

**GRAPEVINE TAX INCREMENT
FINANCING DISTRICT REINVESTMENT
ZONE NUMBER TWO
(A Blended Component Unit of
The City of Grapevine, Texas)**

BASIC FINANCIAL STATEMENTS

**As of and for the Year Ended
SEPTEMBER 30, 2017**

(With Independent Auditors' Report)

**GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO
(A Blended Component Unit of the City of Grapevine, Texas)**

BASIC FINANCIAL STATEMENTS

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SEPTEMBER 30, 2017

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BASIC FINANCIAL STATEMENTS



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Grapevine, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grapevine Tax Increment Financing District Reinvestment Zone Number Two (“TIF #2”), a component unit of the City of Grapevine, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise TIF #2’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.

Auditors’ 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 and each major fund of TIF #2, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of TIF #2'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 TIF #2's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 5, 2018

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Grapevine, Texas (the "City"), we offer readers of the Grapevine Tax Increment Financing District Reinvestment Zone Number Two's ("TIF #2") financial statements this narrative overview and analysis of the financial activities of TIF #2 for the fiscal year ended September 30, 2017. TIF #2 was formed to finance and make public improvements in the area surrounding the Gaylord Texan Resort and Convention Center under the Tax Increment Financing Act. The current TIF #2 agreement is expected to end in 2026, after the last debt payment has been made.

FINANCIAL HIGHLIGHTS

- The liabilities of TIF #2 exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$10,680,635. This deficit net position is primarily due to debt that was issued in connection with the public improvement project in the Gaylord Texan Resort and Convention Center area. Although TIF #2 is responsible for servicing this debt, the related assets are not TIF #2's. This deficit will be eliminated as resources are obtained (e.g., from future tax revenues).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the TIF #2's basic financial statements. TIF #2's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of TIF #2's finances in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of TIF #2's assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of TIF #2 is improving or deteriorating.

The *Statement of Activities* presents information showing how TIF #2's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TIF #2 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- **Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of TIF #2’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The fund financial statements include two funds: (1) the General Fund, which is used to account for principal and interest payments, and (2) the Capital Projects Fund, which is used to account for the acquisition and construction of public improvements.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. As of September 30, 2017, TIF #2’s liabilities exceeded assets and deferred outflows of resources by \$10,680,635.

The following table reflects the condensed Statement of Net Position:

**CITY OF GRAPEVINE TAX INCREMENT FINANCING
DISTRICT REINVESTMENT ZONE NUMBER TWO’S NET POSITION**

	Governmental Activities	
	2017	2016
Current and other assets	\$ 8,149,776	\$ 7,073,722
Total assets	8,149,776	7,073,722
Deferred outflows of resources	248,204	275,782
Long-term liabilities outstanding	18,992,352	20,743,170
Other liabilities	86,263	92,056
Total liabilities	19,078,615	20,835,226
Net position:		
Unrestricted	(10,680,635)	(13,485,722)
Total net position	\$(10,680,635)	\$(13,485,722)

Analysis of TIF #2’s Operations

Governmental activities increased TIF #2’s net position by \$2,805,087 with TIF #2’s liabilities to assets and deferred outflows of resources ratio decreasing from 2.8 in FY 2016 to 2.3 in fiscal year 2017. TIF#2 entered into a local agreement with the Grapevine-Colleyville Independent School District and pledged future ad valorem taxes collected by TIF #2 to be contributed towards the district’s middle school debt. The total amount that TIF #2 paid the district in fiscal year 2017 was \$1,410,250.

The following table provides a summary of TIF #2 operations for the year ended September 30, 2017.

**CITY OF GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO'S CHANGE IN NET POSITION**

	Governmental Activities	
	2017	2016
Revenues:		
General revenues:		
Property taxes	\$ 4,697,348	\$ 4,415,647
Unrestricted investment earnings	<u>71,762</u>	<u>33,289</u>
Total revenues	<u>4,769,110</u>	<u>4,448,936</u>
Expenses:		
Economic development	1,410,250	2,713,996
Interest	<u>553,773</u>	<u>587,935</u>
Total expenses	<u>1,964,023</u>	<u>3,301,931</u>
Change in net position	2,805,087	1,147,005
Net position, beginning	(<u>13,485,722</u>)	(<u>14,632,727</u>)
Net position, ending	\$(<u>10,680,635</u>)	\$(<u>13,485,722</u>)

FINANCIAL ANALYSIS OF TIF #2's FUNDS

Governmental Funds

The focus of the TIF #2's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing TIF #2's financing requirements.

At the end of the current fiscal year, TIF #2's governmental funds reported combined ending fund balances of \$8,149,776, an increase of \$1,076,054 in comparison with the prior year. The fund balance consists of the following: (1) restricted for economic development: \$5,976,157 and (2) restricted for capital projects: \$2,173,619.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Capital assets of TIF #2 are recorded as expenditures in the Capital Projects Fund when constructed. Completed capital assets are transferred to the City.

Long-term Debt. At the end of the current fiscal year, TIF #2 had total bonded debt outstanding of \$17,140,000, which is backed by the full faith and credit of TIF #2.

**CITY OF GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO'S OUTSTANDING DEBT**

	<u>2017</u>	<u>2016</u>
Combination Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2015A; due in annual installments of \$375,000 to \$2,230,000 through August 2026; interest at 2% to 5%	\$ <u>17,140,000</u>	\$ <u>18,685,000</u>
	\$ <u><u>17,140,000</u></u>	\$ <u><u>18,685,000</u></u>

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, investors and creditors with a general overview of TIF #2's finances. If you have questions about this report or need additional financial information, contact the Finance Department, City of Grapevine, 200 S. Main Street, Grapevine, Texas 76051.

**BASIC
FINANCIAL STATEMENTS**

**GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO
(A Blended Component Unit of the City of Grapevine, Texas)**

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

ASSETS

Cash and investments	\$	8,147,959
Accrued interest		<u>1,817</u>
Total assets		<u>8,149,776</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on bond refunding		<u>248,204</u>
Total deferred outflows of resources		<u>248,204</u>

LIABILITIES

Accrued interest payable		86,263
Bonds payable - due in one year		1,590,000
Bonds payable - due in more than one year		<u>17,402,352</u>
Total liabilities		<u>19,078,615</u>

NET POSITION

Unrestricted		<u>(10,680,635)</u>
Total net position		<u>\$ (10,680,635)</u>

**GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO
(A Blended Component Unit of the City of Grapevine, Texas)**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenues and Changes in Net Position
			Governmental Activities
Governmental activities:			
Economic development	\$ 1,410,250	\$ -	\$(1,410,250)
Interest	<u>553,773</u>	<u>-</u>	<u>(553,773)</u>
Total governmental activities	<u>\$ 1,964,023</u>	<u>\$ -</u>	<u>(1,964,023)</u>
General revenues:			
			4,697,348
			<u>71,762</u>
			<u>4,769,110</u>
			Change in net position <u>2,805,087</u>
			Net position - beginning <u>(13,485,722)</u>
			Net position - ending <u><u>\$(10,680,635)</u></u>

The accompanying notes are an integral part of these financial statements.

**GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO
(A Blended Component Unit of the City of Grapevine, Texas)**

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

	General	Capital Projects	Total
ASSETS			
Cash and investments	\$ 5,974,340	\$ 2,173,619	\$ 8,147,959
Accrued interest	1,817	-	1,817
Total assets	5,976,157	2,173,619	8,149,776
LIABILITIES AND FUND BALANCES			
Total Liabilities	-	-	-
Fund balances:			
Restricted for capital projects	-	2,173,619	2,173,619
Restricted for economic development	5,976,157	-	5,976,157
Total fund balances	5,976,157	2,173,619	8,149,776
Total liabilities and fund balances	\$ 5,976,157	\$ 2,173,619	

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued interest payable	(86,263)
Deferred loss on refunding	248,204
Bonds payable	(17,140,000)
Premium on issuance of debt	(1,852,352)
Net position of governmental activities	\$(10,680,635)

**GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO
(A Blended Component Unit of the City of Grapevine, Texas)**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Capital Projects	Total
REVENUES			
Taxes			
Property taxes	\$ 4,697,348	\$ -	\$ 4,697,348
Investment income	50,061	21,701	71,762
Total revenues	4,747,409	21,701	4,769,110
EXPENDITURES			
Economic development	1,410,250	-	1,410,250
Debt service:			
Principal	1,545,000	-	1,545,000
Interest and fiscal charges	736,450	-	736,450
Other	750	606	1,356
Total expenditures	3,692,450	606	3,693,056
NET CHANGE IN FUND BALANCES	1,054,959	21,095	1,076,054
FUND BALANCE, BEGINNING	4,921,198	2,152,524	7,073,722
FUND BALANCE, ENDING	\$ 5,976,157	\$ 2,173,619	8,149,776
Net change in fund balances			1,076,054
Amounts reported for governmental activities in the statement of activities are different because:			
The repayment of principal of long-term debt consumes the current financial resources of governmental funds, but reduces bond principal at the government-wide level.			1,545,000
Interest expense is accrued in the government-wide financial statements, but not at the fund level.			5,793
Amortization of premium, loss, etc. are reported in the statement of activities but do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.			178,240
Change in net position of governmental activities			\$ 2,805,087

The accompanying notes are an integral part of these financial statements.

**GRAPEVINE TAX INCREMENT FINANCING DISTRICT
REINVESTMENT ZONE NUMBER TWO
(A Blended Component Unit of the City of Grapevine, Texas)**

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Grapevine Tax Increment Financing District Reinvestment Zone Number Two (TIF #2) was created on December 28, 1998. TIF #2 was formed to finance and make public improvements in the area surrounding the Gaylord Texan Resort and Convention Center under the authority of the Tax Increment Financing Act. TIF #2 is governed by a six-member board of directors; five members are appointed by the Grapevine City Council, and the governing body of Grapevine/Colleyville Independent School District appoints one member. The termination of TIF #2 is set as either December 31, 2030, or the date when all project costs are paid and all debt is retired, whichever comes first. TIF #2 is a blended component unit of the City of Grapevine, Texas.

The accounting and reporting policies of TIF #2 conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the more significant accounting and reporting policies:

A. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of TIF #2.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The TIF does not report any program revenues.

Separate fund-based financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, which is used to account for economic development and debt service payments, and the Capital Projects Fund, which is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The government-wide focus is more on the sustainability of TIF #2 as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are earned.

Government fund-level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, TIF #2 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes are recognized in the year in which they are levied. Investment earnings are recorded as earned since they are measurable and available.

C. Budgets and Budgetary Accounting

An overall project budget was included in the plan to create TIF #2 and approved by all parties involved. Annual budgets are not adopted.

D. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

Investments for TIF #2 are reported at fair value, except for its position in investment pools, which are recorded at net asset value per share.

2. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

3. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. A resolution made by the Board of Directors is the highest level of decision-making authority for TIF #2 that can commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors can assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

4. *Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is TIF #2's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

5. *Fund Balance Flow Assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

6. *Deferred Inflows/Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. TIF #2 is reporting a balance for a deferred loss on bond refunding in the government-wide Statement of Net Position. A deferred loss on a bond refunding results when the reacquisition price of the refunded debt exceeds the carrying value. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

II. CASH AND INVESTMENTS

The cash and investment policies of TIF #2 mirror the City of Grapevine's policies. City policies governing bank deposits require depositories to be FDIC-insured institutions, and depositories must fully collateralize all time deposits in excess of FDIC insurance limits.

The City invests in state investment pools (TexPool, TexPool Prime and LOGIC). These approved pooled investments are carried at net asset value.

The components of TIF #2's cash and investments at September 30, 2017, were as follows:

Investment in the City's cash and investment pool	\$ <u>8,147,959</u>
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Interest Rate Risk. In accordance with its investment policy, the City minimizes the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

- a. Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
- b. Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
- c. Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Credit Risk. In accordance with its investment policy, the City minimizes credit risk, the risk of loss due to the failure of the issuer or backer of the investment by:

- a. Limiting investments to the safest types of investments.
- b. Pre-qualifying the financial institutions and broker/dealers with which the City will do business.

- c. Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

Concentration of Credit Risk. The City's investment policy allows up to 100% to be invested in U. S. Treasury Bills/Notes/Bonds, and U. S. Agencies and Instrumentalities. As of September 30, 2017, the City's investments in TexPool and Logic were rated AAAM.

Custodial Credit Risk. State statutes require that all City deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of the State of Texas or its agencies. The City's deposits were fully collateralized, or have a letter of credit issued by the Federal Home Loan Bank as required by State statutes at September 30, 2017. The bank balances were fully collateralized by government securities.

TexPool and LOGIC each have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

III. LONG-TERM LIABILITIES

Long-term liabilities are as follows:

	Balance 9/30/2016	Additions	Retirements	Balance 9/30/2017	Due Within One Year
Combination Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2015A; due in annual installments of \$375,000 to \$2,230,000 through August 2026; 2% to 5%	\$ 18,685,000	\$ -	\$(1,545,000)	\$ 17,140,000	\$ 1,590,000
Total debt outstanding	<u>\$ 18,685,000</u>	<u>-</u>	<u>\$(1,545,000)</u>	<u>17,140,000</u>	<u>\$ 1,590,000</u>
Unamortized premium				<u>1,852,352</u>	
Total debt outstanding				<u>\$ 18,992,352</u>	

The annual requirements to amortize the long-term debt as of September 30, 2017, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,590,000	\$ 736,450
2019	1,645,000	690,100
2020	1,720,000	642,400
2021	1,810,000	576,600
2022	1,895,000	490,600
2023-2026	<u>8,480,000</u>	<u>1,132,350</u>
Total	<u>\$ 17,140,000</u>	<u>\$ 4,268,500</u>

IV. APPRAISED VALUES AND TAX RATES

A summary of appraised values for TIF #2 is as follows:

	<u>Tax Year 2016 Appraised Value</u>	<u>1998 Base Year Appraised Value</u>	<u>Captured Appraised Value</u>
City of Grapevine	\$ 273,803,506	\$ 744,886	\$ 273,058,620
Grapevine-Colleyville Independent School District	273,803,506	744,886	273,058,620

The captured appraised value of TIF #2 is the total appraised value of all real property taxable by the unit and located in the reinvestment zone less the base year appraised value of all real property taxable by the unit and located in the reinvestment zone at the time TIF #2 was established (1999).

Tax rates for TIF #2 are as follows (per \$100 valuation):

	<u>Rate</u>
City of Grapevine	0.289271
Grapevine-Colleyville Independent School District	1.396700

V. PLEDGED REVENUES

TIF #2 has entered into a local agreement with the Grapevine-Colleyville Independent School District where future ad valorem taxes collected for the zone are pledged to contribute towards the district's middle school debt. The total amount that TIF #2 has pledged to pay is \$33,544,551 as of September 30, 2017. The amount of the annual payment is negotiated each year with the district.



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor and
Members of the City Council
City of Grapevine, 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 and each major fund of Grapevine Tax Increment Financing District Reinvestment Zone Number Two ("TIF #2"), a component unit of the City of Grapevine, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise TIF #2's basic financial statements, and have issued our report thereon dated March 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TIF #2'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 TIF #2's internal control. Accordingly, we do not express an opinion on the effectiveness of TIF #2'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 TIF #2'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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 5, 2018