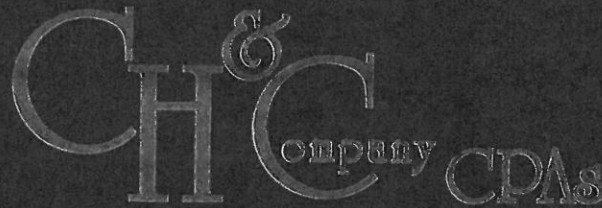


City of Devine, Texas

Annual Financial Report
For The Year Ended
September 30, 2017



COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

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Communication with Audit Committees

The Honorable Mayor
and Members of the City Council
Devine, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Devine, Texas for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Devine, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Devine, Texas's financial statements were:

Management's estimate of the unavailable tax revenue is based on historic collection percentages. We evaluated the key factors and assumptions used to develop the deferred tax revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the allowance for depreciation is based on the estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the allowance for depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the City's proportionate share of the collective net pension liability is based on actuarial assumptions performed by the state auditor on the City's pension plan. We reviewed these assumptions and calculations by the state auditor and individual testing we did at the City level in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. A copy of the adjustments proposed and accepted by management are attached.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 2, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Devine, Texas's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and administration of the City of Devine, Texas and is not intended to be used and should not be used by anyone other than these specified parties.

Sincerely,

Coleman, Horton & Company, LLP

Certified Public Accountants

City of Devine
Proposed Adjustments - General Fund
9/30/2017

| AJE # | Account Number and Name | Date | DR | CR | Initial by Management |
|-------|---|-----------|-------------------|-------------------|--------------------------|
| (1) | 11-174 Cont In Prog-Home Program 420-09-620 Home Program Expense | 9/30/2017 | 104,371.00 | 104,371.00 | _____ |
| | To reclassify grant expenditures from CIP to expense | | | | |
| (2) | 11-180 Due to P/R from General Fund 420-09-588 Miscellaneous Expense | 9/30/2017 | 6,771.70 | 6,771.70 | _____ |
| | To agree due to/from | | | | |
| | | | <u>111,142.70</u> | <u>111,142.70</u> | |

City of Devine
 AJE's - Systems Fund
 9/30/2017

| Account Name | Account # | DR | CR | Initials |
|---|---------------|------------|------------|----------|
| (1) | | | | |
| Utility Plant | 03-12-170 | 287,843.65 | | |
| 2004 CO Construction in Prog. | 03-11-174 | | 198,090.55 | |
| Water Equipment c/o | 03-491-11-706 | | 31,128.58 | |
| Sewer c/o Equipment | 03-492-11-706 | | 58,624.52 | |
| To reclassify capital additions | | | | |
| (2) | | | | |
| Accrued Bond Int. Payable | 03-21-252 | 481.00 | | |
| Revenue Bond Interest Expense | 03-491-10-650 | | 481.00 | |
| To adjust accrued interest for bonds at 9/30/17 | | | | |
| (3) | | | | |
| Miscellaneous Expense | 03-491-09-588 | 3,385.85 | | |
| Miscellaneous Expense | 03-492-09-588 | 3,385.85 | | |
| Due To P/R From S/W Fund | 03-11-183 | | 6,771.70 | |
| To tie to year end due to/from | | | | |
| (4) | | | | |
| Accumulated Depreciation | 03-11-179 | 6,277.36 | | |
| Depreciaton Expense | 03-491-09-590 | 112,959.30 | | |
| Depreciaton Expense | 03-492-09-590 | 106,506.29 | | |
| Accumulated Depreciation | 03-12-179 | | 225,742.95 | |
| To reclassify and record final depreciation for 9/30/17 | | | | |
| (5) | | | | |
| Net Pension Liability | 03-22-300 | | 283,520.00 | |
| Deferred Resource Outflow | 03-12-180 | 17,145.00 | | |
| Deferred Resource Inflow | 03-22-302 | 7,153.00 | | |
| Pension Expense | 03-491-01-424 | 134,832.00 | | |
| Pension Expense | 03-492-01-424 | 124,390.00 | | |
| To record GASB 68 for the year | | | | |
| | | 804,359.30 | 804,359.30 | |

CITY OF DEVINE, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2017

CITY OF DEVINE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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Independent Auditor's Report

The Honorable Mayor
and Members of the City Council
City of Devine, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Devine, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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, the the business-type activities, each major fund, and the aggregate remaining fund information of the City of Devine, Texas as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the managements discussion and analysis, the budgetary comparison schedule, the schedule of changes in net pension liability and related ratios for TMRS, and schedule of contributions TMRS pension plan on pages 5-12 and 41-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Devine, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2018 on our consideration of the City of Devine, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Devine, Texas's internal control over financial reporting and compliance.

Coleman, Horton & Company, LLP

Uvalde, Texas
February 2, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial report of the City of Devine (the City) is presented in five sections, management's discussion and analysis (this Part), basic financial statements, required supplementary information, combining and individual nonmajor fund statements and the federal section. This section of the City's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ending September 30, 2017. Please read it in conjunction with the City's financial section, which follows.

Overview of the Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
 - * The *governmental funds* statement tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - * *Proprietary fund* statements provide information about financial operations in which the City provides certain utility services for the benefit of its citizens.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the City 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, deferred outflow of resources and liabilities and deferred inflow of resources. 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 City's *net position* and how they have changed. Net position—the difference between the City's assets, deferred outflows, liabilities, and deferred inflows is one way to measure the City's financial health or *position*.

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

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, streets and parks, health and sanitation, and general administration. Property taxes and service fees finance most of these activities.

Fund Financial Statements

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

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

The City has two kinds of funds:

- *Governmental funds* – Most of the City’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 City’s programs. Because this information does not encompass the additional long-term focus of government-wide statements, we provide additional information on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Financial Highlights

- * The City’s combined net position was \$6,908,197 at September 30, 2017, an increase of \$414,762 from day to day operations and a decrease of \$699,690 due to reporting GASB 68 recognitions for the current year.
- * During the year, the City’s revenue was \$5,334,321 as reflected below:

| | <u>Governmental Activities</u> | | |
|-----------------------------|--------------------------------|-----------------------|-------------------|
| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
| a) Taxes | \$2,277,418 | \$2,161,045 | \$ 116,373 |
| b) Charges for Services | 979,779 | 921,126 | 58,653 |
| c) Investment Earnings | 7,576 | 6,220 | 1,356 |
| d) Grants and Contributions | 131,737 | 37,671 | 94,066 |
| e) Other | <u>6,078</u> | <u>27,218</u> | <u>(21,140)</u> |
| Sub-total | <u>\$3,402,588</u> | <u>\$3,153,280</u> | <u>\$ 249,308</u> |

| | <u>Business-type Activities</u> | | |
|-------------------------|---------------------------------|-----------------------|-------------------|
| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
| e) Charges for Services | \$1,698,135 | \$1,686,213 | \$ 11,922 |
| f) Investment Earnings | 13,294 | 12,936 | 358 |
| g) Grants | 184,304 | 93,696 | 90,608 |
| h) Other | <u>36,000</u> | <u>36,000</u> | <u>-</u> |
| Sub-total | <u>1,931,733</u> | <u>1,828,845</u> | <u>102,888</u> |
| Total Revenue | <u>\$5,334,321</u> | <u>\$4,982,125</u> | <u>\$ 352,196</u> |

* During the year, the City's expenses were \$5,619,249 as reflected below:

| | | <u>Governmental Activities</u> | | |
|----|-----------------------|--------------------------------|-----------------------|-------------------|
| | | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
| a) | Administration | \$ 485,826 | \$ 423,934 | \$ 61,892 |
| b) | Municipal Court | 101,783 | 79,715 | 22,068 |
| c) | Street | 488,915 | 545,308 | (56,393) |
| d) | Police | 1,284,109 | 1,134,921 | 149,188 |
| e) | Health and Sanitation | 748,625 | 718,294 | 30,331 |
| f) | Animal Controls | 139,536 | 129,014 | 10,522 |
| g) | Parks and Recreation | 21,018 | 13,698 | 7,320 |
| h) | Library | 156,254 | 118,143 | 38,111 |
| i) | Airport | 30,356 | 14,151 | 16,205 |
| j) | Community Center | 15,214 | 13,541 | 1,673 |
| k) | Code Enforcement | 75,599 | 107,793 | (32,194) |
| l) | Bond Interest | <u>4,433</u> | <u>-</u> | <u>4,433</u> |
| | Sub-Total | <u>\$3,551,668</u> | <u>\$3,298,512</u> | <u>\$ 253,156</u> |

| | | <u>Business-type Activities</u> | | |
|----|-----------------|---------------------------------|-----------------------|--------------------|
| | | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
| a) | Water and Sewer | <u>\$2,067,581</u> | <u>\$2,127,017</u> | <u>\$ (59,436)</u> |
| | Sub-Total | <u>2,067,581</u> | <u>2,127,017</u> | <u>(59,436)</u> |
| | Total Expenses | <u>\$5,619,249</u> | <u>\$5,425,529</u> | <u>\$ 193,720</u> |

* The general fund reported a fund balance this year of \$2,252,634, an increase of \$246,716 from the prior year.

* Revenues were \$44,422 above budget and expenditures were \$50,338 above budget.

* The general fund transferred \$5,121 to the lodging tax fund, and the debt service fund transferred \$2,713 during the year to the general fund.

* The City's combined net position was \$6,908,197 at September 30, 2017, as reflected below:

| | <u>Governmental Activities</u> | | |
|----------------------------------|--------------------------------|----------------------------|----------------------------|
| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
| Current and other assets | \$ 2,652,481 | \$ 2,424,840 | \$ 227,641 |
| Capital and non-current assets | <u>648,271</u> | <u>711,759</u> | <u>(63,488)</u> |
| Total Assets | <u>\$ 3,300,752</u> | <u>\$ 3,136,599</u> | <u>\$ 164,153</u> |
| | | | |
| Deferred Outflows | <u>\$ 268,938</u> | <u>\$ 239,804</u> | <u>\$ 29,134</u> |
| | | | |
| Current liabilities | \$ 243,422 | \$ 258,235 | \$ (14,813) |
| Long term liabilities | <u>1,722,782</u> | <u>1,356,026</u> | <u>366,756</u> |
| Total Liabilities | <u>\$ 1,966,204</u> | <u>\$ 1,614,261</u> | <u>\$ 351,943</u> |
| | | | |
| Deferred Inflows | <u>\$ 41,687</u> | <u>\$ 51,263</u> | <u>\$ (9,576)</u> |
| | | | |
| Net Position: | | | |
| Net investment in capital assets | \$ 528,271 | \$ 476,759 | \$ 51,512 |
| Restricted | 57,837 | 54,172 | 3,665 |
| Unrestricted | <u>975,691</u> | <u>1,179,948</u> | <u>(204,257)</u> |
| Total Net Position | <u>\$ 1,561,799</u> | <u>\$ 1,710,879</u> | <u>\$ (149,080)</u> |

Business-type Activities

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Change</u> |
|------------------------------------|----------------------------|----------------------------|----------------------------|
| Current and other assets | \$ 3,441,678 | \$ 3,355,386 | \$ 86,292 |
| Capital and non-current assets | <u>4,543,631</u> | <u>4,745,920</u> | <u>(202,289)</u> |
| Total Assets | <u>\$ 7,985,309</u> | <u>\$ 8,101,306</u> | <u>\$ (115,997)</u> |
| | | | |
| Deferred Outflows | <u>\$ 175,418</u> | <u>\$ 158,273</u> | <u>\$ 17,145</u> |
| | | | |
| Current liabilities | \$ 459,250 | \$ 503,621 | \$ (44,371) |
| Long term liabilities | <u>2,340,668</u> | <u>2,252,148</u> | <u>88,520</u> |
| Total Liabilities | <u>\$ 2,799,918</u> | <u>\$ 2,755,769</u> | <u>\$ 44,149</u> |
| | | | |
| Deferred Inflows | <u>\$ 14,411</u> | <u>\$ 21,564</u> | <u>\$ (7,153)</u> |
| | | | |
| Net Position: | | | |
| Net investment in capital assets | \$ 3,033,631 | \$ 3,030,920 | \$ 2,711 |
| Unrestricted | <u>2,312,767</u> | <u>2,451,326</u> | <u>(138,559)</u> |
| Total Net Position | <u>\$ 5,346,398</u> | <u>\$ 5,482,246</u> | <u>\$ (135,848)</u> |
| | | | |
| Combined Total Net Position | <u>\$ 6,908,197</u> | <u>\$ 7,193,125</u> | <u>\$ (284,928)</u> |

Capital Assets and Debt Administration

Capital Assets

Capital assets for the City at fiscal year end September 30, 2017 amounted to \$5,191,902. It is the City's policy to charge off as a current expenditure any purchases less than \$5,000. The total capital assets recorded were land and its improvements, buildings, equipment and streets as reflected below:

City's Capital Assets

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> |
|--------------------------------|--|---|--|---|
| | <u>Current Year</u> | | <u>Prior Year</u> | |
| Land | \$ 147,165 | \$ 215,714 | \$ 147,165 | \$ 215,714 |
| Buildings and improvements | 745,897 | 2,968 | 745,897 | 2,968 |
| Equipment | 1,407,189 | 1,572,145 | 1,291,712 | 1,432,393 |
| Water & utility improvements | 2,744,961 | 11,166,045 | 2,744,961 | 11,017,954 |
| Water rights | - | 402,500 | - | 402,500 |
| Totals at historical cost | 5,045,212 | 13,359,372 | 4,929,735 | 13,071,529 |
| Total accumulated depreciation | <u>(4,396,941)</u> | <u>(8,815,741)</u> | <u>(4,217,976)</u> | <u>(8,325,609)</u> |
| Net capital assets | <u>\$ 648,271</u> | <u>\$ 4,543,631</u> | <u>\$ 711,759</u> | <u>\$ 4,745,920</u> |

Long-term Debt

The City has the following long term debt at year end:

City's Long Term Debt

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> |
|--------------------------|--|---|--|---|
| | <u>Current Year</u> | | <u>Prior Year</u> | |
| General Obligation Bonds | <u>\$ 120,000</u> | <u>\$ 1,510,000</u> | <u>\$ 235,000</u> | <u>\$ 1,715,000</u> |
| Total | <u>\$ 120,000</u> | <u>\$ 1,510,000</u> | <u>\$ 235,000</u> | <u>\$ 1,715,000</u> |

Contacting the City's Financial Management

The financial report is designed for customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

City Administrator
City of Devine
303 South Teel
Devine, Texas 78016
(830) 663-2804

BASIC FINANCIAL STATEMENTS

CITY OF DEVINE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

EXHIBIT A-1

| | Primary Government | | Total |
|---|----------------------------|--------------------------------|---------------------|
| | Governmental Activities | Business Type Activities | |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 2,122,432 | \$ 2,975,823 | \$ 5,098,255 |
| Receivables (net of allowance for uncollectibles) | 437,050 | 179,896 | 616,946 |
| Internal Balances | 73,591 | (73,591) | - |
| Prepaid Items | 19,408 | 9,864 | 29,272 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | - | 349,686 | 349,686 |
| Capital Assets: | | | |
| Land | 147,165 | 215,714 | 362,879 |
| Buildings, net | 59,156 | - | 59,156 |
| Improvements other than Buildings, net | 185,944 | - | 185,944 |
| Machinery and Equipment, net | 256,006 | 4,026,628 | 4,282,634 |
| Water Rights, net | - | 301,289 | 301,289 |
| Total Assets | <u>3,300,752</u> | <u>7,985,309</u> | <u>11,286,061</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Related to Pension Plan | 268,938 | 175,418 | 444,356 |
| Total Deferred Outflows of Resources | <u>268,938</u> | <u>175,418</u> | <u>444,356</u> |
| LIABILITIES | | | |
| Accounts Payable | 242,862 | 84,609 | 327,471 |
| Accrued Interest Payable | 560 | - | 560 |
| Payable from Restricted Assets | - | 179,641 | 179,641 |
| Noncurrent Liabilities | | | |
| Due Within One Year | 120,000 | 195,000 | 315,000 |
| Due in More Than One Year | - | 1,315,000 | 1,315,000 |
| Net Pension Liability | 1,602,782 | 1,025,668 | 2,628,450 |
| Total Liabilities | <u>1,966,204</u> | <u>2,799,918</u> | <u>4,766,122</u> |
| DEFERRED INFLOW OF RESOURCES | | | |
| Related to Pension Plan | 20,101 | 14,411 | 34,512 |
| Paving Assessments | 7,684 | - | 7,684 |
| Municipal Court | 13,902 | - | 13,902 |
| Total Deferred Inflows of Resources | <u>41,687</u> | <u>14,411</u> | <u>56,098</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 528,271 | 3,033,631 | 3,561,902 |
| Restricted for: | | | |
| Debt Service | 38,372 | - | 38,372 |
| Other Purposes | 19,465 | - | 19,465 |
| Unrestricted Net Position | 975,691 | 2,312,767 | 3,288,458 |
| Total Net Position | <u>\$ 1,561,799</u> | <u>\$ 5,346,398</u> | <u>\$ 6,908,197</u> |

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

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

| | Program Revenues | | |
|----------------------------------|---------------------|-------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions |
| Primary Government: | | | |
| GOVERNMENTAL ACTIVITIES: | | | |
| Administration | \$ 485,826 | \$ 47,886 | \$ 99,479 |
| Municipal Court | 101,783 | 118,246 | - |
| Street | 488,915 | - | - |
| Police | 1,284,109 | 810 | 32,258 |
| Health & Sanitation | 748,625 | 790,712 | - |
| Animal Control | 139,536 | - | - |
| Parks & Recreation | 21,018 | - | - |
| Library | 156,254 | 9,940 | - |
| Airport | 30,356 | 3,747 | - |
| Community Center | 15,214 | 6,625 | - |
| Code Enforcement | 75,599 | 1,813 | - |
| Bond Interest | 4,433 | - | - |
| Total Governmental Activities: | 3,551,668 | 979,779 | 131,737 |
| BUSINESS-TYPE ACTIVITIES: | | | |
| Sewer Water Fund | 2,067,581 | 1,698,135 | 184,304 |
| Total Business-Type Activities: | 2,067,581 | 1,698,135 | 184,304 |
| TOTAL PRIMARY GOVERNMENT: | \$ 5,619,249 | \$ 2,677,914 | \$ 316,041 |

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Other Taxes

Miscellaneous Revenue

Investment Earnings

Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position--Ending

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

| Net (Expense) Revenue and Changes in Net Position | | |
|--|-----------------------------|---------------------|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| \$ (338,461) | \$ - | \$ (338,461) |
| 16,463 | - | 16,463 |
| (488,915) | - | (488,915) |
| (1,251,041) | - | (1,251,041) |
| 42,087 | - | 42,087 |
| (139,536) | - | (139,536) |
| (21,018) | - | (21,018) |
| (146,314) | - | (146,314) |
| (26,609) | - | (26,609) |
| (8,589) | - | (8,589) |
| (73,786) | - | (73,786) |
| (4,433) | - | (4,433) |
| <u>(2,440,152)</u> | <u>-</u> | <u>(2,440,152)</u> |
| - | (185,142) | (185,142) |
| - | (185,142) | (185,142) |
| <u>(2,440,152)</u> | <u>(185,142)</u> | <u>(2,625,294)</u> |
| 788,635 | - | 788,635 |
| 115,035 | - | 115,035 |
| 1,373,748 | - | 1,373,748 |
| 6,078 | 36,000 | 42,078 |
| 7,576 | 13,294 | 20,870 |
| <u>2,291,072</u> | <u>49,294</u> | <u>2,340,366</u> |
| (149,080) | (135,848) | (284,928) |
| 1,710,879 | 5,482,246 | 7,193,125 |
| <u>\$ 1,561,799</u> | <u>\$ 5,346,398</u> | <u>\$ 6,908,197</u> |

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

| | General Fund | Other Funds | Total Governmental Funds |
|---|---------------------|------------------|--------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 2,067,369 | \$ 55,063 | \$ 2,122,432 |
| Taxes Receivable | 76,215 | 15,034 | 91,249 |
| Allowance for Uncollectible Taxes (credit) | (11,432) | (2,255) | (13,687) |
| Receivables (Net) | 162,869 | 2,867 | 165,736 |
| Intergovernmental Receivables | 193,752 | - | 193,752 |
| Due from Other Funds | 73,684 | 3,921 | 77,605 |
| Prepaid Items | 19,408 | - | 19,408 |
| Total Assets | <u>\$ 2,581,865</u> | <u>\$ 74,630</u> | <u>\$ 2,656,495</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 116,062 | \$ - | \$ 116,062 |
| Accrued Liabilities | 126,800 | - | 126,800 |
| Due to Other Funds | - | 4,014 | 4,014 |
| Total Liabilities | <u>242,862</u> | <u>4,014</u> | <u>246,876</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue - Property Taxes | 64,783 | 12,779 | 77,562 |
| Unavailable Revenue - Paving Assessments | 7,684 | - | 7,684 |
| Unavailable Revenue - Municipal Court | 13,902 | - | 13,902 |
| Total Deferred Inflows of Resources | <u>86,369</u> | <u>12,779</u> | <u>99,148</u> |
| FUND BALANCES | | | |
| Restricted Fund Balance: | | | |
| Retirement of Long-Term Debt | - | 38,372 | 38,372 |
| Other Restricted Fund Balance | - | 19,465 | 19,465 |
| Unassigned Fund Balance | 2,252,634 | - | 2,252,634 |
| Total Fund Balances | <u>2,252,634</u> | <u>57,837</u> | <u>2,310,471</u> |
| Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 2,581,865</u> | <u>\$ 74,630</u> | <u>\$ 2,656,495</u> |

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

CITY OF DEVINE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | | |
|--|-----------|------------------|
| Total Fund Balances - Governmental Funds | \$ | 2,310,471 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) of \$711,759 and long-term debt of \$(235,000) in the governmental activities is to increase net position. | | 476,759 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays of \$115,477 and debt principal payments of \$115,000 is to increase net position. | | 230,477 |
| Included in the items related to debt is the recognition of the City's proportionate share of the Net Pension Liability required by GASB 68 in the amount of \$(1,602,782), a Deferred Resource Outflow of \$268,938, and a Deferred Resource Inflow of \$(20,101). The net effect of these items is to decrease net position. | | (1,353,945) |
| The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | | (178,965) |
| Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable tax revenue of \$77,562 as revenue, and recognizing accrued interest of \$(560). The net effect of these reclassifications and recognitions is to increase net position. | | 77,002 |
| Net Position of Governmental Activities | \$ | 1,561,799 |

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

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

| | General Fund | Other Funds | Total Governmental Funds |
|---|-----------------|----------------|--------------------------------|
| REVENUES: | | | |
| Taxes | \$ 2,153,655 | \$ 134,805 | \$ 2,288,460 |
| Licenses and Permits | 47,886 | - | 47,886 |
| Intergovernmental Revenue | 31,046 | 1,212 | 32,258 |
| Charges for Services | 790,712 | - | 790,712 |
| Fees/Fines | 138,102 | - | 138,102 |
| Investment Earnings | 7,492 | 84 | 7,576 |
| Other Revenue | 108,636 | - | 108,636 |
| Total Revenues | 3,277,529 | 136,101 | 3,413,630 |
| EXPENDITURES: | | | |
| Current: | | | |
| Administration | 397,122 | 14,674 | 411,796 |
| Municipal Court | 91,265 | - | 91,265 |
| Street | 361,677 | - | 361,677 |
| Police | 964,248 | 200 | 964,448 |
| Health & Sanitation | 728,260 | - | 728,260 |
| Animal Control | 115,747 | - | 115,747 |
| Parks & Recreation | 15,533 | - | 15,533 |
| Library | 129,727 | - | 129,727 |
| Airport | 27,777 | - | 27,777 |
| Community Center | 13,292 | - | 13,292 |
| Code Enforcement | 68,280 | - | 68,280 |
| Capital Outlay | 115,477 | - | 115,477 |
| Debt Service: | | | |
| Debt Principal - Bonded Debt | - | 115,000 | 115,000 |
| Debt Interest - Bonded Debt | - | 4,970 | 4,970 |
| Total Expenditures | 3,028,405 | 134,844 | 3,163,249 |
| Excess of Revenues Over Expenditures | 249,124 | 1,257 | 250,381 |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers In | 2,713 | 5,121 | 7,834 |
| Transfers Out (Use) | (5,121) | (2,713) | (7,834) |
| Total Other Financing Sources (Uses) | (2,408) | 2,408 | - |
| Net Change in Fund Balances | 246,716 | 3,665 | 250,381 |
| Fund Balance - October 1 (Beginning) | 2,005,918 | 54,172 | 2,060,090 |
| Fund Balance - September 30 (Ending) | \$ 2,252,634 | \$ 57,837 | \$ 2,310,471 |

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

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

| | | |
|--|-----------|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 250,381 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays of \$115,477 and debt principal payments of \$115,000 is to increase net position. | | 230,477 |
| The reporting of GASB 68 for the current year resulted in an increase in the Net Pension Liability of \$(481,756), a decrease in Deferred Resource Inflows of \$12,154, and an increase in Deferred Resource Outflows of \$29,134. The result of these changes is to decrease net position. | | (440,468) |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. | | (178,965) |
| Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in unavailable tax revenue of \$(11,042), and the decrease in accrued interest of \$537. The net effect of these reclassifications and recognitions is to decrease net position. | | (10,505) |
| Change in Net Position of Governmental Activities | <u>\$</u> | <u>(149,080)</u> |

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

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

| | Business Type Activities |
|--|-----------------------------|
| | Sewer Water Fund |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 2,975,823 |
| Restricted Assets - Current: | |
| Cash and Cash Equivalents | 349,686 |
| Interest Receivable | 5,332 |
| Accounts Receivable-Net of Uncollectible Allowance | 174,564 |
| Prepaid Items | 9,864 |
| Total Current Assets | <u>3,515,269</u> |
| Noncurrent Assets: | |
| Capital Assets: | |
| Land | 215,714 |
| Equipment | 4,026,628 |
| Water Rights | 301,289 |
| Total Noncurrent Assets | <u>4,543,631</u> |
| Total Assets | <u>8,058,900</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Outflow Related to Pension Plan | 175,418 |
| Total Deferred Outflows of Resources | <u>175,418</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 16,353 |
| Accrued Liabilities | 68,256 |
| Due to Other Funds | 73,591 |
| Payable from Restricted Assets - Current: | |
| Bonds | 195,000 |
| Customer Deposits | 173,716 |
| Accrued Interest | 5,925 |
| Total Current Liabilities | <u>532,841</u> |
| NonCurrent Liabilities: | |
| Bonds Payable - Noncurrent | 1,315,000 |
| Net Pension Liability | 1,025,668 |
| Total Noncurrent Liabilities | <u>2,340,668</u> |
| Total Liabilities | <u>2,873,509</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Inflow Related to Pension Plan | 14,411 |
| Total Deferred Inflows of Resources | <u>14,411</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 3,033,631 |
| Unrestricted Net Position | 2,312,767 |
| Total Net Position | <u>\$ 5,346,398</u> |

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

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

EXHIBIT D-2

| | Business Type Activities |
|---|-----------------------------|
| | Sewer Water Fund |
| <hr/> | |
| OPERATING REVENUES: | |
| Charges for Services | \$ 1,698,135 |
| Other Revenue | 36,000 |
| Total Operating Revenues | 1,734,135 |
| | |
| OPERATING EXPENSES: | |
| Personnel Services | 686,054 |
| Purchased Services | 538,833 |
| Other Operating Expenses | 352,562 |
| Depreciation | 490,132 |
| Total Operating Expenses | 2,067,581 |
| Operating Income (Loss) | (333,446) |
| | |
| NON-OPERATING REVENUES (EXPENSES): | |
| Grants | 184,304 |
| Investment Earnings | 13,294 |
| Total Non-operating Revenue (Expenses) | 197,598 |
| Change in Net Position | (135,848) |
| Total Net Position -October 1 (Beginning) | 5,482,246 |
| | |
| Total Net Position September 30 (Ending) | \$ 5,346,398 |

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

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

| | Business Type Activities |
|---|-----------------------------|
| | Sewer Water Fund |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from User Charges | \$ 1,700,593 |
| Cash Payments for Personnel Services | (465,595) |
| Cash Payments for Purchased Services | (538,698) |
| Cash Payments for Other Operating Expenses | (353,043) |
| Net Cash Provided by Operating Activities | <u>343,257</u> |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | |
| Grant Proceeds | <u>184,304</u> |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | |
| Acquisition of Capital Assets | (287,844) |
| Bond Principal Paid | (25,000) |
| Net Cash Provided by (Used for) Capital & Related Financing Activities | <u>(492,844)</u> |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest on Investments | <u>12,532</u> |
| Net Increase in Cash and Cash Equivalents | 47,249 |
| Cash and Cash Equivalents at Beginning of the Year: | <u>3,278,260</u> |
| Cash and Cash Equivalents at the End of the Year: | <u>\$ 3,325,509</u> |
| <u>Reconciliation of Operating Income(Loss) to Net Cash Provided By Operating Activities:</u> | |
| Operating Income (Loss): | \$ (333,446) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation | 490,132 |
| GASB 68 Adjustment | 259,222 |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Decrease (increase) in Receivables | (33,542) |
| Decrease (increase) in Prepaid Expenses | (9,864) |
| Increase (decrease) in Accounts Payable | 135 |
| Increase (decrease) in Accrued Liabilities | (34,927) |
| Increase (decrease) in Due to Other Funds | 5,125 |
| Increase (decrease) in Customer Deposits | 422 |
| Net Cash Provided by Operating Activities | <u>\$ 343,257</u> |
| <u>Reconciliation of Total Cash and Cash Equivalents:</u> | |
| Cash & Cash Equivalents-Statement of Net Position | \$ 2,975,823 |
| Restricted Cash-Statement of Net Position | <u>349,686</u> |
| Total Cash and Cash Equivalents | <u>\$ 3,325,509</u> |

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Devine (the "City") is a municipal agency operating under the applicable laws and regulations of the State of Texas. It is governed by a six member City Council elected by registered voters of the City. The City prepares its general purpose financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of contracts and grants of agencies from which it receives funds.

Pensions. The fiduciary net position of the Texas Municipal Retirement System (TMRS) has 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 TMRS'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.

As of September 30, 2017, the City of Devine, Texas retrospectively/prospectively applied Government Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

Because the City Council is elected by the public; has the authority to make decisions, appoint administrators and managers, and significantly influence operations; and has the primary accountability for fiscal matters; the City is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Devine's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" column indicates amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State or Federal Government 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. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The fund equity is segregated into net investment in capital assets, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

The General Fund – The general fund is the City’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the City reports the following fund type(s):

Governmental Funds:

Special Revenue Funds – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Debt Service Fund – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Major Proprietary Fund:

Enterprise Fund – The City’s activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in the Enterprise Funds. The City’s major Enterprise Fund is the Water and Sewer System Fund.

E. FUND BALANCE POLICY

The City reports fund balance for governmental funds in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or “must be maintained in tact” and therefore will never convert to cash, such as inventories of supplies. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications precludes a need for a policy from the City Council. However, the City Council has adopted fund balance policies for the three unrestricted classifications - committed, assigned, and unassigned.

From time to time, the City Council may commit fund balances by a majority vote in a scheduled meeting. The Council’s commitment may be modified or rescinded by a majority vote in a scheduled meeting. Council commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the City does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions and other purposes determined by the Council.

The City Council may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Council may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Council by majority vote in a scheduled meeting. The Council has delegated this authority to the City Administrator.

When the City incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the City incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged in the same order.

| | |
|---------------------|--------------------|
| Restricted | |
| Debt Service | \$ 38,372 |
| Lodging Tax | 13,617 |
| TCOLE | 3,998 |
| TIF Fund | <u>1,850</u> |
| Total Restricted | 57,837 |
| Unassigned | <u>2,252,634</u> |
| Total Fund Balances | <u>\$2,310,471</u> |

F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary fund types, the City considers highly liquid investments to be cash equivalents if they have a maturity of six months or less when purchased.
2. The City records purchases of supplies as expenditures.
3. The City records its investments at cost, which approximates fair value.
4. Deferred inflows accounted for on the balance sheet relates to uncollected property taxes less the amount of doubtful accounts, as well as paving assessments and municipal court revenue.
5. The City provides risk management obligations by carrying commercial insurance. General liability insurance is obtained from a commercial insurance carrier.
6. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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 expenses during the reporting period. Actual results could differ from those estimates.
7. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.
8. Capital assets, which include land, buildings, furniture and equipment, and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------|--------------|
| Buildings | 7-27 |
| Utility Improvements | 4-40 |
| Equipment | 3-25 |
| Water Rights | 50 |

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund. The City is required to present adopted and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears as Exhibit E-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Thirty to sixty days prior to the beginning of each fiscal year, the City Secretary submits to the City Council a proposed budget prepared on the modified accrual basis which is consistent with generally accepted accounting principles at the department level for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance not later than 15 days prior to the beginning of the fiscal year.
4. The budget was amended by the City Council during the year.

B. EXPENDITURES IN EXCESS OF BUDGETED AMOUNT

As noted on Exhibit E-1, the general fund had three categories in excess of the budgeted amount for \$79,349.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

The City had funds on deposit at year-end of \$4,700,812 in excess of FDIC coverage, secured by pledged securities of the depository bank.

As of September 30, 2017, the following are the City's cash and cash equivalents with respective maturities and credit rating:

| <u>Type of Deposit</u> | <u>Fair Value</u> | <u>Maturity in Less than 1 Year</u> | <u>Maturity in 1-10 Years</u> | <u>Maturity in Over 10 Years</u> | <u>Credit Rating</u> |
|----------------------------------|--------------------|-------------------------------------|-------------------------------|----------------------------------|----------------------|
| Cash and cash equivalents | \$5,441,493 | \$5,441,493 | \$ - | \$ - | N/A |
| Investment Pools First Public | <u>6,448</u> | <u>6,448</u> | <u>-</u> | <u>-</u> | AAAm |
| Total Cash and Cash Equivalents | <u>\$5,447,941</u> | <u>\$5,447,941</u> | <u>\$ -</u> | <u>\$ -</u> | |

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies, (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A", (4) No load money market funds with a weighted average maturity of 90 days or less, (5) fully collateralized repurchase agreements, (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit, (7) secured corporate bonds rated now lower than "AA-" or the equivalent, (8) public funds investment pools, and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The City of Devine, Texas is in substantial compliance with the requirements of the Act and with local policies.

The investment pools used by the City are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investment.

The City's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of stable net asset value of \$1. The book value of the position in the pools is the same as the number of the shares in each pool; the market value of a share should approximately equal the book value of a share.

Additional policies and contractual provisions governing deposits and investments of City of Devine, Texas are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to those allowed by Government Code 2256. As of September 30, 2017, the City's investments were limited to investment pools.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City requires counterparties to register the securities in the name of the City's custodian and hand them over to the City or its designated agent. All of the securities are held by the City's agent.

Concentration of Credit Risk To limit the risk of loss, the City's investment portfolio is diversified in terms of investment instruments, maturity schedule, and financial institutions.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City's investment portfolio has various maturities.

Foreign Currency Risk for Investment The City has no foreign currency investments.

The City categorizes its fair value measurements with 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; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of September 30, 2017, the City of Devine, Texas has no investments measured at fair value or Net Asset Value (NAV) per Share (or its equivalent).

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with the applicable Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 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 are expected to be collected during a 60-day period after the close of the city fiscal year. The City considers all delinquent taxes as deferred inflows.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund transfers at September 30, 2017 consisted of the following amounts:

Transfers From General Fund To:

| | |
|----------------------------------|------------------------|
| Non-Major Funds | <u>\$ 5,121</u> |
| Total Transfer From General Fund | <u><u>\$ 5,121</u></u> |

Transfer From Non-Major Funds To:

| | |
|-------------------------------------|-----------------|
| General Fund | <u>\$ 2,713</u> |
| Total Transfer From Non-Major Funds | <u>\$ 2,713</u> |

Interfund transfers are in support of operations.

Interfund balances at September 30, 2017 are as follows:

Due to General Fund From:

| | |
|---------------------------|------------------|
| Proprietary Funds | \$ 73,591 |
| Non-Major Funds | <u>93</u> |
| Total Due to General Fund | <u>\$ 73,684</u> |

Due to Non-Major Funds From:

| | |
|------------------------------|-----------------|
| Intrafund | <u>\$ 3,921</u> |
| Total Due to Non-Major Funds | <u>\$ 3,921</u> |

Interfund balances are in support of operations.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2017 were as follows:

| | <u>Property Taxes</u> | <u>Other Governments</u> | <u>Due From Other Funds</u> | <u>Other</u> | <u>Total Receivables</u> |
|---|-----------------------|--------------------------|-----------------------------|-------------------|--------------------------|
| Governmental Activities: | | | | | |
| General Fund | \$ 76,215 | \$ 193,752 | \$ 73,684 | \$ 162,869 | \$ 506,520 |
| Other Funds | <u>15,034</u> | <u>-</u> | <u>3,921</u> | <u>2,867</u> | <u>21,822</u> |
| Total Governmental Activities | <u>\$ 91,249</u> | <u>\$ 193,752</u> | <u>\$ 77,605</u> | <u>\$ 165,736</u> | <u>\$ 528,342</u> |
| Amounts not scheduled for collection during the subsequent year | \$ <u>13,687</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>13,687</u> |
| Business-type Activities: | | | | | |
| Proprietary Funds | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ 179,886 | \$ 179,886 |
| Total Business-type Activities | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ 179,886 | \$ 179,886 |

Payables at September 30, 2017 were as follows:

| | <u>Accounts Payable</u> | <u>Loans, Leases And Bonds Payable - Current Year</u> | <u>Salaries and Benefits</u> | <u>Due To Other Funds</u> | <u>Accrued Liabilities</u> | <u>Other</u> | <u>Total Payables</u> |
|--|-------------------------|---|------------------------------|---------------------------|----------------------------|-------------------|-----------------------|
| Governmental Activities: | | | | | | | |
| General Fund | \$ 116,062 | \$ - | \$ - | \$ - | \$ 126,800 | \$ - | \$ 242,862 |
| Other Funds | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,014</u> | <u>-</u> | <u>-</u> | <u>4,014</u> |
| Total Gov. Activities | <u>\$ 116,062</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,014</u> | <u>\$ 126,800</u> | <u>\$ -</u> | <u>\$ 246,876</u> |
| Amounts not scheduled for payment during the subsequent year | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| Business-Type Activities | | | | | | | |
| Proprietary Fund | \$ 16,353 | \$ 195,000 | \$ - | \$ 73,591 | \$ 68,256 | \$ 179,641 | \$ 532,841 |
| Total Business Type Activities | <u>\$ 16,353</u> | <u>\$ 195,000</u> | <u>\$ -</u> | <u>\$ 73,591</u> | <u>\$ 68,256</u> | <u>\$ 179,641</u> | <u>\$ 532,841</u> |

F. CAPITAL ASSETS ACTIVITIES

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

| | Primary Government | | | | Ending Balance |
|--|----------------------|---------------------|-------------|---------------------------|---------------------|
| | Beginning Balance | Additions | Retirements | Adjustments/ Transfers | |
| Government activities: | | | | | |
| Land | \$ 147,165 | \$ - | \$ - | \$ - | \$ 147,165 |
| Buildings | 745,897 | - | - | - | 745,897 |
| Utility Improvements | 2,744,961 | - | - | - | 2,744,961 |
| Equipment | <u>1,291,712</u> | <u>115,477</u> | - | - | <u>1,407,189</u> |
| Total at historical cost | <u>4,929,735</u> | <u>115,477</u> | - | - | <u>5,045,212</u> |
| Less accumulated depreciation | | | | | |
| Buildings | (668,033) | (18,708) | - | - | (686,741) |
| Utility Improvement | (2,536,519) | (22,498) | - | - | (2,559,017) |
| Equipment | <u>(1,013,424)</u> | <u>(137,759)</u> | - | - | <u>(1,151,183)</u> |
| Total accumulated depreciation | <u>(4,217,976)</u> | <u>(178,965)</u> | - | - | <u>(4,396,941)</u> |
| Governmental activities capital assets, net | <u>\$ 711,759</u> | <u>\$ (63,488)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 648,271</u> |
| Business-type activities: | | | | | |
| Land | \$ 215,714 | \$ - | \$ - | \$ - | \$ 215,714 |
| Buildings | 2,968 | - | - | - | 2,968 |
| Utility Improvements | 11,017,954 | 148,091 | - | - | 11,166,045 |
| Equipment | 1,432,393 | 139,752 | - | - | 1,572,145 |
| Water rights | <u>402,500</u> | - | - | - | <u>402,500</u> |
| Total at historical cost | <u>13,071,529</u> | <u>287,843</u> | - | - | <u>13,359,372</u> |
| Accumulated depreciation | <u>(8,325,609)</u> | <u>(490,132)</u> | - | - | <u>(8,815,741)</u> |
| Business-type activities capital assets, net | <u>\$ 4,745,920</u> | <u>\$ (202,289)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,543,631</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------|-------------------|
| Administration | \$ 23,250 |
| Police | 75,495 |
| Streets | 66,744 |
| Health and Sanitation | 9,663 |
| Parks and Recreation | <u>3,813</u> |
| Total depreciation expense | <u>\$ 178,965</u> |

G. LONG-TERM DEBT

The City had the following changes in long-term debt outstanding for the year ended September 30, 2017:

| | Original Amount | Interest Rates | Balance Outstanding October 1, 2016 | Issued | Retired | Balance Outstanding September 30, 2017 | Amounts Due In One Year |
|--|--------------------|-------------------|--|--------|----------------|---|----------------------------------|
| <u>Governmental Activities</u> | | | | | | | |
| <u>Certificates of Obligation</u> | | | | | | | |
| 2011 General Obligation Refunding Bonds | \$ 755,000 | 2.80% | \$ 235,000 | \$ - | \$ 115,000 | \$ 120,000 | \$ 120,000 |
| Total Governmental Activities | | | \$ 235,000 | \$ - | \$ 115,000 | \$ 120,000 | \$ 120,000 |
| <u>Business-Type Activities</u> | | | | | | | |
| <u>Revenue Bonds</u> | | | | | | | |
| 2011 General Obligation Refunding Bonds | \$ 480,000 | 2.80% | \$ 230,000 | \$ - | \$ 50,000 | \$ 180,000 | \$ 50,000 |
| 2013 General Obligation Refunding Bonds | 1,840,000 | 1.27% 3.12% | <u>1,485,000</u> | - | <u>155,000</u> | <u>1,330,000</u> | <u>145,000</u> |
| Total Business-Type Activities | | | \$ 1,715,000 | \$ - | \$ 205,000 | \$ 1,510,000 | \$ 195,000 |

Annual debt service requirements as of September 30, 2017 are as follows:

| <u>Fiscal Year</u> | <u>Governmental Activities</u> | | | <u>Business-Type Activities</u> | | |
|--------------------|--------------------------------|-----------------|-------------------|---------------------------------|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 120,000 | \$ 1,680 | \$ 121,680 | \$ 195,000 | \$ 33,927 | \$ 228,927 |
| 2019 | - | - | - | 195,000 | 30,491 | 225,491 |
| 2020 | - | - | - | 200,000 | 26,612 | 226,612 |
| 2021 | - | - | - | 200,000 | 22,293 | 222,293 |
| 2022 | - | - | - | 170,000 | 18,005 | 188,005 |
| 2023 - 2025 | - | - | - | <u>550,000</u> | <u>25,060</u> | <u>575,060</u> |
| Total | <u>\$ 120,000</u> | <u>\$ 1,680</u> | <u>\$ 121,680</u> | <u>\$ 1,510,000</u> | <u>\$ 156,388</u> | <u>\$ 1,666,388</u> |

Bonded debt of the City consists of various series of general obligation bonds and revenue bonds. General obligation bonds are payable from a levy of ad valorem taxes upon all taxable property within the City and from certain net revenues derived from the operation of the City's water and sewer system. Revenue bonds are generally payable from pledged revenues generated by the water and sewer fund. The debenture agreement for water and sewer bonds require that funds be available for 1/12th of the principal and 1/6th of the interest requirements of the next fiscal year.

Interest expense for the year was \$4,970 for governmental activities and \$36,511 for business-type activities.

H. DEFINED BENEFIT PENSION PLANS

Plan Description

The City of Devine participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

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

Employees covered by benefit terms

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

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 11 |
| Inactive employees entitled to but not yet receiving benefits | 13 |
| Active employees | <u>38</u> |
| | <u>62</u> |

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Devine were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Devine were 12.54% and 16.58% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$204,547, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.5% to 10.5% including inflation |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2016, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|-----------------------|--------------------------|--|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.10% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 3.65% |
| Real Return | 10.0% | 4.03% |
| Real Estate | 10.0% | 5.00% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | <u>5.0%</u> | 8.00% |
| Total | <u>100.0%</u> | |

Discount Rate

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

Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at 12/31/2015 | \$4,160,760 | \$2,297,586 | \$1,863,174 |
| Changes for the year: | | | |
| Service cost | 165,807 | - | 165,807 |
| Interest | 326,844 | - | 326,844 |
| Change of benefit terms | 646,960 | - | 646,960 |
| Difference between expected and actual experience | 65,984 | - | 65,984 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 204,547 | (204,547) |
| Contributions - employee | - | 82,164 | (82,164) |
| Net investment income | - | 155,456 | (155,456) |
| Benefit payments, including refunds of employee contributions | (96,994) | (96,994) | - |
| Administrative expense | - | (1,754) | 1,754 |
| Other changes | - | (94) | 94 |
| Net changes | <u>1,108,601</u> | <u>343,325</u> | <u>765,276</u> |
| Balance at 12/31/2016 | <u>\$5,269,361</u> | <u>\$2,640,911</u> | <u>\$2,628,450</u> |

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of (6.75%), as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

| | 1% Decrease in Discount Rate (5.750%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|---|--------------------------|--|
| City's net pension liability | <u>\$3,479,385</u> | <u>\$2,628,450</u> | <u>\$1,933,345</u> |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tnrs.com

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

For the year ended September 30, 2017, the City recognized pension expense of \$959,927.

At September 30, 2017, the City reported 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 | \$ 99,125 | \$ 34,217 |
| Changes in actuarial assumptions | 35,668 | - |
| Difference between projected and actual investment earnings | 97,603 | 295 |
| Contributions subsequent to the measurement date | <u>211,960</u> | <u>-</u> |
| Total | <u>\$ 444,356</u> | <u>\$ 34,512</u> |

\$211,960 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended December 31,</u> | |
|------------------------------------|-----------|
| 2017 | \$ 55,719 |
| 2017 | \$ 55,717 |
| 2018 | \$ 50,937 |
| 2019 | \$ 27,526 |
| 2020 | \$ 7,985 |
| Thereafter | \$ - |

At September 30, 2017, the City reported Deferred Resource Outflows and Deferred Resource Inflows for the TMRS pension plan as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Total net amounts as of December 31, 2016 Measurement Date | \$ 232,396 | \$ 34,512 |
| Contributions made subsequent to the Measurement Date | <u>211,960</u> | <u>-</u> |
| Reported by City as of September 30, 2017 | <u>\$ 444,356</u> | <u>\$ 34,512</u> |

I. SUPPLEMENTAL DEATH BENEFITS

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal League (TML) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

| | | |
|--|----------------|----------------|
| The City offers supplemental death to: | Plan Year 2016 | Plan Year 2017 |
| Active employees | Yes | Yes |
| Retirees | Yes | Yes |

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employees’ entire careers.

The City’s contributions to the TML SDBF for the year 2016 and 2017 were \$344 and \$338, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE - only portion of the rate)

| Plan/ Calendar Year | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed |
|---------------------------|---|---------------------------------------|-------------------------------------|
| 2015 | 0.02% | 0.02% | 100.0% |
| 2016 | 0.02% | 0.02% | 100.0% |
| 2017 | 0.02% | 0.02% | 100.0% |

J. ECONOMIC DEPENDENCY

The City of Devine has significant economic dependency upon the citizens of the City of Devine for both tax revenue and utility fund revenue.

K. CONTINGENCIES

The City participates in various state and federal grant programs which are governed by certain 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 City has not complied with the rules and regulations governing the grants, if any, refunds of any money received and the collectability of any related receivable at September 30, 2017 may be impaired. In the opinion of the City, 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 statement for such contingencies.

L. LITIGATION

The City's legal counsel advises that there is no pending or threatened litigation involving the City as of September 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

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

| | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|---------------------|---------------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes: | | | | |
| Taxes | \$ 2,124,789 | \$ 2,129,971 | \$ 2,153,655 | \$ 23,684 |
| Licenses and Permits | 70,759 | 47,898 | 47,886 | (12) |
| Intergovernmental Revenue | 30,000 | 30,000 | 31,046 | 1,046 |
| Charges for Services | 796,134 | 792,528 | 790,712 | (1,816) |
| Fees/Fines | 107,972 | 137,397 | 138,102 | 705 |
| Investment Earnings | 5,555 | 6,055 | 7,492 | 1,437 |
| Other Revenue | 94,027 | 89,258 | 108,636 | 19,378 |
| Total Revenues | <u>3,229,236</u> | <u>3,233,107</u> | <u>3,277,529</u> | <u>44,422</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Administration | 325,602 | 322,045 | 397,122 | (75,077) |
| Municipal Court | 86,180 | 98,080 | 91,265 | 6,815 |
| Street | 421,593 | 371,856 | 361,677 | 10,179 |
| Police | 986,673 | 997,754 | 964,248 | 33,506 |
| Health & Sanitation | 727,046 | 731,652 | 728,260 | 3,392 |
| Animal Control | 114,596 | 124,729 | 115,747 | 8,982 |
| Parks & Recreation | 11,836 | 15,674 | 15,533 | 141 |
| Library | 128,500 | 134,149 | 129,727 | 4,422 |
| Airport | 27,497 | 31,710 | 27,777 | 3,933 |
| Community Center | 11,851 | 13,029 | 13,292 | (263) |
| Code Enforcement | 92,795 | 82,175 | 68,280 | 13,895 |
| Capital Outlay | 138,759 | 111,468 | 115,477 | (4,009) |
| Total Expenditures | <u>3,072,928</u> | <u>3,034,321</u> | <u>3,028,405</u> | <u>5,916</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>156,308</u> | <u>198,786</u> | <u>249,124</u> | <u>50,338</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | - | - | 2,713 | 2,713 |
| Transfers Out (Use) | (2,415) | (5,121) | (5,121) | - |
| Total Other Financing Sources (Uses) | <u>(2,415)</u> | <u>(5,121)</u> | <u>(2,408)</u> | <u>2,713</u> |
| Net Change | 153,893 | 193,665 | 246,716 | 53,051 |
| Fund Balance - October 1 (Beginning) | 2,005,918 | 2,005,918 | 2,005,918 | - |
| Fund Balance - September 30 (Ending) | <u>\$ 2,159,811</u> | <u>\$ 2,199,583</u> | <u>\$ 2,252,634</u> | <u>\$ 53,051</u> |

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

CITY OF DEVINE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

EXHIBIT E-2

| | FY 2017 Plan Year 2016 | FY 2016 Plan Year 2015 | FY 2015 Plan Year 2014 |
|--|---------------------------|---------------------------|---------------------------|
| A. Total Pension Liability | | | |
| Service Cost | \$ 165,807 | \$ 128,659 | \$ 108,237 |
| Interest (on the Total Pension Liability) | 326,844 | 262,136 | 205,116 |
| Changes of Benefit Terms | 646,960 | 605,272 | -0- |
| Difference between Expected and Actual Experience | 65,984 | (67,120) | (64,331) |
| Changes of Assumptions | -0- | 53,414 | -0- |
| Benefit Payments, including refunds of employee contributions | (96,994) | (62,081) | (37,770) |
| Net change in Total Pension Liability | \$ 1,108,601 | \$ 1,054,520 | \$ 211,252 |
| Total Pension Liability - Beginning | 4,160,760 | 3,106,240 | 2,894,988 |
| Total Pension Liability - Ending | \$ 5,269,361 | \$ 4,160,760 | \$ 3,106,240 |
| B. Total Fiduciary Net Position | | | |
| Contributions - Employer | \$ 204,547 | \$ 137,430 | \$ 128,545 |
| Contributions - Employee | 82,164 | 79,715 | 72,789 |
| Net Investment Income | 155,456 | 3,161 | 107,125 |
| Benefit Payments, including refunds of employee contributions | (96,994) | (62,081) | (37,770) |
| Administrative Expense | (1,754) | (1,925) | (1,118) |
| Other | (95) | (95) | (92) |
| Net Change in Plan Fiduciary Net Position | \$ 343,324 | \$ 156,205 | \$ 269,479 |
| Plan Fiduciary Net Position - Beginning | 2,297,587 | 2,141,381 | 1,871,902 |
| Plan Fiduciary Net Position - Ending | \$ 2,640,911 | \$ 2,297,586 | \$ 2,141,381 |
| C. Net Pension Liability | \$ 2,628,450 | \$ 1,863,174 | \$ 964,859 |
| D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 50.12% | 55.22% | 68.94% |
| E. Covered Employee Payroll | \$ 1,643,285 | \$ 1,719,860 | \$ 1,455,779 |
| F. Net Pension Liability as a Percentage of Covered Employee Payroll | 159.95% | 108.33% | 66.28% |

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only three years of data are presented in accordance with GASBS #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."

CITY OF DEVINE, TEXAS
 SCHEDULE OF CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SEPTEMBER 30, 2017

EXHIBIT E-3

| | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|
| Actuarially Determined Contribution | \$ 262,836 | \$ 197,955 | \$ 128,545 |
| Contributions in Relation to the Actuarially Determined Contributions | (262,836) | (197,955) | (128,545) |
| Contribution Deficiency (Excess) | \$ -0- | \$ -0- | \$ -0- |
| Covered Employee Payroll | \$ 1,689,824 | \$ 1,719,860 | \$ 1,455,779 |
| Contributions as a Percentage of Covered Employee Payroll | 15.55% | 11.51% | 8.83% |

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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."

CITY OF DEVINE, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2017

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|--------------------------------|---|
| Actuarial Cost Method: | Entry Age Normal |
| Amortization Method: | Level Percentage of Payroll, Closed |
| Remaining Amortization Period: | 29 years |
| Asset Valuation Method: | 10 Year smoothed market; 15% soft corridor |
| Inflation: | 2.5% |
| Salary Increases: | 3.50% to 10.5% including inflation |
| Investment Rate of Return: | 6.75% |
| Retirement Age: | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014. |
| Mortality: | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |

Other Information:

Notes: There were no benefit changes during the year.

COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF DEVINE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

| | Lodging Tax Fund | TCLOE Fund | TIF Fund | Total Nonmajor Special Revenue Funds |
|---|------------------------|-----------------|-----------------|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 6,922 | \$ 7,919 | \$ 1,850 | \$ 16,691 |
| Taxes Receivable | - | - | - | - |
| Allowance for Uncollectible Taxes (credit) | - | - | - | - |
| Receivables (Net) | 2,867 | - | - | 2,867 |
| Due from Other Funds | 3,921 | - | - | 3,921 |
| Total Assets | <u>\$ 13,710</u> | <u>\$ 7,919</u> | <u>\$ 1,850</u> | <u>\$ 23,479</u> |
| LIABILITIES | | | | |
| Due to Other Funds | \$ 93 | \$ 3,921 | \$ - | \$ 4,014 |
| Total Liabilities | <u>93</u> | <u>3,921</u> | <u>-</u> | <u>4,014</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Revenue - Property Taxes | - | - | - | - |
| Total Deferred Inflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | | |
| Restricted Fund Balance: | | | | |
| Retirement of Long-Term Debt | - | - | - | - |
| Other Restricted Fund Balance | 13,617 | 3,998 | 1,850 | 19,465 |
| Total Fund Balances | <u>13,617</u> | <u>3,998</u> | <u>1,850</u> | <u>19,465</u> |
| Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 13,710</u> | <u>\$ 7,919</u> | <u>\$ 1,850</u> | <u>\$ 23,479</u> |

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

| Debt Service Fund | Total Nonmajor Governmental Funds |
|-------------------------|--|
| \$ 38,372 | \$ 55,063 |
| 15,034 | 15,034 |
| (2,255) | (2,255) |
| - | 2,867 |
| - | 3,921 |
| <u>\$ 51,151</u> | <u>\$ 74,630</u> |
| <u>\$ -</u> | <u>\$ 4,014</u> |
| <u>-</u> | <u>4,014</u> |
| <u>12,779</u> | <u>12,779</u> |
| <u>12,779</u> | <u>12,779</u> |
| 38,372 | 38,372 |
| - | 19,465 |
| <u>38,372</u> | <u>57,837</u> |
| <u>\$ 51,151</u> | <u>\$ 74,630</u> |

CITY OF DEVINE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Lodging Tax Fund | TCLOE Fund | TIF Fund | Total Nonmajor Special Revenue Funds |
|---|------------------------|-----------------|-----------------|---|
| REVENUES: | | | | |
| Taxes: | | | | |
| Taxes | \$ 9,928 | \$ - | \$ - | \$ 9,928 |
| Intergovernmental Revenue | - | 1,212 | - | 1,212 |
| Investment Earnings | 7 | 5 | - | 12 |
| Total Revenues | <u>9,935</u> | <u>1,217</u> | <u>-</u> | <u>11,152</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Administration | 14,674 | - | - | 14,674 |
| Police | - | 200 | - | 200 |
| Debt Service: | | | | |
| Debt Principal - Bonded Debt | - | - | - | - |
| Debt Interest - Bonded Debt | - | - | - | - |
| Total Expenditures | <u>14,674</u> | <u>200</u> | <u>-</u> | <u>14,874</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(4,739)</u> | <u>1,017</u> | <u>-</u> | <u>(3,722)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers In | 5,121 | - | - | 5,121 |
| Transfers Out (Use) | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>5,121</u> | <u>-</u> | <u>-</u> | <u>5,121</u> |
| Net Change in Fund Balance | 382 | 1,017 | - | 1,399 |
| Fund Balance - October 1 (Beginning) | <u>13,235</u> | <u>2,981</u> | <u>1,850</u> | <u>18,066</u> |
| Fund Balance - September 30 (Ending) | <u>\$ 13,617</u> | <u>\$ 3,998</u> | <u>\$ 1,850</u> | <u>\$ 19,465</u> |

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

| Debt Service Fund | Total Nonmajor Governmental Funds |
|-------------------------|--|
| \$ 124,877 | \$ 134,805 |
| - | 1,212 |
| 72 | 84 |
| 124,949 | 136,101 |
| - | 14,674 |
| - | 200 |
| 115,000 | 115,000 |
| 4,970 | 4,970 |
| 119,970 | 134,844 |
| 4,979 | 1,257 |
| - | 5,121 |
| (2,713) | (2,713) |
| (2,713) | 2,408 |
| 2,266 | 3,665 |
| 36,106 | 54,172 |
| \$ 38,372 | \$ 57,837 |

FEDERAL SECTION

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**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**

The Honorable Mayor
and Members of the City Council
City of Devine, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Devine, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 2, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Devine, Texas'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.

Coleman, Horton & Company, LLP
Uvalde, Texas
February 2, 2018