

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

**BASIC FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED  
SEPTEMBER 30, 2014**

**(With Independent Auditors' Report)**



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

**BASIC FINANCIAL STATEMENTS**

**TABLE OF CONTENTS**

**SEPTEMBER 30, 2014**

	<b><u>Page Number</u></b>
Independent Auditors' Report.....	1 – 2
Management's Discussion and Analysis .....	3 – 7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position .....	8
Statement of Activities.....	9
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	11
Notes to Financial Statements.....	12 – 18

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P A T T I L L O , B R O W N & H I L L , L . L . P .  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grapevine Tax Increment Financing District Reinvestment Zone Number Two (the "TIF #2," a component unit of the City of Grapevine, Texas), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the TIF #2's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of the TIF #2, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note I to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–7 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.

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

Waco, Texas  
March 10, 2015

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Grapevine, Texas (the "City"), we offer readers of the Grapevine Tax Increment Financing District Reinvestment Zone Number Two's (the "TIF") financial statements this narrative overview and analysis of the financial activities of the TIF for the fiscal year ended September 30, 2014. The TIF was formed to finance and make public improvements in the area surrounding the Gaylord Texan Resort and Convention Center, under the Tax Increment Financing Act. The current TIF agreement is expected to end in 2026, after the last debt payment has been made.

### FINANCIAL HIGHLIGHTS

- The liabilities of the TIF exceeded its assets at the close of the most recent fiscal year by \$(15,270,522) (net position). This is primarily due to the debt that was previously issued in connection with the public improvement project in the Gaylord Texan Resort and Convention Center area.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Government-wide Financial Statements

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

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

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

#### Fund Financial Statements

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

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

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

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

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 12 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2014, the TIF's liabilities exceeded assets by \$(15,270,522).

The following table reflects the condensed Statement of Net Position:

### CITY OF GRAPEVINE TAX INCREMENT FINANCING DISTRICT REINVESTMENT ZONE NUMBER TWO'S NET POSITION

	Governmental Activities	
	2014	2013
Current and other assets	\$ 8,665,640	\$ 9,289,376
Total assets	<u>8,665,640</u>	<u>9,289,376</u>
Deferred outflows of resources	<u>1,275,591</u>	<u>1,381,890</u>
Long-term liabilities outstanding	25,061,115	26,551,625
Other liabilities	<u>150,638</u>	<u>160,098</u>
Total liabilities	<u>25,211,753</u>	<u>26,711,723</u>
Net position:		
Unrestricted	<u>( 15,270,522)</u>	<u>( 16,040,457)</u>
Total net position	<u>\$ ( 15,270,522)</u>	<u>\$ ( 16,040,457)</u>

### Analysis of the TIF's Operations

Governmental activities increased the TIF's net position by \$983,548 with the TIF's liabilities to assets and deferred outflows of resources ratio decreasing from 2.88 in FY 2013 to 2.91 in FY 2014. The TIF board entered into a local agreement with the Grapevine-Colleyville Independent School District and pledged future ad valorem taxes collected for the TIF to be contributed towards the School's middle school debt. The total amount that the TIF paid was \$2,680,786. The TIF's interest income from investments offset the arbitrage calculation expenses.

The following table provides a summary of the TIF's operations for the year ended September 30, 2014.

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

	Governmental Activities	
	2014	2013
Revenues:		
General revenues:		
Property taxes	\$ 4,713,427	\$ 4,801,246
Unrestricted investment earnings	4,536	9,914
Total revenues	4,717,963	4,811,160
Expenses:		
Economic development	2,446,100	2,282,948
Interest	1,288,315	1,376,247
Total expenses	3,734,415	3,659,195
Change in net position	983,548	1,151,965
Net position, beginning	( 16,040,457)	( 17,192,422)
Change in accounting principles	( 213,613)	-
Net position, ending	\$( 15,270,522)	\$( 16,040,457)

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

**Governmental Funds**

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

At the end of the current fiscal year, the TIF governmental funds reported combined ending fund balances of \$8,665,640, an increase of \$754,589 in comparison with the prior year. The fund balance consists of the following: (1) unassigned: \$6,517,044 and (2) assigned for capital projects: \$2,148,596.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** Capital assets of the TIF are recorded as expenditures in the Capital Projects Fund when constructed. Construction in progress and completed assets are transferred to the City.

**Long-term Debt.** At the end of the current fiscal year, the TIF had total bonded debt outstanding of \$23,975,000, which is backed by the full faith and credit of the TIF.

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

	<u>2014</u>	<u>2013</u>
Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2000 due in annual installments of \$730,000 to \$2,475,000 through August 15, 2026; interest at 5.5% to 7%.	\$ 1,305,000	\$ 2,535,000
Combination Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A due in annual installments of \$140,000 to \$2,595,000 through August 2026.	<u>22,670,000</u>	<u>22,840,000</u>
	<u>\$ 23,975,000</u>	<u>\$ 25,375,000</u>

**REQUESTS FOR INFORMATION**

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

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**BASIC  
FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2014**

**ASSETS**

Cash and investments	\$	8,665,247
Accrued interest		<u>393</u>
Total assets		<u>8,665,640</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred loss on bond refunding		<u>1,275,591</u>
Total deferred outflows of resources		<u>1,275,591</u>

**LIABILITIES**

Accrued interest payable		150,638
Bonds payable - due in one year		1,485,000
Bonds payable - due in more than one year		<u>23,576,115</u>
Total liabilities		<u>25,211,753</u>

**NET POSITION**

Unrestricted		<u>( 15,270,522)</u>
Total net position		<u><u>\$ ( 15,270,522)</u></u>

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

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

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Functions/Programs	Expenses	Program Revenue	Governmental Activities	Net (Expense) Revenues and Changes in Net Position
Governmental activities:				
Economic development	\$ 2,446,100	-		\$( 2,446,100)
Interest	<u>1,288,315</u>	<u>-</u>		<u>( 1,288,315)</u>
Total governmental activities	<u>\$ 3,734,415</u>	<u>\$ -</u>		<u>\$( 3,734,415)</u>
<b>General revenues:</b>				
				4,713,427
				<u>4,536</u>
				<u>4,717,963</u>
				<u>983,548</u>
				( 16,040,457)
				<u>( 213,613)</u>
				<u>( 16,254,070)</u>
				<u>\$( 15,270,522)</u>

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

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

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2014**

	General	Capital Projects	Total
<b>ASSETS</b>			
Cash and investments	\$ 6,516,651	\$ 2,148,596	\$ 8,665,247
Accrued interest	393	-	393
Total assets	\$ 6,517,044	\$ 2,148,596	\$ 8,665,640
<b>LIABILITIES AND FUND BALANCES</b>			
Total liabilities	\$ -	\$ -	\$ -
Fund balances:			
Unassigned	6,517,044	-	6,517,044
Assigned for capital projects	-	2,148,596	2,148,596
Total fund balances	6,517,044	2,148,596	8,665,640
Total liabilities and fund balances	\$ 6,517,044	\$ 2,148,596	

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

Bond interest is not payable with available financial resources and is therefore not accrued at the fund level	\$( 150,638)
Deferred loss on refunding	1,275,591
Bonds payable	( 23,975,000)
Premium on issuance	( 1,086,115)
Net position of governmental activities	\$( 15,270,522)

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

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

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

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	General	Capital Projects	Total
<b>REVENUES</b>			
Taxes			
Property taxes	\$ 5,878,139	-	\$ 5,878,139
Investment income	3,813	\$ 723	4,536
Total revenues	5,881,952	723	5,882,675
<b>EXPENDITURES</b>			
Economic development	2,446,100	-	2,446,100
Debt service:			
Principal	1,400,000	-	1,400,000
Interest and fiscal charges	1,280,786	1,200	1,281,986
Total expenditures	5,126,886	1,200	5,128,086
<b>NET CHANGE IN FUND BALANCES</b>	755,066	( 477)	754,589
<b>FUND BALANCE, BEGINNING</b>	5,761,978	2,149,073	7,911,051
<b>FUND BALANCE, ENDING</b>	\$ 6,517,044	\$ 2,148,596	\$ 8,665,640
Net change in fund balances			\$ 754,589

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

The repayment of principal of long-term debt consumes the current financial resources of governmental funds, but reduces bond principal at the government-wide level.

1,400,000

Interest expense is accrued in the government-wide financial statements, but not at the fund level.

9,460

Deferred charges - amortization of premium, loss, etc. are reported in the statement of activities but do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

( 15,789)

Change in net position of governmental activities

\$ 983,548

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Government-wide and Fund Financial Statements**

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

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

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

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

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

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

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

## **C. Budgets and Budgetary Accounting**

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

## **D. Assets, Liabilities and Net Position or Equity**

### ***1. Cash and Investments***

Cash consists of demand deposits (principally interest-bearing accounts) that are carried at cost. Investments are stated at fair value.

### ***2. Long-term Debt***

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

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

### ***3. Fund Balance Classification***

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the TIF is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the TIF's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

#### **4. *Deferred Inflows/Outflows of Resources***

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The TIF currently has no deferred inflows of resources to report.

#### **5. *Change in Accounting Principles***

As the result of implementing GASB Statement No. 65, the TIF has restated the beginning net position, effectively decreasing net position as of October 1, 2013 by \$213,613 for the governmental activities. These decreases result from no longer deferring and amortizing bond issuance costs.

Further, the TIF has restated its long-term liabilities to reflect that components of those liabilities as of October 1, 2013, the deferred loss on bond refunding is now reported as deferred outflows of resources in the government-wide financial statements. The effect of this change increases the long-term liabilities of the governmental activities by \$1,381,890. This increase in long-term liabilities corresponds to an increase in deferred outflows of resources.

## **II. CASH AND INVESTMENTS**

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

The City invests in State investment pools (TexPool and LOGIC). These approved pooled investments are carried at fair value and may be liquidated as needed. TexPool and LOGIC are public funds investment pools operating as a 2a-7 like pool and in full compliance with the Public Funds Investment Act.

The components of the TIF's cash and investments (at fair value) at September 30, 2014, were as follows:

Investment in City investment pool	\$ <u>8,665,247</u>
------------------------------------	---------------------

*Interest Rate Risk.* In accordance with its investment policy, the City minimizes the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

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

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

- a. Limiting investments to the safest types of investments.
- b. Pre-qualifying the financial institutions and broker/dealers with which the City will do business.
- c. Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

*Concentration of Credit Risk.* The City's investment policy allows up to 100% to be invested in U. S. Treasury Bills/Notes/Bonds, and U. S. Agencies and Instrumentalities. The City's investment in the securities of U. S. agencies are rated AAA by Standard & Poor's. TexPool and LOGIC are public funds investment pools operating as a 2a-7 like pool and in full compliance with the Public Funds Investment Act. As of September 30, 2014, the City's investments in TexPool and Logic were rated AAAM.

*Custodial Credit Risk.* State statutes require that all City deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of the State of Texas or its agencies. The City's deposits were fully collateralized, or have a letter of credit issued by the Federal Home Loan Bank as required by State statutes at September 30, 2014. The bank balances were fully collateralized by government securities.

### III. LONG-TERM LIABILITIES

Long-term liabilities are as follows:

	<u>Balance</u> <u>9/30/2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/2014</u>	<u>Due Within</u> <u>One Year</u>
Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2000 due in annual installments of \$730,000 to \$2,475,000 through August 15, 2026; interest at 5.5% to 7%	\$ 2,535,000	-	\$ 1,230,000	\$ 3,765,000	\$ 1,305,000
Combination Tax Increment Reinvestment Zone Revenue Refunding Bonds, Series 2005A due in annual installments of \$140,000 to \$2,595,000 through August 2026; 3.25% to 5%	<u>22,840,000</u>	<u>-</u>	<u>170,000</u>	<u>22,670,000</u>	<u>180,000</u>
Total debt outstanding	<u>\$ 25,375,000</u>	<u>-</u>	<u>\$ 1,400,000</u>	23,975,000	<u>\$ 1,485,000</u>
Unamortized premium				<u>1,086,115</u>	
Total debt outstanding				<u>\$ 25,061,115</u>	

The annual requirements to amortize the long-term debt as of September 30, 2014, are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	1,485,000	1,205,106
2016	1,565,000	1,124,500
2017	1,650,000	1,046,250
2018	1,735,000	963,750
2019	1,825,000	877,000
2020-2024	10,650,000	2,916,000
2025-2026	<u>5,065,000</u>	<u>383,000</u>
Total	<u>\$ 23,975,000</u>	<u>\$ 8,515,606</u>

**IV. APPRAISED VALUES AND TAX RATES**

A summary of appraised values for the TIF is as follows:

	<u>Tax Year 2014 Appraised Value</u>	<u>1998 Base Year Appraised Value</u>	<u>Captured Appraised Value</u>
City of Grapevine	\$ 249,979,538	\$ 744,886	\$ 249,234,652
Grapevine-Colleyville Independent School District	249,979,538	744,886	249,234,652

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

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

	<u>Rate</u>
City of Grapevine	0.34250
Grapevine-Colleyville Independent School District	1.32050

**V. PLEDGED REVENUES**

The TIF has entered into a local agreement with the Grapevine-Colleyville Independent School District where future ad valorem taxes collected for the zone are pledged to contribute towards the School’s middle school debt. The total amount that the TIF has pledged to pay is \$32,490,606 as of September 30, 2014. The amount of the annual payment is negotiated each year with the school and the school bills the City. The City does not have title to the middle school improvements.

**VI. BOARD OF DIRECTORS**

Members of the Board of Directors can be obtained from the City Secretary’s office – City of Grapevine.

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