Occupancy Taxes	89,027
Penalty and Interest on Taxes	20,768
Licenses and Permits	18,055
Grants and Contributions	173,997
Charges for Services	321,039
Fines	25,977
Curb and Gutter Assessments	29,791
Investment Earnings	33,287
Rents and Royalties	110,130
Other Revenue	365,252
Total Revenues	3,892,607
EXPENDITURES:	
Current:	
General Government	976,658
Public Safety	1,697,151
Highways and Streets	523,414
Culture and Recreation	134,322
Capital Outlay:	
Capital Outlay	19,281
Total Expenditures	3,350,826
Net Change in Fund Balances	541,781
Fund Balance - October 1 (Beginning)	4,160,958
Fund Balance - September 30 (Ending)	\$ 4,702,739

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

CITY OF DENVER CITY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	541,781
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to increase (decrease) the change in net position.		19,281
The implementation of GASB 68 required that certain expenditures to be de-expended and record as deferred resource outflows. These contributions made after the measurement date of 12/31/16 caused the change in the ending net position in the amount of \$92,976. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflow and recorded as current year expense. This caused a decreased in the change in net position totaling (\$79,029). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by (\$73,029). The result of these changes is to decrease the change in net position by (\$59,082).		(59,082)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(226,046)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and the change in compensated absences liability. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		19,942
Change in Net Position of Governmental Activities	\$	295,876

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

CITY OF DENVER CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds			
	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 438,971	\$ 2,769,133	\$ 3,208,104
Interest Receivable	499	372	1,481	2,352
Accounts Receivable, Net	227,137	132,292	84,226	443,655
Inventories	151,720	-	25,996	177,716
Total Current Assets	379,356	571,635	2,880,836	3,831,827
Noncurrent Assets:				
Incentive Accounts Receivable, Net	-	-	133,518	133,518
Restricted Cash and Cash Equivalents	69,425	21,800	52,850	144,075
Capital Assets:				
Capital Assets, Net	5,238,410	490,747	228,502	5,957,659
Total Noncurrent Assets	5,307,835	512,547	414,870	6,235,252
Total Assets	5,687,191	1,084,182	3,295,706	10,067,079
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	67,330	46,614	31,075	145,019
Total Deferred Outflows of Resources	67,330	46,614	31,075	145,019
LIABILITIES				
Current Liabilities:				
Accounts Payable	30,009	12,872	9,544	52,425
Accrued Payroll Liabilities	4,257	2,917	1,544	8,718
Accrued Vacation - Current	6,295	4,741	3,254	14,290
Cash Overdrawn	829,451	-	-	829,451
Sales Tax Payable	-	-	4,036	4,036
Unapplied Credits	16,429	-	-	16,429
Total Current Liabilities	886,441	20,530	18,378	925,349
NonCurrent Liabilities:				
Customer Deposits	69,425	21,800	52,850	144,075
Accrued Vacation - Long-Term	12,978	7,461	8,336	28,775
Payable from Restricted Assets - Noncurrent: Net Pension Liability	103,345	71,547	47,697	222,589
Total Noncurrent Liabilities	185,748	100,808	108,883	395,439
Total Liabilities	1,072,189	121,338	127,261	1,320,788
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan	3,208	2,221	1,482	6,911
Total Deferred Inflows of Resources	3,208	2,221	1,482	6,911
NET POSITION				
Net Investment in Capital Assets	5,238,410	490,747	228,502	5,957,659
Unrestricted Net Position	(559,286)	516,490	2,969,536	2,926,740
Total Net Position	\$ 4,679,124	\$ 1,007,237	\$ 3,198,038	\$ 8,884,399

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

CITY OF DENVER CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-2

Business-Type Activities - Enterprise Funds

	Water & Wastewater Fund	Sanitation Fund	Gas Fund	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Services	\$ 1,311,856	\$ 663,867	\$ 603,130	\$ 2,578,853
Other Revenue	688	3,984	-	4,672
Total Operating Revenues	1,312,544	667,851	603,130	2,583,525
OPERATING EXPENSES:				
Salaries and Wages	200,899	155,402	74,759	431,060
Employee Benefits	112,079	78,700	44,401	235,180
Purchased Services	188,167	110,897	22,635	321,699
Property and Facility	342,057	77,921	43,783	463,761
Other Operating Costs	59,620	28,310	31,117	119,047
Supplies	44,697	44,519	398,461	487,677
Depreciation	410,037	71,321	23,099	504,457
Total Operating Expenses	1,357,556	567,070	638,255	2,562,881
Operating Income (Loss)	(45,012)	100,781	(35,125)	20,644
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	4,233	5,849	30,071	40,153
Total Non-operating Revenue (Expenses)	4,233	5,849	30,071	40,153
Change in Net Position	(40,779)	106,630	(5,054)	60,797
Total Net Position - October 1 (Beginning)	4,734,774	923,550	3,203,092	8,861,416
Prior Period Adjustment	(14,871)	(22,943)	-	(37,814)
Total Net Position - September 30 (Ending)	\$ 4,679,124	\$ 1,007,237	\$ 3,198,038	\$ 8,884,399

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

CITY OF DENVER CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-3

	Business-Type Activities			Total Enterprise Funds
	Water & Wastewater Fund	Sanitation Fund	Gas Fund	
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 1,306,685	\$ 632,053	\$ 603,812	\$ 2,542,550
Cash Payments to Employees for Services	(299,998)	(224,393)	(112,725)	(637,116)
Cash Payments for Suppliers	(681,657)	(291,934)	(500,159)	(1,473,750)
Net Cash Provided by (Used for) Operating Activities	325,030	115,726	(9,072)	431,684
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Increase(decrease) in Overdrawn Cash	(320,413)	-	-	(320,413)
<u>Cash Flows from Capital & Related Financing Activities:</u>				
Acquisition of Capital Assets	-	(392,888)	-	(392,888)
<u>Cash Flows from Investing Activities:</u>				
Net Activity on Incentive Loans	-	-	53,530	53,530
Interest and Dividends on Investments	4,233	5,849	30,071	40,153
Net Cash Provided by Investing Activities	4,233	5,849	83,601	93,683
Net Increase(Decrease) in Cash and Cash Equivalents	8,850	(271,313)	74,529	(187,934)
Cash and Cash Equivalents at Beginning of the Year:	60,575	732,084	2,747,454	3,540,113
Cash and Cash Equivalents at the End of the Year:	\$ 69,425	\$ 460,771	\$ 2,821,983	\$ 3,352,179
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>				
Operating Income (Loss):	\$ (45,012)	\$ 100,781	\$ (35,125)	\$ 20,644
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Depreciation	410,037	71,321	23,099	504,457
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	(17,476)	(39,773)	(2,943)	(60,192)
Decrease (increase) in Inventories	(27,369)	-	-	(27,369)
Increase (decrease) in Accounts Payable	(19,747)	(30,287)	(2,902)	(52,936)
Increase (decrease) in Payroll Deductions	(21)	(1,137)	(5)	(1,163)
Increase (decrease) in Accrued Vacation	2,334	3,462	1,516	7,312
Increase (decrease) in Unapplied Credits	2,767	-	-	2,767
Increase (decrease) in Customer Deposits	8,850	3,975	3,625	16,450
Increase (decrease) in Sales Tax	-	-	(1,261)	(1,261)
Increase (decrease) in Pension Liability	10,667	7,384	4,924	22,975
Net Cash Provided by (Used for) Operating Activities	\$ 325,030	\$ 115,726	\$ (9,072)	\$ 431,684

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

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

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. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB 61 – The Financial Reporting Entity: Omnibus (GASB 61). Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise control. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relations, regardless of whether the government is able to exercise control.

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.

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.

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.

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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

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, 2016, 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, 2017.
- 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.

Inter-fund activities within governmental funds and between governmental funds and proprietary funds appear as due to/due from 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.

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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

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.

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. 62, the City applies all GASB pronouncements as well as all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund statement of net assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

FUND ACCOUNTING (Cont.)

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.

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.

DEFERRED OUTFLOWS/DEFERRED INFLOWS

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has the following items that qualify for reporting in that category:

- Deferred outflow related to pensions, which result from pension contributions after the measurement date (deferred and recognized in the following fiscal year) and differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

DEFERRED OUTFLOWS/DEFERRED INFLOWS (Cont.)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting on the government-wide statement of net position.

- Deferred inflow related to pensions, which result from differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

Additionally the City has one type of this item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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*.

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

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

OTHER ACCOUNTING POLICIES (Cont.)

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.
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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

OTHER ACCOUNTING POLICIES (Cont.)

The TML Pool has established Claims Reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated.

The TML Pool also makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the TML Pool.

In addition, the City has elected to include EDC for all of its coverage with the TML Pool except for workers' compensation. EDC does not contribute anything to the City for this coverage, but agrees to follow any actions recommended by the City or the TML Pool to reduce risks of loss.

The City also carries liability insurance for its underground gas tanks at the airport through Tank Owners Members Insurance Company. It has also bonded the employees either required to be bonded or deemed necessary by the City. These bonds have been purchased through a local insurance agency. For the year ended September 30, 2016, the City of Denver City, Texas contributed approximately \$84,362 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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

NOTE B - BUDGETARY DATA (Cont.)

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

1. Article VII of the City Charter requires the City Manager to prepare an annual budget using the zero-based budgeting concept at least 45 days prior to the beginning of the fiscal year. The operating budget includes proposed expenditures and the means of financing them. Budgeted funds include the General Fund and enterprise funds. Enterprise funds are budgeted for management purposes.
2. The budget is filed in the City Manager's office not less than 30 days prior to the adoption of the tax levy and is open to public inspection. The City Council is required to hold a minimum of two public hearings on the budget no less than 15 days subsequent to the filing by the City Manager.
3. The budget is then adopted at the conclusion of the last public hearing by the favorable votes of a majority of the members of the City Council. The original budget was adopted by the City Council on September 19, 2016, in accordance with the above process.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that increase the total expenditures of any fund must be approved by the City Council after appropriate public notice and citizen participation.
5. The fiscal 2017 General Fund budget was prepared on the modified accrual basis using estimated beginning and ending fund balances. The fiscal 2017 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 \$144,075 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, 2017, 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.

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

NOTE C – CASH AND CASH EQUIVALENTS (Cont.)

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.

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, 2017.

	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	Total
Unrestricted Funds	\$ 4,676,701	\$ (829,451)	\$ 438,971	\$ 2,769,133	\$ 7,055,354
Restricted Funds	-	69,425	21,800	52,850	144,075
Chamber Certificate of Deposit	14,688	-	-	-	14,688
Petty Cash	2,800	-	-	-	2,800
Returned Checks	<u>717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>717</u>
Total	<u>\$ 4,694,906</u>	<u>\$ (760,026)</u>	<u>\$ 460,771</u>	<u>\$ 2,821,983</u>	<u>\$ 7,217,634</u>

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

Category	Amount
TexPool Deposits	\$ 1,480,343
Texas Class	4,557,233
Bank Deposits	160,867
Certificates of Deposit	<u>856,911</u>
Total	<u>\$ 7,055,354</u>

As of September 30, 2017, 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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

NOTE C – CASH AND CASH EQUIVALENTS (Cont.)

TexPool and Texas Class - The City maintains accounts with TexPool and Texas Class which are 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 without any liquidation fees.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool.

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

NOTE D - PROPERTY TAX RECEIVABLE

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

The City's property taxes are levied each October 1 based upon 100 percent of the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due to the Yoakum County Tax Assessor/Collector upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien 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 2017 (2016 tax levy) was \$0.89900 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 2016 tax levy was based was \$175,423,652 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2017 were approximately 96.40% of the tax levies available to be collected.

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

NOTE D - PROPERTY TAX RECEIVABLE (Cont.)

Concentration of Risk - During the year, the City collected approximately 19.94% 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 \$19,968 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	\$ 60,095	\$ 60,095
Allowance for Uncollectible Taxes	(17,669)	(55,069)
Deferred Inflows	-	(5,026)
Net Property Taxes Receivable	<u>\$ 42,426</u>	<u>\$ -</u>

NOTE E – ACCOUNTS RECEIVABLE

The City's General Fund reports various receivables as of the fiscal year end to be collected within the following fiscal year, including sales and franchise taxes, ambulance service calls, and receivables from Yoakum County and other governmental entities.

The City's enterprise funds operate on a monthly billing cycle, issuing billings continuously during the month. The accounts receivable for the enterprise funds at September 30, 2017 represent all unpaid billings issued prior to September 30, 2017 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, 2017.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

NOTE E – ACCOUNTS RECEIVABLE (Cont.)

	Governmental Activities	Business-type Activities			Totals
	General Fund	Water and Sewer Fund	Sanitation Fund	Gas Fund	
Utilities Receivable	\$ -	\$ 357,881	\$ 175,570	\$ 266,667	\$ 800,118
Sales Tax Receivable	178,592	-	-	-	-
Franchise Tax Receivable	38,090	-	-	-	-
Ambulance Receivable	-	-	-	-	-
Interest Receivable	846	499	372	1,481	2,352
Allowance for Uncollectibles	-	(130,744)	(43,278)	(182,441)	(356,463)
Net Accounts Receivable	<u>\$ 217,528</u>	<u>\$ 227,636</u>	<u>\$ 132,664</u>	<u>\$ 85,707</u>	<u>\$ 446,007</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, 2017 the City had no interfund balances.

NOTE G - CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2017 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	1,908,331	-	-	1,908,331
Vehicles	1,355,255	-	-	1,355,255
Machinery and Equipment	607,722	19,281	-	627,003
Totals at Historic Cost	<u>5,268,342</u>	<u>19,281</u>	<u>-</u>	<u>5,287,623</u>
Less Accumulated Depreciation				
Infrastructure	(121,630)	(9,874)	-	(131,504)
Improvements	(231,605)	(38,140)	-	(269,745)
Buildings	(792,683)	(52,320)	-	(845,003)
Vehicles	(976,740)	(107,140)	-	(1,083,880)
Machinery and Equipment	(561,540)	(18,572)	-	(580,112)
Totals Accumulated Depreciation	<u>(2,684,198)</u>	<u>(226,046)</u>	<u>-</u>	<u>(2,910,244)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 2,584,144</u>	<u>\$ (206,765)</u>	<u>\$ -</u>	<u>\$ 2,377,379</u>

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

NOTE G - CAPITAL ASSETS (Cont.)

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	\$ 58,375
Public Safety	107,586
Streets	26,772
Culture and Recreation	<u>33,313</u>
Total	<u>\$ 226,046</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	270,325	-	(270,325)	-
Infrastructure	7,717,478	270,325	-	7,987,803
Improvements	4,748,929	-	-	4,748,929
Buildings	70,419	-	-	70,419
Vehicles	809,847	-	-	809,847
Machinery and Equipment	<u>1,203,292</u>	<u>392,888</u>	-	<u>1,596,180</u>
Totals at Historic Cost	<u>15,891,811</u>	<u>663,213</u>	<u>(270,325)</u>	<u>16,284,699</u>
Less Accumulated Depreciation				
Water Rights	(631,521)	-	-	(631,521)
Infrastructure	(3,624,414)	(261,479)	-	(3,885,893)
Improvements	(3,863,953)	(135,221)	-	(3,999,174)
Buildings	(39,559)	(2,351)	-	(41,910)
Vehicles	(727,988)	(44,186)	-	(772,174)
Machinery and Equipment	<u>(935,148)</u>	<u>(61,220)</u>	-	<u>(996,368)</u>
Total Accumulated Depreciation	<u>(9,822,583)</u>	<u>(504,457)</u>	-	<u>(10,327,040)</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 6,069,228</u>	<u>\$ 158,756</u>	<u>\$ (270,325)</u>	<u>\$ 5,957,659</u>

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, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Other Liabilities:				
Compensated Absences	<u>\$ 63,249</u>	<u>\$ 41,781</u>	<u>\$ (45,109)</u>	<u>\$ 59,921</u>
Business-Type Activities:				
Other Liabilities:				
Compensated Absences	<u>\$ 22,707</u>	<u>\$ 18,567</u>	<u>\$ (12,499)</u>	<u>\$ 28,775</u>

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

NOTE I - COMPONENT UNIT

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>\$ 35,209</u>	<u>\$ 231,655</u>	<u>\$ (222,216)</u>	<u>\$ 44,648</u>

NOTE J - DEFINED BENEFIT PLANS

Plan Description: The City of Denver City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided: TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, with the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of the benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City of Denver City has adopted plan provisions that provide for retirement eligibility at age 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The plan provides supplemental death benefits for both employees and retirees, as well as disability benefits. Members are vested after 5 years and may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees Covered by Benefit Terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>29</u>
Total	72

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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 11.83% and 12.85% in calendar 2016 and 2017, respectively. The City's contribution to the TMRS for the year ended September 30, 2017 was \$171,837 and was equal to the required contributions.

Net Pension Liability: The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5% per year, including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the net pension liability

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (a) – (b)
Balance at 12/31/15	\$ 8,748,783	\$ 7,930,529	\$ 818,254
Changes for the year:			
Service Cost	150,277	-	150,277
Interest	582,949	-	582,949
Change in benefit terms	-	-	-
Diff between expected/actual exp.	(13,275)	-	(13,275)
Changes of assumptions	-	-	-
Contributions – employer	-	149,373	(149,373)
Contributions – employee	-	64,441	(64,441)
Net investment income	-	535,805	(535,805)
Benefit Payments	(375,276)	(375,276)	-
Administrative expenses	-	(6,053)	6,053
Other charges	-	(326)	326
Net changes	<u>344,675</u>	<u>367,964</u>	<u>(23,289)</u>
Balance at 12/31/16	<u>\$ 9,093,458</u>	<u>\$ 8,298,493</u>	<u>\$ 794,965</u>

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

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 6.75%, 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 (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 1,972,684	\$ 794,965	\$ (182,536)

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

For the year ended September 30, 2017 the City recognized pension expense in the amount of \$250,800.

At September 30, 2017 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)	\$ -	\$ 24,286
Change in actuarial assumptions	\$ 18,370	\$ -
Differences between projected and actual investment earnings (net of current year amortization)	\$ 370,426	\$ 395
Contributions subsequent to the measurement date	<u>129,131</u>	<u>-</u>
Total	<u>\$ 517,927</u>	<u>\$ 24,681</u>

The \$109,761 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, 2016. 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,	
2018	\$ 125,927
2019	\$ 129,673
2020	\$ 108,613
2021	\$ (98)
2022	\$ -
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, 2017 the City paid approximately \$330,040 for health insurance coverage on the City's employees.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

NOTE L - OTHER POSTEMPLOYMENT BENEFITS

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. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$3,415, \$3,137, and \$2,724 respectively, which equaled the required contribution each year.

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. The City and the County each are responsible for one half of the payment. For the year ended September 30, 2017, the adjusted annual lease expense was approximately \$12,829. This amount changes yearly depending on CPI-U adjustments.

CITY OF DENVER CITY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 YEAR ENDED SEPTEMBER 30, 2017

NOTE N - LEASE COMMITMENTS (Cont.)

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
2018	\$ 6,414	\$ 6,415	\$ 12,829
2019	6,415	6,414	12,829
2020	6,414	6,415	12,829
2021	6,415	6,414	12,829
2022	6,414	6,415	12,829
2023-2027	32,073	32,072	64,145
2028-2032	<u>32,072</u>	<u>32,073</u>	<u>64,145</u>
Total	<u>\$ 96,217</u>	<u>\$ 96,218</u>	<u>\$ 192,435</u>

NOTE O – FEDERAL, STATE AND OTHER GRANTS

The City received state award expenditures for \$5,397, and no Federal expenditures for the year ended September 30, 2017. The amount received as a grant is below \$750,000. As a result, the City is not subject to the Texas Single Audit Circular. The City also received \$153,600 in public safety grants from Yoakum County to support the EMS and fire departments.

NOTE P – PRIOR YEAR ADJUSTMENT

There was a prior year adjustment in the Statement of Activities in Fund Balance for the Business-type Activities. This adjustment was to account payable balances in the prior year in the amount of \$37,814. In the Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds in the Water & Wastewater Fund for \$14,871 and Sanitation fund for \$22,943 to adjust the balances in accounts payable.

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

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Definition and Nature of Entity - The Denver City Economic Development Corporation (EDC) is a quasi-governmental organization created on June 5, 2000 as a public instrumentality and non-profit industrial development corporation under provisions of the Development Corporation Act of 1979 of the State of Texas, and is funded by the City of Denver City with a 3/8 percent sales tax.

A five-member Board of Directors appointed by the City Council governs EDC, and EDC's annual operating budgets, as well as projects undertaken by it, are subject to approval by the City Council.

Because of this oversight responsibility, EDC is considered to be a component unit of the City of Denver City, and in accordance with Governmental Accounting Standards Board (GASB) Statement 14, its financial affairs are included in the City's annual financial report as a discretely-presented entity separately presented in the government-wide statements.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

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

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

Restricted Cash - When the EDC incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

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, 2017, 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.

CITY OF DENVER CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED SEPTEMBER 30, 2017

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Net Position

In the proprietary fund financial statements, equity is classified as net position and displayed in three categories.

1. Net Investment in Capital Assets -This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.
2. Restricted Net Position -This amount is restricted by external creditors, granters, contributors, laws or regulations of other governments, enabling legislation, or constitutional provisions. As of September 30, 2017, no funds have been reported as restricted net position.
3. Unrestricted Net Position - This amount includes all net positions

Risk Management - The Corporation is exposed to various risks of loss related to torts; errors and omissions; violations of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These risks are covered by the Corporation's participation in the Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under \$1,000,000 for workers' compensation and liability, and losses under \$500,000 for property that are incurred by TML Pool members are paid with TML Pool funds. Claims in excess of these limits are paid under terms of insurance policies obtained by the TML Pool. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas.

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

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

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

NOTE 2: SALES TAX RECEIVABLE

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

The Corporation received approximately \$231,655 and \$210,537 in sales tax revenue and has a sales tax receivable due from the City of Denver City totaled approximately \$44,648 and \$35,209 for the fiscal years ended September 30, 2017 and 2016, 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, 2017

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 is as follows:

	Balance 2015	Additions	Deletions	Balance 2016
Land	\$ 83,088	\$ 127,243	\$ -	\$ 210,331
Land Improvements	387,422	-	-	387,422
Furniture and Equipment	<u>38,843</u>	<u>-</u>	<u>-</u>	<u>38,843</u>
	509,353	127,243	-	636,596
Less Accumulated Depreciation	<u>(159,104)</u>	<u>(32,583)</u>	<u>-</u>	<u>(191,687)</u>
Capital Assets, Net	<u>\$ 350,249</u>	<u>\$ 94,660</u>	<u>\$ -</u>	<u>\$ 444,909</u>

Depreciation expense for the 2017 fiscal year end was \$32,583.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DENVER CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,563,389	\$ 1,594,364	\$ 1,604,023	\$ 9,659
General Sales and Use Taxes	800,000	868,000	926,623	58,623
Franchise Tax	210,593	178,124	174,638	(3,486)
Occupancy Taxes	48,000	79,974	89,027	9,053
Penalty and Interest on Taxes	13,000	13,000	20,768	7,768
Licenses and Permits	7,500	17,650	18,055	405
Grants and Contributions	115,000	115,000	173,997	58,997
Charges for Services	55,000	294,250	321,039	26,789
Fines	28,500	22,447	25,977	3,530
Curb and Gutter Assessments	10,000	29,790	29,791	1
Investment Earnings	19,929	19,929	33,287	13,358
Rents and Royalties	88,125	109,013	110,130	1,117
Other Revenue	38,500	353,106	365,252	12,146
Total Revenues	2,997,536	3,694,647	3,892,607	197,960
EXPENDITURES:				
Current:				
General Government	763,863	863,663	976,658	(112,995)
Public Safety	1,601,496	1,728,097	1,697,151	30,946
Highways and Streets	438,757	541,431	523,414	18,017
Culture and Recreation	94,670	110,720	134,322	(23,602)
Capital Outlay:				
Capital Outlay	348,750	348,750	19,281	329,469
Total Expenditures	3,247,536	3,592,661	3,350,826	241,835
Excess (Deficiency) of Revenues Over (Under) Expenditures	(250,000)	101,986	541,781	439,795
OTHER FINANCING SOURCES (USES):				
Transfers In	250,000	250,000	-	(250,000)
Total Other Financing Sources (Uses)	250,000	250,000	-	(250,000)
Net Change	-	351,986	541,781	189,795
Fund Balance - October 1 (Beginning)	4,160,958	4,160,958	4,160,958	-
Fund Balance - September 30 (Ending)	\$ 4,160,958	\$ 4,512,944	\$ 4,702,739	\$ 189,795

CITY OF DENVER CITY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Plan Year Ended December 31,		
	2016	2015	2014
Total Pension Liability			
Service cost	\$ 150,277	\$ 137,309	\$ 124,151
Interest (on the total pension liability)	582,949	576,382	557,763
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(13,275)	(6,954)	(93,596)
Change of assumptions	-	46,634	-
Benefit payments, including refunds of employee contributions	(375,276)	(339,913)	(317,913)
Net Change in Total Pension Liability	<u>344,675</u>	<u>413,458</u>	<u>270,405</u>
Total Pension Liability - Beginning	8,748,783	8,335,325	8,064,920
Total Pension Liability - Ending (a)	<u>\$ 9,093,458</u>	<u>\$ 8,748,783</u>	<u>\$ 8,335,325</u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 149,373	\$ 154,534	\$ 151,881
Contributions - employee	64,441	62,870	61,046
Net investment income	535,805	11,876	441,452
Benefit payments, including refunds of employee contributions	(375,276)	(339,913)	(317,913)
Administrative expense	(6,053)	(7,234)	(4,609)
Other	(326)	(357)	(379)
Net Change in Plan Fiduciary Net Position	<u>367,964</u>	<u>(118,224)</u>	<u>331,478</u>
Plan Fiduciary Net Position - Beginning	7,930,528	8,048,752	7,717,274
Plan Fiduciary Net Position - Ending (b)	<u>\$ 8,298,492</u>	<u>\$ 7,930,528</u>	<u>\$ 8,048,752</u>
 Net Pension Liability - Ending (a) - (b)	<u>794,966</u>	<u>818,255</u>	<u>286,573</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.26%	90.65%	96.56%
 Covered Employee Payroll	\$ 1,288,825	\$ 1,257,407	\$ 1,220,915
 Net Pension Liability as a Percentage of Covered Employee Payroll	61.68%	65.07%	23.47%

CITY OF DENVER CITY, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Plan Year Ended December 31,		
	2017	2016	2015
Actuarially determined contribution	\$ 171,837	\$ 159,316	\$ 157,426
Contributions in relation to actuarially determined contribution	(171,837)	(159,316)	(157,426)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,365,907	\$ 1,323,625	\$ 1,257,391
Contributions as a percentage of covered employee payroll	12.58%	12.04%	12.52%

CITY OF DENVER CITY, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
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

CITY OF DENVER CITY, TEXAS
SCHEDULE OF INSURANCE COVERAGE
FISCAL YEAR ENDED SEPTEMBER 30, 2017

Company	Policy Number	Date Effective	Date Expired
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
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TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
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TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
TML Intergovernmental Risk Pool	0463-06	10/1/2016	10/1/2017
Kizer Insurance Agency	CBB-2108306	3/28/2017	3/28/2018
Kizer Insurance Agency	69892384	12/31/2016	12/31/2017
Tank Owner's Members Insurance Company	1516	5/22/2017	5/22/2018

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	3,277
	Law Enforcement Liability	1,000,000	5,370
	Public Officials Liability (E & O)	1,000,000	7,213
	Automobile	1,000,000	12,360
	Auto Medical Payment	25,000	
	Fire Truck	340,000	
Physical Damage	Auto Physical Damage	1,075,676	16,708
Property	Real and Personal Property	4,429,738	8,537
	Boiler and Machinery	4,429,738	
	Mobile Equipment	230,156	884
	Transit	1,000,000	
Workers Compensation	Employees & Volunteers		35,739
Employee Bonds	Employees in Business Office	100,000	698
Employee Bonds	Employees in Business Office		223
	Airport Underground Fuel Tanks	1,000,000	1,979

CITY OF DENVER CITY, TEXAS
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED SEPTEMBER 30, 2017

Year Ended September 30,	Beginning Balance 10/1/2017	Current Year Levy	Fiscal Year Collections	Adjustments	Ending Balance 9/30/2017
2007 and Prior	\$ 1,244	\$ -	\$ 218	\$ (394)	\$ 632
2008	256	-	24	-	232
2009	191	-	25	-	166
2010	289	-	47	-	242
2011	362	-	50	-	312
2012	1,006	-	203	(191)	612
2013	2,279	-	1,022	(198)	1,059
2014	7,279	-	3,971	(197)	3,111
2015	25,246	-	14,313	(1,176)	9,757
2016	<u>-</u>	<u>1,638,054</u>	<u>1,588,338</u>	<u>(5,744)</u>	<u>43,972</u>
	<u>\$ 38,152</u>	<u>\$ 1,638,054</u>	<u>\$ 1,608,211</u>	<u>\$ (7,900)</u>	<u>\$ 60,095</u>

CITY OF DENVER CITY, TEXAS
RECONCILIATION OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED SEPTEMBER 30, 2017

2016 Tax Roll

Assessed Valuation (Adjusted for Correction)		<u>\$ 174,725,588</u>
Tax Rate \$0.899000 per \$100	\$ 1,638,054	
Adjustments and Supplements	<u>(7,900)</u>	
Current Year Tax Available To Be Collected		1,630,154
Prior Years Delinquent Taxes		<u>38,152</u>
Net Taxes to be Collected		1,668,306
Fiscal Year Collections		
Current Year	1,588,388	
Prior Year Delinquent	<u>19,873</u>	<u>1,608,261</u>
 Delinquent Taxes at Year End		 <u>60,045</u>
 Percentage of Collection		 <u>96.40%</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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MEMBERS
TEXAS SOCIETY AND AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

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

Mayor and City Council Members
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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2018.

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

January 31, 2018