

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

**BASIC FINANCIAL STATEMENTS**

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

**(With Independent Auditors' Report)**

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

**BASIC FINANCIAL STATEMENTS**

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**SEPTEMBER 30, 2017**

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Grapevine Tax Increment Financing District Reinvestment Zone Number One ("TIF #1"), a component unit of the City of Grapevine, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise TIF #1'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 and each major fund of TIF #1, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of TIF #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TIF #1's internal control over financial reporting and compliance.

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

Waco, Texas  
March 5, 2018

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Grapevine, Texas (the "City"), we offer readers of the Grapevine Tax Increment Financing District Reinvestment Zone Number One's (TIF #1) financial statements this narrative overview and analysis of the financial activities of TIF #1 for the fiscal year ended September 30, 2017. TIF #1 was formed to finance and make public improvements in the area surrounding the Grapevine Mills Mall under the Tax Increment Financing Act.

### FINANCIAL HIGHLIGHTS

- The assets of TIF #1 exceeded its liabilities at the close of the fiscal year ended September 30, 2017, by \$22,156,449 (net position).
- At the end of the current fiscal year, the governmental funds reported an ending fund balance of \$22,156,449, a decrease of 21% in comparison with the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to TIF #1's basic financial statements. TIF #1's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of TIF #1's finances in a manner similar to private-sector business.

The *Statement of Net Position* presents information on all of TIF #1's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of TIF #1 is improving or deteriorating.

The *Statement of Activities* presents information showing how TIF #1's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TIF #1 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements include two funds: (1) the General Fund, which is used to account for all activities of TIF #1 except capital projects, and (2) the Capital Projects Fund, which is used to account for these capital projects.

- **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.

## **Notes to the Financial Statements**

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2017, TIF #1's net position was \$22,156,449.

The following table reflects the condensed Statement of Net Position:

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

	Governmental Activities	
	2017	2016
Current and other assets	\$ 22,156,449	\$ 28,125,824
Total assets	<u>22,156,449</u>	<u>28,125,824</u>
Total liabilities	<u>-</u>	<u>-</u>
Net position:		
Restricted	<u>22,156,449</u>	<u>28,125,824</u>
Total net position	<u>\$ 22,156,449</u>	<u>\$ 28,125,824</u>

#### Analysis of TIF #1's Operations

On December 15, 2015, the City expanded the boundaries and extended the term of TIF #1 until December 31, 2038. Upon the expansion of the TIF and with the original debt obligations of TIF #1 being retired in full in fiscal year 2016, all participants in the TIF, except for the City, have withdrawn participation.

The net position of the governmental activities of TIF #1 decreased by \$5,969,375 for fiscal year 2017. This decrease was caused by distributions made to the original TIF participants for the excess funds paid into the TIF under the original funding agreement. Additionally, the City paid \$861,274 economic incentives to Grapevine Mills Mall under the terms of a general economic development agreement authorized under Chapter 380 of the Texas Local Government Code.

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

	Governmental Activities	
	2017	2016
General revenues:		
Property taxes	\$ 865,022	\$ 6,276,592
Unrestricted investment earnings	147,389	146,273
Miscellaneous	4,597	-
Total general revenues	1,017,008	6,422,865
Expenses:		
Economic development	6,986,383	10,747,175
Total expenses	6,986,383	10,747,175
Change in net position	( 5,969,375)	( 4,324,310)
Net position, beginning	28,125,824	32,450,134
Net position, ending	\$ 22,156,449	\$ 28,125,824

**FINANCIAL ANALYSIS OF TIF #1'S FUNDS**

**Governmental Funds**

The focus on TIF #1's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing TIF #1's financing requirements.

At the end of the current fiscal year, TIF #1's governmental funds reported ending fund balances of \$22,156,449, a decrease of \$5,969,375 in comparison with the prior year.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, investors and creditors with a general overview of TIF #1's finances. If you have questions about this report or need additional financial information, contact the Finance Department, City of Grapevine, 200 S. Main Street, Grapevine, Texas 76051.

**BASIC  
FINANCIAL STATEMENTS**

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

**STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2017**

**ASSETS**

Cash and investments	\$ 22,155,865
Accrued interest	<u>584</u>
Total assets	<u>22,156,449</u>

**LIABILITIES**

Total liabilities	<u>-</u>
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**NET POSITION**

Restricted for construction of educational facilities	20,222,664
Restricted for economic development	<u>1,933,785</u>
Total net position	<u>\$ 22,156,449</u>

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

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenues and Changes in Net Position Governmental Activities
Governmental activities:			
Economic development	\$ <u>6,986,383</u>	\$ <u>        -</u>	\$( <u>6,986,383</u> )
Total governmental activities	\$ <u><u>6,986,383</u></u>	\$ <u><u>        -</u></u>	( <u><u>6,986,383</u></u> )
	<b>General revenues</b>		
			865,022
			147,389
			<u>4,597</u>
			<u>1,017,008</u>
			Change in net position ( 5,969,375)
			Net position - beginning <u>28,125,824</u>
			Net position - ending \$ <u><u>22,156,449</u></u>

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

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2017**

	General	Capital Projects	Total
<b>ASSETS</b>			
Cash and investments	\$ -	\$ 22,155,865	\$ 22,155,865
Accrued interest	-	584	584
Total assets	-	22,156,449	22,156,449
<b>LIABILITIES</b>			
Total liabilities	-	-	-
<b>FUND BALANCES</b>			
Restricted for construction of educational facilities	-	20,222,664	20,222,664
Restricted for economic development	-	1,933,785	1,933,785
Total fund balances	-	22,156,449	22,156,449
Total liabilities and fund balances	\$ -	\$ 22,156,449	
Net position of governmental activities			\$ 22,156,449

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

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

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

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	General	Capital Projects	Total
<b>REVENUES</b>			
Property taxes	\$ -	\$ 865,022	\$ 865,022
Investment income	136,747	10,642	147,389
Miscellaneous	-	4,597	4,597
Total revenues	136,747	880,261	1,017,008
<b>EXPENDITURES</b>			
Economic development	5,625,109	1,361,274	6,986,383
Total expenditures	5,625,109	1,361,274	6,986,383
<b>EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES</b>	( 5,488,362)	( 481,013)	( 5,969,375)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	21,957,331	21,957,331
Transfers out	( 21,957,331)	-	( 21,957,331)
Total other financing sources and uses	( 21,957,331)	21,957,331	-
<b>NET CHANGE IN FUND BALANCES</b>	( 27,445,693)	21,476,318	( 5,969,375)
<b>FUND BALANCE, BEGINNING</b>	27,445,693	680,131	28,125,824
<b>FUND BALANCE, ENDING</b>	\$ -	\$ 22,156,449	22,156,449
Net change in fund balance			( 5,969,375)
Change in net position of governmental activities			\$( 5,969,375)

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Grapevine Tax Increment Financing District Reinvestment Zone Number One (TIF #1) was created on February 20, 1996. TIF #1 was formed to finance and make public improvements in the area surrounding the Grapevine Mills mall under the authority of the Tax Increment Financing Act. TIF #1 is governed by a nine-member Board of Directors; five members are appointed by the Grapevine City Council, and the governing bodies of Tarrant County, Grapevine/Colleyville Independent School District, Tarrant County Junior College District and Tarrant County Hospital District appoint one member each. TIF #1 is a blended component unit of the City of Grapevine, Texas.

On December 15, 2015, the City expanded the boundaries and extended the term of TIF #1 until December 31, 2038. The extension of the TIF, TIF #1A, will have base tax year of 2016. TIF #1 will continue to promote and create mixed-use development and the project and financing plan outlines funding of approximately \$95 million. These public improvements will include streets; water, sewer and storm facilities; open space; and parks and recreation. The amended TIF #1 will fund these improvements exclusively through contributions of the City's ad valorem increment tax that will be generated within the new designated boundary zone.

On January 19, 2016, TIF #1 (as authorized by Section 311.011, 311.008 and 311.0085 of the Act and pursuant to Board Resolution TIF #1 2016-001), amended the plan to establish a TIF Educational Facilities Category. On February 2, 2016, the City Council approved an ordinance to amend the project and financing plan for TIF #1. The goal of this amendment was the continued funding of the construction of needed public infrastructure and to encourage private development.

The accounting and reporting policies of TIF #1 conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of the more significant accounting and reporting policies.

The General Fund is used to account for all activities of TIF #1 except capital projects. The Capital Projects Fund is used to account for these capital projects. All construction in progress and completed capital assets are transferred to the City or other entities.

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

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of TIF #1.

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 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. TIF #1 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.

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

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

Government fund-level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, TIF #1 considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes are recognized in the year in which they are levied. Investment earnings are recorded as earned since they are measurable and available.

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

An overall project budget was included in the plan to create TIF #1 and was approved by all parties involved. Annual budgets are not adopted.

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

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

Investments for TIF #1 are reported at fair value, except for the position in investment pools, which are presented at net asset value per share.

### ***2. Fund Balance Policies***

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. A resolution made by the Board of Directors is the highest level of decision-making authority for TIF #1 that can commit fund balance. Once adopted, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.

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

### ***3. Net Position Flow Assumption***

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

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

### ***4. Fund Balance Flow Assumption***

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

## **II. CASH AND INVESTMENTS**

The cash and investment policies of TIF #1 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 deposits in excess of FDIC insurance limits.

Investment in the City's cash and investment pool	\$ <u>22,155,865</u>
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*Interest Rate Risk.* In accordance with its investment policy, the City minimizes the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:

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

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

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

*Concentration of Credit Risk.* The City's investment policy allows up to 100% to be invested in U. S. Treasury Bills/Notes/Bonds and U. S. agencies and instrumentalities. The City's investment in the securities of U. S. agencies are rated AAA by Standard & Poor's. As of September 30, 2017, the City's investments in TexPool and LOGIC were rated AAAM.

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

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

### III. APPRAISED VALUES

A summary of appraised values for TIF #1 is as follows:

	<u>Tax Year 2016 Appraised Value</u>	<u>1996 Base Year Appraised Value</u>	<u>Captured Appraised Value</u>
City of Grapevine	\$ 306,682,348	\$ 7,647,325	\$ 299,035,023

The captured appraised value of TIF #1 is the total appraised value of all real property taxable by the unit and located in the reinvestment zone less the base year appraised value of all real property taxable by the unit and located in the reinvestment zone at the time TIF #1 was established (1996).

A summary of appraised values for TIF #1A is as follows:

	<u>Tax Year 2016 Appraised Value</u>	<u>2016 Base Year Appraised Value</u>	<u>Captured Appraised Value</u>
City of Grapevine	\$ 57,644,619	\$ 57,644,619	\$ -

The captured appraised value of TIF #1A is the total appraised value of all real property taxable by the unit and located in the reinvestment zone less the base year appraised value of all real property taxable by the unit and located in the reinvestment zone at the time TIF #1A was established (2016).

### IV. PLEDGED REVENUES

The Board of Directors for TIF #1 approved amending the Financing and Project Plan to allow the creation of a 380 category within the Financing and Project Plan whereas all City funds contributed to date and additional funds contributed up through 2016-2017 be placed in a 380 account in the TIF #1 zone to incentivize further economic development in the zone. The action was passed by the Board on September 8, 2009.

In fiscal year 2012, TIF #1 approved an economic development agreement with Grapevine Mills LTD Partnership in an amount not to exceed \$14,000,000 for interior renovations (\$10,000,000) and future exterior improvements (\$4,000,000) at Grapevine Mills Mall. As of September 30, 2017, \$1,053,995 is still eligible for funding under this agreement.

### V. INTERFUND TRANSFERS

In fiscal year 2017, the general fund transferred \$21,957,331 to the capital projects fund for the construction of educational facilities.



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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Grapevine Tax Increment Financing District Reinvestment Zone Number One (“TIF #1”), a component unit of the City of Grapevine, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise TIF #1’s basic financial statements, and have issued our report thereon dated March 5, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered TIF #1’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TIF #1’s internal control. Accordingly, we do not express an opinion on the effectiveness of TIF #1’s internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TIF #1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas  
March 5, 2018