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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, 2015. 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 29, 2016.

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,

Certified Public Accountants

Adjustments to Worksheet by Adjustment Number

FY 2015

City of Devine, Texas

2/22/2016

Control Code	Control Description	Adjustment		Adjustments Must be approved by Audit Client. APPROVED BY:
		Debit	Credit	
<u>Adjustment Number: 1</u> Column: Account Groups - Beginning				
1710	Land	147,165.00		
1730	Buildings	730,888.00		
1731	Depreciation on Buildings		(649,041.00)	
1740	Improvements other than Buildings	2,639,261.00		
1741	Depreciation on Improvements other than Bldgs.		(2,338,001.00)	
1750	Furniture, Machinery and Equipment	1,122,866.00		
1751	Depreciation on Furniture, Machinery and Equipment		(873,117.00)	
3800	Net Investment in Capital Assets		(780,021.00)	
		4,640,180.00	(4,640,180.00)	

Remarks: Post beginning of the year capital assets for governmental funds.

<u>Adjustment Number: 2</u> Column: Account Groups - Beginning				
2510	Bonds Payable - Due in More than One Year		(450,000.00)	
3800	Net Investment in Capital Assets	450,000.00		
2140	Accrued Interest Payable		(2,100.00)	
3900	Unrestricted Net Position	2,100.00		
9100	Beginning Fund Balance / Net Assets	2,100.00		
9200	Ending Fund Balance/Net Assets		(2,100.00)	
		454,200.00	(454,200.00)	

Remarks: Post beginning of the year long-term liabilities for the governmental funds.

<u>Adjustment Number: 3</u> Column: Account Groups - Beginning				
9100	Beginning Fund Balance / Net Assets		(330,021.00)	
9200	Ending Fund Balance/Net Assets	330,021.00		
		330,021.00	(330,021.00)	

Remarks: Post net of beginning capital assets and long-term debt.

<u>Adjustment Number: 4</u> Column: Debt and Capital Items				
1730	Buildings	15,009.00		
1740	Improvements other than Buildings	105,700.00		
1750	Furniture, Machinery and Equipment	75,780.00		
6041	Capital Outlay		(196,489.00)	
3800	Net Investment in Capital Assets		(196,489.00)	
9200	Ending Fund Balance/Net Assets	196,489.00		
		392,978.00	(392,978.00)	

Remarks: Add current year capital asset additions.

<u>Adjustment Number: 5</u> Column: Allocated Depreciation				
6010	Administration	23,568.00		
6032	Police	61,752.00		
6031	Street	94,138.00		

Adjustments to Worksheet by Adjustment Number
FY 2015

City of Devine, Texas

2/22/2016

Control Code	Control Description	Adjustment		Adjustments Must be approved by Audit Client. APPROVED BY:
		Debit	Credit	
6033	Health & Sanitation	7,166.00		
6035	Parks & Recreation	10,720.00		
1731	Depreciation on Buildings		(13,771.00)	
1741	Depreciation on Improvements other than Bldgs.		(125,126.00)	
1751	Depreciation on Furniture, Machinery and Equipment		(58,447.00)	
3800	Net Investment in Capital Assets	197,344.00		
9200	Ending Fund Balance/Net Assets		(197,344.00)	
		394,688.00	(394,688.00)	

Remarks: Record 14-15 depreciation for governmental funds.

Adjustment Number: **6** Column: Debt and Capital Items

6071	Debt Principal		(105,000.00)
2510	Bonds Payable - Due in More than One Year	105,000.00	
2510	Bonds Payable - Due in More than One Year	110,000.00	
2502	Bonds, Loans & Other Payable-Due Within One Year		(110,000.00)
3800	Net Investment in Capital Assets		(105,000.00)
9200	Ending Fund Balance/Net Assets	105,000.00	
		320,000.00	(320,000.00)

Remarks: Record current year bond payment and set up 15-16 year requirement.

Adjustment Number: **7** Column: Reclassifications

2140	Accrued Interest Payable	490.00	
6072	Interest		(490.00)
3900	Unrestricted Net Position		(490.00)
9200	Ending Fund Balance/Net Assets	490.00	
		980.00	(980.00)

Remarks: Adjust accrued interest to year end balance.

Adjustment Number: **8** Column: Reclassifications

9100	Beginning Fund Balance / Net Assets		(83,574.00)
5010	Taxes - General Levy	65,959.00	
5011	Taxes - Debt Service Levy	17,615.00	
		83,574.00	(83,574.00)

Remarks: Record beginning of the year unavailable tax revenue.

Adjustment Number: **9** Column: Reclassifications

2601	Unavailable Revenue - Property Taxes	89,185.00	
5010	Taxes - General Levy		(70,749.00)
5011	Taxes - Debt Service Levy		(18,436.00)
9200	Ending Fund Balance/Net Assets	89,185.00	
3900	Unrestricted Net Position		(89,185.00)
		178,370.00	(178,370.00)

Adjustments to Worksheet by Adjustment Number
FY 2015

City of Devine, Texas

2/22/2016

Control Code	Control Description	Adjustment		Adjustments Must be approved by Audit Client. APPROVED BY:
		Debit	Credit	
Remarks: Adjust to end of year unavailable tax revenue.				
<u>Adjustment Number: 10</u> Column: Reclassifications				<input type="text"/>
2080	Due to Other Funds	110.00		
1300	Due from Other Funds		(110.00)	
		<u>110.00</u>	<u>(110.00)</u>	
Remarks: Remove interfund accounts.				
<u>Adjustment Number: 11</u> Column: Reclassifications				<input type="text"/>
3480	Restricted Fund Balance - Retirement of LT Debt	29,171.00		
3490	Other Restricted Fund Balance	18,940.00		
3600	Unassigned Fund Balance	1,830,259.00		
3810	Restricted for Debt Service		(29,171.00)	
3820	Restricted for Other Purposes		(18,940.00)	
3900	Unrestricted Net Position		(1,830,259.00)	
		<u>1,878,370.00</u>	<u>(1,878,370.00)</u>	
Remarks: Reclass equities.				
<u>Adjustment Number: 12</u> Column: Reclassifications				<input type="text"/>
7915	Transfers In	9,266.00		
8911	Transfers Out		(9,266.00)	
		<u>9,266.00</u>	<u>(9,266.00)</u>	
Remarks: Remove transfers.				
<u>Adjustment Number: 13</u> Column: Reclassifications				<input type="text"/>
7949	Other Resources	445,071.00		
8940	Other (Uses)		(449,826.00)	
6010	Administration	4,755.00		
		<u>449,826.00</u>	<u>(449,826.00)</u>	
Remarks: Reclassify other resources/uses.				
<u>Adjustment Number: 14</u> Column: Reclassifications				<input type="text"/>
5110	Property Taxes - Real Property	745,015.00		
5010	Taxes - General Levy		(622,071.00)	
5011	Taxes - Debt Service Levy		(122,944.00)	
		<u>745,015.00</u>	<u>(745,015.00)</u>	
Remarks: Reclassify property tax collections.				
<u>Adjustment Number: 15</u> Column: Reclassifications				<input type="text"/>
5110	Property Taxes - Real Property	1,504,288.00		
5180	Other Taxes		(1,504,288.00)	
		<u>1,504,288.00</u>	<u>(1,504,288.00)</u>	

Adjustments to Worksheet by Adjustment Number

FY 2015

City of Devine, Texas

2/22/2016

Control Code	Control Description	Adjustment		Adjustments Must be approved by Audit Client. APPROVED BY:
		Debit	Credit	
Remarks: Reclassify remainder of tax collections.				
Adjustment Number: 16 Column: Debt and Capital Items				
1997	Deferred Outflow Related to Pension Plan	73,514.00		
2602	Deferred Inflow Related to Pension Plan		(38,599.00)	
2595	Net Pension Liability		(578,915.00)	
9110	Prior Period Adjustments	559,596.00		
6010	Administration		(1,405.00)	
6020	Municipal Court		(312.00)	
6031	Street		(2,028.00)	
6032	Police		(9,048.00)	
6033	Health & Sanitation		(312.00)	
6034	Animal Control		(1,092.00)	
6036	Library		(780.00)	
6039	Code Enforcement		(619.00)	
3900	Unrestricted Net Position	544,000.00		
9200	Ending Fund Balance/Net Assets		(544,000.00)	
		1,177,110.00	(1,177,110.00)	

Remarks: Record GASB 68 amounts for pension liability.

**City of Devine
Adjusting Journal Entries
September 30, 2015**

Number			Adjustment	
			Debit	Credit
1	490-11-760	PARKS & RECREATION	50,000.00	
	300-04-354	CONTRIBUTIONS - OTHER		50,000.00
	TO RECLASSIFY LITTLE LEAGUE CONTRIBUTION OF \$50,000 FOR LIGHTING PROJECT			
2	420-02-438	OFFICE EQUIP	800.00	
	425-02-438	OFFICE EQUIP	3,096.00	
	440-02-438	OFFICE EQUIP	11,043.64	
	476-02-438	OFFICE EQUIP	200.00	
	490-11-720	ADMINISTRATIVE		800.00
	490-11-725	MUNICIPAL COURT		3,096.00
	490-11-776	CODE COMPLIANCE		200.00
	490-11-740	POLICE DEPARTMENT		11,043.64
	TO RECLASSIFY FROM FIXED ASSETS TO SUPPLIES			
3	450-09-550	UNCOLLECTIBLE ACCOUNTS	1,155.87	
	11-139	ALLOWANCE FOR UNCOLL ACCOUNTS		1,155.87
	TO RECLASSIFY COLLECTION OF OLD ACCOUNTS			
4	NEW EXPENSE CODE	HOME PROGRAM GRANT EXPENSE	449,826.40	
	11-174	CONST IN PROG-HOME PROGRAM		449,826.40
	TO RECLASSIFY GRANT EXPENSES TO EXPENSE ACCOUNT			
5	21-270	RES FOR DEL TAX RECEIVABLE	1,855.79	
	300-01-300	PROPERTY TAX - CURRENT		1,855.79
	TO RECORD 60 DAY TAX REVENUE			
6	03-11-174			270,210.81
	03-491-11-702			8,500.00
	03-491-11-706			34,353.16
	03-492-11-706			5,715.00
	03-12-170		318,778.97	
	TO SET UP CAPITAL ADDITIONS			
7	03-491-09-550		3,000.00	
	03-11-139			3,000.00
	RECLASSIFY TO RECORD AS CREDIT			

8	03-491-09-588		2,318.00	
	03-492-09-588			2,318.00
	ADJUST EXPENSES BETWEEN WATER AND SEWER			
9	03-491-10-650			354.00
	03-21-252		354.00	
	TO ADJUST ACCRUED INTEREST PAYABLE			
10	03-29-290		373,064.00	
	NEW ACCOUNT CODE	NET PENSION LIABILITY		385,944.00
	NEW ACCOUNT CODE	DEFERRED RESOURCE INFLOW		25,732.00
	NEW ACCOUNT CODE	DEFERRED RESOURCE OUTFLOW	49,009.00	
	03-491-01-1124			5,200.00
	03-492-01-424			5,197.00
	TO RECORD PENSION ACTIVITY PER GASB 68			
11	21-270		349.06	
	300-01-300			349.06

CITY OF DEVINE, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2015

CITY OF DEVINE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Table of Contents	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-12
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	13
B-1 Statement of Activities	14-15
Governmental Fund Financial Statements:	
C-1 Balance Sheet	16
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	18
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	20
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	21
D-3 Statement of Cash Flows	22
Notes to Financial Statements	23-40
 <u>Required Supplementary Information</u>	
E-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	41
E-2 Schedule of Changes in Net Pension Liability and Related Ratios	42
E-3 Schedule of Contributions	43
Notes to Schedule of Contributions	44
 <u>Combining and Individual Statements</u>	
Nonmajor Governmental Funds:	
F-1 Combining Balance Sheet	45-46
F-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	47-48
 <u>Federal Section</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49-50
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	51-52
Schedule of Findings and Questioned Costs	53-54
Schedule of Status of Prior Findings	55
G-1 Schedule of Expenditures of Federal Awards	56
Notes on Accounting Policies for Federal Awards	57

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note M to the financial statements, in 2015, the City adopted new accounting guidance prescribed by GASB #68 for its pension plan a multiple-employer, nontraditional, joint contributory, hybrid benefit pension plan. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. Exhibit A-1 discloses the City's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the City's pension plan. Exhibit B-1 discloses the adjustment to the City's Beginning Net Position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Devine, Texas's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations 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 29, 2016 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 29, 2016

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, 2015. Please read it in conjunction with the City's financial section, which follows.

Overview of the Basic Financial Statements

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

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

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

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

The City has two kinds of funds:

- *Governmental funds* – Most of the City’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. Because this information does not encompass the additional long-term focus of government-wide statements, we provide additional information on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Financial Highlights

- * The City’s combined net position was \$7,636,529 at September 30, 2015, an increase of \$775,815 from day to day operations and a decrease of \$(932,660), a prior period adjustment due to implementing GASB 68.
- * During the year, the City’s revenue was \$5,198,668 as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
a) Taxes	\$2,254,914	\$1,915,417
b) Charges for Services	896,856	912,906
c) Investment Earnings	6,365	5,307
d) Grants and Contributions	71,277	1,165
e) Other	<u>3,639</u>	<u>25,319</u>
Sub-total	<u>\$3,233,051</u>	<u>\$2,860,114</u>
	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
e) Charges for Services	\$1,731,691	\$1,767,638
f) Investment Earnings	11,256	14,305
g) Grants	220,634	-
h) Other	<u>2,036</u>	<u>314,564</u>
Sub-total	<u>1,965,617</u>	<u>2,096,507</u>
Total Revenue	<u>\$5,198,668</u>	<u>\$4,956,621</u>

* During the year, the City's expenses were \$4,422,853 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	Administration	\$ 354,806	\$ 354,557
b)	Municipal Court	64,659	64,614
c)	Street	367,456	367,199
d)	Police	885,332	884,712
e)	Health and Sanitation	713,806	713,306
f)	Animal Controls	101,846	101,775
g)	Parks and Recreation	20,354	20,340
h)	Library	87,598	87,537
i)	Airport	10,708	10,700
j)	Community Center	10,819	10,811
k)	Code Enforcement	<u>99,342</u>	<u>99,272</u>
	Sub-Total	<u>\$2,716,726</u>	<u>\$2,714,823</u>

		<u>Business-type Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	Water and Sewer	<u>\$1,706,127</u>	<u>\$1,859,485</u>
	Sub-Total	<u>1,706,127</u>	<u>1,859,485</u>
	Total Expenses	<u>\$4,422,853</u>	<u>\$4,574,308</u>

* The general fund reported a fund balance this year of \$1,830,259, an increase of \$386,274 from the prior year.

* Revenues were \$53,467 above budget and expenditures were \$56,125 below budget.

* The general fund transferred \$5,885 to the lodging tax fund during the year, and received \$3,381 from the debt service fund.

* The City's combined net position was \$7,636,529 at September 30, 2015, as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 2,267,736	\$ 1,844,180
Capital and non-current assets	<u>779,166</u>	<u>780,021</u>
Total Assets	<u>\$ 3,046,902</u>	<u>\$ 2,624,201</u>
Deferred Outflows	<u>\$ 73,514</u>	<u>\$ -0-</u>
Current liabilities	\$ 251,875	\$ 219,893
Long term liabilities	<u>923,915</u>	<u>450,000</u>
Total Liabilities	<u>\$ 1,175,790</u>	<u>\$ 669,893</u>
Deferred Inflows	<u>\$ 88,515</u>	<u>\$ 54,926</u>
Net Position:		
Net investment in capital assets	\$ 434,166	\$ 330,021
Restricted	48,111	43,902
Unrestricted	<u>1,373,834</u>	<u>1,525,459</u>
Total Net Position	<u>\$ 1,856,111</u>	<u>\$ 1,899,382</u>

	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 3,446,761	\$ 3,240,045
Capital and non-current assets	<u>4,932,053</u>	<u>5,066,223</u>
Total Assets	<u>\$ 8,378,814</u>	<u>\$ 8,306,268</u>
Deferred Outflows	<u>\$ 49,009</u>	<u>\$ -0-</u>
Current liabilities	\$ 520,729	\$ 487,276
Long term liabilities	<u>2,100,944</u>	<u>1,925,000</u>
Total Liabilities	<u>\$ 2,621,673</u>	<u>\$ 2,412,276</u>
Deferred Inflows	<u>\$ 25,732</u>	<u>\$ -0-</u>
Net Position:		
Net investment in capital assets	\$ 3,007,053	\$ 2,936,223
Unrestricted	<u>2,773,365</u>	<u>2,957,769</u>
Total Net Position	<u>\$ 5,780,418</u>	<u>\$ 5,893,992</u>
Combined Total Net Position	<u>\$ 7,636,529</u>	<u>\$ 7,793,374</u>

Capital Assets and Debt Administration

Capital Assets

Capital assets for the City at fiscal year end September 30, 2015 amounted to \$5,711,219. 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>Current Year</u>	<u>Business-type</u> <u>Activities</u> <u>Current Year</u>	<u>Governmental</u> <u>Activities</u> <u>Prior Year</u>	<u>Business-type</u> <u>Activities</u> <u>Prior Year</u>
Land	\$ 147,165	\$ 215,714	\$ 147,165	\$ 215,714
Buildings and improvements	745,897	2,968	730,888	2,968
Equipment	1,198,646	1,260,896	1,122,866	942,117
Water & utility improvements	2,744,961	10,921,407	2,639,261	10,921,407
Water rights	-	402,500	-	402,500
Totals at historical cost	4,836,669	12,803,485	4,640,180	12,484,706
Total accumulated depreciation	<u>(4,057,503)</u>	<u>(7,871,432)</u>	<u>(3,860,159)</u>	<u>(7,418,483)</u>
Net capital assets	<u>\$ 779,166</u>	<u>\$ 4,932,053</u>	<u>\$ 780,021</u>	<u>\$ 5,066,223</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>Current Year</u>	<u>Business-type</u> <u>Activities</u> <u>Current Year</u>	<u>Governmental</u> <u>Activities</u> <u>Prior Year</u>	<u>Business-type</u> <u>Activities</u> <u>Prior Year</u>
General Obligation Bonds	<u>\$ 345,000</u>	<u>\$ 1,925,000</u>	<u>\$ 450,000</u>	<u>\$ 2,130,000</u>
Total	<u>\$ 345,000</u>	<u>\$ 1,925,000</u>	<u>\$ 450,000</u>	<u>\$ 2,130,000</u>

Contacting the City's Financial Management

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

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

BASIC FINANCIAL STATEMENTS

CITY OF DEVINE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,806,663	\$ 2,939,744	\$ 4,746,407
Receivables (net of allowance for uncollectibles)	449,180	172,832	622,012
Internal Balances	11,893	(11,893)	-
Restricted Assets:			
Cash and Cash Equivalents	-	346,078	346,078
Capital Assets:			
Land	147,165	215,714	362,879
Buildings, net	83,085	213	83,298
Improvements other than Buildings, net	281,834	-	281,834
Machinery and Equipment, net	267,082	4,398,727	4,665,809
Capital Assets, net	-	317,399	317,399
Total Assets	<u>3,046,902</u>	<u>8,378,814</u>	<u>11,425,716</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Outflow Related to Pension Plan	\$ 73,514	\$ 49,009	\$ 122,523
Total Deferred Outflows of Resources	<u>73,514</u>	<u>49,009</u>	<u>122,523</u>
LIABILITIES			
Accounts Payable	250,265	131,869	382,134
Accrued Interest Payable	1,610	-	1,610
Payable from Restricted Assets	-	388,860	388,860
Noncurrent Liabilities			
Due Within One Year	110,000	-	110,000
Due in More Than One Year	235,000	2,100,944	2,335,944
Net Pension Liability	578,915	-	578,915
Total Liabilities	<u>1,175,790</u>	<u>2,621,673</u>	<u>3,797,463</u>
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow Related to Pension Plan	38,599	25,732	64,331
Paving Assessments	8,692	-	8,692
Municipal Court	41,224	-	41,224
Total Deferred Inflows of Resources	<u>88,515</u>	<u>25,732</u>	<u>114,247</u>
NET POSITION			
Net Investment in Capital Assets	434,166	3,007,053	3,441,219
Restricted for:			
Debt Service	29,171	-	29,171
Other Purposes	18,940	-	18,940
Unrestricted Net Position	1,373,834	2,773,365	4,147,199
Total Net Position	<u>\$ 1,856,111</u>	<u>\$ 5,780,418</u>	<u>\$ 7,636,529</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, 2015

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 354,806	\$ 49,251	\$ -
Municipal Court	64,659	48,860	-
Street	367,456	-	-
Police	885,332	-	-
Health & Sanitation	713,806	776,546	-
Animal Control	101,846	160	-
Parks & Recreation	20,354	-	-
Library	87,598	8,884	-
Airport	10,708	5,486	-
Community Center	10,819	6,400	-
Code Enforcement	99,342	1,269	-
Total Governmental Activities:	2,716,726	896,856	-
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer Fund	1,706,127	1,731,691	220,634
Total Business-Type Activities:	1,706,127	1,731,691	220,634
TOTAL PRIMARY GOVERNMENT:	\$ 4,422,853	\$ 2,628,547	\$ 220,634

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Other Taxes

Contributions

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
\$ (305,555)	\$ -	\$ (305,555)
(15,799)	-	(15,799)
(367,456)	-	(367,456)
(885,332)	-	(885,332)
62,740	-	62,740
(101,686)	-	(101,686)
(20,354)	-	(20,354)
(78,714)	-	(78,714)
(5,222)	-	(5,222)
(4,419)	-	(4,419)
(98,073)	-	(98,073)
<u>(1,819,870)</u>	<u>-</u>	<u>(1,819,870)</u>
-	246,198	246,198
-	246,198	246,198
<u>(1,819,870)</u>	<u>246,198</u>	<u>(1,573,672)</u>
626,861	-	626,861
123,765	-	123,765
1,504,288	-	1,504,288
71,277	-	71,277
3,639	2,036	5,675
6,365	11,256	17,621
<u>2,336,195</u>	<u>13,292</u>	<u>2,349,487</u>
516,325	259,490	775,815
1,899,382	5,893,992	7,793,374
(559,596)	(373,064)	(932,660)
<u>\$ 1,856,111</u>	<u>\$ 5,780,418</u>	<u>\$ 7,636,529</u>

CITY OF DEVINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Other Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,761,848	\$ 44,815	\$ 1,806,663
Taxes Receivable	85,417	22,100	107,517
Allowance for Uncollectible Taxes (credit)	(12,813)	(3,315)	(16,128)
Receivables (Net)	165,482	3,673	169,155
Intergovernmental Receivables	188,636	-	188,636
Due from Other Funds	12,003	-	12,003
Total Assets	<u>\$ 2,200,573</u>	<u>\$ 67,273</u>	<u>\$ 2,267,846</u>
LIABILITIES			
Accounts Payable	\$ 96,256	\$ 190	\$ 96,446
Accrued Liabilities	153,393	426	153,819
Due to Other Funds	-	110	110
Total Liabilities	<u>249,649</u>	<u>726</u>	<u>250,375</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	70,749	18,436	89,185
Unavailable Revenue - Paving Assessments	8,692	-	8,692
Unavailable Revenue - Municipal Court	41,224	-	41,224
Total Deferred Inflows of Resources	<u>120,665</u>	<u>18,436</u>	<u>139,101</u>
FUND BALANCES			
Retirement of Long-Term Debt	-	29,171	29,171
Other Restricted Fund Balance	-	18,940	18,940
Unassigned Fund Balance	1,830,259	-	1,830,259
Total Fund Balances	<u>1,830,259</u>	<u>48,111</u>	<u>1,878,370</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,200,573</u>	<u>\$ 67,273</u>	<u>\$ 2,267,846</u>

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

CITY OF DEVINE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2015

Total Fund Balances - Governmental Funds	\$	1,878,370
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 \$4,640,180 and the accumulated depreciation was \$(3,860,159). In addition, long-term liabilities, including bonds payable of \$(450,000) 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.		330,021
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 2015 capital outlays of \$196,489 and debt principal payments of \$105,000 is to increase net position.		301,489
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(197,344)
Included in items related to debt is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$(578,915), a deferred resource inflow related to TMRS of \$(38,599), and a deferred resource outflow related to TMRS of \$73,514. The net effect of this recognition is to decrease net position.		(544,000)
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 tax revenue of \$89,185 as revenue, and recognizing the liabilities associated with maturing long-term debt interest of \$(1,610). The net effect of these reclassifications and recognitions is to increase net position.		87,575
Net Position of Governmental Activities	<u>\$</u>	<u>1,856,111</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, 2015

	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Taxes	\$ 2,003,806	\$ 245,497	\$ 2,249,303
Licenses and Permits	58,663	-	58,663
Intergovernmental Revenue	-	1,228	1,228
Charges for Services	782,032	-	782,032
Fines and Fees	65,573	-	65,573
Investment Earnings	6,299	66	6,365
Contributions	71,277	-	71,277
Other Revenue	3,639	-	3,639
Total Revenues	<u>2,991,289</u>	<u>246,791</u>	<u>3,238,080</u>
EXPENDITURES:			
Current:			
Administration	200,297	127,591	327,888
Municipal Court	64,971	-	64,971
Street	275,346	-	275,346
Police	831,263	1,365	832,628
Health & Sanitation	706,952	-	706,952
Animal Control	102,938	-	102,938
Parks & Recreation	9,634	-	9,634
Library	88,378	-	88,378
Airport	10,708	-	10,708
Community Center	10,819	-	10,819
Code Enforcement	99,961	-	99,961
Capital Outlay	196,489	-	196,489
Debt Service:			
Debt Principal	-	105,000	105,000
Interest	-	11,130	11,130
Total Expenditures	<u>2,597,756</u>	<u>245,086</u>	<u>2,842,842</u>
Excess of Revenues Over Expenditures	<u>393,533</u>	<u>1,705</u>	<u>395,238</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	3,381	5,885	9,266
Other Resources	445,071	-	445,071
Transfers Out (Use)	(5,885)	(3,381)	(9,266)
Other (Uses)	(449,826)	-	(449,826)
Total Other Financing Sources (Uses)	<u>(7,259)</u>	<u>2,504</u>	<u>(4,755)</u>
Net Change in Fund Balances	386,274	4,209	390,483
Fund Balance - October 1 (Beginning)	1,443,985	43,902	1,487,887
Fund Balance - September 30 (Ending)	<u>\$ 1,830,259</u>	<u>\$ 48,111</u>	<u>\$ 1,878,370</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, 2015

Total Net Change in Fund Balances - Governmental Funds	\$	390,483
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 2015 capital outlays of \$196,489 and debt principal payments of \$105,000 is to increase net position.		301,489
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(197,344)
The implementation of GASB 68 required that certain expenditures be adjusted to properly record the TMRS net pension liability, related deferred resource inflow, and related deferred resource outflow. The impact of this recognition is to increase net position.		15,595
Various other recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in unavailable tax revenue of \$5,612, and recognizing the change in liabilities associated with maturing long-term debt interest of \$490. The net effect of these recognitions is to increase net position.		6,102
Change in Net Position of Governmental Activities	\$	516,325

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, 2015

	Business Type Activities
	Total Enterprise Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,939,744
Restricted Assets - Current:	
Cash and Cash Equivalents	346,078
Interest Receivable	4,195
Accounts Receivable-Net of Uncollectible Allowance	168,637
Total Current Assets	<u>3,458,654</u>
Noncurrent Assets:	
Capital Assets:	
Land	215,714
Buildings, net	213
Equipment, net	4,398,727
Water Rights, net	317,399
Total Noncurrent Assets	<u>4,932,053</u>
Total Assets	<u>8,390,707</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	49,009
Total Deferred Outflows of Resources	<u>49,009</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	46,883
Accrued Liabilities	84,986
Due to Other Funds	11,893
Payable from Restricted Assets - Current:	
Bonds	210,000
Customer Deposits	172,036
Accrued Interest	6,824
Total Current Liabilities	<u>532,622</u>
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	1,715,000
Net Pension Liability	385,944
Total Noncurrent Liabilities	<u>2,100,944</u>
Total Liabilities	<u>2,633,566</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	25,732
Total Deferred Inflows of Resources	<u>25,732</u>
NET POSITION	
Net Investment in Capital Assets	3,007,053
Unrestricted Net Position	2,773,365
Total Net Position	<u>\$ 5,780,418</u>

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

CITY OF DEVINE, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Charges for Services	\$ 1,731,691
Other Revenue	2,036
Total Operating Revenues	<u>1,733,727</u>
OPERATING EXPENSES:	
Personnel Services	780,125
Purchased Services	242,239
Other Operating Expenses	230,815
Depreciation	452,948
Total Operating Expenses	<u>1,706,127</u>
Operating Income	<u>27,600</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	220,634
Investment Earnings	11,256
Total Non-operating Revenue (Expenses)	<u>231,890</u>
Change in Net Position	259,490
Total Net Position -October 1 (Beginning)	5,893,992
Prior Period Adjustment	(373,064)
Total Net Position -September 30 (Ending)	<u>\$ 5,780,418</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, 2015

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,768,080
Cash Payments for Personnel Services	(767,535)
Cash Payments for Purchased Services	(230,677)
Cash for Other Operating Expenses	(231,169)
Net Cash Provided by Operating Activities	<u>538,699</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Grant Proceeds	<u>220,634</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(318,778)
Bond Principal Paid	(205,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(523,778)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>10,888</u>
Net Increase in Cash and Cash Equivalents	246,443
Cash and Cash Equivalents at Beginning of the Year:	<u>3,039,379</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 3,285,822</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 27,600
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	452,948
GASB 68 Adjustment	(10,397)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	34,353
Increase (decrease) in Accounts Payable	16,907
Increase (decrease) in Accrued Liabilities	12,236
Increase (decrease) in Customer Deposits	5,052
Net Cash Provided by Operating Activities	<u>\$ 538,699</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, 2015

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	\$ 29,171
Lodging Tax	14,480
TCOLE	2,610
TIF Fund	<u>1,850</u>
Total Restricted	48,111
Unassigned	<u>1,830,259</u>
Total Fund Balances	<u>\$1,878,370</u>

F. OTHER ACCOUNTING POLICIES

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

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

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

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

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

B. EXPENDITURES IN EXCESS OF BUDGETED AMOUNT

As noted on Exhibit E-1, the general fund had three categories in excess of the budgeted amount for \$5,932.

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, 2015, the City had deposits of \$4,389,844 in excess of FDIC insured amounts covered by pledged securities with a value of \$4,677,336.

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, 2015, 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	\$2,928,927	\$2,928,927	I	N/A	< year
Lone Star Investment Pool	6,365	6,365	N/A	AAAm	< year
Totals	<u>\$2,935,292</u>	<u>\$2,935,292</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, 2015, 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, 2015 consisted of the following amounts:

Transfers From General Fund To:

Lodging Tax Fund	\$ 5,885
Total Transfer From General Fund	\$ 5,885

Transfers to General Fund From:

Debt Service Fund	\$ 3,381
Total Transfer to General Fund	\$ 3,381

Interfund transfers are in support of operations.

Interfund balances at September 30, 2015 are as follows:

Due to General Fund From:

Lodging Tax Fund	\$ 110
Proprietary Funds	11,893
Total	\$ 12,003

Interfund balances are in support of operations.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2015 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	\$ 85,417	\$ 188,636	\$ 12,003	\$ 165,482	\$ 451,538
Other Funds	<u>22,100</u>	<u>-</u>	<u>-</u>	<u>3,673</u>	<u>25,773</u>
Total Governmental Activities	<u>\$ 107,517</u>	<u>\$ 188,636</u>	<u>\$ 12,003</u>	<u>\$ 169,155</u>	<u>\$ 477,311</u>
Amounts not scheduled for collection during the subsequent year					
	<u>\$ 16,128</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 16,128</u>
Business-type Activities:					
Proprietary Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,832</u>	<u>\$ 172,832</u>
Total Business-type Activities	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 172,832</u>	<u>\$ 172,832</u>

Payables at September 30, 2015 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	\$ 96,256	\$ -	\$ -	\$ -	\$ 153,393	\$ -	\$ 249,649
Other Funds	<u>190</u>	<u>-</u>	<u>-</u>	<u>110</u>	<u>426</u>	<u>-</u>	<u>726</u>
Total Gov. Activities	<u>\$ 96,446</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 110</u>	<u>\$ 153,819</u>	<u>\$ -0-</u>	<u>\$ 250,375</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>\$ 46,883</u>	<u>\$ 210,000</u>	<u>\$ -0-</u>	<u>\$ 11,893</u>	<u>\$ 91,810</u>	<u>\$ 172,036</u>	<u>\$ 532,622</u>
Total Business Type Activities	<u>\$ 46,883</u>	<u>\$ 210,000</u>	<u>\$ -0-</u>	<u>\$ 11,893</u>	<u>\$ 91,810</u>	<u>\$ 172,036</u>	<u>\$ 532,622</u>

F. CAPITAL ASSETS ACTIVITIES

Capital asset activity for the year ended September 30, 2015 was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Adjustments/ Transfers	
Government activities:					
Land	\$ 147,165	\$ -	\$ -	\$ -	\$ 147,165
Buildings	730,888	15,009	-	-	745,897
Utility Improvements	2,639,261	105,700	-	-	2,744,961
Equipment	<u>1,122,866</u>	<u>75,780</u>	<u>-</u>	<u>-</u>	<u>1,198,646</u>
Total at historical cost	<u>4,640,180</u>	<u>196,489</u>	<u>-0-</u>	<u>-0-</u>	<u>4,836,669</u>
Less accumulated depreciation					
Buildings	649,041	(13,771)	-	-	(662,812)
Utility Improvement	2,338,001	(125,126)	-	-	(2,463,127)
Equipment	<u>873,117</u>	<u>(58,447)</u>	<u>-</u>	<u>-</u>	<u>(931,564)</u>
Total accumulated depreciation	<u>(3,860,159)</u>	<u>(197,344)</u>	<u>-0-</u>	<u>-0-</u>	<u>(4,057,503)</u>
Governmental activities capital assets, net	<u>\$ 780,021</u>	<u>\$ (855)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 779,166</u>
Business-type activities:					
Land	\$ 215,714	\$ -	\$ -	\$ -	\$ 215,714
Buildings	2,968	-	-	-	2,968
Utility Improvements	10,921,407	-	-	-	10,921,407
Equipment	942,117	318,779	-	-	1,260,896
Water rights	<u>402,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>402,500</u>
Total at historical cost	<u>12,484,706</u>	<u>318,779</u>	<u>-0-</u>	<u>-0-</u>	<u>12,803,485</u>
Accumulated depreciation	<u>(7,418,483)</u>	<u>(452,949)</u>	<u>-</u>	<u>-</u>	<u>(7,871,432)</u>
Business-type activities capital assets, net	<u>\$ 5,066,223</u>	<u>\$ (134,170)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,932,053</u>

Depreciation expense was charged to governmental activities as follows:

Administration	\$ 23,568
Police	61,752
Streets	94,138
Health and Sanitation	7,166
Parks and Recreation	<u>10,720</u>
Total depreciation expense	<u>\$ 197,344</u>

G. LONG-TERM DEBT

The City had the following changes in long-term debt outstanding for the year ended September 30, 2015:

	Original Amount	Interest Rates	Balance Outstanding October 1, 2014	Issued	Retired	Balance Outstanding September 30, 2015	Amounts Due In One Year
<u>Governmental Activities</u>							
<u>Certificates of Obligation</u>							
2011 General Obligation Refunding Bonds	\$ 755,000	2.80%	\$ 450,000	\$ -	\$ 105,000	\$ 345,000	\$ 110,000
Total Governmental Activities			<u>\$ 450,000</u>	<u>\$ -0-</u>	<u>\$ 105,000</u>	<u>\$ 345,000</u>	<u>\$ 110,000</u>
<u>Business-Type Activities</u>							
<u>Revenue Bonds</u>							
2011 General Obligation Refunding Bonds	\$ 480,000	2.80%	\$ 330,000	\$ -	\$ 50,000	\$ 280,000	\$ 50,000
2013 General Obligation Refunding Bonds	1,840,000	0.47% 3.12%	<u>1,800,000</u>	<u>-</u>	<u>155,000</u>	<u>1,645,000</u>	<u>160,000</u>
Total Business-Type Activities			<u>\$ 2,130,000</u>	<u>\$ -0-</u>	<u>\$ 205,000</u>	<u>\$ 1,925,000</u>	<u>\$ 210,000</u>

Annual debt service requirements as of September 30, 2015 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>
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	-	-	-	200,000	26,612	226,612
2021 - 2025	<u>-</u>	<u>-</u>	<u>-</u>	<u>920,000</u>	<u>65,358</u>	<u>985,358</u>
Total	<u>\$ 345,000</u>	<u>\$ 14,770</u>	<u>\$ 359,770</u>	<u>\$1,925,000</u>	<u>\$ 233,068</u>	<u>\$2,158,068</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 \$11,130 for governmental activities and \$41,650 for business-type activities.

H. DEFINED BENEFIT PENSION PLANS

Plan Description

The City of Devine participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

Employees covered by benefit terms

At the December 31, 2014 valuation and the measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>38</u>
	<u>56</u>

Contributions

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

Employees for the City of Devine were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Devine were 9.00% and 8.80% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$136,734, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$2,894,988	\$1,871,902	\$1,023,086
Changes for the year:			
Service cost	108,237	-	108,237
Interest	205,116	-	205,116
Change of benefit terms	-	-	-
Difference between expected and actual experience	(64,331)	-	(64,331)
Changes of assumptions	-	-	-
Contributions - employer	-	128,545	(128,545)
Contributions - employee	-	72,789	(72,789)
Net investment income	-	107,125	(107,125)
Benefit payments, including refunds of employee contributions	(37,770)	(37,770)	-0-
Administrative expense	-	(1,118)	1,118
Other changes	-	(92)	92
Net changes	<u>211,252</u>	<u>269,479</u>	<u>(58,227)</u>
Balance at 12/31/2014	<u>\$3,106,240</u>	<u>\$2,141,381</u>	<u>\$ 964,859</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	<u>\$1,468,131</u>	<u>\$ 964,859</u>	<u>\$ 553,060</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$122,523.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ (64,331)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	23,908	-
Contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 23,908</u>	<u>\$ (64,331)</u>

\$122,523 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2015	\$ (5,256)
2016	\$ (5,256)
2017	\$ (5,256)
2018	\$ (5,258)
2019	\$ (10,038)
Thereafter	\$ (4,103)

At September 30, 2015, the City reported Deferred Resource Outflows and Deferred Resource Inflows for the TMRS pension plan as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Total net amounts as of December 31, 2014 Measurement Date	\$ 23,908	\$ (64,331)
Contributions made subsequent to the Measurement Date	<u>98,615</u>	<u>-</u>
Reported by City as of September 30, 2015	<u>\$ 122,523</u>	<u>\$ (64,331)</u>

I. SUPPLEMENTAL DEATH BENEFITS

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

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

The City offers supplemental death to:	Plan Year 2014	Plan Year 2015
Active employees	Yes	Yes
Retirees	Yes	Yes

Contributions

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

The City’s contributions to the TML SDBF for the year 2014 and 2015 were \$2,857 and \$2,735, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE - only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.02%	0.02%	100.0%
2014	0.02%	0.02%	100.0%
2015	0.02%	0.02%	100.0%

J. ECONOMIC DEPENDENCY

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

K. CONTINGENCIES

The City participates in various state and federal grant programs which are governed by certain rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, if any, refunds of any money received and the collectability of any related receivable at September 30, 2015 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, 2015.

M. PRIOR PERIOD ADJUSTMENT

During fiscal year 2015, the City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the City must assume their proportionate share of the Net Pension Liability of the Texas Municipal Retirement System. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$(559,596) for the governmental fund and \$(373,064) for the business-type activities. The restated beginning net position is \$1,339,786 for governmental activities and \$5,520,928 for the business-type activities.

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, 2015

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Taxes	\$ 1,824,500	\$ 1,981,086	\$ 2,003,806	\$ 22,720
Licenses and Permits	85,000	57,384	58,663	1,279
Charges for Services	748,738	780,197	782,032	1,835
Fines and Fees	64,800	77,708	65,573	(12,135)
Investment Earnings	4,740	5,827	6,299	472
Contributions	27,944	26,277	71,277	45,000
Other Revenue	13,700	9,343	3,639	(5,704)
Total Revenues	<u>2,769,422</u>	<u>2,937,822</u>	<u>2,991,289</u>	<u>53,467</u>
EXPENDITURES:				
Current:				
Administration	234,322	197,681	200,297	(2,616)
Municipal Court	46,663	63,547	64,971	(1,424)
Street	377,120	291,776	275,346	16,430
Police	728,163	852,721	831,263	21,458
Health & Sanitation	699,540	710,662	706,952	3,710
Animal Control	122,040	109,831	102,938	6,893
Parks & Recreation	10,314	10,028	9,634	394
Library	74,354	91,584	88,378	3,206
Airport	9,358	8,816	10,708	(1,892)
Community Center	11,690	10,926	10,819	107
Code Enforcement	92,229	102,152	99,961	2,191
Capital Outlay	134,345	204,157	196,489	7,668
Total Expenditures	<u>2,540,138</u>	<u>2,653,881</u>	<u>2,597,756</u>	<u>56,125</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>229,284</u>	<u>283,941</u>	<u>393,533</u>	<u>109,592</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	3,381	3,381
Other Resources	-	-	445,071	445,071
Transfers Out (Use)	-	(5,885)	(5,885)	-
Other (Uses)	-	-	(449,826)	(449,826)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(5,885)</u>	<u>(7,259)</u>	<u>(1,374)</u>
Net Change	229,284	278,056	386,274	108,218
Fund Balance - October 1 (Beginning)	1,443,985	1,443,985	1,443,985	-
Fund Balance - September 30 (Ending)	<u>\$ 1,673,269</u>	<u>\$ 1,722,041</u>	<u>\$ 1,830,259</u>	<u>\$ 108,218</u>

CITY OF DEVINE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2015

EXHIBIT E-2

	2015
A. Total Pension Liability	
Service Cost	\$ 108,237
Interest (on the Total Pension Liability)	205,116
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	(64,331)
Changes of Assumptions	-0-
Benefit Payments, including refunds of employee contributions	(37,770)
Net change in Total Pension Liability	\$ 211,252
Total Pension Liability - Beginning	2,894,988
Total Pension Liability - Ending	\$ 3,106,240
B. Total Fiduciary Net Position	
Contributions - Employer	\$ 128,545
Contributions - Employee	72,789
Net Investment Income	107,125
Benefit Payments, including refunds of employee contributions	(37,770)
Administrative Expense	(1,118)
Other	(92)
Net Change in Plan Fiduciary Net Position	\$ 269,479
Plan Fiduciary Net Position - Beginning	1,871,902
Plan Fiduciary Net Position - Ending	\$ 2,141,381
C. Net Pension Liability	\$ 964,859
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.94%
E. Covered Employee Payroll	\$ 1,455,779
F. Net Pension Liability as a Percentage of Covered Employee Payroll	66.28%

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

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

CITY OF DEVINE, TEXAS
 SCHEDULE OF CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SEPTEMBER 30, 2015

EXHIBIT E-3

	2015
Actuarially Determined Contribution	\$ 128,545
Contributions in Relation to the Actuarially Determined Contributions	(128,545)
Contribution Deficiency (Excess)	\$ -0-
Covered Employee Payroll	\$ 1,455,779
Contributions as a Percentage of Covered Employee Payroll	8.83%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

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

CITY OF DEVINE, TEXAS
NOTES TO SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2015

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	29 years
Asset Valuation Method:	10 Year smoothed market; 15% soft corridor
Inflation:	3.0%
Salary Increases:	3.50% to 12.0% including inflation
Investment Rate of Return:	7.00%
Retirement Age:	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes: There were no benefit changes during the year.

COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF DEVINE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2015

	Lodging Tax Fund	TCLOE Fund	TIF Fund	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and Cash Equivalents	\$ 11,533	\$ 2,610	\$ 1,850	\$ 15,993
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Receivables (Net)	3,673	-	-	3,673
Total Assets	<u>\$ 15,206</u>	<u>\$ 2,610</u>	<u>\$ 1,850</u>	<u>\$ 19,666</u>
LIABILITIES				
Accounts Payable	\$ 190	\$ -	\$ -	\$ 190
Accrued Liabilities	426	-	-	426
Due to Other Funds	110	-	-	110
Total Liabilities	<u>726</u>	<u>-</u>	<u>-</u>	<u>726</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
Retirement of Long-Term Debt	-	-	-	-
Other Restricted Fund Balance	14,480	2,610	1,850	18,940
Total Fund Balances	<u>14,480</u>	<u>2,610</u>	<u>1,850</u>	<u>18,940</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 15,206</u>	<u>\$ 2,610</u>	<u>\$ 1,850</u>	<u>\$ 19,666</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 28,822	\$ 44,815
22,100	22,100
(3,315)	(3,315)
-	3,673
<u>\$ 47,607</u>	<u>\$ 67,273</u>
\$ -	\$ 190
-	426
-	110
<u>-</u>	<u>726</u>
18,436	18,436
<u>18,436</u>	<u>18,436</u>
29,171	29,171
-	18,940
<u>29,171</u>	<u>48,111</u>
<u>\$ 47,607</u>	<u>\$ 67,273</u>

CITY OF DEVINE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Lodging Tax Fund	TCLOE Fund	TIF Fund	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
Taxes	\$ 15,990	\$ -	\$ 103,577	\$ 119,567
Intergovernmental Revenue	-	1,228	-	1,228
Investment Earnings	9	4	-	13
Total Revenues	<u>15,999</u>	<u>1,232</u>	<u>103,577</u>	<u>120,808</u>
EXPENDITURES:				
Current:				
Administration	24,014	-	103,577	127,591
Police	-	1,365	-	1,365
Debt Service:				
Debt Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>24,014</u>	<u>1,365</u>	<u>103,577</u>	<u>128,956</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(8,015)</u>	<u>(133)</u>	<u>-</u>	<u>(8,148)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	5,885	-	-	5,885
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>5,885</u>	<u>-</u>	<u>-</u>	<u>5,885</u>
Net Change in Fund Balance	(2,130)	(133)	-	(2,263)
Fund Balance - October 1 (Beginning)	<u>16,610</u>	<u>2,743</u>	<u>1,850</u>	<u>21,203</u>
Fund Balance - September 30 (Ending)	<u>\$ 14,480</u>	<u>\$ 2,610</u>	<u>\$ 1,850</u>	<u>\$ 18,940</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 125,930	\$ 245,497
-	1,228
53	66
<u>125,983</u>	<u>246,791</u>
-	127,591
-	1,365
105,000	105,000
11,130	11,130
<u>116,130</u>	<u>245,086</u>
9,853	1,705
-	5,885
<u>(3,381)</u>	<u>(3,381)</u>
<u>(3,381)</u>	2,504
6,472	4,209
<u>22,699</u>	<u>43,902</u>
<u>\$ 29,171</u>	<u>\$ 48,111</u>

FEDERAL SECTION

COLEMAN, HORTON & COMPANY, LLP

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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, 2015, 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 29, 2016.

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, Norton Company, LLP

Certified Public Accountants
Uvalde, Texas 78801
February 29, 2016

COLEMAN, HORTON & COMPANY, LLP

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Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Devine, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Devine, Texas's major federal programs for the year ended September 30, 2015. The City of Devine, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility .

Our responsibility is to express an opinion on compliance for each of the City of Devine, Texas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Devine, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Devine, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of the City of Devine, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Devine, Texas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Devine, Texas's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Coleman, Hantz + Company, LLP

Certified Public Accountants
Uvalde, Texas 78801
February 29, 2016

CITY OF DEVINE, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Control deficiency(ies) identified? Yes No

Control deficiency(ies) identified that are not considered to be material weaknesses? Yes None noted

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Control deficiency(ies) identified? Yes No

Control deficiency(ies) identified that are not considered to be material weaknesses? Yes None noted

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

CITY OF DEVINE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

E. Financial Statement Findings

----- None noted -----

C. Federal Award Findings and Questioned Costs

----- None noted -----

CITY OF DEVINE, TEXAS
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Findings / Recommendations

----- None noted -----

CITY OF DEVINE, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
<u>Texas Department of Agriculture</u>			
Community Development Block Grant	14.218	713129	\$ 220,634
Total Texas Department of Agriculture			<u>220,634</u>
<u>Texas Department of Housing & Community Affairs</u>			
Home Investment Partnership Program	14.239		445,071
Total Texas Department of Housing & Community Affairs			<u>445,071</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>665,705</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 665,705</u>

CITY OF DEVINE, TEXAS
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2015

- The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

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

Usually Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When Federal grant funds are received before related expenditures are made, they are recorded as deferred revenues.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.