

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2017

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

ANNUAL FINANCIAL REPORT  
For the Year Ended August 31, 2017

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Denver City, Texas

ANNUAL FINANCIAL REPORT  
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## INTRODUCTORY SECTION

CERTIFICATE OF BOARD


Denver City Independent School District  
Name of School District

Yoakum  
County

251-901  
Co.- Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and  approved \_\_\_ disapproved (check one) for the year ended August 31, 2017 at a meeting of the Board of Trustees of such school district on the 15th day of January, 2018.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):

(attach list as necessary):

## FINANCIAL SECTION

# Terry & King, CPAs, P.C.

4216 102<sup>nd</sup>

P.O. Box 93550

Lubbock, TX 79493-3550

Randel J. Terry, CPA

Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

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## Independent Auditors' Report on Financial Statements

Board of Trustees  
Denver City Independent School District  
501 Mustang Avenue  
Denver City, Texas 79323

Members of the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Denver City Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District'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.

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 Denver City Independent School District, as of August 31, 2017, and the respective changes in financial position thereof 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, budgetary comparison information, and retirement schedules, identified as Required Supplementary Information 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 Denver City Independent School District's basic financial statements. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, 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, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

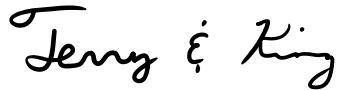
The Fund Balance and Cash Flow Calculation Worksheet-General Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018, on our consideration of the Denver City Independent School District'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 Denver City Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King".

Terry & King, CPAs, P.C.  
January 12, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denver City Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended August 31, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$80,230,828 at August 31, 2017.
- During the year, the District's expenses were \$1,755,172 more than the \$29,147,878 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased \$5,287,726 or 15% from last year, and no new programs were added this year. Expenditures for Contracted Instructional Services Between Schools decreased \$6,728,899.
- The general fund reported a fund balance this year of \$43,365,101.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1F, Required Components of the District's Annual Financial Report**

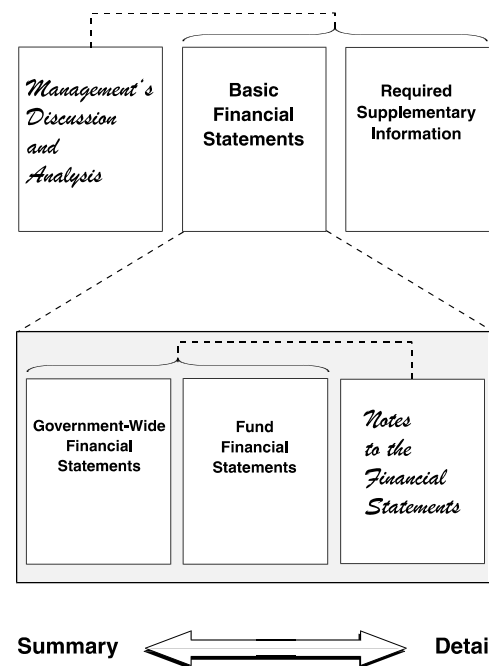


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements**

Type of Statements	Fund Statements		
	Government-wide	Governmental Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>◆ Statement of net assets</li> <li>◆ Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>◆ Balance sheet</li> <li>◆ Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>◆ Statement of fiduciary net assets</li> <li>◆ Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

### Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$80,230,828 at August 31, 2017. (See Table A-1).

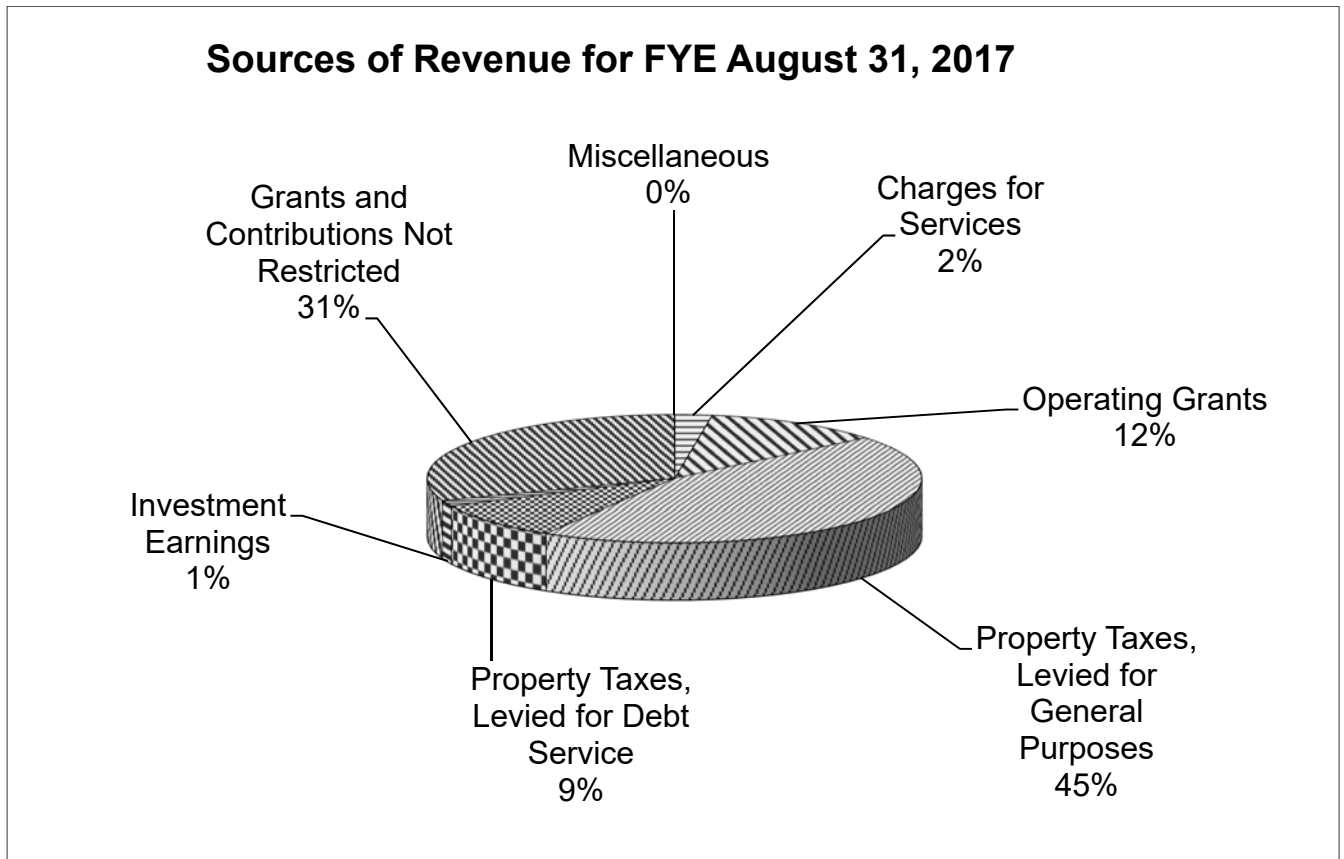
Table A-1  
Denver City Independent School District's Net Position

	Governmental Activities		Percentage Change
	August 31, 2017	August 31, 2016	
<b>Current assets:</b>			
Cash and Investments	89,365,406	104,872,832	-15%
Due from other governments	399,270	4,373,940	-91%
Taxes Receivable, net	267,393	110,959	141%
Other Receivables	276	276	0%
Total current assets:	90,032,345	109,358,007	-18%
<b>Noncurrent assets:</b>			
Land	1,061,479	1,061,479	0%
Construction in Progress	19,352,520	3,983,388	386%
Buildings & Improvements	77,822,895	72,980,499	7%
Less accumulated depreciation, buildings & improvements	(23,011,263)	(21,507,667)	7%
Vehicles	3,235,765	3,262,315	-1%
Less accumulated depreciation, vehicles	(2,364,604)	(2,164,465)	9%
Furniture & Equipment	3,746,751	3,693,467	1%
Less accumulated depreciation, furniture & equipment	(3,075,714)	(2,731,823)	13%
Total noncurrent assets	76,767,829	58,577,193	31%
Total Assets	166,800,174	167,935,200	-1%
<b>Deferred Outflows of Resources</b>			
Deferred Outflows - Pension	1,455,436	1,169,464	24%
Total Deferred Outflows of Resources	1,455,436	1,169,464	24%
<b>Current liabilities:</b>			
Accounts Payable	3,111,611	76,082	3990%
Payroll Deductions & Withholdings	87,187	80,700	8%
Accrued Wages Payable	935,353	749,882	25%
Due to Other Governments	59,219	1,634,333	-96%
Unearned Revenue	3,610	-	#DIV/0!
Total Current Liabilities	4,196,980	2,540,997	65%
<b>Non-current liabilities:</b>			
Premium on Bond Issuance	8,389,484	8,914,474	-6%
Due Within One Year	2,825,000	2,765,000	2%
Due in More than One Year	69,101,127	71,830,000	-4%
Net Pension Liability	3,320,724	2,743,976	21%
Total Non-current Liabilities	83,636,335	86,253,450	-3%
<b>Deferred Inflows of Resources</b>			
Deferred Inflows - Pension	191,467	204,239	-6%
Total Deferred Inflows of Resources	191,467	204,239	-6%
<b>Net Position:</b>			
Net investment in capital assets	33,295,395	31,602,644	5%
Restricted for Debt Service	5,501,328	8,632,610	-36%
Unrestricted	41,434,105	39,870,724	4%
Total Net Position	80,230,828	80,105,978	0%

The \$41,434,105 of unrestricted net position represents resources available to fund the programs of the District next year.

**Changes in net position.** The District's total revenues were \$29,147,878. A significant portion, 54 percent, of the District's revenue comes from taxes. (See Figure A-3.) 43 percent comes from grants, while 3% percent relates to miscellaneous revenues and charges for services.

The total cost of all programs and services was \$30,903,050; 40 percent of these costs are for instructional and instruction-related services. The District expended \$4,322,461 for contracted instructional services between schools.



(Figure A-3)

#### Governmental Activities

- Property tax rates remained constant at \$1.2533 per \$100 value. The current tax levy decreased \$9,378,943, or 38%. Taxes collected in the year ending August 31, 2017 were \$15,449,317 compared to \$24,858,393 in FYE 2016.

Table A-2  
Changes in Denver City Independent School District's Net Position

	Governmental Activities		Percentage Change
	<u>2017</u>	<u>2016</u>	
Program Revenues:			
Charges for Services	706,665	1,032,743	-32%
Operating Grants and Contributions	3,392,234	3,334,962	2%
General Revenues:			
Property Taxes, Levied for General Purposes	13,004,075	20,692,998	-37%
Property Taxes, Levied for Debt Service	2,665,566	4,240,350	-37%
Grants and Contributions not restricted	8,947,337	7,140,293	25%
Investment Earnings	425,728	156,947	171%
Other	6,273	244,030	-97%
<b>Total Revenues</b>	<b>29,147,878</b>	<b>36,842,323</b>	<b>-21%</b>
Instruction	12,424,643	12,347,030	1%
Instructional Resources and Media Services	244,928	257,802	-5%
Curriculum Development and Instructional Staff Development	221,959	193,293	15%
Instructional Leadership	206,607	234,061	-12%
School Leadership	1,436,066	1,291,984	11%
Guidance, Counseling and Evaluation Services	1,354,424	1,296,708	4%
Health Services	179,762	229,517	-22%
Student (Pupil) Transportation	603,123	639,831	-6%
Food Services	1,307,253	1,334,293	-2%
Curricular/Extracurricular Activities	1,384,412	1,469,393	-6%
General Administration	940,679	873,603	8%
Plant Maintenance & Operation	2,846,909	2,761,187	3%
Security & Monitoring Services	82,623	108,881	-24%
Data Processing Services	449,552	326,966	37%
Community Services	28,956	33,008	-12%
Debt Service - Interest on Long-Term Debt	2,566,386	805,174	219%
Debt Service - Bond Issuance Cost & Fees	1,550	317,147	-100%
Contracted Instructional Services Between Schools	4,322,461	12,131,369	-64%
Payments to Share Service Arrangements	134,138	417,348	-68%
Other Governmental Charges	166,619	202,190	-18%
<b>Total Expenses</b>	<b>30,903,050</b>	<b>37,270,785</b>	<b>-17%</b>
Increase (Decrease) in Net Position	(1,755,172)	(428,462)	310%
Net Position - Beginning	80,105,978	80,534,440	-1%
Prior Period Adjustment	1,880,022	-	100%
<b>Net Position - Ending</b>	<b>80,230,828</b>	<b>80,105,978</b>	<b>0%</b>

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$30,903,050.
- The amount that our taxpayers paid for these activities through property taxes was \$15,669,641.
- Some of the cost was paid by those who directly benefited from the programs \$706,665 or
- By grants and contributions \$12,339,571.

**Table A-3**  
Net Cost of Selected District Functions

	Total Cost of Services		% Change 2016-2017	Net Cost of Services		% Change 2016-2017
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>	
Instruction	12,424,643	12,347,030	1%	10,690,971	10,612,664	1%
Extracurricular Activities	1,384,412	1,469,393	(6%)	1,264,395	1,352,877	(7%)
School administration	940,679	873,603	8%	904,246	841,811	7%
Plant Maintenance & Operations	2,846,909	2,761,187	3%	2,775,156	2,690,344	3%

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues from governmental fund types totaled \$29,137,409 for the period ended August 31, 2017, a decrease of 23% from the preceding year. Local revenues decreased 36% (\$9,464,289), state program revenues increased 11% (\$939,536), and federal program revenues increased 2% (\$48,931).

**General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget 3 times. Even with these adjustments, actual expenditures were \$1,107,046 below final budgeted amounts. The most significant positive variance resulted in expenditures for instruction and contracted instructional services between public schools.

Resources available were \$126,980 more than the final budgeted amount:

- Local and Intermediate revenues were \$46,380 less than expected.
- State Program Revenues were \$173,360 more than projected.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2017, the District had invested \$84,981,148 in a broad range of capital assets, including, land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$20,238,262 or 24 percent over last year.

**Table A-4**  
District's Capital Assets

	Governmental Activities		Total Percentage Change
	<u>2017</u>	<u>2016</u>	<u>2016-2017</u>
Land	\$ 1,061,479	\$ 1,061,479	0%
Construction in Progress	19,352,520	3,983,388	386%
Buildings and improvements	77,822,895	72,980,500	7%
Vehicles	3,235,765	3,262,315	(1%)
Furniture & Equipment	3,746,751	3,693,466	1%
Totals at historical cost	<u>105,219,410</u>	<u>84,981,148</u>	<u>24%</u>
Total accumulated depreciation	(28,451,581)	(26,403,955)	8%
Net capital assets	<u>76,767,829</u>	<u>58,577,193</u>	<u>31%</u>

More detailed information about the District's capital assets is presented in the notes to the financial statements.

## Debt Administration

**Table A-5**  
District's Long-Term Obligations

	Governmental		Total
	Activities		Percentage
	<u>2017</u>	<u>2016</u>	<u>Change</u> <u>2016-2017</u>
General Obligation Bonds	\$ 71,830,000	\$ 74,595,000	(4%)
Premium on Bonds	8,389,484	8,914,474	(6%)
Compensated Absences	96,127	-	100%
Net Pension Liability	3,320,724	2,743,976	21%
Total Long-Term Obligations	<u>\$ 83,636,335</u>	<u>\$ 86,253,450</u>	<u>(3%)</u>

More detailed information about the District's long-term obligations is presented in the notes to the financial statements.

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

- Appraised value used for the 2018 budget preparation is approximately the same.
- General operating fund spending per student should remain approximately the same.
- The District's 2018 refined average daily attendance is expected to remain constant.

These indicators were taken into account when adopting the general fund budget for 2018. The District does not plan an increase in program revenues and estimates an increase in expenditures for staffing due to incremental salary increases.

The District's budgetary general fund balance is not expected to change appreciably by the close of 2018.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

## BASIC FINANCIAL STATEMENTS

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

STATEMENT OF NET POSITION  
August 31, 2017

<u>Data Control Codes</u>		1 <u>Governmental Activities</u>
	ASSETS:	
1110	Cash and Cash Equivalents	\$ 89,365,406
1225	Taxes Receivable, Net	267,393
1240	Due from Other Governments	399,270
1290	Other Receivables	276
	Capital Assets:	
1510	Land	1,061,479
1520	Buildings & Improvements, net	54,811,631
1530	Furniture & Equipment, net	1,542,199
1580	Construction in Progress	<u>19,352,520</u>
1000	TOTAL ASSETS	<u>\$ 166,800,174</u>
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred Outflows - Pension	<u>1,455,436</u>
	TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,455,436</u>
	LIABILITIES:	
	Current Liabilities:	
2110	Accounts Payable	\$ 3,111,611
2150	Payroll Withholdings Payable	87,187
2160	Accrued Wages Payable	935,353
2180	Due to Other Governments	59,219
2300	Unavailable Revenue	3,610
	Noncurrent Liabilities:	
2501	Due within one year	2,825,000
2502	Due in more than one year	69,005,000
2516	Premium on bond issuance	8,389,484
2540	Net Pension Liability	3,320,724
2590	Compensated Absences Payable	<u>96,127</u>
2000	<u>Total Liabilities</u>	<u>87,833,315</u>
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflows - Pension	<u>\$ 191,467</u>
	<u>Total Deferred Inflows of Resources</u>	<u>191,467</u>
	NET POSITION:	
3200	Net investment in capital assets	33,295,395
	Restricted for:	
3850	Debt Service	5,501,328
3900	Unrestricted	<u>41,434,105</u>
3000	<u>TOTAL NET POSITION</u>	<u>\$ 80,230,828</u>

The accompanying notes are an integral part of this statement.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2017

Data Control		1	3	4	Net (Expense)
			Program Revenues		Revenue and
Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Changes in Net Position
	Government Activities:				
11	Instruction and Instruction-Related Services	\$ 12,424,643	\$ 371,797	\$ 1,361,875	\$(10,690,971)
12	Instructional Resources and Media Services	244,928	-	10,029	(234,899)
13	Curriculum Development and Instructional Staff Development	221,959	-	61,365	(160,594)
21	Instructional Leadership	206,607	83,094	91,741	(31,772)
23	School Leadership	1,436,066	-	72,687	(1,363,379)
31	Guidance, Counseling, & Evaluation Services	1,354,424	3,758	655,638	(695,028)
33	Health Services	179,762	169	8,517	(171,076)
34	Student (Pupil) Transportation	603,123	24,595	118,716	(459,812)
35	Food Services	1,307,253	131,540	836,351	(339,362)
36	Extracurricular Activities	1,384,412	89,294	30,723	(1,264,395)
41	General Administration	940,679	-	36,433	(904,246)
51	Plant Maintenance and Operations	2,846,909	2,418	69,335	(2,775,156)
52	Security and Monitoring Services	82,623	-	3,743	(78,880)
53	Data Processing	449,552	-	18,746	(430,806)
61	Community Services	28,956	-	1,312	(27,644)
72	Interest on Long-Term Debt	2,566,386	-	15,023	(2,551,363)
73	Bond Issuance Costs and Fees	1,550	-	-	(1,550)
91	Contracted Instructional Services Between Public Schools	4,322,461	-	-	(4,322,461)
93	Payments to Shared Service Arrangements	134,138	-	-	(134,138)
99	Other Intergovernmental Charges	166,619	-	-	(166,619)
TG	<u>Total Government Activities</u>	<u>30,903,050</u>	<u>706,665</u>	<u>3,392,234</u>	<u>(26,804,151)</u>
TP	Total Primary Government	<u>30,903,050</u>	<u>706,665</u>	<u>3,392,234</u>	<u>(26,804,151)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				13,004,075
DT	Property Taxes, Levied for Debt Service				2,665,566
IE	Investment Earnings				425,728
GC	Grants and Contributions Not Restricted to Specific Programs				8,947,337
MI	Miscellaneous				152,238
S1	Loss on Disposition of Assets				(145,965)
TR	Total General Revenue				<u>25,048,979</u>
CN	Change in Net Position				(1,755,172)
NB	Net Position -- Beginning				80,105,978
PA	Prior Period Adjustment				<u>1,880,022</u>
NE	Net Position -- Ending				<u>\$ 80,230,828</u>

The accompanying notes are an integral part of this statement.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

BALANCE SHEET - GOVERNMENTAL FUNDS  
August 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>						
1110	Cash and Cash Equivalents	\$ 44,532,266	\$ 5,453,079	\$ 39,379,387	\$ 675	\$ 89,365,407
1225	Taxes Receivable, Net	221,886	45,508	-	-	267,394
1240	Due from Other Governments	277,300	6,352	-	115,618	399,270
1260	Due from Other Funds	101,959	-	-	-	101,959
1290	Other Receivables	66	-	-	210	276
1000	<u>TOTAL ASSETS</u>	<u>\$ 45,133,477</u>	<u>\$ 5,504,939</u>	<u>\$ 39,379,387</u>	<u>\$ 116,503</u>	<u>\$ 90,134,306</u>
<b>LIABILITIES:</b>						
<b>Current Liabilities:</b>						
2110	Accounts Payable	\$ 478,600	\$ -	\$ 2,632,336	\$ 675	\$ 3,111,611
2150	Withholdings Payable	87,187	-	-	-	87,187
2160	Accrued Wages Payable	921,484	-	-	13,869	935,353
2170	Due to Other Funds	-	-	-	101,959	101,959
2180	Due to Other Governments	59,219	-	-	-	59,219
2300	Unavailable Revenue	-	3,610	-	-	3,610
2000	<u>Total Liabilities</u>	<u>1,546,490</u>	<u>3,610</u>	<u>2,632,336</u>	<u>116,503</u>	<u>4,298,939</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
2601	Unavailable Revenue-Property Taxes	221,886	45,508	-	-	267,394
	<u>Total Deferred Inflows of Resources</u>	<u>221,886</u>	<u>45,508</u>	<u>-</u>	<u>-</u>	<u>267,394</u>
<b>FUND BALANCES:</b>						
<b>Restricted Fund Balances:</b>						
3470	Capital Acquisition Program	-	-	36,747,051	-	36,747,051
3480	Retirement of Long-Term Debt	-	5,455,821	-	-	5,455,821
<b>Committed Fund Balances:</b>						
3510	Construction and Land Purchase	18,442,343	-	-	-	18,442,343
3530	Capital Expenditures for Equipment	6,969,219	-	-	-	6,969,219
3545	Other Purposes	7,983,992	-	-	-	7,983,992
3600	Unassigned	9,969,547	-	-	-	9,969,547
3000	<u>Total Fund Balance</u>	<u>43,365,101</u>	<u>5,455,821</u>	<u>36,747,051</u>	<u>-</u>	<u>85,567,973</u>
4000	<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	<u>\$ 45,133,477</u>	<u>\$ 5,504,939</u>	<u>\$ 39,379,387</u>	<u>\$ 116,503</u>	<u>\$ 90,134,306</u>

The accompanying notes are an integral part of this statement.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
August 31, 2017

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 85,567,973
Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	76,767,828
2 Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	267,394
3 Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(71,926,128)
4 The amount of premium/discount on bonds is required to be recognized in the statement of net position.	(8,389,484)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$1,455,436, a deferred resource inflow in the amount of \$191,467, and a net pension liability in the amount of \$3,320,724. This resulted in a decrease in net position.	<u>(2,056,755)</u>
Net Position of Governmental Activities -- Statement of Net Position	<u>\$ 80,230,828</u>

The accompanying notes are an integral part of this statement.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--  
GOVERNMENTAL FUNDS  
For the Year Ended August 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>REVENUES:</b>						
5700	Local and Intermediate Sources	\$ 13,307,720	\$ 2,684,997	\$ 273,723	\$ 602,766	\$ 16,869,206
5800	State Program Revenues	9,685,343	15,023	-	122,973	9,823,339
5900	Federal Program Revenues	-	-	-	2,444,864	2,444,864
5020	<u>Total Revenues</u>	<u>22,993,063</u>	<u>2,700,020</u>	<u>273,723</u>	<u>3,170,603</u>	<u>29,137,409</u>
<b>EXPENDITURES:</b>						
Current:						
0011	Instruction and Instruction-Related Services	9,684,874	-	108,686	1,323,936	11,117,496
0012	Instructional Resources and Media Services	221,362	-	-	-	221,362
0013	Curriculum Development and Instructional Staff Development	146,673	-	-	53,789	200,462
0021	Instructional Leadership	18,569	-	-	186,478	205,047
0023	School Leadership	1,295,156	-	860	-	1,296,016
0031	Guidance, Counseling, & Evaluation Services	556,347	-	-	631,789	1,188,136
0033	Health Services	162,300	-	-	376	162,676
0034	Student (Pupil) Transportation	485,895	-	-	125,681	611,576
0035	Food Services	-	-	-	1,176,007	1,176,007
0036	Cocurricular/Extracurricular Activities	1,236,938	-	26,149	-	1,263,087
0041	General Administration	837,149	-	-	-	837,149
0051	Plant Maintenance and Operations	2,910,947	-	-	40	2,910,987
0052	Security and Monitoring Services	81,820	-	-	-	81,820
0053	Data Processing Services	447,860	-	-	-	447,860
0061	Community Services	28,784	-	-	-	28,784
0071	Principal on Long-Term Debt	-	2,765,000	-	-	2,765,000
0072	Interest on Long-Term Debt	-	3,091,375	-	-	3,091,375
0073	Bond Issuance Costs and Fees	-	1,550	-	-	1,550
0081	Capital Outlay	-	-	19,925,901	-	19,925,901
0091	Contracted Instructional Services Between Public Schools	4,322,461	-	-	-	4,322,461
0093	Payments to Shared Service Arrangements	134,137	-	-	-	134,137
0099	Other Intergovernmental Charges	166,619	-	-	-	166,619
6030	<u>Total Expenditures</u>	<u>22,737,891</u>	<u>5,857,925</u>	<u>20,061,596</u>	<u>3,498,096</u>	<u>52,155,508</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	255,172	(3,157,905)	(19,787,873)	(327,493)	(23,018,099)
Other Financing Sources and (Uses):						
7915	Operating Transfers In	-	-	-	327,493	327,493
8911	Operating Transfers Out	(327,493)	-	-	-	(327,493)
	<u>Total Other Financing Sources and (Uses)</u>	<u>(327,493)</u>	<u>-</u>	<u>-</u>	<u>327,493</u>	<u>-</u>
1200	Net Change in Fund Balances	(72,321)	(3,157,905)	(19,787,873)	-	(23,018,099)
0100	Fund Balances -- Beginning	41,557,400	8,613,726	56,534,924	-	106,706,050
1300	Prior Period Adjustment	1,880,022	-	-	-	1,880,022
3000	<u>Fund Balances -- Ending</u>	<u>\$ 43,365,101</u>	<u>\$ 5,455,821</u>	<u>\$ 36,747,051</u>	<u>\$ -</u>	<u>\$ 85,567,973</u>

The accompanying notes are an integral part of this statement.



DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2017

Net Change in Fund Balances -- Total Governmental Funds	\$ (23,018,099)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period.	20,407,012
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets.	(2,070,412)
Governmental funds report the proceeds from the sale or disposition of capital assets as other resources. However, in the statement of activities, this amount is reduced by the carrying value remaining on the assets sold or disposed.	(145,965)
Certain property tax revenues are unavailable in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts changed during the current period.	156,434
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	
Repayment of debt principal is an expenditure in the governmental funds, but is a reduction of long-term debt in the statement of net position. This amount is the total debt principal repaid for capital leases, loans & bonded indebtedness.	2,765,000
Premiums received from the issuance of bonds is recorded in the governmental funds as an other source of current resources. For the statement of net position, these premiums are amortized and a portion recognized as revenue over the life of the bonds. This is the amortization of premium from the issuance of bonds.	524,989
Certain costs associated with the accrual of sick or personal leave are recognized as expenditures in the governmental funds when paid or due within the current period. For the statement of activities the amount identified as vested and payable in future periods is expensed and recorded as a long-term liability.	(96,127)
GASB 68 required that certain plan expenditures be de-expended and recorded a deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$266,455. Contributions made before the measurement date and during the previous fiscal year were also expensed and recorded as a reduction in net position liability. This caused a decrease in net position totaling \$279,204. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$265,255. The net result is a decrease in the change in net position	<u>(278,004)</u>
Change in Net Position of Governmental Activities -- Statement of Activities	<u>\$ (1,755,172)</u>

The accompanying notes are an integral part of this statement.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
August 31, 2017

<u>Data Control Codes</u>		<u>Agency Funds</u>
	ASSETS:	
1110	Cash and Cash Equivalents	<u>\$ 243,603</u>
1000	TOTAL ASSETS	<u><u>\$ 243,603</u></u>
	LIABILITIES:	
2190	Due to Student Groups	<u>\$ (243,603)</u>
2000	TOTAL LIABILITIES	<u><u>\$ (243,603)</u></u>

The accompanying notes are an integral part of this statement.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies

The basic financial statements of Denver City Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non exchange transactions.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 2  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all of taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: This is the District's fund for the collection of revenues from property taxes for the specific purpose of retiring loans and bonded indebtedness.

Capital Projects Fund: This fund is used to report the District's construction and investment in physical plant and other capital assets.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except for the food service fund, any unused balances are returned to the grantor at the close of specific project periods. The food service fund is the only required budgeted special revenue fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 3  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support the District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, the revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Grant funds are considered earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned 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 District to refund all or part of the unused amount.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 4  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of bonds and are restricted by State Statute. Capital projects are restricted by State Statute and are legally segregated for funding of capital improvements.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

Unassigned: This classification includes the residual fund balance for the General Fund.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 5  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

d. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. Financial Statement Amounts

a. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and State Treasurer's Investment Pool.

Investments for the District are reported at fair value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. The State Treasurer's Investment Pools are operated in accordance with appropriate state laws and regulations. The reported values of the pools are the same as the fair value of the pool shares (Level 1 inputs).

b. Property Taxes

Property taxes are levied by October 1 on assessed value listed as of the prior January 1<sup>st</sup> for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1<sup>st</sup> of the year following the year in which imposed. On January 1<sup>st</sup> of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 6  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

Allowances for uncollectible tax receivables are based upon historical experience in collecting property taxes. As of August 31, 2017, the amount deemed uncollectible by this estimate was \$49,078. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect the cost applicable to future periods and are recorded as prepaid items.

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of the period end.

e. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment and Furniture	3-15
Computer Equipment	3



DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 7  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

f. Deferred Outflows/Inflows of Resources

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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has two items which qualify for reporting in this category.

In addition to liabilities, the statement of financial 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has one type of item which arises under the modified accrual basis of accounting and one type of item that qualifies under the accrual basis of accounting. Accordingly, unavailable ad valorem tax revenue is only reported in the governmental funds balance sheet; and deferred inflows related to pensions is only reported in the government-wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line on the government-wide statement of net position.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 8  
Year Ended August 31, 2017

A. Summary of Significant Accounting Policies (Continued)

h. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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 premiums or discount.

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.

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

j. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The Texas Education Agency requires the display of these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.

B. Stewardship, Compliance and Accountability

1. Budgetary Information

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting and Reporting module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 9  
Year Ended August 31, 2017

C. Stewardship, Compliance and Accountability

1. Budgetary Information (continued)

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, the Capital Projects Fund, and the Child Nutrition Fund. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting that is consistent with generally accepted accounting principles.

2. Fair Value Measurements

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 10  
Year Ended August 31, 2017

D. Deposits and Investments

Under Texas state law, the District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect the District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance.

Cash Deposits

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was \$43,311,067 and the bank balance was \$43,535,993. The District's cash deposits at August 31, 2017 and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principle and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

State statutes and Board policy authorize the District to invest in 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of state, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; 3) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 4) obligations of the state of Texas or its agencies; 5) other obligations guaranteed by the U.S. or the state of Texas or their agencies and instrumentalities; 6) fully collateralized repurchase agreements; and 7) public funds investment pools. Temporary investments are reported at cost, which approximates market, and are secured, when

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
 Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 11  
 Year Ended August 31, 2017

D. Deposits and Investments (Continued)

necessary, by the FDIC or obligations of items 1-4 above at 102% of the investment's market value.

The District's investments at August 31, 2017 included investment pools in the amount of \$46,297,942.

<u>Investment Pool</u>	<u>Account Name</u>	<u>Fund Rating (Standard &amp; Poor's)</u>	<u>Maturity</u>	<u>Amount</u>
Lone Star - GOF	General Fund	AAAm	Wtd Avg Maturity 22 days	\$ 5,866,406
Lone Star - GOF	Interest & Sinking	AAAm	Wtd Avg Maturity 22 days	5,421,081
Lone Star - GOF	Construction	AAAm	Wtd Avg Maturity 22 days	<u>35,010,455</u>
				<u>\$ 46,297,942</u>

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools 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 now lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

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Year Ended August 31, 2017

D. Deposits and Investments (continued)

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end as if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
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NOTES TO THE FINANCIAL STATEMENTS, Page 13  
Year Ended August 31, 2017

D. Deposits and Investments (continued)

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
 Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 14  
 Year Ended August 31, 2017

E. Interfund Balances and Activities

Interfund balances at August 31, 2017 consisted of the following individual fund balances:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>General Fund:</u>		
Special Revenue Funds	\$ 101,959	-
<u>Total General Fund</u>	<u>101,959</u>	<u>-</u>
 <u>Special Revenue Funds:</u>		
General Fund	-	101,959
<u>Total</u>	<u>\$ 101,959</u>	<u>\$ 101,959</u>

These interfund receivables and payables were recorded to eliminate cash flow deficits of various funds and to record balances not repaid as of year-end. All amounts due are scheduled to be repaid within one year.

F. Interfund Transfers

<u>Transfer From Fund</u>	<u>Transfer To Fund</u>	<u>Amount</u>
General Fund	Special Revenue Funds	\$ 327,493

The District transferred \$208,116 from the General Fund to the Food Service Fund to cover the deficit from food service activities. The District transferred \$119,377 from the General Fund to the Special Education Coop Fund to contribute the amount the District received from Foundation Revenue related to Special Education transportation.



DENVER CITY INDEPENDENT SCHOOL DISTRICT  
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NOTES TO THE FINANCIAL STATEMENTS, Page 15  
Year Ended August 31, 2017

G. Capital Assets

Capital asset activity for the year ended August 31, 2017 was as follows:

<u>Government Activities</u>	<u>Balance</u> <u>09/01/16</u>	<u>Additions</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>08/31/17</u>
Land	\$ 1,061,479	\$ -	\$ -	\$ 1,061,479
Construction in Progress	3,983,388	15,878,726	(509,594)	19,352,520
Buildings & Improvements	72,980,500	4,332,801	509,594	77,822,895
Vehicles	3,262,315	142,200	(168,750)	3,235,765
Furniture & Equipment	<u>3,693,466</u>	<u>53,285</u>	<u>-</u>	<u>3,746,751</u>
Total Capital Assets	84,981,148	20,407,012	(168,750)	105,219,410

Less Accumulated  
Depreciation:

Buildings & Improvements	21,507,667	1,503,596	-	23,011,263
Vehicles	2,164,465	222,924	(22,785)	2,364,604
Furniture & Equipment	<u>2,731,823</u>	<u>343,891</u>	<u>-</u>	<u>3,075,714</u>
Total Accum. Depreciation	<u>26,403,955</u>	<u>2,070,411</u>	<u>(22,785)</u>	<u>28,451,581</u>

Net Capital Assets	<u>\$ 58,577,193</u>	<u>\$18,336,601</u>	<u>\$ (145,965)</u>	<u>\$ 76,767,829</u>
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Depreciation was charges to functions as follows:

11-Instructions	\$ 1,084,550
12-Instructional Resources & Media Services	21,808
13-Curriculum Development	19,749
23-School Leadership	127,594
31-Guidance, Counseling & Evaluation Services	117,051
33-Health Services	16,026
34-Student (Pupil) Transportation	60,250
35-Food Service	115,856
36-Cocurricular/Extracurricular Activities	121,859
41-General Administration	98,888
51-Plant Maintenance & Operations	<u>286,780</u>
	<u>\$ 2,070,411</u>

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 16  
Year Ended August 31, 2017

H. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

I. Long-Term Obligations

Long-term obligations include debt and other long-term liabilities. During each year while bonds are outstanding, the District is required to levy and collect sufficient ad valorem taxes to provide for the payment of principal and interest as it becomes due. The District complied with all significant limitations and restrictions contained in the bond indentures. Interest expense of \$3,091,375 was charged to expense in the current period.

1. Changes in long-term obligations for the year ended August 31, 2017, are as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 74,595,000	\$ -	\$ 2,765,000	\$ 71,830,000	\$ 2,825,000
Premium on Bonds	8,914,474	-	524,990	8,389,484	-
Compensated Absences	-	96,127	-	96,127	-
Net Pension Liability	<u>2,743,976</u>	<u>855,954</u>	<u>279,206</u>	<u>3,320,724</u>	<u>-</u>
Total governmental activities	<u>\$ 86,253,450</u>	<u>\$ 952,081</u>	<u>\$ 3,569,196</u>	<u>\$ 83,636,335</u>	<u>\$ 2,825,000</u>

<u>General Obligation Bonds – Descriptions</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount Of Original Issue</u>	<u>Amount Outstanding 8/31/2017</u>
Unlimited Tax School Building Bonds-Series 2011	2.00% to 4.00%	2-15-2021	24,999,977	\$ 825,000
Unlimited Tax Refunding Bonds-Series 2012	2.00%	2-15-2019	9,010,000	5,495,000
Unlimited Tax School Building Bonds-Series 2016A	2.00% to 5.00%	2-15-2042	50,145,000	50,145,000
Unlimited Tax Refunding Bonds-Series 2016B	2.00% to 5.00%	2-15-2033	15,465,000	15,365,000
				<u>\$ 71,830,000</u>

2. Debt service requirements on general obligation bonds at August 31, 2017, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,825,000	\$ 3,029,913	\$ 5,854,913
2019	2,885,000	2,972,812	5,857,812
2020	1,730,000	2,922,538	4,652,538
2021	1,785,000	2,870,362	4,655,362
2022	1,845,000	2,807,738	4,652,738
2023-2027	10,410,000	12,842,587	23,252,587
2028-2032	12,890,000	10,381,413	23,271,413
2033-2037	16,405,000	6,987,588	23,392,588
2038-2042	<u>21,055,000</u>	<u>2,369,731</u>	<u>23,424,731</u>
	<u>\$ 71,830,000</u>	<u>\$ 47,184,682</u>	<u>\$ 119,014,682</u>

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 17  
Year Ended August 31, 2017

J. Pension Plan

a. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

1. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [http://www.trs.texas.gov/TRS%20Documents/cafr\\_2016.pdf](http://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf); by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

2. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes,

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
 Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 18  
 Year Ended August 31, 2017

J. Pension Plan (continued)

including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1) above.

3. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2016</u>	<u>2017</u>
<b>Member</b>	<b>7.2%</b>	<b>7.7%</b>
<b>Non-Employer Contributing Entity (State)</b>	<b>6.8%</b>	<b>6.8%</b>
<b>Employers</b>	<b>6.8%</b>	<b>6.8%</b>
<b>Current Fiscal Year Employer Contributions</b>		<b>\$ 266,455</b>
<b>Current Fiscal Year Member Contributions</b>		<b>\$ 937,224</b>
<b>2016 Measurement Year NECE On-behalf Contributions</b>		<b>\$ 648,504</b>

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 19  
Year Ended August 31, 2017

J. Pension Plan (continued)

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during the fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 20  
Year Ended August 31, 2017

J. Pension Plan (continued)

4. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate	N/A
Last year ending August 31 in the 2016 to 2015 projection period (100 years)	2115
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5% including inflation
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

5. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. 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. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

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Year Ended August 31, 2017

J. Pension Plan (continued)

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

*\*The Expected Contribution to Returns incorporates the volatility drag resulting from the Conversion between Arithmetic and Geometric mean returns.*

6. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
District's proportionate Share of the net pension liability:	\$ 5,139,361	\$ 3,320,724	\$ 1,778,151

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 22  
Year Ended August 31, 2017

J. Pension Plan (continued)

7. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$3,320,724 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 3,320,724
State's proportionate share that is associated with the District	<u>\$ 7,697,643</u>
Total	<u>\$ 11,018,367</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0087877% which was an increase of 0.0010251% from its proportion measured as of August 31, 2015.

**Changes Since the Prior Actuarial Valuation** – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2017, the District recognized pension expense of \$798,832 and revenue of \$798,832 for support provided by the State.



DENVER CITY INDEPENDENT SCHOOL DISTRICT  
 Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 23  
 Year Ended August 31, 2017

J. Pension Plan (continued)

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual		
Economic experience	\$ 52,068	\$ 99,155
Changes in actuarial assumptions	\$ 101,210	\$ 92,046
Difference between projected and actual		
Investment earnings	\$ 281,192	\$ -
Changes in proportion and difference between The employer's contributions and the Proportionate share of contributions	\$ 754,511	\$ 266
Total as of August 31, 2016 measurement date	\$ 1,188,981	\$ 191,467
Contributions paid to TRS subsequent to the measurement date	\$ 266,455	\$ -
Total as of fiscal year-end	<u>\$ 1,455,436</u>	<u>\$ 191,467</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended August 31:</u>	<u>Pension Expense Amount</u>
2018	\$ 168,525
2019	168,525
2020	347,883
2021	154,746
2022	104,545
Thereafter	53,290

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 24  
Year Ended August 31, 2017

K. School District Retiree Health Plan

*Plan Description* - The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

*Funding Policy* - Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2017-2015.

<b>Contribution Rates and Contribution Amounts</b>						
<u>Active Member</u>			<u>State</u>		<u>School District</u>	
<u>Year</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2017	0.65%	\$ 79,116	1.0%	\$ 121,717	0.55%	\$ 66,961
2016	0.65%	\$ 77,548	1.0%	\$ 119,304	0.55%	\$ 65,633
2015	0.65%	\$ 65,735	1.0%	\$ 101,131	0.55%	\$ 55,637

L. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug expenditures for eligible TRS-Care participants. The District's portion of subsidy reimbursements received by TRS for the years ended August 31, 2017, 2016, and 2015 were \$57,150, \$50,456, and \$55,757, respectively.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 25  
Year Ended August 31, 2017

M. Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$354 per month per employee participating in the plan. Employees, at their option, authorized payroll deductions to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions.

N. Workers' Compensation

During the year ended August 31, 2017, the District was unable to obtain workers' compensation insurance at a cost it considered to be economically justifiable. Therefore, the District joined together with several other school districts in the region to form South Plains School Workers' Compensation Program (SPSWCP), a public entity risk pool currently operating as a common risk management and insurance program for the school districts. The District pays an annual premium to SPSWCP for its workers' compensation insurance coverage. The agreement for formation of the SPSWCP provides that SPSWCP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$350,000 for each insured event. Also, should claims exceed the aggregate attachment level of \$2,006,829; an additional \$1 million of coverage is available.

O. Litigation

There was no litigation pending or in progress against the District at August 31, 2017.

P. Commitments and Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 26  
Year Ended August 31, 2017

Q. Shared Services Arrangements

As of July 1, 2015, the District became the fiscal agent for a special education share service arrangement (SSA) and provides many of the special education services for member districts. According to guidance provided in the FAR, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund 437, Shared Service Arrangements – Special Education, and uses Model 3 in the SSA section of the FAR.

The District also acts as fiscal agent in share service arrangements with various districts for IDEA B, Formula and for IDEA-B, Preschool. The District receives program funds from the granting agency and remits a portion of the grant funds to participating member districts. The District accounts for these grants in Special Revenues Funds 313 and 314, respectively, according to Model 1 in the SSA section of the FAR.

The Districts served by the special education shared services arrangement are listed below.

- Denver City ISD
- Loop ISD
- New Home ISD
- O'Donnell ISD
- Plains ISD
- Seagraves ISD
- Tahoka ISD
- Wellman-Union ISD

The District, as fiscal agent, is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the member districts. The fiscal agent is responsible for all financial activities of the SSA.

As of August 31, 2017, the District discontinued acting as fiscal agent of this SSA and is no longer a member of the SSA.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
 Denver City, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 27  
 Year Ended August 31, 2017

R. Defined Contribution Retirement Plan

The District contributes to tax-sheltered annuity plans (403(b) plans) for participating employees. A 403(b) plan is a defined contribution retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers. The District's matching and vesting schedules are shown below. The District contributed \$478,676 to employee 403(b) accounts in the fiscal year ending August 31, 2017.

<u>District Matching Formula</u>		<u>Vesting Schedule for District Match</u>	
<u>Based on Contract or Base Salary</u>		<u>Years of Service</u>	<u>% Vested</u>
<u>Employee</u>	<u>Employer</u>		
1%	2%	1 Year	0%
2%	2%	2 Years	0%
3%	3%	3 Years	25%
4%	4%	4 Years	50%
5%	5%	5 Years	100%

S. Vacation and Sick Leave Benefits

An employee with at least ten years of service with the District who voluntarily separates from employment with the District is eligible for reimbursement for state and local leave. The employee shall be reimbursed for each day of unused state and local leave, to a maximum of 100 days, at a rate of \$50 per day. The estimated liability at August 31, 2017 was \$96,127. This liability is included in the government-wide financial statements.

T. Prior Period Adjustment

A prior period adjustment was posted to reflect adjustments to the District's State Foundation Revenues and Chapter 41 Recapture Payments earned in fiscal year 2016. The District received an increase in State Foundation Revenues amounting to \$800,013. Additionally, the District's Chapter 41 Recapture Payments were reduced by \$1,080,009. Therefore, a prior period adjustment has been recorded, increasing fund balance \$1,880,022.

REQUIRED SUPPLEMENTARY INFORMATION

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2017

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 14,454,100	\$ 13,354,100	\$ 13,307,720	\$ (46,380)
5800	State Program Revenues	9,511,983	9,511,983	9,685,343	173,360
5020	Total Revenues	<u>23,966,083</u>	<u>22,866,083</u>	<u>22,993,063</u>	<u>126,980</u>
	EXPENDITURES:				
	Current:				
0011	Instruction	10,172,660	9,989,660	9,684,874	304,786
0012	Instructional Resources and Media Services	314,275	314,275	221,362	92,913
0013	Curriculum Dev. & Instructional Staff Dev.	150,500	150,500	146,673	3,827
0021	Instructional Leadership	-	-	18,569	
0023	School Leadership	1,211,700	1,306,700	1,295,156	11,544
0031	Guidance, Counseling & Evaluation Services	598,975	598,975	556,347	42,628
0033	Health Services	240,600	240,600	162,300	78,300
0034	Student (Pupil) Transportation	843,600	543,600	485,895	57,705
0036	Curricular/Extracurricular Activities	1,349,025	1,349,025	1,236,938	112,087
0041	General Administration	1,033,150	862,150	837,149	25,001
0051	Plant Maintenance and Operations	2,633,850	2,933,850	2,910,947	22,903
0052	Security and Monitoring Services	105,200	105,200	81,820	23,380
0053	Data Processing Services	387,200	449,200	447,860	1,340
0061	Community Services	4,200	30,200	28,784	1,416
0091	Contracted Instructional Services Between Public Schools	5,834,202	4,434,202	4,322,461	111,741
0093	Payments to Fiscal Agent/Member Districts (SSA)	319,231	347,231	134,137	213,094
0099	Other Intergovernmental Charges	-	171,000	166,619	4,381
6030	Total Expenditures	<u>25,198,368</u>	<u>23,826,368</u>	<u>22,737,891</u>	<u>1,107,046</u>
	Other Financing Sources (Uses):				
7915	Operating Transfers In	-	-	-	-
8911	Operating Transfers Out	-	(328,000)	(327,493)	507
	Total Other Financing Sources and (Uses)	<u>-</u>	<u>(328,000)</u>	<u>(327,493)</u>	<u>507</u>
1200	Net Change in Fund Balance	(1,232,285)	(1,288,285)	(72,321)	1,234,533
0100	Fund Balance - Beginning	41,557,400	41,557,400	41,557,400	-
1300	Prior Period Adjustment	-	-	1,880,022	1,880,022
3000	Fund Balance - Ending	<u>\$ 40,325,115</u>	<u>\$ 40,269,115</u>	<u>\$ 43,365,101</u>	<u>\$ 3,114,555</u>

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM  
For the Year Ended August 31, 2017

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0087877%	0.0077626%	0.0057364%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 3,320,724	\$ 2,743,976	\$ 1,532,271
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	7,697,643	6,563,672	5,660,095
<b>Total</b>	<b>\$ 11,018,367</b>	<b>\$ 9,307,648</b>	<b>\$ 7,192,366</b>
District's Covered Employee Payroll	\$ 11,930,433	\$ 10,113,116	\$ 9,940,929
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	27.83%	27.13%	15.41%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: Only three years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."



DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM  
For the Year Ended August 31, 2017

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 266,455	\$ 279,204	\$ 229,855
Contribution in Relation to the Contractually Required Contribution	<u>(266,455)</u>	<u>(279,204)</u>	<u>(229,855)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 12,171,729	\$ 11,930,433	\$ 10,113,116
Contributions as a percentage of Covered Employee Payroll	2.19%	2.34%	2.27%

Note: Only three years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

OTHER SUPPLEMENTARY INFORMATION

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
For the Year Ended August 31, 2017

Last Ten Years Ended	1	2	3			10	20	31	32	40	50
	Tax Rates			Assessed/Appraised Value for School	Beginning Balance	Current Year's	Maintenance Total	Debt Service Total	Entire Year's	Ending Balance	
	August 31*	Maintenance	Debt Service	Total	Tax Purposes	09/01/16	Total Levy	Collections	Collections	Adjustments	08/31/17
2008 and Prior Years	Various	Various	Various	--	\$ 10,453	\$ -	\$ 635	\$ -	\$ (1,186)	\$ 8,632	
2009	1.04000	0.00000	1.0400	3,263,918,118	2,627	-	57	-	13	2,583	
2010	1.04000	0.21330	1.2533	3,205,963,750	2,968	-	389	80	14	2,513	
2011	1.04000	0.21330	1.2533	3,627,078,077	3,830	-	721	148	11	2,972	
2012	1.04000	0.21330	1.2533	3,595,168,173	3,555	-	423	87	27	3,072	
2013	1.04000	0.21330	1.2533	3,356,070,055	4,925	-	783	160	330	4,312	
2014	1.04000	0.21330	1.2533	3,001,983,324	9,910	-	2,405	493	5,961	12,973	
2015	1.04000	0.21330	1.2533	3,087,613,580	28,709	-	10,716	2,198	19,104	34,899	
2016	1.04000	0.21330	1.2533	1,987,070,773	89,524	-	45,889	9,412	24,661	58,884	
2017-School Year Under Audit	1.04000	0.21330	1.2533	1,238,730,950	-	15,525,015	12,758,087	2,616,634	35,338	185,632	
1000	TOTALS				\$ 156,501	\$ 15,525,015	\$ 12,820,105	\$ 2,629,212	\$ 84,273	\$ 316,472	

Columns 10 + 20 - 30 - 30a + 40 Equals Column 50

Column 3 - Assessed/Appraised Value for School Tax Purposes:  
This is the net appraised value, after deductions of all exemptions, tax freeze amounts and reductions provided by law and those granted by the district, based on maintenance requirements.

Column 20 - Current Year's Levy:  
This amount is calculated by multiplying tax rate(s) times the applicable Assessed/Appraised Value(s) in Column 3.

Columns 30 and 30a - These are the total collections net of adjustments described in Column 40, according to each year of tax levy, and do NOT include penalties and interest.

Column 40 - Entire Year's Adjustments:  
Total adjustments include corrections for errors in taxes assessed, taxes lost due to tax freeze and discounts allowed for early payment of taxes.

Column 50 - Ending Balance 8/31/17

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET  
GENERAL FUND AS OF AUGUST 31, 2017

Data Control Code	Explanation	Amount
1	Total General Fund Balance 8/31/17 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 43,365,101
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund Only)	-
3	Total General Fund Restricted Fund Balance (from Exhibit C-1- total of object 345X-349X for the General Fund only)	-
4	Total General Fund Committed Fund Balance (from Exhibit C-1- total of object 351X-354X for the General Fund only)	25,411,562
5	Total General Fund Assigned Fund Balance (from Exhibit C-1- total of object 355X-359X for the General Fund only)	7,983,992
6	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	3,158,040
7	Estimate of two month's average cash disbursements during the fiscal year	3,789,649
8	Estimate of delayed payments from state sources (58XX)	3,250,000
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
10	Estimate of delayed payments from federal sources (59XX)	375,000
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-
12	Optimum Fund Balance and Cash Flow (2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10 + 11)	\$ 43,968,243
13	Excess/(Deficit) Unassigned General Fund Fund Balance (1 - 12)	\$ (603,142)

**If item 13 is a positive number**

Explanation of need for and/or projected use of net positive Unassigned General Fund Fund Balance:

(UNAUDITED)

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

EXHIBIT J-3

DEBT SERVICE FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2017

Data Control Codes	1	2	3
	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
5700 Local and Intermediate Sources	\$ 2,550,000	\$ 2,684,997	\$ 134,997
5800 State Program Revenues	12,000	15,023	3,023
5020 Total Revenues	<u>2,562,000</u>	<u>2,700,020</u>	<u>138,020</u>
<b>EXPENDITURES:</b>			
Current:			
Debt Service			
0071 Principal on Long-Term Debt	2,765,000	2,765,000	-
0072 Interest on Long-Term Debt	3,091,375	3,091,375	-
0073 Bond Issuance Costs and Fees	1,750	1,550	200
Total Debt Service	<u>5,858,125</u>	<u>5,857,925</u>	<u>200</u>
6030 Total Expenditures	<u>5,858,125</u>	<u>5,857,925</u>	<u>200</u>
Other Financing Sources (Uses):			
7915 Operating Transfers In	-	-	-
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	(3,296,125)	(3,157,905)	138,220
0100 Fund Balance - Beginning	<u>8,613,726</u>	<u>8,613,726</u>	<u>-</u>
3000 Fund Balance - Ending	<u>\$ 5,317,601</u>	<u>\$ 5,455,821</u>	<u>\$ 138,220</u>

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

EXHIBIT J-4

CAPITAL PROJECTS FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2017

Data Control Codes	1	2	3
	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES:			
5700	\$ 250,000	\$ 273,723	\$ 23,723
5020	<u>250,000</u>	<u>273,723</u>	<u>23,723</u>
EXPENDITURES:			
Current:			
0011	115,000	108,686	6,314
0023	1,000	860	
0036	27,500	26,149	1,351
0081	<u>20,000,000</u>	<u>19,925,901</u>	<u>74,099</u>
6030	<u>20,143,500</u>	<u>20,061,596</u>	<u>81,764</u>
Other Financing Sources (Uses):			
8911	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
1200	(19,893,500)	(19,787,873)	105,487
0100	<u>56,534,924</u>	<u>56,534,924</u>	<u>-</u>
3000	<u>\$ 36,641,424</u>	<u>\$ 36,747,051</u>	<u>\$ 105,487</u>

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

EXHIBIT J-5

NATIONAL SCHOOL BREAKFAST/LUNCH PROGRAM  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended August 31, 2017

Data Control Codes	1	2	3
	Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>			
5700 Local and Intermediate Sources	\$ 175,500	\$ 130,926	\$ (44,574)
5800 State Program Revenues	4,000	4,663	663
5900 Federal Program Revenues	690,000	816,698	126,698
5020 Total Revenues	<u>869,500</u>	<u>952,287</u>	<u>82,787</u>
<b>EXPENDITURES:</b>			
Current:			
Support Services-Student (Pupil):			
0035 Food Services	1,263,600	1,160,403	103,197
Total Support Services - Student (Pupil)	<u>1,263,600</u>	<u>1,160,403</u>	<u>103,197</u>
6030 Total Expenditures	<u>1,263,600</u>	<u>1,160,403</u>	<u>103,197</u>
Other Financing Sources (Uses):			
7915 Operating Transfers In	394,100	208,116	(185,984)
Total Other Financing Sources and (Uses)	<u>394,100</u>	<u>208,116</u>	<u>(185,984)</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - Beginning	-	-	-
3000 Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# Terry & King, CPAs, P.C.

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## Independent Auditors' Report

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

Board of Trustees  
Denver City Independent School District  
501 Mustang Avenue  
Denver City, Texas 79323

Members of the Board of Trustees:

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Denver City Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Denver City Independent School District's basic financial statements, and have issued our report thereon dated January 12, 2018.

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Denver City Independent School District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Denver City Independent School District'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.

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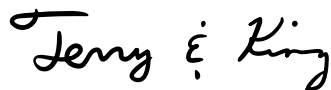
***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Denver City Independent School District'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King".

Terry & King, CPAs, P.C.  
Lubbock, Texas  
January 12, 2018

# Terry & King, CPAs, P.C.

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P.O. Box 93550  
Lubbock, TX 79493-3550

Randel J. Terry, CPA  
Ryan R. King, CPA

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## Independent Auditors' Report

### REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees  
Denver City Independent School District  
501 Mustang Avenue  
Denver City, Texas 79323

Members of the Board of Trustees:

#### ***Report on Compliance for Each Major Federal Program***

We have audited the Denver City Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2017. Denver City Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Denver City Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Denver City Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.



**Opinion on Each Major Federal Program**

In our opinion, Denver City Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

**Report on Internal Control Over Compliance**

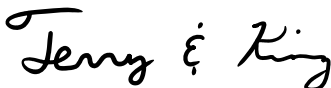
Management of Denver City Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Denver City Independent School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Terry & King, CPAs, P.C.  
Lubbock, Texas  
January 12, 2018

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended August 31, 2017

A. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_ Yes \_\_X\_\_ No

Significant Deficiencies identified that are not considered to be material weaknesses? \_\_\_ Yes \_\_X\_\_ None Reported

Noncompliance material to financial statements noted? \_\_\_ Yes \_\_X\_\_ No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_ Yes \_\_X\_\_ No

Significant Deficiencies identified that are not considered to be material weaknesses? \_\_\_ Yes \_\_X\_\_ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? \_\_\_ Yes \_\_X\_\_ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027A	IDEA-B Formula
84.173A	IDEA-B Preschool
84.010A	Title I, Part A – Improving Basic Programs

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_X\_\_ Yes \_\_\_ No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

SUMMARY OF PRIOR AUDIT FINDINGS  
For the Year Ended August 31, 2017

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation if Not Implemented</u>
Not Applicable - None		

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

CORRECTIVE ACTION PLAN  
For the Year Ended August 31, 2017

Not Applicable – None Required

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2017

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Adult Education (ABE)-Federal	84.002	174100017110254	\$ 27,415
ESEA Title 1, Part A - Improving Basic Programs	84.010A	17610101251901	155,935
ESEA Title 1, Part A - Improving Basic Programs	84.010A	18610101251901	15,169
IDEA-B Formula*	84.027A	176600012519016000	858,183
IDEA-B Preschool*	84.173A	176610012519016000	27,725
Total Special Education Cluster (IDEA)			<u>885,908</u>
Carl D. Perkins - Basic Grant	84.048A	17420006251901	22,592
Title III, Part A-English Language Acquisition	84.365	17671001251901	32,601
Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	17694501251901	53,789
Total U.S. Department of Education			<u>1,193,409</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education:			
National School Lunch Program*	10.555	71301601	418,875
School Breakfast Program*	10.553	71401601	337,716
Passed Through State Department of Health and Human Services:			
Summer Food Service Program for Children*	10.559	N/A	14,990
Total Child Nutrition Cluster			<u>771,581</u>
Direct Program:			
Commodity Supplemental Food Program*	10.565	N/A	60,107
Total Food Distribution Cluster			<u>60,107</u>
Total U.S. Department of Agriculture			<u>831,688</u>
<u>U.S. Department of Health and Human Services</u>			
Direct Program:			
Medicare/Medicaid Reimbursement	93.778	N/A	412,415
Passed Through State Department of Education:			
Temporary Assistance for Needy Families (TANF)	93.558	N/A	7,352
Total U.S. Department of Health and Human Services			<u>419,767</u>
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>			<u>\$ 2,444,864</u>

\* - Indicates a cluster program under Uniform Guidance.

The accompanying notes are an integral part of this schedule.

DENVER CITY INDEPENDENT SCHOOL DISTRICT  
Denver City, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended August 31, 2017

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type.

The modified accrual basis of accounting is used for the Governmental Fund Types in the fund financial statements. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly when such funds are received they are recorded as unearned revenue until earned.

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in 2 CFR Part 200, Part 3, Section H, Period of Performance.

The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.