

CITY OF VAN ALSTYNE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2014

City of Van Alstyne, Texas
Annual Financial Report
For the Year Ended September 30, 2014

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FINANCIAL SECTION



Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Van Alstyne, Texas (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 40 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. The retirement system funding information on page 41 is also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 May 12, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "LaFollett and Abbott PLLC". The signature is written in a cursive, flowing style.

Tom Bean, Texas
May 12, 2015

CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Van Alstyne's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the City's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY14 by \$6,269,339. This is an increase of \$283,364 over FY13's net position value of \$5,985,975. Unrestricted net position at the close of FY14 is \$1,519,277 and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$283,364 or 4.5%, as a result of this year's operations.
- The City's governmental fund types on page 10 and 12 reported combined ending fund balances of \$1,742,652, which is an increase of \$602,091 in comparison with the prior year amount of \$1,140,561.
- The unassigned fund balances of \$582,226 (33%) are available for spending at the City's discretion. The remainder of the fund balances is restricted for a specific purpose, primarily debt service. For 2014, the General Fund had approximately \$289,000 in monthly expenses, so the unassigned fund balance of \$582,226 represents 2 months of expenses.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 8 and 9). 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 (starting on page 10) 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. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements (starting on page 17) 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 Position 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 Position includes all 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) operating grants and contributions, 3) capital grants and contributions, 4) 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 position and changes in them. The City's net position (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 position is one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City however, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities, as well as, the component units:

Governmental Activities – City services such as police, fire protection and ambulance services, municipal court, street maintenance, parks, library, and City administration are reported here. City property taxes and charges for services finance most of these activities.

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.

Discretely Presented Component Units - The Economic Development Corporation (EDC) and Community Development Corporation (CDC) are reported in separate columns to emphasize that they are separate entities.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and 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 Position and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 11 and 13.

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

Net position serves as one useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,269,339 at the close of FY14. Twenty-two percent (22%) of the City's net position is invested in capital assets; land, buildings, infrastructure, machinery and 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.

The following is a summary of the Statement of Net Position and the Statement of Activities as of and for the year ended September 30, 2014:

City of Van Alstyne - Statement of Net Position

	<u>FY13</u>	<u>FY14</u>
Current and other assets	\$2,911,820	\$6,538,165
Capital assets	<u>12,400,794</u>	<u>12,713,042</u>
Total assets	<u>15,312,614</u>	<u>19,251,207</u>
Current liabilities	1,212,882	2,296,730
L-T liabilities	<u>8,113,757</u>	<u>10,685,138</u>
Total liabilities	<u>9,326,639</u>	<u>12,981,868</u>
Net position		
Net investment in capital assets	4,290,956	1,809,119
Restricted	860,586	2,994,290
Unrestricted	<u>834,433</u>	<u>1,465,930</u>
Total net position	<u>\$ 5,985,975</u>	<u>\$ 6,269,339</u>

City of Van Alstyne - Statement of Activities

Revenues:		
Program revenues	\$ 3,509,698	\$ 3,626,884
General revenues	<u>1,932,601</u>	<u>2,326,779</u>
Total revenues	<u>5,442,299</u>	<u>5,953,663</u>
Expenses:		
Water, sewer, and sanitation	1,931,755	2,179,712
Police and communications	838,951	833,507
Fire protection and ambulance	800,439	930,847
General government	522,643	545,020
Streets	438,727	466,855
Municipal court	323,015	262,492
Parks	192,100	176,068
Library	173,812	162,836
Interest	<u>112,317</u>	<u>112,962</u>
Total expenses	<u>5,333,759</u>	<u>5,670,299</u>
Increase in net position	108,540	283,364
Net position - beginning of year	<u>5,877,435</u>	<u>5,985,975</u>
Net position - end of year	<u>\$ 5,985,975</u>	<u>\$ 6,269,339</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net position of the City's governmental activities increased from \$1,502,476 to \$1,743,188. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$1,128,271 for governmental activities.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's Governmental funds (as presented in the balance sheet on page 10) reported a combined fund balances of \$1,742,652 compared to \$1,140,561 in FY13. This represents an increase of \$602,091 compared to last year's decrease of \$73,952. Most of the increase is attributable to proceeds of new debt and sold capital assets.

Revenues for the City's General Fund (as shown on page 12) were \$3,168,417 while total expenditures and other uses were \$3,475,807. This resulted in a deficiency of revenues under expenditures in the amount of \$307,390 from current operations. Proceeds from debt and sold assets resulted in a net increase for the year in the amount of \$531,997. Last year's result was a deficiency of revenues under expenditures of \$26,479. The unassigned portion of \$582,226 represents only 2 months of operating expenses as compared to the optimal 3 – 6 months.

The City's Water and Sewer Funds (as presented in the statement of net position on page 14) reported a net position of \$4,526,151 compared to \$4,483,499 in FY13. This represents an increase of \$42,652. Most of the increase is attributable to increased water revenue from rate increases.

Revenues for the City's Water and Sewer Fund (as shown on page 15) were \$2,217,896 while total expenses were \$1,865,732. This resulted in an increase in net position of \$42,652. Last year's result was a net decrease of \$30,657. The unrestricted portion of \$337,659 represents less than 2 months of operating expenses as compared to the optimal 3 – 6 months.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets net of accumulated depreciation for all activities as of September 30, 2014 amounts to \$12,713,042, compared to \$12,400,794 at September 30, 2013. This investment in capital assets includes land, buildings and improvements, street improvements, city parks, machinery and equipment, and water and sewer facilities. Major capital asset purchases during the current fiscal year included the purchase of land, equipment, and sewer system improvements.

Long-term Debt

At year-end, the City had total contractual obligations, bonds and other debt outstanding of \$11,359,829. The City entered into new debt during the year in the original principal amount of \$3,863,083. Principal payments totaled \$573,558 and all payments were made when due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic factors currently affect the City and were considered in developing the 2014 – 2015 budgets.

- Water/wastewater rates were increased 2-3% to keep up with costs and inflation. To keep rates competitive staff worked with City Council to address the ongoing need for infrastructure repair work and the various utility debt payments. Rates are primarily addressed by accurately forecasting water sales and impact fees.
- Property tax rate increases remain stable.
- Departmental budget expenditures are anticipated to be similar to FY 2014 unless revenues increase significantly during the second half of FY 2015.
- In 2015 eighteen single family permits have been issued. This is a 157% increase over the seven permits issued in the first quarter of 2014.
- Sales tax revenues continue to increase providing property tax relief and adding to funds budgeted to make necessary street repairs.

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, at P.O. Box 247, Van Alstyne, Texas 75495-0247 or call (903) 482-5426.

City of Van Alstyne, Texas
Statement of Net Position
September 30, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Community Development Corporation
ASSETS					
Cash and cash equivalents	\$ 1,938,050	\$ 1,125,288	\$ 3,063,338	\$ 135,135	\$ 212,265
Receivables, net	1,015,110	169,947	1,185,057	20,850	21,117
Notes receivable, net	-	-	-	69,999	-
Restricted Assets:					
Deposits held in trust by GTUA	-	2,289,770	2,289,770	-	-
Capital assets not being depreciated:					
Land	56,958	274,712	331,670	261,317	-
Construction in progress	53,436	174,260	227,696	-	-
Capital Assets net of accumulated depreciation:					
Buildings	100,430	-	100,430	55,684	-
Machinery and equipment	488,090	434,692	922,782	-	-
Parks	831,209	-	831,209	-	-
Infrastructure	1,037,116	9,262,139	10,299,255	-	-
Total Assets	<u>5,520,399</u>	<u>13,730,808</u>	<u>19,251,207</u>	<u>542,985</u>	<u>233,382</u>
LIABILITIES					
Accounts payable	351,858	105,481	457,339	1,278	40,342
Accrued liabilities	5,575	5,488	11,063	-	-
Accrued interest	26,349	665,677	692,026	-	-
Customer deposits	-	113,165	113,165	-	-
Deferred revenue	227,334	61,305	288,639	-	-
Noncurrent liabilities:					
Due within one year	339,841	394,657	734,498	21,828	-
Due in more than one year	2,826,254	7,858,884	10,685,138	-	-
Total Liabilities	<u>3,777,211</u>	<u>9,204,657</u>	<u>12,981,868</u>	<u>23,106</u>	<u>40,342</u>
NET POSITION					
Net investment in capital assets	(89,603)	1,898,722	1,809,119	295,173	-
Restricted for:					
Debt service	472,457	-	472,457	-	-
Deposits held in trust by GTUA	-	2,289,770	2,289,770	-	-
Court security and technology	83,714	-	83,714	-	-
Capital projects	108,969	-	108,969	-	-
Police seizure	27,337	-	27,337	-	-
Special projects - S&N	8,738	-	8,738	-	-
Library technology	3,305	-	3,305	-	-
Unrestricted	1,128,271	337,659	1,465,930	224,706	193,040
Total Net Position	<u>\$ 1,743,188</u>	<u>\$ 4,526,151</u>	<u>\$ 6,269,339</u>	<u>\$ 519,879</u>	<u>\$ 193,040</u>

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

City of Van Alstyne, Texas
Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
Fire protection and ambulance	\$ 930,847	\$ 669,974	\$ -	\$ 14,141	\$ (246,732)	\$ (246,732)	
Police	648,298	-	1,693	-	(646,605)	(646,605)	
General government	545,023	50,437	13,610	-	(480,976)	(480,976)	
Municipal court	262,492	620,954	-	-	358,462	358,462	
Streets	466,855	-	-	673	(466,182)	(466,182)	
Parks	176,068	-	-	-	(176,068)	(176,068)	
Emergency communications	185,209	-	-	23,651	(161,558)	(161,558)	
Library	162,836	7,372	6,483	-	(148,981)	(148,981)	
Interest on long-term debt	112,962	-	-	-	(112,962)	(112,962)	
Total governmental activities	<u>3,490,590</u>	<u>1,348,737</u>	<u>21,786</u>	<u>38,465</u>	<u>(2,081,602)</u>	<u>(2,081,602)</u>	
Business-type activities:							
Water, sewer, and sanitation	2,179,709	2,217,896	-	-	-	38,187	
Total business-type activities	<u>2,179,709</u>	<u>2,217,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,187</u>	
Total primary government	<u>\$ 5,670,299</u>	<u>\$ 3,566,633</u>	<u>\$ 21,786</u>	<u>\$ 38,465</u>	<u>(2,081,602)</u>	<u>38,187</u>	<u>(2,043,415)</u>
Component units:							
Economic Development Corporation	\$ 52,249	\$ -	\$ -	\$ -		\$ (52,249)	\$ -
Community Development Corporation	102,430	-	-	-		-	(102,430)
Total component units	<u>\$ 154,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>(52,249)</u>	<u>(102,430)</u>
General revenues:							
Property taxes					1,170,463	-	1,170,463
General sales and use taxes					672,403	-	672,403
Franchise taxes					173,515	-	173,515
Miscellaneous					137,537	-	137,537
Investment earnings					5,692	4,465	10,157
Gain on sale of assets					162,704	-	162,704
Total general revenues					<u>2,322,314</u>	<u>4,465</u>	<u>2,326,779</u>
Change in net position					240,712	42,652	283,364
Net position- beginning, restated					1,502,476	4,483,499	5,985,975
Net position - ending					<u>\$ 1,743,188</u>	<u>\$ 4,526,151</u>	<u>\$ 6,269,339</u>

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

City of Van Alstyne, Texas
Balance Sheets
Governmental Funds
September 30, 2014

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,311,151	\$ 517,930	\$ 108,969	\$ 1,938,050
Due from other funds	46,223	-	-	46,223
Receivables, net of allowance	996,591	18,519	-	1,015,110
Total assets	<u>2,353,965</u>	<u>536,449</u>	<u>108,969</u>	<u>2,999,383</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	351,858	-	-	351,858
Accrued liabilities	5,575	-	-	5,575
Due to other funds	-	46,223	-	46,223
Total liabilities	<u>357,433</u>	<u>46,223</u>	<u>-</u>	<u>403,656</u>
Deferred inflows of resources:				
Unavailable Revenues				
Court fines	16,288	-	-	16,288
Property taxes	39,733	17,769	-	57,502
Lease income	227,334	-	-	227,334
Ambulance	551,951	-	-	551,951
Total deferred inflows of resources	<u>835,306</u>	<u>17,769</u>	<u>-</u>	<u>853,075</u>
Fund balances:				
Restricted for:				
Debt service	-	472,457	-	472,457
Fire truck	455,906	-	-	455,906
Capital projects	-	-	108,969	108,969
Court security and technology	83,714	-	-	83,714
Police seizure	27,337	-	-	27,337
Special projects - S&N	8,738	-	-	8,738
Library technology	3,305	-	-	3,305
Unassigned	582,226	-	-	582,226
Total fund balances	<u>1,161,226</u>	<u>472,457</u>	<u>108,969</u>	<u>1,742,652</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,353,965</u>	<u>\$ 536,449</u>	<u>\$ 108,969</u>	<u>\$ 2,999,383</u>

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

City of Van Alstyne, Texas
Reconciliation of the Governmental Funds Balance Sheets
to the Statement of Net Position
For the Year Ended September 30, 2014

Amounts reported for the governmental activities in the statement of net position (pg 8) are different because:

Total fund balances - governmental funds (pg 10)	\$ 1,742,652
Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the governmental funds.	2,567,239
Delinquent property taxes, ambulance revenue, court fines, and lease income are not current financial resources; therefore, they are deferred in the governmental funds.	625,741
Long term liabilities, including bonds payable and compensated absences, are not due and payable in the current period; therefore, they are not reported in the governmental funds.	(3,166,095)
Other net amounts, including interest payable on long term debt are not due in the current period; therefore, they are not reported in the governmental funds	(26,349)
Net position of governmental activities (pg 8)	<u><u>\$ 1,743,188</u></u>

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

City of Van Alstyne, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2014

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 843,226	\$ 323,250	\$ -	\$ 1,166,476
General sales and use	672,403	-	-	672,403
Franchise	173,515	-	-	173,515
Municipal court	618,018	-	-	618,018
Ambulance services	635,526	-	-	635,526
Donation and other	83,780	-	33,452	117,232
License and permits	50,437	-	-	50,437
Intergovernmental	13,610	-	-	13,610
Lease income - S&N	22,001	-	-	22,001
Grants	44,948	-	-	44,948
Library	7,372	-	-	7,372
Investment earnings	3,581	1,847	264	5,692
Total revenues	<u>3,168,417</u>	<u>325,097</u>	<u>33,716</u>	<u>3,527,230</u>
EXPENDITURES				
Current:				
Fire protection and ambulance	837,359	-	-	837,359
Police	589,216	-	-	589,216
General government	533,450	-	-	533,450
Municipal court	262,492	-	-	262,492
Streets	345,886	-	-	345,886
Emergency communications	185,209	-	-	185,209
Library	153,459	-	-	153,459
Parks	80,674	-	-	80,674
Debt Service:				
Principal	111,330	190,000	-	301,330
Interest	9,944	98,719	-	108,663
Capital Outlay:				
General government	16,551	-	-	16,551
Police	91,946	-	-	91,946
Ambulance	258,291	-	-	258,291
Total expenditures	<u>3,475,807</u>	<u>288,719</u>	<u>-</u>	<u>3,764,526</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(307,390)</u>	<u>36,378</u>	<u>33,716</u>	<u>(237,296)</u>
OTHER FINANCING SOURCES(USES)				
Sale of general capital assets	164,387	-	-	164,387
Debt proceeds	675,000	-	-	675,000
Total other financing sources (uses)	<u>839,387</u>	<u>-</u>	<u>-</u>	<u>839,387</u>
Net change in fund balance	531,997	36,378	33,716	602,091
Fund balances - beginning	629,229	436,079	75,253	1,140,561
Fund balances - ending	<u>\$ 1,161,226</u>	<u>\$ 472,457</u>	<u>\$ 108,969</u>	<u>\$ 1,742,652</u>

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

City of Van Alstyne, Texas
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the Year Ended September 30, 2014

Amounts reported for the governmental activities in the statement of activities (pg 9)
are different because:

Net change in fund balances - total governmental funds (pg 12)	\$	602,091
--	----	---------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds capital outlays.

(9,258)

Governmental funds repayment of debt principal as an expenditure and proceeds of new debt as a financing source. However, in the Statement of Activities, these transactions are only considered changes in long-term debt balances.

Proceeds from issuance of long-term debt in current year		675,000
Long-term debt repaid in current year		(301,330)

Governmental funds report some prior year tax, court, and ambulance revenues as income in the current year. However, in the statement of activities, the revenue is recognized in the year in which it is earned.

Net effect of transactions		(725,791)
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Change in net position of governmental activities (pg 9)	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">240,712</div>
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The notes to the financial statements are an integral part of these financial statements.

City of Van Alstyne, Texas
Statement of Net Position
Proprietary Fund
September 30, 2014

	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,125,288
Accounts receivables, net	169,947
Total current assets	<u>1,295,235</u>
Noncurrent Assets:	
Deposits held in trust by GTUA	2,289,770
Capital assets	
Land	274,712
Construction in progress	174,260
Machinery and equipment	603,603
Infrastructure	13,109,827
Less accumulated depreciation	<u>(4,016,599)</u>
Total noncurrent assets	<u>12,435,573</u>
Total assets	<u>13,730,808</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	105,481
Accrued liabilities	5,488
Deferred revenue	61,305
Customer deposits payable	113,165
Accrued interest payable	665,677
Compensated absences	6,460
Contractual obligations - current	168,197
Bonds payable - current	220,000
Total current liabilities	<u>1,345,773</u>
Noncurrent Liabilities:	
Contractual obligations	4,433,884
Bonds payable	3,425,000
Total noncurrent liabilities	<u>7,858,884</u>
Total liabilities	<u>9,204,657</u>
NET POSITION	
Net investment in capital assets	1,898,722
Restricted deposits held in trust by GTUA	2,289,770
Unrestricted	337,659
Total net position	<u>\$ 4,526,151</u>

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

City of Van Alstyne, Texas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2014

	Water & Sewer Fund
Operating Revenues	
Water	\$ 1,161,898
Sewer	715,985
Sanitation	188,437
Other services	95,775
Late charges and penalties	32,284
Tap and connection fees	23,517
Total operating revenues	<u>2,217,896</u>
Operating Expenses	
Maintenance and repairs	535,702
Contractual services	456,232
Depreciation and amortization	371,126
Personnel services	320,457
Utilities	142,854
Administrative	39,361
Total operating expenses	<u>1,865,732</u>
Operating income (loss)	<u>352,164</u>
Nonoperating Revenues (Expenses)	
Interest income	4,465
Interest expense	<u>(313,977)</u>
Total nonoperating revenue (expenses)	<u>(309,512)</u>
Change in net position	42,652
Net position - beginning, as restated	<u>4,483,499</u>
Net position - ending	<u><u>\$ 4,526,151</u></u>

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

City of Van Alstyne, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2014

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,278,536
Cash paid to employees	(320,412)
Cash paid to suppliers for goods and services	(919,910)
Net cash provided by operating activities	<u>1,038,214</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided by noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	3,188,083
Cash to GTUA reserve accounts	(2,395,311)
Acquisition of capital assets	(607,387)
Interest paid on capital debt	(230,506)
Principal paid on capital debt	(272,252)
Net cash provided by (used for) capital and related financing activities	<u>(317,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	4,465
Net cash provided by investing activities	<u>4,465</u>
Net increase (decrease) in cash and cash equivalents	725,306
Cash and cash equivalents, October 1, 2013	<u>399,982</u>
Cash and cash equivalents, September 30, 2014	<u><u>1,125,288</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) Operating Activities:	
Operating Income (Loss)	352,164
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by operating activities	
Depreciation and amortization	371,126
(Increase) decrease in prepaid expenses	235,300
(Increase) decrease in accounts receivable	60,640
Increase (decrease) in accounts payable	3,339
Increase (decrease) in other current liabilities	1,039
Increase (decrease) in compensated absences	2,541
Increase (decrease) in customer deposits	12,065
Net Cash Provided by Operating Activities	<u><u>\$ 1,038,214</u></u>

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

The City of Van Alstyne, Texas (City) operates under a city manager form of government. The general governmental functions include law enforcement, fire protection, ambulance services, streets, public improvements, public charities, parks, library services, and general administrative services. Enterprise Funds are used to account for the operations of its water, sewer, and sanitation services.

The accompanying financial statements present the primary government, the City, and its component units, entities that are legally separate but are included in the financial statements because the primary government is considered to be financially accountable. The component units presented are those separately administered organizations that are controlled by or dependent on the City. Control or dependency of the component unit to the City is determined on the basis of the appointment of the respective governing board, ability to influence projects, whether a financial benefit/burden relationship exists, and other factors. Further, the presentation in the financial statements is determined by whether the component unit's governing body is substantially the same as the City, who is the primary beneficiary of the services provided, and the expectation of what resources will be used to pay debts.

Based on the criterion stated above, The Van Alstyne Economic Development Corporation (EDC) and the Van Alstyne Community Development Corporation (CDC) are component units of the City. The EDC and CDC are non-profit organizations established on behalf of the City under the Development Act of 1979. The transactions of the EDC and CDC are maintained in separate funds and are discretely presented in separate columns in the financial statements. The discretely presented methodology was selected after evaluation of the circumstances and standards, as noted above. The EDC and CDC do not issue separate financial statements.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies (continued)

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financials are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds, while the business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. For 2014, all funds except the Capital Projects Fund are considered major.

The City reports the following governmental funds:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources, except those accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund. The General Fund accounts for the transactions relating to most City operations including police, fire, ambulance, court, streets, library, and parks.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of the governmental funds.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies (continued)

The City reports the following major enterprise funds:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collections activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. Most costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

During the course of operations the city has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between funds included in the business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at the gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in the business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement and basis of accounting. Measurement focus indicates the type of resources being measured as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Note 1: Summary of Significant Accounting Policies (continued)

Governmental fund 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 be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

General capital asset acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Reimbursement basis grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measureable and available only when cash is received by the City.

F. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Debt Service Fund. The Capital Projects Fund is appropriated on a project-length basis. The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the council. The level of budgetary control is the department level. Appropriations in all budgeted funds lapse at the end of the fiscal year.

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies (continued)

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Accordingly, actual results could differ from those estimates. Significant estimates used in the preparation of the financial statements include the assumptions in recording receivable allowances and depreciation.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line methods. Estimated useful lives are as follows:

Building	20 Years
Water and Sewer System	50 Years
Infrastructure	10-20 Years
Machinery and Equipment	5 - 15 Years

Deferred Liabilities

In addition to liabilities, the governmental fund balance sheet will report *unavailable revenue* as a deferred liability. The governmental funds report unavailable revenues from delinquent property taxes, court fines, ambulance and long-term lease receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

Net Position

The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies (continued)

Net position represents the difference between assets and liabilities. The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets with unspent proceeds added back. Net positions are reported as restricted when there are limitations imposed on use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulation of other governments.

Fund Balances

Beginning with fiscal year 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2014, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purpose. Under the City's policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies (continued)

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

The City allocates to the proprietary funds an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations.

H. Revenues and expenditures/expenses

Program Revenues

Amounts reported as *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 2) grants and contributions. All taxes, including those dedicated for a specific purpose, are reported as general revenues.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and products in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 1: Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of October 1st each year and become delinquent on February 1st. Delinquent real property taxes are expected to be collected, as the delinquent amounts are a lien against the related property until paid. Revenue from property taxes not collected during the current period is deferred until such collection is made. Property subject to taxation consists of real property and certain personal property situated in the City. Certain properties of religion, education and charitable organizations, as well as the Federal government and the State of Texas are exempt from taxation. Additionally, certain exemptions are granted to property owners in arriving at the net assessed valuation of property subject to City taxation. The effective property ad valorem tax rate for property tax year 2014 was .612639 per \$100 of assessed value for General Fund operation and Debt Service.

Sales Taxes

The City levies a two percent (2%) sales tax on taxable sales within the City. Seventy-five percent (75%) of the sales tax is allocated to the General Fund and twenty-five percent (25%) is allocated to the ECD and CDC.

Compensated Absences

City employees accrue 40 hours of vacation leave after six full months of service. After that, regular full time employees earn 80 to 160 hours of paid vacation leave based on years of service. The City allows its employees to carryover earned and unused vacation hours at an amount not to exceed one-half of the hours they are eligible to receive that year. After six full months of employment, city employees accumulate sick leave at the rate of 60 hours per year with a maximum of 720 hours. Accumulated sick leave will not be compensated for in any way at the time of termination. The accrued compensated absences for governmental and business-type activities at September 30, 2014 are \$53,347 and \$6,460, respectively.

Note 2: Cash and Cash Equivalents

As of September 30, 2014, the City maintained all banking accounts at Texas Star and Independent Bank.

At September 30, 2014, the City's total cash and cash equivalents is \$3,063,338, which consists of \$1,053 in petty cash and \$3,062,285 held by depository banks. The cash and cash equivalents held by banks is insured for \$250,000 by the Federal

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 3: Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2014:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 56,958	\$ -	\$ -	\$ 56,958
Construction in progress	53,436	-	-	53,436
Depreciable capital assets:				
Building and improvements	469,448	-	-	469,448
Machinery and equipment	2,327,739	366,091	(792,174)	1,901,656
Parks	1,843,721	-	-	1,843,721
Streets and infrastructure	1,743,658	-	-	1,743,658
Totals	6,494,960	366,091	(792,174)	6,068,877
Less accumulated depreciation	(3,916,779)	(376,046)	791,187	(3,501,638)
Governmental activities capital assets, net	<u>\$2,578,181</u>	<u>\$ (9,955)</u>	<u>\$ (987)</u>	<u>\$ 2,567,239</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 274,712	\$ -	\$ -	\$ 274,712
Construction in progress	-	174,260	-	174,260
Depreciable capital assets:				
Waterworks system	9,006,254	-	-	9,006,254
Sewer system	4,103,573	-	-	4,103,573
Machinery and equipment	243,941	433,127	(73,465)	603,603
Totals	13,628,480	607,387	(73,465)	14,162,402
Less accumulated depreciation	(3,805,866)	(284,198)	73,465	(4,016,599)
Business-type activities capital assets, net	<u>\$9,822,614</u>	<u>\$ 323,189</u>	<u>\$ -</u>	<u>\$ 10,145,803</u>

Depreciation expense for the year ended September 30, 2014 was charged to functions of the primary government and the business-type activities as follows:

Governmental Activities:	
Streets	\$ 120,970
Parks	95,394
Fire and ambulance	79,650
Police	59,082
General government	11,573
Library	9,377
	<u>\$ 376,046</u>
Business-Type Activities:	
Water and sewer	\$ 284,198
	<u>\$ 284,198</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 4: Receivables

Receivables as of the year ended September 30, 2014 for the governmental funds and the proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Water and Sewer Fund	Total
Ambulance	\$ 5,519,514	\$ -	\$ -	\$ 5,519,514
Municipal court	925,557	-	-	925,557
Leases	227,334	-	-	227,334
Sales taxes	125,100	-	-	125,100
Property taxes	40,544	18,882	-	59,426
Franchise & other	20,346	-	-	20,346
Accounts	-	-	174,861	174,861
	<u>6,858,395</u>	<u>18,882</u>	<u>174,861</u>	<u>7,052,138</u>
Less: allowance for doubtful accounts	<u>(5,861,804)</u>	<u>(363)</u>	<u>(4,914)</u>	<u>(5,867,081)</u>
Net	<u>\$ 996,591</u>	<u>\$ 18,519</u>	<u>\$ 169,947</u>	<u>\$ 1,185,057</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered available to liquidate liabilities of the current period. At September 30, 2014, the components of the deferred revenue in the General and Debt Service Funds are as follows:

Ambulance services	\$ 551,951
Leases	227,334
Municipal court fines	16,288
Delinquent property taxes	57,502
	<u>\$ 853,075</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 5: Changes in Long-Term Debt

The following schedule summarizes the changes in long term debt for the year ended September 30, 2014:

	Balance 9/30/2013	Additions	Retirements	Balance 9/30/2014	Due within one year
Governmental Activities					
<u>Contractual obligations and bonds payable:</u>					
S & N project - Texas Capital Fund	\$ 247,500	\$ -	\$ (22,000)	\$ 225,500	\$ 22,000
2006 series - Bank of America	1,345,000	-	(165,000)	1,180,000	175,000
2011A series - Bank of New York	1,005,000	-	(25,000)	980,000	25,000
2014 Govt. Capital Corp. #6603	-	400,000	-	400,000	39,452
2014 Govt. Capital Corp. #6602	-	275,000	-	275,000	51,874
	<u>2,597,500</u>	<u>675,000</u>	<u>(212,000)</u>	<u>3,060,500</u>	<u>313,326</u>
<u>Notes payable:</u>					
Telephone system - Landmark	10,175	-	(10,175)	-	-
Pot hole truck - Landmark	77,819	-	(25,571)	52,248	26,515
	<u>87,994</u>	<u>-</u>	<u>(35,746)</u>	<u>52,248</u>	<u>26,515</u>
<u>Capital leases:</u>					
Fire truck - Kansas State Bank	53,560	-	(53,560)	-	-
Compensated absences	39,534	13,813	-	53,347	-
Total	<u>\$ 2,778,588</u>	<u>\$ 688,813</u>	<u>\$ (301,306)</u>	<u>\$ 3,166,095</u>	<u>\$ 339,841</u>
Business-Type Activities					
<u>Contractual obligations and bonds payable:</u>					
GTUA CGMA Phase 1	\$ 537,500	\$ -	\$ (23,750)	\$ 513,750	\$ 25,000
GTUA CGMA Phase 2	2,168,750	-	-	2,168,750	-
GTUA CGMA Phase 3	1,105,000	-	(47,500)	1,057,500	50,000
2011B series Bank of New York	1,520,000	-	(90,000)	1,430,000	95,000
GTUA 2014A series	-	485,000	-	485,000	45,000
GTUA 2014B series	-	1,730,000	-	1,730,000	80,000
2014 Govt. Capital Corp. #6577	-	786,716	(83,264)	703,452	68,722
2014 Govt. Capital Corp. #6578	-	186,367	(27,738)	158,629	24,475
	<u>5,331,250</u>	<u>3,188,083</u>	<u>(272,252)</u>	<u>8,247,081</u>	<u>388,197</u>
Compensated absences	3,919	2,541	-	6,460	6,460
Total	<u>\$ 5,335,169</u>	<u>\$ 3,190,624</u>	<u>\$ (272,252)</u>	<u>\$ 8,253,541</u>	<u>\$ 394,657</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 6: Long Term Debt – Governmental Activities

Contractual Obligations and Bonds Payable

During the year ended September 30, 2005, the EDC assisted S & N Enterprises, Incorporated (S & N) to obtain a loan in the amount of \$440,000 from the Texas Capital Fund to purchase a building and premises. To facilitate this process, 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 loan, which carries 0% interest, requires the City to make monthly payments of \$1,833 beginning on December 1, 2004 until the balance is paid on November 30, 2024. 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 \$1,833 beginning on December 1, 2004 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. During the year ended September 30, 2014, the City made principal payments on the debt and collected payments on the lease receivable in the amount of \$22,000. The outstanding principal balance of the long-term obligation and the corresponding long-term lease receivable at September 30, 2014 is

\$225,500

On November 14, 2006, the City issued 2006 series General Obligation Tax and Revenue Refunding Bonds in the amount of \$2,400,000 payable to the Bank of America. The proceeds were utilized to defease 1995 series contractual obligations in the amount of \$225,000 and 2000 series contractual obligations in the amount of \$2,035,000 through an advanced refunding. The 2006 series bonds have a fixed interest rate of 4.52% and are secured by the tax revenues of the City. The 2006 series bonds require principal and interest payments beginning on October 1, 2006 through the maturity date of June 1, 2020. The outstanding principal balance of the 2006 series bonds at September 30, 2014 is

\$1,180,000

On May 1, 2011, the City issued General Obligation Refunding Bonds series 2011A in the amount of \$1,060,000 payable to the Bank of New York Mellon, N.A. The proceeds were utilized to refund a portion of the City's outstanding debt. The 2011A bonds have an interest rate that varies from 2.0% to 4.0%. The bonds are secured and payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinances. The 2011A series bonds require principal and interest payments beginning on May 1, 2011 through the maturity date of September 1, 2024. The outstanding principal balance of the 2011A series bonds at September 30, 2014 is

\$980,000

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 6: Long Term Debt – Governmental Activities (continued)

On April 8, 2014, the City entered into four long-term contract obligations with Government Capital Corporation (“GCC”) for the purpose of financing public works equipment, vehicles and heavy equipment, a fire engine, an ambulance and a command vehicle. The cost of the above noted equipment is to be funded with contractual obligations in four contracts, two contracts are for primary governmental activities and two contracts are for the proprietary fund.

Per the agreement, contract #6603 with GCC requires payments to be remitted to First Financial Bank, N.A. in the original principal amount of \$400,000. The proceeds of the note were utilized to purchase a fire engine truck, which serves as collateral. At year end, the fire truck had been ordered but not received. The note is payable in annual installments of principal and interest in the amount of \$46,707 beginning November 15, 2014 through the maturity date of November 15, 2023. The note has an interest rate of 3.185%. The outstanding principal balance of the note payable at September 30, 2014 is \$400,000

Per the agreement, contract #6602 with GCC requires payments to be remitted to First Financial Bank, N.A. in the original principal amount of \$275,000. The proceeds of the note were utilized to purchase an ambulance and command vehicle, which serve as collateral. The note is payable in annual installments of principal and interest in the amount of \$59,902 beginning April 15, 2015 through the maturity date of April 15, 2019. The note has an interest rate of 2.926%. The outstanding principal balance of the note payable at September 30, 2014 is \$275,000

Total contractual obligations and bonds payable at September 30, 2014 \$3,060,500

The principal and interest requirements related to the contractual obligations and bonds payable at September 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 313,326	\$ 106,062	\$ 419,388
2016	325,615	100,238	425,853
2017	338,300	88,442	426,742
2018	346,065	75,962	422,027
2019	363,915	63,173	427,088
2020-2024	1,367,779	144,899	1,512,678
2025-2029	5,500	-	5,500
	<u>\$3,060,500</u>	<u>\$ 578,776</u>	<u>\$3,639,276</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 6: Long Term Debt – Governmental Activities (continued)

Notes Payable

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 utilized to purchase a telephone system, which serves as collateral. The note is payable in monthly installments of principal and interest beginning May 20, 2009 through the maturity date of February 15, 2014. The note has an interest rate of 4.0%. The note payable balance was paid off during the year ended September 30, 2014. \$0

On February 15, 2011, the City entered into a note payable agreement with Landmark Bank in the original principal amount of \$128,481. The proceeds of the note were utilized to purchase a pot hole truck, which serves as collateral. The note is payable in five (5) annual installments of principal and interest beginning February 15, 2013 through the maturity date of February 15, 2016. The note has an interest rate of 4.30%. The outstanding principal balance of the note payable at September 30, 2014 is \$52,248

Total notes payable at September 30, 2014 \$52,248

The principal and interest requirements related to the notes payable at September 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 26,515	\$ 2,334	\$ 28,849
2016	25,733	1,192	26,925
	<u>\$ 52,248</u>	<u>\$ 3,526</u>	<u>\$ 55,774</u>

Capital Leases

On June 22, 2005, the City entered into a ten (10) year capital lease agreement with the Kansas State Bank of Manhattan to purchase a fully equipped fire truck, which serves as collateral. The lease has an interest rate of 4.65%.

The lease payable balance was paid off during the year ended September 30, 2014.

Note 7: Long-Term Debt – Business-Type Activities

Contractual Obligations with Greater Texoma Utility Authority

On December 13, 2004, the City, along with the City of Anna, Howe, and Melissa, formed a group called the Collin Grayson Municipal Alliance (“CGMA”). CGMA entered into a long-term contract with the Greater Texoma Utility Authority (“GTUA”) for the purpose of providing funds for the construction of a transmission

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 7: Long-Term Debt – Business-Type Activities (continued)

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%. 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. As of September 30, 2014, the City's obligation under this contract was \$513,750

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 were deferred until fiscal year 2009 when interest only payments commenced. Principal payments will begin in fiscal year 2026. As a result of the deferred principal payments, the obligation is accruing deferred interest payable. At September 30, 2014, the obligation had deferred interest payable in the amount of \$665,677. The City's obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2040. At September 30, 2014, the City's obligation under this contract was \$2,168,750

The original principal obligation for Phase III of the pipeline project was \$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%. 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. At September 30, 2014, the City's obligation under this contract was \$1,057,500

Each CMGA city is required to make payments to GTUA in an amount equivalent to twenty-five percent (25%) of the total obligation to cover their portion of the cost of the obligation until the pipeline project is complete and the water is pumping for three months. GTUA has the capacity to pump water to the CMGA cities. From the time water has been delivered to each CMGA city through the pipeline for three months and forward and while water continues to flow to each CGMA city, upon a monthly basis, the City shall be charged it's percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its water 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 one-hundred percent (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. The City is not taking water from the pipeline and incurred a take or pay charge in the amount of \$94,900 for the year ended September 30, 2014.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 7: Long-Term Debt – Business-Type Activities (continued)

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 twenty-five percent (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.

Under the terms of long term service contracts between the City and GTUA, the city recognizes that GTUA has an undivided ownership interest in the pipeline 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 as specified in the contract with GTUA to pay the principal and interest on the bonds, maintain cash reserves for the security and payment of the 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 and GTUA's ownership interest in the facilities will terminate when all of GTUA's bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding. The City is obligated for the repayment of principal and interest on the debt through a pledging of water and sewer revenues. The structure of the transaction has the qualities of a capital lease therefore the amounts are included in long-term liabilities and capital assets with the associated accumulated depreciation.

On August 18, 2014, the City issued Contract Revenue Bonds series 2014A in the amount of \$485,000 payable to the Greater Texoma Utility Authority. The proceeds were for the construction, acquisition, and improvement of water system facilities for the City. The 2014A bonds have an interest rate that varies from 2.0% to 4.0%. The bonds are secured and payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinances. The 2014A series bonds require interest payments beginning September 30, 2015 through the maturity date of September 30, 2024. The 2014A series bond has principal payments that begin September 30, 2014 through the maturity date. The outstanding balance of the 2014A series bonds at September 30, 2014 is \$485,000

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 7: Long-Term Debt – Business-Type Activities (continued)

On August 18, 2014, the City issued Contract Revenue Bonds series 2014B in the amount of \$1,730,000 payable to the Greater Texoma Utility Authority. The proceeds were for the construction, acquisition, and improvement of water system facilities for the City. The 2014B bonds have an interest rate that varies from 2.0% to 4.0%. The bonds are secured and payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinances. The 2014B series bonds require interest payments beginning September 30, 2015 through the maturity date of September 30, 2034. The 2014B series bond has principal payments that begin September 30, 2014 through the maturity date. The outstanding balance of the 2014B series bonds at September 30, 2014 is \$1,730,000

Other Contractual Obligations

Per the agreement noted above in Note 6, contract #6577 with GCC requires payments to be remitted to Prosperity Bank in the original principal amount of \$786,716. The proceeds were used to purchase various public works equipment. The contract has an interest rate of 3.185%. The contract requires ten annual payments of principal and interest in the amount of \$91,130 beginning on August 15, 2014 through the maturity date August 15, 2023. As of September 30, 2014, the City's obligation under this contract was \$703,452

Per the agreement noted above in Note 6, contract #6578 with GCC requires payments to be remitted to North Dallas Bank and Trust Company in the original amount of \$186,367. The proceeds were used to purchase vehicles and heavy equipment. The contract has an interest rate of 3.115%. The contract requires seven annual payments of principal and interest in the amount of \$29,420 beginning on August 15, 2014 through the maturity date August 15, 2020. As of September 30, 2014, the City's obligation under this contract was \$158,629

Bonds Payable

On May 1, 2011, the City issued General Obligation Refunding Bonds series 2011B in the amount of \$1,605,000 payable to the Bank of New York Mellon, N.A. The proceeds were utilized to restructure the City's debt service requirements. The 2011B bonds have an interest rate that varies from 2.0% to 4.0%. The bonds are secured and payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinances. The 2011B series bonds require interest payments beginning on September 1, 2011 through the maturity date of September 1, 2026. The 2011B series bond has principal payments that begin on September 1, 2013 through the maturity date. The outstanding principal balance of the 2011B series bonds at September 30, 2014 is \$1,430,000

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 7: Long-Term Debt – Business-Type Activities (continued)

Total contractual obligations and bonds payable at September 30, 2014 8,247,081

The principal and interest requirements related to the business-type contractual obligations and bonds at September 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 388,197	\$ 281,370	\$ 669,567
2016	374,898	324,356	699,254
2017	391,693	292,859	684,552
2018	353,584	304,559	658,143
2019	374,325	399,458	773,783
2020-2024	1,879,384	1,821,640	3,701,024
2025-2029	1,562,500	1,064,361	2,626,861
2030-2034	1,632,500	612,794	2,245,294
2035-2039	1,082,500	237,152	1,319,652
2040-2045	207,500	12,097	219,597
	<u>\$ 8,247,081</u>	<u>\$5,350,646</u>	<u>\$13,597,727</u>

Note 8: Other Information

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 disaster. The City purchases commercial insurance through Texas Municipal League. The City retains no risk of loss for this coverage's. The City accounts for risk management issues in accordance with GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues."

Restricted Assets

The governmental funds have restricted cash for debt service and capital projects in the amount of \$472,457 and \$108,969, respectively, at September 30, 2014. The governmental funds have restricted cash for certain other specified purposes, including special projects and court security & technology in the amount of \$579,000. The water and sewer fund has restricted cash held in trust by GTUA in amount of \$2,378,583 at September 30, 2014 that will be used for water and sewer system capital improvements and repayment of contractual obligation.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 8: Other Information (continued)

Significant Component Unit Disclosures

Notes Receivables

In prior years, the EDC received a Rural Business Enterprise Grant where by the proceeds are utilized to assist local businesses through loans. The loans bear interest at 2%. The EDC utilizes the grant funds as a revolving loan fund and plan to make loans to other businesses once the current loan balances are collected. At September 30, 2014 the EDC had notes receivable, net of allowances, from various local businesses in the amount of \$69,999.

Related Party Transaction

The EDC and CDC paid rent for their office space to a related party in the amount of \$14,400 for the year ended September 30, 2014.

Notes Payable

The EDC has various notes payable outstanding at September 30, 2014. The following schedule summarizes the changes for the year then ended:

Notes payable	Balance 9/30/13	Additions	Retirements	Balance 9/30/14	Due Within One Year
Railspur	\$ 46,036	\$ -	\$ (24,208)	\$ 21,828	\$ 21,828
Building	139,469	-	(139,469)	-	-
	<u>\$185,505</u>	<u>\$ -</u>	<u>\$ (163,677)</u>	<u>\$ 21,828</u>	<u>\$ 21,828</u>

On September 2, 2007, the EDC entered into a note payable agreement with Landmark Bank in the original principal amount of \$196,797. The proceeds of the note were utilized to construct a rail spur, which serves as collateral. The note was refinanced in 2010 for a period of five (5) years. The note is payable in monthly installments of principal and interest beginning September 30, 2010 through the maturity date of August 30, 2015. The note has an interest rate of 4.75%. The outstanding principal balance of the note payable at September 30, 2014 is \$21,828

On September 9, 2010, the EDC entered into a note payable agreement with Landmark Bank in the original principal amount of \$150,000. The proceeds of the note were utilized to purchase a building at 221 E. Marshall, which serves as collateral. The note is payable in monthly installments of principal and interest beginning September 9, 2010 through the maturity date of October 9, 2035. The note has an interest rate of 4.25%. On December 10, 2013, the EDC sold the building and paid the loan balance off early. The outstanding principal balance of the note payable at September 30, 2014 is \$0

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 8: Other Information (continued)

Total notes payable at September 30, 2014 \$21,828

The principal and interest requirements related to the notes payable as of September 30, 2014 are as follows:

Year	Principal	Interest	Totals
2015	\$ 21,828	\$ 7,348	\$ 29,176
	<u>\$ 21,828</u>	<u>\$ 7,348</u>	<u>\$ 29,176</u>

Note 9: Pension Plan

Plan Description

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Plan provisions for the City were as follows:

Employee deposit rate	6%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	Minimum age 60 with 5 years of service Any age with 20 years of service
Updated service credits	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 9: Pension Plan (continued)

Contributions

Funding Policy:

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

Annual Pension Cost and Net Pension Assets:

The City contributes to the Plan at the level of the Annual Required Contribution (ARC), which is the full retirement rate. As a result, the Annual Pension Cost (APC) equals the annual contribution amount each year and the net pension obligation is \$0.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2013	\$ 120,924	100%	\$ -
9/30/2012	\$ 134,467	100%	\$ -
9/30/2011	\$ 146,871	100%	\$ -

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 9: Pension Plan (continued)

Actuarial Methods and Assumptions:

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

Actuarial Valuation Date	December 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
GASB 25 Equivalent Single	
Amortization Period	30 years – Closed Period
Amortization Period for New Gains/Losses	30 years
Asset Valuation Method	10-year Smoothed Market
Investment Rate of Return	7.0%
Projected Salary Increase	Varies by Age and Service
Inflation Rate	3.00%
Cost-of-Living-Adjustments	2.1%

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

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

Supplemental Death Benefits Fund

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2014

Note 9: Pension Plan (continued)

earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit.” or OPEB.

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

For the years ended September 30, 2014, 2013, and 2012, the City’s annual required contribution rate and the actual contribution made is 0.02% to the TMRS SDBF.

Note 10: Prior Period Adjustment

Due to the implementation of GASB Statement 65, the following prior period restatement for fiscal year 2014 is required:

<u>Restatement affecting net position</u>	<u>Proprietary Fund</u>
Decrease assets for expensed bond costs	\$ (235,300)
Proprietary net position as previously reported	4,718,799
Proprietary net position as restated at October 1, 2013:	<u>\$ 4,483,499</u>

Note 11: Subsequent Events

Management has evaluated subsequent events as of the date of the auditor’s report and there are no such events to disclose except for the following matter. On April 22, 2015, the City entered into a long-term agreement with GTUA to issue Contract Revenue Bonds, Series 2015 in the original principle obligation of \$2,875,000. The proceeds will be utilized for the construction, acquisition, and improvement of water system facilities, including the construction of a connection to the CGMA pipeline, which serves as collateral. The Series 2015 bonds has interest rates varying from 0.04% to 2.52%. The City’s obligation to GTUA under the contract expires with the retirement of the GTUA obligation at the Maturity date of June 1, 2034.

REQUIRED SUPPLEMENTARY INFORMATION

City of Van Alstyne, Texas
General Fund Budgetary Comparison
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
REVENUES				
Taxes:				
Property	\$ 813,240	\$ 865,312	\$ 843,226	\$ (22,086)
General sales and use	550,000	585,539	672,403	86,864
Franchise	140,000	170,000	173,515	3,515
Municipal court	694,108	654,150	618,018	(36,132)
Ambulance services	905,806	775,846	635,526	(140,320)
License and permits	35,000	77,500	83,780	6,280
Donations and miscellaneous	41,200	49,056	50,437	1,381
Intergovernmental	-	14,400	13,610	(790)
Lease Income - S&N	22,000	22,000	22,001	1
Grants	11,400	16,400	44,948	28,548
Library	41,885	6,175	7,372	1,197
Investment earnings	1,770	3,150	3,581	431
Total Revenues	3,256,409	3,239,528	3,168,417	(71,111)
EXPENDITURES				
Current:				
Fire protection and ambulance	798,334	779,782	837,359	(57,577)
Police	652,788	643,515	589,216	54,299
General government	422,558	573,193	533,450	39,743
Municipal court	344,179	362,799	262,492	100,307
Streets	408,899	305,289	345,886	(40,597)
Emergency communications	185,506	199,238	185,209	14,029
Library	165,389	161,009	153,459	7,550
Parks	108,247	91,232	80,674	10,558
Debt Service:				
Principal	108,557	253,221	111,330	141,891
Interest	13,620	406	9,944	(9,538)
Capital Outlays:				
Police	29,856	93,672	91,946	1,726
Fire and ambulance	28,628	-	258,291	(258,291)
General government	-	-	16,551	(16,551)
Total expenditures	3,266,561	3,463,356	3,475,807	(12,451)
Excess (deficiency) of revenues over (under) expenditures	(10,152)	(223,828)	(307,390)	(83,562)
OTHER FINANCING SOURCES (USES)				
Sale of general capital assets	10,000	225,000	164,387	(60,613)
Debt Proceeds	-	-	675,000	675,000
Total Other financing Sources (Uses)	10,000	225,000	839,387	614,387
Net change in fund balances	\$ (152)	\$ 1,172	\$ 531,997	\$ 530,825

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

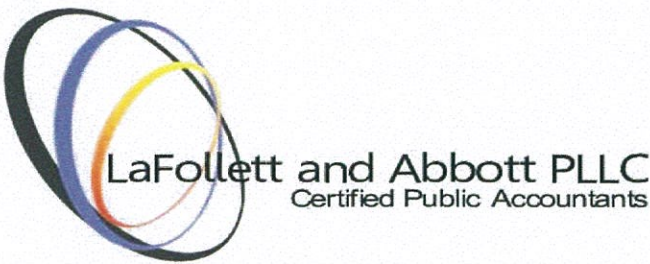
City of Van Alstyne, Texas
Required Supplementary Information
Texas Municipal Retirement System
September 30, 2014

Schedule of Funding Progress for TMRS (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as
		Accrued Liability (AAL)					a Percentage of Covered Payroll
12/31/2013	\$ 2,658,598.00	\$ 3,273,861.00		\$ 615,263.00	81.20%	\$ 1,296,626.00	47.50%
12/31/2012	\$ 2,364,006.00	\$ 2,767,960.00		\$ 403,954.00	85.40%	\$ 1,372,230.00	29.40%
12/31/2011	\$2,186,398.00	\$2,620,299.00		\$433,901.00	83.40%	\$1,454,824.00	29.80%
12/31/2010	\$1,915,915.00	\$2,483,737.00		\$567,822.00	77.10%	\$1,468,149.00	38.70%

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

COMPLIANCE AND INTERNAL CONTROL SECTION



Susan LaFollett, CPA – Partner
Rod Abbott, CPA – Partner

**INDEPENDENT AUDITOR'S 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
City of Van Alstyne, 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Van Alstyne, Texas (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 12, 2015.

Internal Control over Financial Reporting

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

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

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

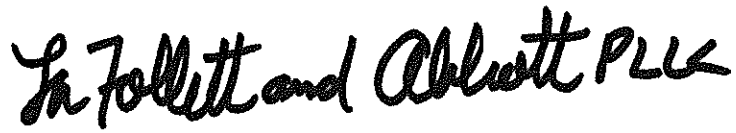
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted other matters that we reported to the City in a separate letter dated May 12, 2015.

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.

A handwritten signature in black ink that reads "LaFollett and Abbott PLLC". The script is cursive and fluid, with the letters "LaFollett" and "Abbott" being more prominent than "and".

Tom Bean, Texas
May 12, 2015