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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, 2014. 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 deferred 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.

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.

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 20, 2015.

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
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2014

CITY OF DEVINE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
and Members of the City Council
City of Devine, Texas
Devine, Texas 78016

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, 2014, 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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Devine, Texas as of September 30, 2014, 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 and the budgetary comparison schedule on pages 5-11 and 39 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 are 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 20, 2015 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

Certified Public Accountants
Uvalde, Texas
February 20, 2015

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, 2014. 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 and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the 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 \$7,793,374 at September 30, 2014, an increase of \$331,568 from the prior year, including a prior period adjustment of \$50,745, for revenue recognition items.
- During the year, the City's revenue was \$4,956,621 as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
a) Taxes	\$1,915,417	\$1,656,698
b) Charges for Services	912,906	812,913
c) Investment Earnings	5,307	5,142
d) Grants and Contributions	1,165	15,298
e) Other	<u>25,319</u>	<u>45,723</u>
Sub-total	<u>\$2,860,114</u>	<u>\$2,535,774</u>
	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
e) Charges for Services	\$1,767,638	\$1,659,593
f) Investment Earnings	14,305	15,310
g) Other	<u>314,564</u>	<u>11,259</u>
Sub-total	<u>2,096,507</u>	<u>1,686,162</u>
Total Revenue	<u>\$4,956,621</u>	<u>\$4,221,936</u>

- During the year, the City's expenses were \$4,574,308 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	General Government	\$ 484,118	\$ 400,064
b)	Public Safety	964,497	916,735
c)	Streets and Parks	452,146	472,110
d)	Health and Sanitation	690,869	691,237
e)	Culture and Recreation	109,613	102,679
f)	Interest and Other Fees	<u>13,580</u>	<u>16,473</u>
	Sub-Total	<u>\$2,714,823</u>	<u>\$2,599,298</u>

		<u>Business-type Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	Water and Sewer	<u>\$1,859,485</u>	<u>\$1,766,560</u>
	Sub-Total	<u>1,859,485</u>	<u>1,766,560</u>
	Total Expenses	<u>\$4,574,308</u>	<u>\$4,365,858</u>

- The general fund reported a fund balance this year of \$1,443,985, an increase of \$123,265 from the prior year.
- Revenues were \$11,514 below budget and expenditures were \$8,888 below budget.
- The general fund transferred \$320 to the debt service fund during the year.

- The City's combined net position was \$7,793,374 at September 30, 2014, as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 1,844,180	\$ 1,723,044
Capital and non-current assets	<u>780,021</u>	<u>853,019</u>
Total Assets	<u>\$ 2,624,201</u>	<u>\$ 2,576,063</u>
Current liabilities	\$ 219,893	\$ 216,227
Long term liabilities	<u>450,000</u>	<u>555,000</u>
Total Liabilities	<u>\$ 669,893</u>	<u>\$ 771,227</u>
Deferred Inflows	<u>\$ 54,926</u>	<u>\$ -</u>
Net Position:		
Net investment in capital assets	\$ 330,021	\$ 298,019
Restricted	43,902	45,401
Unrestricted	<u>1,525,459</u>	<u>1,461,416</u>
Total Net Position	<u>\$ 1,899,382</u>	<u>\$ 1,804,836</u>
	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 3,240,045	\$ 3,355,527
Capital and non-current assets	<u>5,066,223</u>	<u>4,992,626</u>
Total Assets	<u>\$ 8,306,268</u>	<u>\$ 8,348,153</u>
Current liabilities	\$ 487,276	\$ 405,458
Long term liabilities	<u>1,925,000</u>	<u>2,285,725</u>
Total Liabilities	<u>\$ 2,412,276</u>	<u>\$ 2,691,183</u>
Net Position:		
Net investment in capital assets	\$ 2,936,223	\$ 2,706,901
Unrestricted	<u>2,957,769</u>	<u>2,950,069</u>
Total Net Position	<u>\$ 5,893,992</u>	<u>\$ 5,656,970</u>
Combined Total Net Position	<u>\$ 7,793,374</u>	<u>\$ 7,461,806</u>

Capital Assets and Debt Administration

Capital Assets

Capital assets for the City at fiscal year end September 30, 2014 amounted to \$5,846,244. It is the City's policy to charge off as a current expenditure any purchases less than \$1,000. 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	730,888	2,968	723,696	2,968
Equipment	1,122,866	942,117	1,081,346	860,024
Water & utility improvements	2,639,261	10,921,407	2,573,522	10,490,669
Water rights	-	<u>402,500</u>	-	<u>402,500</u>
Totals at historical cost	4,640,180	12,484,706	4,525,729	11,971,875
Total accumulated depreciation	<u>(3,860,159)</u>	<u>(7,418,483)</u>	<u>3,672,710</u>	<u>6,979,249</u>
Net capital assets	<u>\$ 780,021</u>	<u>\$ 5,066,223</u>	<u>\$ 853,019</u>	<u>\$ 4,992,626</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	\$ 450,000	\$ 2,130,000	\$ 555,000	\$ 380,000
Certificates of Obligation	-	-	-	1,875,000
Unamortized Premium	-	-	-	<u>30,725</u>
	<u>\$ 450,000</u>	<u>\$ 2,130,000</u>	<u>\$ 555,000</u>	<u>\$ 2,285,725</u>

During the year, the City refunded \$1,755,000 of the Series 2011 bonds by issuing Series 2013 General Obligation Refunding Bonds of \$1,840,000. The cash flow savings is \$175,656 with a present value savings of \$152,632.

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, 2014

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 1,446,924	\$ 2,709,626	\$ 4,156,550
Receivables (net of allowance for uncollectibles)	391,105	206,817	597,922
Internal Balances	6,151	(6,151)	-
Restricted Assets:			
Cash and Cash Equivalents	-	329,753	329,753
Capital Assets:			
Land	147,165	215,714	362,879
Buildings, net	81,847	652	82,499
Machinery and Equipment, net	551,009	4,849,857	5,400,866
Total Assets	<u>2,624,201</u>	<u>8,306,268</u>	<u>10,930,469</u>
LIABILITIES			
Accounts Payable	217,793	108,114	325,907
Accrued Interest Payable	2,100	-	2,100
Payable from Restricted Assets	-	379,162	379,162
Noncurrent Liabilities			
Due Within One Year	105,000	-	105,000
Due in More Than One Year	345,000	1,925,000	2,270,000
Total Liabilities	<u>669,893</u>	<u>2,412,276</u>	<u>3,082,169</u>
DEFERRED INFLOW OF RESOURCES			
Paving Assessments	9,022	-	9,022
Municipal Court	45,904	-	45,904
Total Deferred Inflows of Resources	<u>54,926</u>	<u>-</u>	<u>54,926</u>
NET POSITION			
Net Investment in Capital Assets	330,021	2,936,223	3,266,244
Restricted for:			
Debt Service	22,699	-	22,699
Other Purposes	21,203	-	21,203
Unrestricted Net Position	1,525,459	2,957,769	4,483,228
Total Net Position	<u>\$ 1,899,382</u>	<u>\$ 5,893,992</u>	<u>\$ 7,793,374</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, 2014

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 484,118	\$ 116,316	\$ -
Public Safety	964,497	43,480	1,165
Streets and Parks	452,146	-	-
Health and Sanitation	690,869	737,870	-
Culture and Recreation	109,613	15,240	-
Interest	13,580	-	-
Total Governmental Activities:	2,714,823	912,906	1,165
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer Fund	1,859,485	1,767,638	311,151
Total Business-Type Activities:	1,859,485	1,767,638	311,151
TOTAL PRIMARY GOVERNMENT:	\$ 4,574,308	\$ 2,680,544	\$ 312,316

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

Prior Period Adjustment

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (367,802)	\$ -	\$ (367,802)
(919,852)	-	(919,852)
(452,146)	-	(452,146)
47,001	-	47,001
(94,373)	-	(94,373)
(13,580)	-	(13,580)
<u>(1,800,752)</u>	<u>-</u>	<u>(1,800,752)</u>
-	219,304	219,304
-	219,304	219,304
<u>(1,800,752)</u>	<u>219,304</u>	<u>(1,581,448)</u>
604,033	-	604,033
118,896	-	118,896
1,192,488	-	1,192,488
25,319	3,413	28,732
5,307	14,305	19,612
<u>1,946,043</u>	<u>17,718</u>	<u>1,963,761</u>
145,291	237,022	382,313
1,804,836	5,656,970	7,461,806
(50,745)	-	(50,745)
<u>\$ 1,899,382</u>	<u>\$ 5,893,992</u>	<u>\$ 7,793,374</u>

CITY OF DEVINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Other Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,407,181	\$ 39,743	\$ 1,446,924
Taxes Receivable	77,599	20,723	98,322
Allowance for Uncollectible Taxes (credit)	(11,640)	(3,108)	(14,748)
Receivables (Net)	145,022	4,625	149,647
Intergovernmental Receivables	157,884	-	157,884
Due from Other Funds	6,261	-	6,261
Total Assets	\$ 1,782,307	\$ 61,983	\$ 1,844,290
LIABILITIES			
Accounts Payable	\$ 84,832	\$ -	\$ 84,832
Accrued Liabilities	132,605	356	132,961
Due to Other Funds	-	110	110
Total Liabilities	217,437	466	217,903
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	65,959	17,615	83,574
Unavailable Revenue - Paving Assessments	9,022	-	9,022
Unavailable Revenue - Municipal Court	45,904	-	45,904
Total Deferred Inflows of Resources	120,885	17,615	138,500
FUND BALANCES			
Retirement of Long-Term Debt	-	22,699	22,699
Other Restricted Fund Balance	-	21,203	21,203
Unassigned Fund Balance	1,443,985	-	1,443,985
Total Fund Balances	1,443,985	43,902	1,487,887
Total Liabilities, Deferred Inflows & Fund Balances	\$ 1,782,307	\$ 61,983	\$ 1,844,290

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
 SEPTEMBER 30, 2014

Total Fund Balances - Governmental Funds	\$	1,487,887
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,525,729 and the accumulated depreciation was \$(3,672,710). In addition, long-term liabilities, including bonds payable of \$(555,000), are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		298,019
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 2014 capital outlays of \$141,086 and debt principal payments of \$105,000 is to increase net position.		246,086
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(214,084)
Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable property taxes receivable of \$83,574 as revenue, and recognizing accrued interest of \$(2,100) associated with long-term debt. The net effect of these reclassifications and recognitions is to increase net position.		81,474
Net Position of Governmental Activities	<u>\$</u>	<u>1,899,382</u>

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, 2014

	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Taxes	\$ 1,681,785	\$ 242,599	\$ 1,924,384
Licenses and Permits	88,440	-	88,440
Intergovernmental Revenue	-	1,165	1,165
Charges for Services	737,870	-	737,870
Fines and Fees	92,581	-	92,581
Investment Earnings	5,308	87	5,395
Contributions	7,489	-	7,489
Other Revenue	11,757	-	11,757
Total Revenues	<u>2,625,230</u>	<u>243,851</u>	<u>2,869,081</u>
EXPENDITURES:			
Current:			
General Government	337,078	125,558	462,636
Public Safety	914,244	1,042	915,286
Streets and Parks	325,352	-	325,352
Health and Sanitation	684,445	-	684,445
Culture and Recreation	99,440	-	99,440
Capital Outlay	141,086	-	141,086
Debt Service:			
Debt Principal	-	105,000	105,000
Interest	-	14,070	14,070
Total Expenditures	<u>2,501,645</u>	<u>245,670</u>	<u>2,747,315</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>123,585</u>	<u>(1,819)</u>	<u>121,766</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	-	320	320
Other (Uses)	(320)	-	(320)
Total Other Financing Sources (Uses)	<u>(320)</u>	<u>320</u>	<u>-</u>
Net Change in Fund Balances	123,265	(1,499)	121,766
Fund Balance - October 1 (Beginning)	<u>1,320,720</u>	<u>45,401</u>	<u>1,366,121</u>
Fund Balance - September 30 (Ending)	<u>\$ 1,443,985</u>	<u>\$ 43,902</u>	<u>\$ 1,487,887</u>

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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	121,766
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 2014 capital outlays of \$141,086 and debt principal payments of \$105,000 is to increase the change in net position.		246,086
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(214,084)
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 property taxes receivable of \$(8,967) against revenue, and recognizing the change in accrued interest of \$490 associated with long-term debt. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(8,477)
Change in Net Position of Governmental Activities	\$	145,291

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, 2014

EXHIBIT D-1

	Business Type Activities
	Total Enterprise Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,709,626
Restricted Assets - Current:	
Cash and Cash Equivalents	329,753
Interest Receivable	3,827
Accounts Receivable-Net of Uncollectible Allowance	202,990
Total Current Assets	3,246,196
Noncurrent Assets:	
Capital Assets:	
Land	215,714
Buildings, net	652
Equipment, net	4,524,402
Water Rights, net	325,455
Total Noncurrent Assets	5,066,223
Total Assets	8,312,419
LIABILITIES	
Current Liabilities:	
Accounts Payable	35,718
Accrued Liabilities	72,396
Due to Other Funds	6,151
Payable from Restricted Assets - Current:	
Bonds	205,000
Customer Deposits	166,984
Accrued Interest	7,178
Total Current Liabilities	493,427
NonCurrent Liabilities:	
Bonds Payable - Non-Current:	
Revenue Bonds Payable	1,925,000
Total Noncurrent Liabilities	1,925,000
Total Liabilities	2,418,427
NET POSITION	
Net Investment in Capital Assets	2,936,223
Unrestricted Net Position	2,957,769
Total Net Position	\$ 5,893,992

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, 2014

EXHIBIT D-2

	Business Type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Charges for Services	\$ 1,767,638
Other Revenue	3,413
Total Operating Revenues	1,771,051
OPERATING EXPENSES:	
Personnel Services	728,887
General and Administrative	46,120
Purchased Services	190,015
Supplies/Maintenance	377,843
Depreciation	433,345
Miscellaneous	48,372
Total Operating Expenses	1,824,582
Operating Income (Loss)	(53,531)
NON-OPERATING REVENUES (EXPENSES):	
Grants	311,151
Investment Earnings	14,305
Interest Expense - Non-Operating	(34,903)
Total Non-operating Revenue (Expenses)	290,553
Change in Net Position	237,022
Total Net Position -October 1 (Beginning)	5,656,970
Total Net Position -September 30 (Ending)	\$ 5,893,992

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, 2014

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,732,045
Cash Payments for Personnel Services	(726,280)
Cash Payments for Supplies and Services	(733,880)
Cash Payments for Other Operating Expenses	(48,372)
Net Cash Provided by Operating Activities	<u>223,513</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Grant Proceeds	<u>311,151</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(506,942)
Bond Proceeds	1,840,000
Bond Principal Paid	(1,965,000)
Bond Interest Paid	(73,516)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(705,458)</u>
<u>Cash Flows from Investing Activities:</u>	
(Increase) Decrease in Restricted Cash	59,638
Interest on Investments	13,487
Net Cash Provided by Investing Activities	<u>73,125</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(97,669)
Cash and Cash Equivalents at Beginning of the Year:	<u>2,807,295</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 2,709,626</u>

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, 2014

	Business-Type Activities
	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>	
Operating Income (Loss):	\$ (53,531)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	433,345
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(39,824)
Increase (decrease) in Accounts Payable	(122,423)
Increase (decrease) in Accrued Liabilities	(5,279)
Increase (decrease) in Customer Deposits	11,225
Net Cash Provided by Operating Activities	<u>\$ 223,513</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, 2014

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.

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	\$ 22,699
Lodging Tax	16,610
TCOLE	2,743
TIF Fund	<u>1,850</u>
Total Restricted	43,902
Unassigned	<u>1,443,985</u>
Total Fund Balances	<u>\$ 1,487,887</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 two expenditures in excess of the budgeted amount for \$13,122.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

As of September 30, 2014, the City had deposits of \$3,764,809 in excess of FDIC insured amounts covered by pledged securities with a value of \$4,455,583.

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 the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principle and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Cash or Investments that are insured, registered or held by the City or by its agent in the City's name.
- Category 2 - Cash or Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the City's name.

Based on these three levels of risk, all of the City's bank deposits are classified as Category 1.

The City's temporary investments at September 30, 2014, which are reported as cash and cash equivalents, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Category</u>	<u>Credit Rating</u>	<u>Maturity</u>
Certificates of Deposit	\$2,829,933	\$2,829,933	1	N/A	< year
Lone Star Investment Pool	<u>6,351</u>	<u>6,351</u>	N/A	AAAm	< year
Totals	<u>\$2,836,284</u>	<u>\$2,836,284</u>			

Investment Accounting Policy

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

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City's Investment Officer. Investing is performed in accordance with investment policies adopted by the Council, with State Statutes and with the City's policies.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

Custodial Credit Risk - Certificates of Deposit and Cash: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2014, all of City's bank deposits were covered by FDIC insurance or pledged securities.

Public Funds Investment Pools

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.

Lone Star Investment Pool (the Pool): The Pool's liquidity fund operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940, which allows the fund to use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the City's position in the Pool is the same as the value of the Pool's share and does not include any unrealized gains and losses.

The Pool is governed by an eleven member board of trustees (Board) made up of active participants in the Pool. The Board has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. The Board is also responsible for monitoring performance of the Pool. Financial information for the Pool can be obtained by writing to Post Office Box 400, Austin, Texas, 78767-0400 or by calling 1-800-758-3927.

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, 2014 consisted of the following amounts:

Transfers From General Fund To:

Debt Service Fund	\$ 320
Total Transfer From General Fund	\$ 320

Interfund transfers are in support of operations.

Interfund balances at September 30, 2014 are as follows:

Due to General Fund From:

Lodging Tax Fund	\$ 110
Proprietary Funds	<u>6,151</u>
Total	<u>\$ 6,261</u>

Interfund balances are in support of operations.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2014 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	\$ 77,599	\$ 157,884	\$ 6,261	\$ 145,022	\$ 386,766
Other Funds	<u>20,723</u>	<u>-</u>	<u>-</u>	<u>4,625</u>	<u>25,348</u>
Total Governmental Activities	<u>\$ 98,322</u>	<u>\$ 157,884</u>	<u>\$ 6,261</u>	<u>\$ 149,647</u>	<u>\$ 412,114</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 14,748</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 14,748</u>
Business-type Activities:					
Proprietary Funds	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 206,817</u>	<u>\$ 206,817</u>
Total Business-type Activities	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 206,817</u>	<u>\$ 206,817</u>

Payables at September 30, 2014 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	\$ 84,832	\$ -	\$ -	\$ -	\$ 132,605	\$ -	\$ 217,437
Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>110</u>	<u>356</u>	<u>-</u>	<u>466</u>
Total Gov. Activities	<u>\$ 84,832</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 110</u>	<u>\$ 132,961</u>	<u>\$ -0-</u>	<u>\$ 217,903</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Business-Type Activities							
Proprietary Fund	<u>\$ 35,718</u>	<u>\$ 205,000</u>	<u>\$ -</u>	<u>\$ 6,151</u>	<u>\$ 79,574</u>	<u>\$ 166,984</u>	<u>\$ 493,427</u>
Total Business Type Activities	<u>\$ 35,718</u>	<u>\$ 205,000</u>	<u>\$ -0-</u>	<u>\$ 6,151</u>	<u>\$ 79,574</u>	<u>\$ 166,984</u>	<u>\$ 493,427</u>

F. CAPITAL ASSETS ACTIVITIES

Capital asset activity for the year ended September 30, 2014 was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments/ Transfers	
Government activities:					
Land and water rights	\$ 147,165	\$ -	\$ -	\$ -	\$ 147,165
Buildings	723,696	7,192	-	-	730,888
Utility Improvements	2,573,522	65,739	-	-	2,639,261
Equipment	<u>1,081,346</u>	<u>68,155</u>	<u>(26,635)</u>	<u>-</u>	<u>1,122,866</u>
Total at historical cost	<u>4,525,729</u>	<u>141,086</u>	<u>(26,635)</u>	<u>-0-</u>	<u>4,640,180</u>
Less accumulated depreciation					
Buildings	631,342	17,699	-	-	649,041
Utility Improvements	2,215,348	122,653	-	-	2,338,001
Equipment	<u>826,020</u>	<u>73,732</u>	<u>26,635</u>	<u>-</u>	<u>873,117</u>
Total accumulated depreciation	<u>(3,672,710)</u>	<u>(214,084)</u>	<u>26,635</u>	<u>-0-</u>	<u>(3,860,159)</u>
Governmental activities capital assets, net	<u>\$ 853,019</u>	<u>\$ (72,998)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 780,021</u>
Business-type activities:					
Land	\$ 215,714	\$ -	\$ -	\$ -	\$ 215,714
Buildings	2,968	-	-	-	2,968
Utility Improvements	10,490,669	430,738	-	-	10,921,407
Equipment	860,024	82,093	-	-	942,117
Water rights	<u>402,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>402,500</u>
Total at historical cost	<u>11,971,875</u>	<u>512,831</u>	<u>-0-</u>	<u>-0-</u>	<u>12,484,706</u>
Accumulated depreciation	<u>(6,979,249)</u>	<u>(433,344)</u>	<u>-</u>	<u>(5,890)</u>	<u>(7,418,483)</u>
Business-type activities capital assets, net	<u>\$ 4,992,626</u>	<u>\$ 79,487</u>	<u>\$ -0-</u>	<u>\$ (5,890)</u>	<u>\$ 5,066,223</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 21,482
Public Safety	49,211
Streets and Parks	126,794
Health and Sanitation	6,424
Culture and Recreation	<u>10,173</u>
Total depreciation expense	<u>\$ 214,084</u>

G. LONG-TERM DEBT

The City had the following changes in long-term debt outstanding for the year ended September 30, 2014:

	Original Amount	Interest Rates	Balance Outstanding October 1, 2013	Issued	Retired	Balance Outstanding September 30, 2014	Amounts Due In One Year
<u>Governmental Activities</u>							
<u>Certificates of Obligation</u>							
2011 General Obligation Refunding Bonds	\$ 755,000	2.80%	\$ 555,000	\$ -	\$ 105,000	\$ 450,000	\$ 105,000
Total Governmental Activities			<u>\$ 555,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ 450,000</u>	<u>\$ 105,000</u>
<u>Business-Type Activities</u>							
<u>Revenue Bonds</u>							
2011 General Obligation Refunding Bonds	\$ 480,000	2.80%	\$ 380,000	\$ -	\$ 50,000	\$ 330,000	\$ 50,000
2013 General Obligation Refunding Bonds	1,840,000	0.47% 3.12%	-0-	1,840,000	40,000	1,800,000	155,000
<u>Certificates of Obligation</u>							
2004 Series	3,000,000	3.80% 5.00%	1,875,000	-	1,875,000	-	-
Unamortized Premium			<u>30,725</u>	<u>-</u>	<u>30,725</u>	<u>-</u>	<u>-</u>
			<u>1,905,725</u>	<u>-0-</u>	<u>1,905,725</u>	<u>-0-</u>	<u>-0-</u>
Total Business-Type Activities			<u>\$ 2,285,725</u>	<u>\$ 1,840,000</u>	<u>\$ 1,995,725</u>	<u>\$ 2,130,000</u>	<u>\$ 205,000</u>

Annual debt service requirements as of September 30, 2014 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>
2015	\$ 105,000	\$ 11,130	\$ 116,130	\$ 205,000	\$ 42,004	\$ 247,004
2016	110,000	8,120	118,120	210,000	39,688	249,688
2017	115,000	4,970	119,970	205,000	36,992	241,992
2018	120,000	1,680	121,680	195,000	33,927	228,927
2019	-	-	-	195,000	30,491	225,491
2020 - 2024	-	-	-	935,000	89,084	1,024,084
2025	-	-	-	185,000	2,886	187,886
Total	<u>\$ 450,000</u>	<u>\$ 25,900</u>	<u>\$ 475,900</u>	<u>\$ 2,130,000</u>	<u>\$ 275,072</u>	<u>\$ 2,405,072</u>

Bonded debt of the City consists of various series of certificates of obligation, general obligation bonds and revenue bonds. Certificates of obligation and 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 \$14,070 for governmental activities and \$34,903 for business-type activities.

On November 19, 2013, the City redeemed \$1,755,000 of the 2011 Series Refunding Bonds by issuing General Obligation Refunding Bonds Series 2013 in the amount of \$1,840,000. The cash flow savings is \$175,656 with a present value savings of \$ 152,632.

H. PENSION PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate:	5%	5%
Matching ratio (City to Employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5,0/20
Updated Service Credit	100% Repeating Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.0 years; closed period	25.1 years; closed period	21.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress - In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 *TMRS Comprehensive Annual Financial Report (CAFR)*.

The funded status of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/13	\$ 1,776,851	\$ 2,894,988	61.4 %	\$ 1,118,137	\$ 1,394,538	80.2 %

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subjected to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability of benefits.

I. SUPPLEMENTAL DEATH BENEFITS FUND

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2014 and 2013 were \$2,857 and \$2,469, respectively, which equaled the required contributions each year.

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, 2014 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, 2014.

M. COMMITMENTS

The City has construction contracts in place at year end in the amount of \$202,371.

N. PRIOR PERIOD ADJUSTMENT

Prior period adjustment is related to not recognizing as revenue deferred inflows of \$50,745 for paving assessments and municipal court fines.

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, 2014

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Taxes	\$ 1,495,571	\$ 1,649,606	\$ 1,681,785	\$ 32,179
Licenses and Permits	78,315	87,515	88,440	925
Charges for Services	734,315	786,468	737,870	(48,598)
Fines and Fees	77,036	88,486	92,581	4,095
Investment Earnings	3,320	4,490	5,308	818
Contributions	11,000	10,582	7,489	(3,093)
Other Revenue	12,183	9,597	11,757	2,160
Total Revenues	<u>2,411,740</u>	<u>2,636,744</u>	<u>2,625,230</u>	<u>(11,514)</u>
EXPENDITURES:				
Current:				
General Government	332,500	340,392	337,078	3,314
Public Safety	899,829	923,995	914,244	9,751
Streets and Parks	335,285	331,201	325,352	5,849
Health and Sanitation	681,612	682,396	684,445	(2,049)
Culture and Recreation	90,962	102,536	99,440	3,096
Capital Outlay	51,275	130,013	141,086	(11,073)
Total Expenditures	<u>2,391,463</u>	<u>2,510,533</u>	<u>2,501,645</u>	<u>8,888</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>20,277</u>	<u>126,211</u>	<u>123,585</u>	<u>(2,626)</u>
OTHER FINANCING SOURCES (USES):				
Other (Uses)	(5,822)	-	(320)	(320)
Total Other Financing Sources (Uses)	<u>(5,822)</u>	<u>-</u>	<u>(320)</u>	<u>(320)</u>
Net Change	14,455	126,211	123,265	(2,946)
Fund Balance - October 1 (Beginning)	1,320,720	1,320,720	1,320,720	-
Fund Balance - September 30 (Ending)	<u>\$ 1,335,175</u>	<u>\$ 1,446,931</u>	<u>\$ 1,443,985</u>	<u>\$ (2,946)</u>

CITY OF DEVINE
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS
 (UNAUDITED)

EXHIBIT E-2

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/11	\$ 1,298,904	\$ 2,273,855	57.1%	\$ 974,951	\$ 1,279,850	76.2%
12/31/12	1,532,390	2,469,303	62.1%	936,913	1,306,503	71.7%
12/31/13	1,776,851	2,894,988	61.4%	1,118,137	1,394,538	80.2%

COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF DEVINE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2014

	Lodging Tax Fund	TCOLE Fund	TIF Fund	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and Cash Equivalents	\$ 12,451	\$ 2,743	\$ 1,850	\$ 17,044
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Receivables (Net)	4,625	-	-	4,625
Total Assets	<u>\$ 17,076</u>	<u>\$ 2,743</u>	<u>\$ 1,850</u>	<u>\$ 21,669</u>
LIABILITIES				
Accrued Liabilities	\$ 356	\$ -	\$ -	\$ 356
Due to Other Funds	110	-	-	110
Total Liabilities	<u>466</u>	<u>-</u>	<u>-</u>	<u>466</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Retirement of Long-Term Debt	-	-	-	-
Other Restricted Fund Balance	16,610	2,743	1,850	21,203
Total Fund Balances	<u>16,610</u>	<u>2,743</u>	<u>1,850</u>	<u>21,203</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 17,076</u>	<u>\$ 2,743</u>	<u>\$ 1,850</u>	<u>\$ 21,669</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 22,699	\$ 39,743
20,723	20,723
(3,108)	(3,108)
-	4,625
\$ 40,314	\$ 61,983
\$ -	\$ 356
-	110
-	466
17,615	17,615
17,615	17,615
22,699	22,699
-	21,203
22,699	43,902
\$ 40,314	\$ 61,983

CITY OF DEVINE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Lodging Tax Fund	TCOLE Fund	TIF Fund	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
Taxes	\$ 16,964	\$ -	\$ 101,148	\$ 118,112
Intergovernmental Revenue	-	1,165	-	1,165
Investment Earnings	25	5	-	30
Total Revenues	<u>16,989</u>	<u>1,170</u>	<u>101,148</u>	<u>119,307</u>
EXPENDITURES:				
Current:				
General Government	24,410	-	101,148	125,558
Public Safety	-	1,042	-	1,042
Debt Service:				
Debt Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>24,410</u>	<u>1,042</u>	<u>101,148</u>	<u>126,600</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,421)</u>	<u>128</u>	<u>-</u>	<u>(7,293)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(7,421)	128	-	(7,293)
Fund Balance - October 1 (Beginning)	<u>24,031</u>	<u>2,615</u>	<u>1,850</u>	<u>28,496</u>
Fund Balance - September 30 (Ending)	<u>\$ 16,610</u>	<u>\$ 2,743</u>	<u>\$ 1,850</u>	<u>\$ 21,203</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 124,487	\$ 242,599
-	1,165
<u>57</u>	<u>87</u>
<u>124,544</u>	<u>243,851</u>
-	125,558
-	1,042
105,000	105,000
14,070	14,070
<u>119,070</u>	<u>245,670</u>
<u>5,474</u>	<u>(1,819)</u>
<u>320</u>	<u>320</u>
<u>320</u>	<u>320</u>
5,794	(1,499)
<u>16,905</u>	<u>45,401</u>
<u>\$ 22,699</u>	<u>\$ 43,902</u>

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
Devine, Texas 78016

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, 2014, 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 20, 2015.

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

Certified Public Accountants
Uvalde, Texas
February 20, 2015