

CITY OF VAN ALSTYNE, TEXAS
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED
SEPTEMBER 30, 2010

BROWN & DAVIS, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF VAN ALSTYNE, TEXAS
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2010**

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BROWN & DAVIS, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Van Alstyne, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City of Van Alstyne, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City of Van Alstyne, Texas, as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010 on our consideration of the City'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 the internal control over financial reporting or on compliances. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension funding data on pages 4 through 7 and 28 through 30 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 consists 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 assurances.

Brown & Davis LLP

Brown & Davis, LLP
Certified Public Accountants
December 21, 2010

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

Our discussion and analysis of City of Van Alstyne's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the City's financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of fiscal year ended September 30, 2010 (FYE 2010) by \$6,957,310. This is a increase of \$226,912 over the prior years net asset value of \$6,730,398. Unrestricted net assets at the close of FYE 2010 are \$1,918,101 and may be used to meet the City's ongoing obligations to citizens and creditors.

The City's governmental fund types reported combined ending fund balances of \$1,328,634. \$1,104,575 of this fund balance is available for spending at the City's discretion (unrestricted fund balance).

Using this Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

Reporting the City as a Whole - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 8. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Assets includes all of the City's assets and liabilities (including long-term items) while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: (1) charges for services, (2) grants and contributions, and (3) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the conditions of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

Governmental Activities - City services such as police protection, fire protection, court services, street maintenance, and City administration are reported here. City property taxes, sales taxes, and state franchise taxes finance most of these activities.

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

Business-Type Activities - The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The services are supported by monthly charges to citizens.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental Funds - The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules.

Proprietary Funds - The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The full accrual basis of accounting is used for all proprietary type funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Sixty-two percent (62%) of the City's net assets are invested in capital assets: land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

Statement of Net Assets

	<u>Sept. 30, 2010</u>	<u>Sept. 30, 2009</u>
Current and other assets	\$ 3,175,898	\$ 3,324,385
Capital assets, net of deprec.	<u>13,652,276</u>	<u>13,906,513</u>
Total assets	16,828,174	17,230,898
Current and other liabilities	544,257	799,965
Long-term liabilities	<u>9,326,607</u>	<u>9,700,535</u>
	9,870,864	10,500,500
Net assets:		
Investment in capital assets, net of related debt	4,325,669	4,454,975
Restricted for debt service & other	713,540	768,524
Unrestricted	<u>1,918,101</u>	<u>1,506,899</u>
	<u>\$ 6,957,310</u>	<u>\$ 6,730,398</u>

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

Statement of Activities

	<u>Sept. 30, 2010</u>	<u>Sept. 30, 2009</u>
Revenues:		
Governmental-type activities	\$ 4,209,152	\$ 3,476,514
Business-type activities	<u>1,373,811</u>	<u>1,528,173</u>
Total revenues	5,582,963	5,004,687
Expenditures/Expenses:		
Police and communications	987,103	884,411
Ambulance and fire	1,049,240	767,256
General government	439,635	596,823
Streets	284,415	303,300
Parks and community center	248,897	184,924
Library	180,630	174,536
Municipal court	96,644	91,390
State court	259,471	195,405
Interest - government funds	199,449	182,656
Water, sewer, and sanitation	<u>1,610,567</u>	<u>1,518,355</u>
Total expenses	5,356,051	4,899,056
Increase (decrease) in Net Assets	\$ 226,912	\$ 105,631
Net assets - beginning	6,730,398	6,514,767
Prior period adjustment	-	<u>110,000</u>
Net assets - beginning - restated	<u>6,730,398</u>	<u>6,624,767</u>
Net assets - ending	<u>\$ 6,957,310</u>	<u>\$ 6,730,398</u>

Net assets of the City's government activities decreased from \$3,051,599 to \$1,646,774, while the net assets of the proprietary funds increased from \$3,678,799 to \$5,310,536. The most significant reason for these changes is that bond debt previously reported in the proprietary funds was transferred to the governmental funds.

FUND STATEMENTS FINANCIAL ANALYSIS

Fund financial statements are different from the government-wide financial statements in that they report current assets and liabilities but not the long-term portions. The revenues and expenditures are current year and do not include depreciation.

Revenues of the City's general fund were \$3,735,043 while total expenditures, before capital outlay of \$433,784, were \$3,265,407, resulting in an excess of revenue over expenditures of \$469,636. After the capital outlay, the excess of revenue over expenditures was \$35,852, and after transfers out to other funds of \$25,493, the excess was \$10,359.

The debt service fund received property taxes and other revenues totaling \$454,217 and after paying interest and principal payments, the excess of revenue over expenditures was \$11,281. The debt service fund also received a transfer of debt that was previously reported as part of the proprietary funds. The current portion of this debt was \$276,700, and after this is included, the debt service fund reported a decrease of \$265,419.

The capital project fund had revenue of \$8,545 with no expenditures.

These three fund activities resulted in a deficit of \$246,515 for the year in the governmental funds.

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

The City's proprietary fund, which is the water and sewer fund, had revenue from customers plus interest income totaling \$1,373,811. The expenses of providing water, sewer, and sanitation services was \$1,320,954, which resulted in a net income of \$52,857. However, after interest expense on debt was subtracted in the amount of \$289,613, the result in the water and sewer fund was a loss of \$236,756.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for all activities as of September 30, 2010 amounts to \$13,652,276 compared to \$13,906,513 (net of accumulated depreciation) at September 30, 2009. The \$254,237 decrease in net capital assets was due to new acquisitions totaling \$433,784 in general government activities and \$7,280 in the water and sewer activities, less depreciation on all the City's assets of \$695,301.

At year end, the City had total contractual obligation and other debt outstanding of \$9,326,607 compared to prior year of \$9,700,535. All payments on long-term debt were made when due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Based upon information received by various developers, management for the City of Van Alstyne is of the opinion that the City will continue to see a strong growth.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, write to City Hall, PO Box 247, Van Alstyne, Texas 75495-0247 or call (903) 482-5426.

CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	Economic Development Corporation	Community Development Corporation
ASSETS					
Current assets					
Unrestricted:					
Cash and equivalents	\$ 1,039,025	\$ 248,805	\$ 1,287,830	\$ 47,875	\$ 78,770
Investments	229,368	-	229,368	-	-
Receivables, net of allowances	681,869	72,006	753,875	22,635	14,337
Due from other funds	90,131	-	90,131	-	-
Prepaid expenses	-	101,154	101,154	-	-
Restricted:					
Cash and equivalents	224,059	489,481	713,540	-	-
Total current assets	<u>2,264,452</u>	<u>911,446</u>	<u>3,175,898</u>	<u>70,510</u>	<u>93,107</u>
Noncurrent assets					
Loans receivable				77,210	
Capital assets, net of depreciation	3,229,878	10,422,398	13,652,276	435,599	-
Deposits held by others	-	-	-	117	266
Total noncurrent assets	<u>3,229,878</u>	<u>10,422,398</u>	<u>13,652,276</u>	<u>512,926</u>	<u>266</u>
Total assets	<u>\$ 5,494,330</u>	<u>\$ 11,333,844</u>	<u>\$ 16,828,174</u>	<u>\$ 583,436</u>	<u>\$ 93,373</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 246,620	\$ 39,119	\$ 285,739	\$ -	\$ -
Accrued and other liabilities	39,817	41,297	81,114	5,242	-
Customer deposits	-	87,273	87,273	-	-
Current portion of noncurrent liabilities	363,704	147,500	511,204	19,927	-
Due to other funds	3,331	86,800	90,131	-	-
Total current liabilities	<u>653,472</u>	<u>401,989</u>	<u>1,055,461</u>	<u>25,169</u>	<u>-</u>
Noncurrent liabilities					
Long-term portion of obligations and payables	<u>3,194,084</u>	<u>5,621,319</u>	<u>8,815,403</u>	<u>244,053</u>	<u>-</u>
Total noncurrent liabilities	<u>3,194,084</u>	<u>5,621,319</u>	<u>8,815,403</u>	<u>244,053</u>	<u>-</u>
Total liabilities	<u>\$ 3,847,556</u>	<u>\$ 6,023,308</u>	<u>\$ 9,870,864</u>	<u>\$ 269,222</u>	<u>\$ -</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ (327,910)	\$ 4,653,579	\$ 4,325,669	\$ 171,619	\$ -
Restricted	224,059	489,481	713,540	-	-
Unrestricted	<u>1,750,625</u>	<u>167,476</u>	<u>1,918,101</u>	<u>142,595</u>	<u>93,373</u>
Total net assets	<u>1,646,774</u>	<u>5,310,536</u>	<u>6,957,310</u>	<u>314,214</u>	<u>93,373</u>
Total liabilities and net assets	<u>\$ 5,494,330</u>	<u>\$ 11,333,844</u>	<u>\$ 16,828,174</u>	<u>\$ 583,436</u>	<u>\$ 93,373</u>

See accompanying notes to the basic financial statements.
Brown & Davis, LLP, Certified Public Accountants

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenditures/Expenses	Charges for services	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total	Economic Development Corporation	Community Development Corporation
Governmental activities:								
Police and communications	\$ 987,103	\$ -	\$ -	\$ (987,103)	\$ -	\$ (987,103)	\$ -	\$ -
Ambulance and fire	1,049,240	1,239,539	-	190,299	-	190,299	-	-
General government	439,635	39,332	361,397	(38,906)	-	(38,906)	-	-
Streets	284,415	-	-	(284,415)	-	(284,415)	-	-
Parks and community centers	248,897	-	-	(248,897)	-	(248,897)	-	-
Library	180,630	-	-	(180,630)	-	(180,630)	-	-
Municipal court	96,644	844,409	-	747,765	-	747,765	-	-
State court	259,471	-	-	(259,471)	-	(259,471)	-	-
Interest	199,449	-	-	(199,449)	-	(199,449)	-	-
Total governmental activities	3,745,484	2,123,280	361,397	(1,260,807)	-	(1,260,807)	-	-
Business-type activities:								
Water & sewer debt service	289,613	-	-	-	(289,613)	(289,613)	-	-
Water & sewer fund	1,320,934	1,359,938	-	-	38,984	38,984	-	-
Total business-type activities	1,610,567	1,359,938	-	-	(250,629)	(250,629)	-	-
Total primary government	\$ 5,356,051	\$ 3,483,218	\$ 361,397	(1,260,807)	(250,629)	(1,511,436)	28,252	(31,583)
Component Units:								
Economic Development Corporation	62,978	1,330	89,900	-	-	-	28,252	(31,583)
Community Development Corporation	31,583	-	-	-	-	-	-	(31,583)
Total component units	\$ 94,561	\$ 1,330	\$ 89,900	-	-	-	28,252	(31,583)
General revenues:								
Property taxes				1,052,060	-	1,052,060	-	-
Sales taxes				446,122	-	446,122	74,547	74,547
Franchise taxes				144,281	-	144,281	-	-
Miscellaneous				74,912	-	74,912	-	-
Interest earnings				7,100	13,873	20,973	989	336
Operating transfers				(1,868,493)	1,868,493	-	-	-
Total general revenues and transfers				(144,018)	1,882,366	1,738,348	75,536	74,883
Changes in net assets				(1,404,825)	1,631,737	226,912	103,788	43,300
Net assets - beginning				3,051,599	3,678,799	6,730,398	210,426	50,073
Prior period adjustment				-	-	-	-	-
Net assets - beginning - restated				3,051,599	3,678,799	6,730,398	210,426	50,073
Net assets - ending				\$ 1,646,774	\$ 5,310,536	\$ 6,957,310	\$ 314,214	\$ 93,373

**CITY OF VAN ALSTYNE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010**

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Unrestricted:				
Cash and equivalents	\$ 1,001,221	\$ -	\$ 37,804	\$ 1,039,025
Investments	-	-	229,368	229,368
Receivables, net of allowances:				
Lease receivable	313,500	-	-	313,500
Ambulance service	206,405	-	-	206,405
Sales taxes	86,024	-	-	86,024
Court	12,370	-	-	12,370
Property taxes	63,571	-	-	63,571
Due from other funds	43,000	3,331	43,800	90,131
Restricted:				
Cash and equivalents	67,948	135,401	20,710	224,059
Total assets	1,794,039	138,732	331,682	2,264,453

LIABILITIES				
Accounts payable	246,620	-	-	246,620
Accrued and other payables	8,161	31,657	-	39,818
Due to other funds	3,331	-	-	3,331
Bonds payable, current portion	-	276,700	-	276,700
Notes payable, current portion	65,183	-	-	65,183
Capital leases payable, current portion	21,821	-	-	21,821
Deferred revenue	282,346	-	-	282,346
Total liabilities	627,462	308,357	-	935,819

FUND BALANCES				
Unreserved, reported in:				
General fund				-
Restricted	67,948	135,401	20,710	224,059
Unrestricted	1,098,629	(305,026)	310,972	1,104,575
Total fund balances	1,166,577	(169,625)	331,682	1,328,634
Total liabilities and fund balances	\$ 1,794,039	\$ 138,732	\$ 331,682	

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,782,226	3,229,878
Property taxes, ambulance, and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the statement of net assets.	282,346
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	(3,194,084)

Net assets of governmental activities	\$ 1,646,774
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**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
General revenues:				
Property taxes	\$ 642,907	\$ 408,792	\$ -	\$ 1,051,699
Ambulance	1,186,463	-	-	1,186,463
Sales tax	446,122	-	-	446,122
Court fees	864,495	-	-	864,495
Local contributions	250,015	44,917	-	294,932
Franchise taxes	144,281	-	-	144,281
Interest revenue	2,607	508	3,985	7,100
Other revenue	92,356	-	4,560	96,916
Permits and fees	39,332	-	-	39,332
Grants	66,465	-	-	66,465
Total revenues	<u>3,735,043</u>	<u>454,217</u>	<u>8,545</u>	<u>4,197,805</u>
EXPENDITURES				
Current:				
Police	789,812	-	-	789,812
Ambulance and fire	919,964	-	-	919,964
General government	419,298	-	-	419,298
Streets	187,922	-	-	187,922
Library	163,849	-	-	163,849
Emergency communications	152,173	-	-	152,173
Municipal court	96,644	-	-	96,644
State court costs	259,471	-	-	259,471
Parks and other	150,428	-	-	150,428
Debt Service:				
Principal payments	114,933	254,400	-	369,333
Interest and other charges	10,913	188,001	-	198,914
Bond fees and other	-	535	-	535
Capital Outlay	433,784	-	-	433,784
Total expenditures	<u>3,699,191</u>	<u>442,936</u>	<u>-</u>	<u>4,142,127</u>
Excess (deficiency) of revenues over expenditures	35,852	11,281	8,545	55,678
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(25,493)	(276,700)	-	(302,193)
Total other financing sources (uses)	<u>(25,493)</u>	<u>(276,700)</u>	<u>-</u>	<u>(302,193)</u>
Net changes in fund balances	10,359	(265,419)	8,545	(246,515)
Fund balances - beginning	820,718	95,794	323,137	1,239,649
Prior period adjustment	335,500	-	-	335,500
Fund balances - beginning- restated	<u>1,156,218</u>	<u>95,794</u>	<u>323,137</u>	<u>1,575,149</u>
Fund balances - ending	<u>\$ 1,166,577</u>	<u>\$ (169,625)</u>	<u>\$ 331,682</u>	<u>\$ 1,328,634</u>

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

**Reconciliation of the change in fund balances - total governmental funds
to the change in net assets of governmental activities:**

Net change in fund balances - total governmental funds	\$	(246,515)
Amounts reported for governmental activities in the Statement of Activities are different because:		

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		433,784
Depreciation expense		(406,475)
Effect of transferring the long-term portion of debt from the proprietary fund to the governmental debt service fund		(1,536,348)

Repayment of debt principal and other long-term liabilities are an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Assets:

Payments and reductions of long-term liabilities		350,729
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Change in Net Assets of Governmental Activities	\$	(1,404,825)
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**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010**

	Water & Sewer Fund
ASSETS	
Current assets	
Unrestricted:	
Cash and equivalents	\$ 248,805
Accounts receivable	72,006
Prepaid expenses	101,154
Restricted:	
Cash reserves held by GTUA	17,401
Cash deposits held by GTUA	472,080
Total current assets	911,446
Noncurrent assets	
Capital assets, net of depreciation	10,422,398
Total noncurrent assets	10,422,398
Total assets	\$ 11,333,844
LIABILITIES	
Current liabilities	
Accounts payable	\$ 39,119
Accrued and other payables	41,297
Customer deposits	87,273
Current portion of noncurrent liabilities	147,500
Due to other funds	86,800
Total current liabilities	401,989
Noncurrent liabilities	
Long-term portion of contractual obligations and payables	5,621,319
Total noncurrent liabilities	5,621,319
Total liabilities	6,023,308
NET ASSETS	
Invested in capital assets, net of related debt	4,653,579
Restricted cash held by GTUA	489,481
Unrestricted	167,476
Total net assets	5,310,536
Total liabilities and net assets	\$ 11,333,844

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Water & Sewer Fund
OPERATING REVENUES:	
Water charges	\$ 686,930
Sewer charges	473,482
Solid waste charges	107,062
Water and sewer impact fees	24,976
Water and sewer tap fees	4,400
Penalties and interest	27,196
Other services	35,892
Total operating revenues	1,359,938
 OPERATING EXPENSES:	
Employees and related benefits	326,667
Utilities and telephone	188,760
Maintenance, supplies and repairs	287,668
Contract services	179,494
Administrative and other operating expenses	42,673
Depreciation and amortization	295,692
Total operating expenses	1,320,954
Net operating income	38,984
 Non-operating revenue (expenses)	
Interest income	13,873
Interest expense	(289,613)
Total non-operating revenue (expenses)	(275,740)
Net income before operating transfers	(236,756)
Reclassifying bonds to debt service	1,820,000
Net operating transfers from (to) governmental funds	48,493
Changes in fund net assets	1,631,737
Net assets - beginning of year	3,678,799
Net assets - end of year	\$ 5,310,536

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2010**

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,405,475
Payments to suppliers	(717,790)
Payments to and on behalf of employees	(326,572)
Net cash provided (used) by operating activities	361,113
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds and payments on capital debt	(127,500)
Interest paid on capital debt	(251,003)
Net cash provided (used) by financing activities	(378,503)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of capital assets	(7,280)
Interest income	13,873
Net cash provided (used) by investing activities	6,593
Net increase (decrease) in cash and cash equivalents	(10,797)
Balances - beginning of the year	259,602
Balances - end of the year	\$ 248,805
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Net operating income (loss)	38,984
Adjustments to reconcile operating activities to net cash provided (used) by operating activities:	
Depreciation and amortization	295,692
(Increase) decrease in accounts receivable	44,025
Increase (decrease) in accounts payable	(18,934)
Increase (decrease) in customer deposits	1,512
Increase (decrease) in accrued and other payables	(166)
Increase (decrease) in amount due to other funds	-
Net cash provided (used) by operating activities	\$ 361,113

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Van Alstyne, Texas have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (herein referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Financial Reporting Entity

The financial services of the City includes those separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing body.

Based on the foregoing criteria, the financial statements of Van Alstyne Economic Development Corporation (VAEDC) and the Van Alstyne Community Development Corporation (VACDC) have been included in the financial statements as discretely presented component units. The VAEDC and the VACDC are non-profit corporations established on behalf of the City of Van Alstyne under the Development Corporation Act of 1979, section 4A and 4B, respectively.

BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The City's net assets are reported in three parts - invested in capital assets, net of related debt, restricted net assets, and unrestricted net assets.

Fund Financial Statements

Governmental Funds

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into two major categories: governmental and proprietary.

The governmental funds of the City are the General Fund, the Debt Service Fund, and the Capital Projects Fund. The general fund is the operating fund and is used to account for all activities except those legally or administratively required to be reported in other funds. The Debt Service Fund accounts for resources accumulated and payments made for principal and interest on general long-term debt of the governmental funds. The Capital Projects Fund accounts for the acquisition and construction of governmental type assets from expenditures of debt, capital grants, and other sources restricted for governmental type asset acquisition.

Proprietary Funds

The proprietary fund type is used to account for business-like activities provided to the general public. These activities are financed primarily by user charges.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. All proprietary funds utilize the accrual basis of accounting.

CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

ASSETS, LIABILITIES, AND EQUITY

Cash and equivalents

For the purpose of the Statement of Net Assets, "cash and equivalents" include all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" include all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the period aging of accounts receivable.

Capital Assets

In the governmental fund statements, acquisition of fixed assets used in governmental fund activities are accounted for as capital outlay expenditures. In the proprietary fund statements and in the government-wide statement statements, capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Depreciation of these assets is expensed over the estimated useful lives using the straight-line method. The range of estimated use lives by type of asset is as follows:

Machinery and equipment	5-15 years
Buildings and Infrastructure	10-20 years
Water and sewer system	50 years

Noncurrent Liabilities

The accounting treatment of noncurrent debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All noncurrent debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Noncurrent debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statement as it is in the government-wide statements.

Accumulated Vacation, Sick Pay, and Other Employee Benefit Amounts

The City's policies permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City will not pay any unused amounts when employees separate from service with the City. Vacation pay is accrued in the government-wide and proprietary financial statements.

REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

The City presently levies a two-cent sales tax on taxable sales within the City. The sales tax is collected by the Texas State Comptroller and remitted to the City in the month following the receipt by the Comptroller. The Comptroller receives the sales tax approximately one month after collection by vendors. Seventy-five percent of the sales tax is recorded in the General Fund and twenty-five percent is recorded in the Economic and Community Development Funds.

Property Tax

The City's property taxes are collected by the Grayson County Tax Assessor Collector. For the year ended September 30, 2010, the property tax rate was \$0.679990 per \$100 assessed valuation. The property tax is divided into the maintenance and operation of the General fund and the Debt Service Fund.

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services.

Expenditures

In the fund financial statements, governmental funds report expenditures of financial resources. Expenditures are recognized when the related fund liability is incurred.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

BUDGET

A budget is adopted annually by the City Council. After adoption, the budget may be amended by a majority vote of the City Council.

RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to cover these potential liabilities.

COMMITMENTS AND CONTINGENCIES

The City is subject to program compliance audits by grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. If future program compliance audits result in questioned or disallowed costs, reimbursements would be made to the grantor agencies. The amounts of expenditures that might be disallowed by the grantor agencies cannot be determined at this time; however, management believes such amounts, if any, would be immaterial.

DETAIL NOTES ON TRANSACTION CLASSES AND ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

CASH AND EQUIVALENTS

As of September 30, 2010, the City maintains banking accounts at Texas Star Bank and Landmark Bank. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the Federal Deposit Insurance Corporation. At September 30, 2010 the City's deposits in its depository bank totaled \$1,716,094. The Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on FDIC coverage to \$250,000 per depositor. This coverage limit will return to \$100,000 after December 31, 2013. The depository bank has pledged securities to fully collateralize the balance above the FDIC insured amount.

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 are as follows:

	Balance			Balance	
<u>Governmental Activities</u>	<u>9/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>9/30/2010</u>	
Land	\$ 51,458	\$ -	\$ -	\$ 51,458	
Buildings & improvements	469,448	-	-	469,448	
Machinery & equipment	1,772,768	215,776	-	1,988,544	
Parks	1,838,996	-	-	1,838,996	
Streets & infrastructure	1,445,650	218,008	-	1,663,658	
Totals	5,578,320	433,784	-	6,012,104	
Less accumulated depreciation	(2,375,751)	(406,475)	-	(2,782,226)	
Net capital assets - govt.	3,202,569	27,309	-	3,229,878	
<u>Business-Type Activities</u>					
Land	274,712	-	-	274,712	
Machinery & equipment	245,550	7,280	-	252,830	
Water system	9,006,254	-	-	9,006,254	
Sewer system	3,913,466	-	-	3,913,466	
Totals	13,439,982	7,280	-	13,447,262	
Less accumulated depreciation	(2,736,039)	(288,825)	-	(3,024,864)	
Net capital assets - business	10,703,943	(281,545)	-	10,422,398	
Net capital assets - govt. wide	\$ 13,906,512	\$ (254,236)	\$ -	\$ 13,652,276	

CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NONCURRENT LIABILITIES

During the year ended September 30, 2010, the changes in noncurrent liabilities were:

<u>Business-Type Activities</u>	<u>Balance</u> 9/30/2009	<u>Additions</u> & Adjustments	<u>Retirements</u>	<u>Balance</u> 9/30/2010	<u>Due within</u> <u>one year</u>	<u>Interest</u>
Contractual obligations						
GTUA 2002 1.475M	\$ 1,180,000	\$ -	\$ (65,000)	\$ 1,115,000	\$ 65,000	\$ 61,359
GTUA 2002 9.55M	735,000	-	(40,000)	695,000	45,000	29,090
GTUA CGMA Phase I	637,500	-	(17,500)	620,000	18,750	32,018
GTUA CGMA Phase 2	2,168,750	-	-	2,168,750	-	37,562
GTUA CGMA Phase 3	1,247,500	-	(5,000)	1,242,500	18,750	64,618
	<u>\$ 5,968,750</u>	<u>\$ -</u>	<u>\$ (127,500)</u>	<u>\$ 5,841,250</u>	<u>\$ 147,500</u>	<u>\$ 224,647</u>
Deferred and due to advanced refunding	(87,447)	-	8,744	(78,703)		
Compensated absences	6,824	-	(552)	6,272		
	<u>\$ 5,888,127</u>	<u>\$ -</u>	<u>\$ (119,308)</u>	<u>\$ 5,768,819</u>	<u>\$ 147,500</u>	
 <u>Governmental Activities</u>						
Contractual obligations						
2000 Bonds for streets	\$ 1,075,000	\$ -	\$ (65,000)	\$ 1,010,000	\$ 70,000	\$ 58,865
2002 Bonds for parks	155,200	-	(49,400)	105,800	51,700	5,026
Bank of America 2006 Bonds	1,960,000	-	(140,000)	1,820,000	155,000	82,864
S & N Payable	335,500	-	(22,000)	313,500	22,000	-
	<u>\$ 3,525,700</u>	<u>\$ -</u>	<u>\$ (276,400)</u>	<u>\$ 3,249,300</u>	<u>\$ 298,700</u>	<u>\$ 146,755</u>
Notes payable						
Pickup	5,238	-	(5,238)	-	-	-
(2) Dodge Chargers	25,528	-	(25,528)	-	-	-
Telephone system	49,548	-	(9,610)	39,938	9,909	1,598
(3) Patrol cars	-	94,276	(31,706)	62,570	33,274	2,565
	<u>\$ 80,314</u>	<u>\$ 94,276</u>	<u>\$ (72,082)</u>	<u>\$ 102,508</u>	<u>\$ 43,183</u>	<u>\$ 4,163</u>
Capital leases						
Fire truck	167,974	-	(20,851)	147,123	21,821	6,841
	<u>\$ 167,974</u>	<u>\$ -</u>	<u>\$ (20,851)</u>	<u>\$ 147,123</u>	<u>\$ 21,821</u>	<u>\$ 6,841</u>
Compensated absences	40,253	18,604	-	58,857		
	<u>\$ 3,814,241</u>	<u>\$ 112,880</u>	<u>\$ (369,333)</u>	<u>\$ 3,557,788</u>	<u>\$ 363,704</u>	

CONTRACTUAL OBLIGATIONS OF BUSINESS-TYPE ACTIVITIES

Under the terms of long term water supply and sewer service contracts between the City and Greater Texoma Utility Authority (GTUA), the City recognizes that GTUA has an undivided ownership interest in the City's sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance and sale of GTUA bonds. The City has an obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve fund for the security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributable to the Bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds. Under terms of the contracts the City's obligation to make payments to GTUA, as well as GTUA's ownership interest in the facilities terminates when all of GTUA's bonds issued in connection with the construction of the facilities have been paid in full, are retired, and are no longer outstanding.

CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

CONTRACTUAL OBLIGATIONS OF BUSINESS-TYPE ACTIVITIES, cont.

On November 14, 2006, the City defeased the principal balance of the 1995 series contractual obligation in the amount of \$225,000 and the 2000 series contractual obligation in the amount of \$2,035,000 with GTUA with an advanced refunding transaction, as the contractual obligations with GTUA. The City issued a 2006 series General Obligation Tax and Revenue Refunding Bond in the amount of \$2,400,000 with Bank of America, as described below. The proceeds from the 2006 refunding bond were placed in an irrevocable escrow account that will pay the principal and interest payments of the defeased obligations of \$2,260,000. The advanced refunding resulted in a deferred contra-liability in the amount of \$113,682 that will be amortized through interest expense over a thirteen year period, which is the original maturity life of the defeased debt. The balance of the 2006 refunding bond is shown net of the deferred balance on the face of the financial statements.

The original total principal obligation of the two 2002 series contracts was \$2,430,000. \$955,000 of the principal is for sewer system improvements with interest rates varying between 1.25% and 4.55%. \$1,475,000 of the principal is for water system improvements with interest rates varying between 3.81% and 5.76%. As of September 30, 2010, the principal balance of the obligation was \$1,810,000. The City's obligation to GTUA under the 2002 long-term contract expires with the retirement of GTUA bonds in the fiscal year ending September 30, 2022. At that time the undivided interest in the property transfers from GTUA to the City.

Collin Grayson Municipal Alliance Transmission Water Pipeline

On December 13, 2004, the City, along with the City of Anna, Howe, and Meissa, formed a group called the Collin Grayson Municipal Alliance (CGMA). CGMA entered into a long-term contract with the GTUA for the purpose of providing funds for the construction of a transmission water pipeline that will provide water to the CGMA cities. The cost of the pipeline is being funded with contractual obligations in three phases.

The original principal obligation for Phase I of the pipeline project was \$2,800,000, of which twenty-five percent (25%) or \$700,000 pertained to the City. The Phase I contract has interest rates varying between 2.29% and 5.74%. As of September 30, 2010, the City's obligation under this contract was \$620,000. The City's obligation to GTUA under the Phase I contract is to expire with the retirement of the obligation in the fiscal year ending September 30, 2028.

The original principal obligation for Phase II of the pipeline project was \$8,675,000, of which twenty-five percent (25%) or \$2,168,750 pertained to the City. The Phase II contract has interest rates varying between 5.68% and 5.83%. The payments for this contract have been deferred. At September 30, 2010, the City's obligation under this contract was \$2,168,750. The City's obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2040.

The original principal obligation for Phase III of the pipeline project was issued in the amount of \$5,000,000, of which twenty-five percent (25%) or \$1,250,000 pertained to the City. The Phase III contract has interest rates varying between 2.67% and 5.62%. At September 30, 2010, the City's obligation under this contract was \$1,242,500. The City's obligation to GTUA under Phase III contract expires with the retirement of the GTUA obligation in the fiscal year ending September 30, 2036.

Each CGMA city was required to make payments to GTUA in an amount equivalent to 25% of the total obligation to cover their portion of the cost of the obligation until the pipeline project was complete and the water was pumping for three months. From the time water has been delivered to each CGMA city through the pipeline for three months and forward while water continues to flow to each CGMA city, upon a monthly basis, the City shall be charged its percentage or fraction share of debt service on the obligation based upon the amount of water to be paid by the City under its contract (i.e., the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities. The sum of the four (4) fractional amounts shall always equal 100% of the debt service on the contractual obligation with GTUA. The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs.

At the end of the contractual obligation with GTUA, the City will own an undivided interest in the transmission water pipeline based on the percentage of water it utilized and paid for during the contract term. Presently, it appears that the undivided interest will be approximately 25% of the waterline. The contract will expire and the transfer of ownership will occur during the fiscal year ended September 30, 2040, as long as no new debt is issued.

On November 14, 2006, the City issued a 2006 series General Obligation Tax and Revenue Refunding Bond with the Bank of America in the original principal amount of \$2,400,000. The proceeds were used to defease the 1995 and 2000 series contractual obligations with GTUA, as noted above, which carried a higher rate of interest. The 2006 bond has a fixed interest rate of 4.52%, while the original water contracts, noted above, had varying interest rates of 3.3% to 6.25%. At September 30, 2010, the remaining principal balance for the 2006 series is \$1,820,000. Net of the deferred contra-liability due to the refunding of \$78,703, the remaining principal balance of the 2006 series bonds is \$1,741,297. The City's obligation to Bank of America expires with the retirement of the bond in the fiscal year ending September 30, 2020.

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

CONTRACTUAL OBLIGATIONS OF BUSINESS-TYPE ACTIVITIES, cont.

The principal and interest requirements related to these business-type contractual obligations are as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30, 2011	\$ 303,750	\$ 304,115	\$ 607,865
September 30, 2012	323,750	301,305	625,055
September 30, 2013	343,750	298,495	642,245
September 30, 2014	362,500	312,737	675,237
September 30, 2015	302,500	307,511	610,011
Thereafter	6,025,000	4,527,271	10,552,271
Totals	\$ 7,661,250	\$ 6,051,434	\$ 13,712,684

CONTRACTUAL OBLIGATIONS OF GOVERNMENTAL ACTIVITIES

On July 11, 2000 the City entered into a long-term contractual obligation with U.S. Trust Company of Texas (now Bank of New York Mellon). These Combination Tax and Revenue Certificates of Obligation, Series 2000 were issued in the amount of \$1,500,000. The City will repay this obligation over the next twenty years with interest rates varying from 5.2% to 7.2%. The proceeds will be used to install an Emergency Warning System, street repairs, and for improvements to water and sewer lines. Outstanding principal balance at September 30, 2010 is \$1,010,000.

In December 2002 the City entered into a long-term contractual obligation with Independent Bank. These Combination Tax and Revenue Certificates of Obligation, Series 2002, were issued in the amount of \$451,000. The City was to repay this obligation over the next ten years with an annual interest rate of 4.75%. The City has an intergovernmental joint use and lease agreement with the Van Alstyne Independent School District stating the school district will pay up to \$49,000 per year for the debt service on these certificates of obligation. The debt proceeds will be used to finance construction of Forrest Moore Park. The outstanding principal balance at September 30, 2010 is \$105,800.

During the year ended September 30, 2005, the Economic Development Corporation (VAEDC) assisted S&N Enterprises, Incorporated (S&N) to obtain a grant/loan in the amount of \$440,000 from the Texas Capital Fund to purchase their building and premises. To repay the grant/loan, the City entered into a long-term contractual obligation with the Office of Rural Community Affairs on November 1, 2004 for the original principal amount of \$440,000. This note, which carries 0% interest, requires the City to make monthly payments of \$1833.33 until the balance is paid. Also, on November 1, 2004, the City (lessor) entered into a long-term capital lease agreement with S&N (lessee), whereby S&N is required to repay the City \$440,000 in monthly installments of \$1833.33 until the balance is paid. The City will hold the title to the land and improvements until the balance of \$440,000 is paid in full. At September 30, 2010, the outstanding principal balance of the long-term debt and the corresponding long-term lease receivable is \$313,500. During the year ended September 30, 2010, the City made principal payments on the debt and collected payments on the lease in the amount of \$22,000. The principal and interest requirements related to these governmental contractual obligations are as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30, 2011	143,700	63,891	207,591
September 30, 2012	151,100	55,725	206,825
September 30, 2013	97,000	49,030	146,030
September 30, 2014	102,000	44,905	146,905
September 30, 2015	85,000	40,505	125,505
Thereafter	850,500	129,970	980,470
Totals	\$ 1,429,300	\$ 384,026	\$ 1,813,326

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

CONTRACTUAL OBLIGATIONS OF GOVERNMENTAL ACTIVITIES, cont.

On June 22, 2005, the City entered into a 10-year capital lease agreement with Kansas State Bank of Manhattan for a fully equipped fire truck. The future minimum lease obligations and the net present value of these minimum lease payments at September 30, 2010 were as follows:

<u>Fiscal year ending</u>	<u>Fire Truck</u>
September 30, 2011	\$ 28,662
September 30, 2012	28,662
September 30, 2013	28,662
September 30, 2014	28,662
September 30, 2015	28,662
Thereafter	28,762
Totals	<u>172,072</u>
Less interest portion	<u>(24,949)</u>
Present value of future minimum payments	\$ 147,123
Cost of equipment	\$ 222,205

NOTES PAYABLE OF GOVERNMENTAL ACTIVITIES

On May 20, 2009, the City entered into a note payable agreement with Landmark Bank in the original principal amount of \$49,548. The proceeds of the note were used to purchase a telephone system. The note balance is payable in monthly payments and has an interest rate of 4.0%. At September 30, 2010, the outstanding principal balance was \$39,939.

On October 16, 2009, the City entered into a note payable agreement with Landmark Bank in the original principal amount of \$94,277. The proceeds of the note were used to purchase three new patrol cars. The note balance is payable in three annual payments and has an interest rate of 4.1%. At September 30, 2010, the outstanding principal balance was \$62,570.

The principal and interest requirements related to these notes payable at September 30, 2010, were as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30, 2011	43,184	4,163	47,347
September 30, 2012	39,306	2,432	41,738
September 30, 2013	20,019	1,231	21,250
	<u>102,509</u>	<u>7,826</u>	<u>110,335</u>

INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At September 30, 2010, the water and sewer fund owed the governmental funds \$86,800 for various expenses paid by the funds on behalf of the water fund. A bond payment in the amount of \$135,000 was made from the debt service fund (a governmental fund) for the water and sewer fund (a proprietary fund) and is the equivalent of a transfer.

RESTRICTED NET ASSETS

At September 30, 2010, the City had restricted assets in the amount of \$224,059 in the governmental type funds, which represents assets not available for general operating use. The restricted portion of the fund balance totaled \$67,948 for the General Fund, \$135,401 for the Debt Service Fund, and \$20,710 for the Capital Projects Fund.

At September 30, 2010, the water and sewer fund had restricted cash in the amount of 489,481, which was held by the GTUA for future water and sewer projects and the related debt service.

**CITY OF VAN ALSTYNE, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

ASSETS

Current assets	
Cash and equivalents	\$ 47,875
Accounts receivable - sales tax	14,337
Loans receivable - current portion	8,298
Total current assets	70,510
Noncurrent assets	
Loans receivable - noncurrent portion	77,210
Capital assets, net of depreciation	435,599
Deposits held by others	117
Total noncurrent assets	512,926
Total assets	\$ 583,436

LIABILITIES

Current liabilities	
Accrued and other payables	\$ 5,242
Notes payable - current portion	19,927
Total current liabilities	25,169
Noncurrent liabilities	
Notes payable - noncurrent portion	244,053
Total liabilities	269,222

NET ASSETS

Invested in capital assets, net of related debt	171,619
Unrestricted	142,595
Total net assets	314,214
Total liabilities and net assets	\$ 583,436

**CITY OF VAN ALSTYNE
ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010**

Revenues:

Sales tax	\$ 74,547
Grant income	89,900
Interest	989
Fees	200
Brick sales	550
Summit meeting	580
Total revenues	<u>166,766</u>

Expenses:

Advertising	3,125
Auditing	1,250
Bad debt	8,149
Communication	1,134
Depreciation	6,373
Dues & subscriptions	1,062
Insurance	200
Interest	6,145
Lease	7,000
Miscellaneous	831
Office maintenance	641
Payroll taxes	2,943
Postage	24
Printing	117
Salaries	19,551
Summit expense	1,118
Supplies	1,255
Training	150
Travel	354
USDA fees	427
Utilities	819
Website	310
Total expenses	<u>62,978</u>

Change in net assets	103,788
Net assets - beginning of year	<u>210,426</u>
Net assets - end of year	<u><u>\$ 314,214</u></u>

**CITY OF VAN ALSTYNE, TEXAS
COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

ASSETS

Current assets	
Cash and equivalents	\$ 78,770
Accounts receivable - sales tax	14,337
Total current assets	<u>93,107</u>
Noncurrent assets	
Deposits held by others	<u>266</u>
Total noncurrent assets	266
Total assets	<u><u>\$ 93,373</u></u>

LIABILITIES

Current liabilities	
None	\$ -

NET ASSETS

Unrestricted	<u>93,373</u>
Total liabilities and net assets	<u><u>\$ 93,373</u></u>

**CITY OF VAN ALSTYNE, TEXAS
COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010**

Revenues:	
Sales tax	\$ 74,547
Interest	336
Total revenues	<u>74,883</u>
Expenses:	
Contract services	17,725
Auditing	750
TEDC	425
Postage	68
Promotional	2,500
Rent	7,000
Maintenance and repairs	659
Supplies	454
Telephone	1,133
Training	50
Utilities	819
Total expenses	<u>31,583</u>
Change in net assets	43,300
Net assets - beginning of year	<u>50,073</u>
Net assets - end of year	<u><u>\$ 93,373</u></u>

CITY OF VAN ALSTYNE, TEXAS
NOTES TO THE DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2010

FINANCIAL REPORTING ENTITY

The Van Alstyne Economic Development Corporation (EDC) and the Van Alstyne Community Development Corporation (CDC) were created under the Development Corporation Act of 1979. Both organizations are funded by sales tax revenue.

BASIS OF PRESENTATION

The organizations are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

CASH AND EQUIVALENTS

For the purpose of the Statement of Net Assets, "cash and equivalents" includes all demand, savings accounts, and certificate of deposits.

RECEIVABLES

The Van Alstyne Economic Development Corporation makes loans to small business. Accounts receivable is presented as the current and noncurrent portion of those loans. All loans are currently paid as agreed.

CAPITAL ASSETS

Acquisition of fixed assets used in the Economic Development Corporation are valued at historical cost and depreciation is provided over the estimated useful life using the straight line method.

NONCURRENT LIABILITIES

All noncurrent liabilities are notes payable by the Economic Development Corporation and are described as follows:

On August 30, 2007, Van Alstyne Economic Development Corporation entered into a note payable agreement with Landmark Bank in the original principal amount of \$196,797.46. For the period to August 30, 2010, principal and interest (4.75%) was payable in monthly payments of \$1,795.58. As provided in the agreement, the EDC has been making payments in excess of the required amount. At September 30, 2010, the outstanding principal balance was \$113,979.35. The note is secured by all security agreements, collateral assignments, assignment guarantees, deeds of trust and lien instruments executed by the EDC.

On September 9, 2010, Van Alstyne Economic Development Corporation entered into a note payable agreement with Landmark Bank in the original amount of \$150,000.00. Principal and interest (4.25%) is payable in monthly payments of \$812.00. At September 30, 2010, the outstanding principal balance was \$150,000.00. The note is secured by all security agreements, collateral assignments, assignment guarantees, deeds of trust, and lien instruments executed by the EDC.

OPERATING EXPENSES

Operating expenses, including salaries and related taxes, are generally paid by the Economic Development Corporation and an allocated portion is billed to and paid by the Community Development Corporation.

CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
BUDGETED AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2010

	<u>Budget</u>	<u>Actual</u>
REVENUES		
Administration		
Property taxes	\$ 592,428	\$ 642,907
Franchise taxes	125,000	144,281
Sales tax	450,000	446,122
Permits and fees	20,800	39,332
Miscellaneous revenue	11,000	54,279
Interest income	5,000	6,899
Transfers in	115,032	
Library	58,596	58,052
Ambulance - fire	981,500	1,401,000
Police	31,000	69,424
Municipal court	705,163	864,617
Parks - miscellaneous revenue	7,500	11,944
Community center - rental fee	5,000	5,240
Debt service fund		
Property taxes	362,177	408,792
Local - VAISD	49,000	44,917
Water & sewer fund		
Water services	808,350	757,853
Sewer services	500,000	508,895
Sanitation services	100,818	107,062
Total revenues	<u>4,928,364</u>	<u>5,571,616</u>
EXPENDITURES/EXPENSES		
Governmental funds		
Administration	406,008	419,298
Library	158,196	163,849
Ambulance - fire	763,226	919,964
Police	848,287	789,812
Communications	154,989	152,173
Municipal court	79,596	96,644
State court	250,000	259,471
Parks and centers	140,400	150,428
Streets	240,767	187,922
Debt Service:		
Principal payments	396,900	369,333
Interest and other charges	156,242	198,914
Bond fees	535	535
Proprietary fund		
Water, sewer & sanitation operating expenses	1,057,320	1,320,954
Interest expense	225,898	289,613
Total expenditures	<u>4,878,364</u>	<u>5,318,910</u>
Net increase (decrease) before capital outlay	\$ 50,000	\$ 252,706
Capital outlay	(50,000)	(433,784)
Net increase (decrease)	<u>\$ -</u>	<u>\$ (181,078)</u>

CITY OF VAN ALSTYNE, TEXAS
PENSION FUNDING DATA
as of December 31, 2010

Exhibit 2

Plan Information

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (TMRS). TMRS is a statewide agent multiple-employer public employee retirement system that administers 837 nontraditional, joint contributory, hybrid defined benefit plans covering all eligible employees of member cities in Texas. Complete information is available in the TMRS Comprehensive Annual Financial Report at www.tMrs.org.

Benefit Information

Benefits — Upon retirement, benefits depend on the sum of the employee's contributions, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the inception of the plan, the city granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since each plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the city can grant annually another type of monetary credit referred to as Updated Service Credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming that the current member deposit rate of the city has always been in effect. The computation also assumes that the member's salary has always been the member's average salary — using a salary calculation based on the 36-month period ending a year before the effective date of calculation.

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 can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Members are vested after 5 years. The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS.

Contribution Information

Contributions — The contribution rates for employees is 6% of employee gross earnings and the city matching rate is currently 2 to 1, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate is determined annually by the actuary. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the city.

**CITY OF VAN ALSTYNE, TEXAS
PENSION FUNDING DATA
as of December 31, 2010**

Exhibit 2

Fiscal Year Funding	Trend Information	
	Annual Pension	Percentage
	Cost (APC)	of APC Contributed
9/30/2007	\$ 69,923	100%
9/30/2008	\$ 86,426	100%
9/30/2009	\$ 94,082	100%
9/30/2010	\$ 128,223	100%

Schedule of Funding Progress (Dollar amounts in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAAL) (b)-(a)	UAAL as a	Covered Payroll (c)	UAAL as a
				Percentage Funded Ratio (a)(b)		Percentage of Covered Payroll [(b)-(a)]/(c)
12/31/2006	\$ 1,005	\$ 1,213	\$ 208	82.9%	\$ 1,051	19.8%
12/31/2007	\$ 1,174	\$ 1,617	\$ 443	72.6%	\$ 1,067	41.5%
12/31/2008	\$ 1,335	\$ 1,810	\$ 475	73.8%	\$ 1,144	41.5%
12/31/2009	\$ 1,546	\$ 2,064	\$ 518	74.9%	\$ 1,254	41.3%
12/31/2010	not available					

Complete information available at www.tnrs.org.

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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**

To the City Council
Van Alstyne, Texas

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, and each major fund of the City of Van Alstyne, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown + Davis LLP

Brown & Davis, LLP
Certified Public Accountants

December 21, 2010