

CITY OF VAN ALSTYNE, TEXAS
FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED
SEPTEMBER 30, 2011

BROWN & DAVIS, LLP
CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF VAN ALSTYNE, TEXAS
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	4-7
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	11-12
Statement of Net Assets - Proprietary Fund	13
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund	14
Statement of Cash Flows - Proprietary Fund	15
Notes to Basic Financial Statements	16-22
Discretely Presented Component Units	
Economic Development Corporation	
Statement of Net Assets	23
Statement of Revenues, Expenses, and Changes in Net Assets	24
Community Development Corporation	
Statement of Net Assets	25
Statement of Revenues, Expenses, and Changes in Net Assets	26
Notes to the Discretely Presented Component Units	27
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budgeted and Actual	28
Pension Funding Data	29-30
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	31

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Van Alstyne, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City of Van Alstyne, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City of Van Alstyne, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliances. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension funding data on pages 4 through 7 and 29 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurances.



Brown & Davis, LLP
Certified Public Accountants
March 13, 2012

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

Our discussion and analysis of City of Van Alstyne's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the City's financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of fiscal year ended September 30, 2011 (FYE 2011) by \$6,686,234. This is a decrease of \$271,076 from the prior year net asset value of \$6,957,310. Unrestricted net assets at the close of FYE 2011 are \$1,986,537 and may be used to meet the City's ongoing obligations to citizens and creditors.

The City's governmental fund types reported combined ending fund balances of \$1,183,873. \$798,081 of this fund balance is available for spending at the City's discretion (unrestricted fund balance).

Using this Annual Report

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

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

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

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

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

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

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

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

Fund Financial Statements

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Statement of Net Assets

	<u>Sept. 30, 2011</u>	<u>Sept. 30, 2010</u>
Current and other assets	\$ 2,858,819	\$ 3,175,898
Capital assets, net of deprec.	<u>13,220,802</u>	<u>13,652,276</u>
Total assets	16,079,621	16,828,174
Current and other liabilities	751,249	544,257
Long-term liabilities	<u>8,642,138</u>	<u>9,326,607</u>
Total liabilities	9,393,387	9,870,864
Net assets:		
Investment in capital assets, net of related debt	4,135,714	4,325,669
Restricted for debt service & other	563,983	713,540
Unrestricted	<u>1,986,537</u>	<u>1,918,101</u>
	<u>\$ 6,686,234</u>	<u>\$ 6,957,310</u>

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

Statement of Activities

	<u>Sept. 30, 2011</u>	<u>Sept. 30, 2010</u>
Revenues:		
Governmental-type activities	\$ 3,807,643	\$ 4,209,152
Business-type activities	<u>1,414,445</u>	<u>1,373,811</u>
Total revenues	5,222,088	5,582,963
Expenditures/Expenses:		
Police and communications	1,034,632	987,103
Ambulance and fire	1,080,842	1,049,240
General government	444,510	439,635
Streets	265,269	284,415
Parks and community center	291,138	248,897
Library	195,024	180,630
Municipal court	83,201	96,644
State court	332,275	259,471
Interest - government funds	210,958	199,449
Water, sewer, and sanitation	<u>1,555,315</u>	<u>1,610,567</u>
Total expenses	<u>5,493,164</u>	<u>5,356,051</u>
Increase (decrease) in Net Assets	\$ (271,076)	\$ 226,912
Net assets - beginning	<u>6,957,310</u>	<u>6,730,398</u>
Net assets - ending	<u>\$ 6,686,234</u>	<u>\$ 6,957,310</u>

Net assets of the City's government activities decreased from \$1,646,774 to \$1,430,127, while the net assets of the proprietary funds decreased from \$5,310,536 to \$5,256,107. The most significant reason for these changes is that bond debt previously reported in the proprietary funds was transferred to the governmental funds.

FUND STATEMENTS FINANCIAL ANALYSIS

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

Revenues of the City's general fund were \$3,323,255 while total expenditures, before capital outlay of \$254,329, were \$3,454,350, resulting in a deficiency of revenue over expenditures of \$131,095. After the capital outlay, the deficiency of revenue over expenditures was \$385,424, and after transfers from other funds of \$91,200, the deficiency was \$294,224.

The debt service fund received property taxes and other revenues totaling \$490,289 and after paying interest and principal payments, the excess of revenue over expenditures was \$92,360. After transfers, the debt service fund reported an increase of \$169,625.

The capital project fund had revenue of \$2,571 with no expenditures and after transfers, the fund had a decrease of \$45,954.

These three fund activities resulted in a deficit of \$144,761 for the year in the governmental funds.

**CITY OF VAN ALSTYNE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

The City's proprietary fund, which is the water and sewer fund, had revenue from customers plus interest income totaling \$1,414,445. The expenses of providing water, sewer, and sanitation services was \$1,250,221, which resulted in a net income of \$164,224. However, after interest expense in the amount of \$220,354 and bond issuances costs of \$84,740, the result in the water and sewer fund was a loss of \$140,870.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City's investment in capital assets for all activities as of September 30, 2011 amounts to \$13,220,802 compared to \$13,652,276 (net of accumulated depreciation) at September 30, 2010. The \$431,474 decrease in net capital assets was due to new acquisitions totaling \$254,330 in general government activities and \$2,479 in the water and sewer activities, less depreciation on all the City's assets of \$688,282.

At year end, the City had total contractual obligation and other debt outstanding of \$9,015,129 compared to prior year of \$9,326,607. All payments on long-term debt were made when due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	Economic Development Corporation	Community Development Corporation
ASSETS					
Current assets					
Unrestricted:					
Cash and equivalents	\$ 674,492	\$ 357,141	\$ 1,031,633	\$ 24,303	\$ 98,612
Investments	231,795	-	231,795	-	-
Receivables, net of allowances	668,652	92,476	761,128	29,605	15,858
Due from other funds	5,226	-	5,226	-	-
Prepaid expenses	-	265,054	265,054	-	-
Restricted:					
Cash and equivalents	385,792	178,191	563,983	-	-
Total current assets	1,965,957	892,862	2,858,819	53,908	114,470
Noncurrent assets					
Loans receivable				75,829	
Capital assets, net of depreciation	3,077,837	10,142,965	13,220,802	422,013	-
Deposits held by others	-	-	-	367	266
Total noncurrent assets	3,077,837	10,142,965	13,220,802	498,209	266
Total assets	\$ 5,043,794	\$ 11,035,827	\$ 16,079,621	\$ 552,117	\$ 114,736
LIABILITIES					
Current liabilities					
Accounts payable	\$ 63,714	\$ 64,534	\$ 128,248	\$ -	\$ -
Accrued and other liabilities	50,667	35,880	86,547	-	-
Customer deposits	-	88,278	88,278	-	-
Current portion of noncurrent liabilities	381,700	61,250	442,950	20,863	-
Due to other funds	5,226	-	5,226	-	-
Total current liabilities	501,307	249,942	751,249	20,863	-
Noncurrent liabilities					
Long-term portion of obligations and payables	3,112,360	5,529,778	8,642,138	217,245	-
Total noncurrent liabilities	3,112,360	5,529,778	8,642,138	217,245	-
Total liabilities	\$ 3,613,667	\$ 5,779,720	\$ 9,393,387	\$ 238,108	\$ -
NET ASSETS					
Invested in capital assets, net of related debt	\$ (416,223)	\$ 4,551,937	\$ 4,135,714	\$ 183,905	\$ -
Restricted	385,792	178,191	563,983	130,104	-
Unrestricted	1,460,558	525,979	1,986,537	-	114,736
Total net assets	1,430,127	5,256,107	6,686,234	314,009	114,736
Total liabilities and net assets	\$ 5,043,794	\$ 11,035,827	\$ 16,079,621	\$ 552,117	\$ 114,736

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2011**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenditures/Expenses	Charges for services	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Primary Government	Total	Economic Development Corporation	Community Development Corporation
Governmental activities:									
Police and communications	\$ 1,034,632	\$ -	\$ -	\$ (1,034,632)	\$ -	\$ -	\$ (1,034,632)	\$ -	\$ -
Ambulance and fire	1,080,842	856,282	-	(224,560)	-	-	(224,560)	-	-
General government	444,510	28,516	259,375	(156,619)	-	-	(156,619)	-	-
Streets	265,269	-	-	(265,269)	-	-	(265,269)	-	-
Parks and community centers	291,138	-	-	(291,138)	-	-	(291,138)	-	-
Library	195,024	-	-	(195,024)	-	-	(195,024)	-	-
Municipal court	83,201	815,453	-	732,252	-	-	732,252	-	-
State court	332,275	-	-	(332,275)	-	-	(332,275)	-	-
Interest	210,958	-	-	(210,958)	-	-	(210,958)	-	-
Total governmental activities	3,937,849	1,700,251	259,375	(1,978,223)	-	-	(1,978,223)	-	-
Business-type activities:									
Water & sewer debt service	305,094	-	-	-	(305,094)	-	(305,094)	-	-
Water & sewer fund	1,250,221	1,397,780	-	-	147,559	-	147,559	-	-
Total business-type activities	1,555,315	1,397,780	-	-	(157,535)	-	(157,535)	-	-
Total primary government	\$ 5,493,164	\$ 3,098,031	\$ 259,375	(1,978,223)	(157,535)	-	(2,135,758)	(84,670)	(61,118)
Component Units:									
Economic Development Corporation	89,620	4,950	-	-	-	-	-	(84,670)	(61,118)
Community Development Corporation	61,118	-	-	-	-	-	-	-	(61,118)
Total component units	\$ 150,738	\$ 4,950	\$ -	-	-	-	-	(84,670)	(61,118)
General revenues:									
Property taxes				1,088,567	-	-	1,088,567	-	-
Sales taxes				492,706	-	-	492,706	83,195	82,118
Franchise taxes				159,142	-	-	159,142	-	-
Miscellaneous				102,076	-	-	102,076	125	-
Interest earnings				5,526	16,665	-	22,191	1,145	363
Operating transfers				(86,441)	86,441	-	-	-	-
Total general revenues and transfers				1,761,576	103,106	-	1,864,682	84,465	82,481
Changes in net assets				(216,647)	(54,429)	-	(271,076)	(205)	21,363
Net assets - beginning				1,646,774	5,310,536	-	6,957,310	314,214	93,373
Net assets - ending				\$ 1,430,127	\$ 5,256,107	\$ -	\$ 6,686,234	\$ 314,009	\$ 114,736

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

**CITY OF VAN ALSTYNE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Unrestricted:				
Cash and equivalents	\$ 641,289	\$ 33	\$ 33,170	\$ 674,492
Investments	-	-	231,795	231,795
Receivables, net of allowances:				
Lease receivable	291,501	-	-	291,501
Ambulance service	188,594	-	-	188,594
Sales taxes	95,149	-	-	95,149
Court	32,122	-	-	32,122
Property taxes	61,286	-	-	61,286
Due from other funds	-	5,226	-	5,226
Restricted:				
Cash and equivalents	71,415	293,614	20,763	385,792
Total assets	<u>1,381,356</u>	<u>298,873</u>	<u>285,728</u>	<u>1,965,957</u>

LIABILITIES				
Accounts payable	63,714	-	-	63,714
Accrued and other payables	16,686	33,981	-	50,667
Due to other funds	5,226	-	-	5,226
Bonds payable, current portion	-	239,100	-	239,100
Notes payable, current portion	119,764	-	-	119,764
Capital leases payable, current portion	22,836	-	-	22,836
Deferred revenue	280,777	-	-	280,777
Total liabilities	<u>509,003</u>	<u>273,081</u>	<u>-</u>	<u>782,084</u>

FUND BALANCES				
Restricted	71,415	293,614	20,763	385,792
Unassigned	800,938	(267,822)	264,965	798,081
Total fund balances	<u>872,353</u>	<u>25,792</u>	<u>285,728</u>	1,183,873
Total liabilities and fund balances	<u>\$ 1,381,356</u>	<u>\$ 298,873</u>	<u>\$ 285,728</u>	

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

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,188,596. 3,077,837

Property taxes, ambulance, and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the statement of net assets. 280,777

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: (3,112,360)

Net assets of governmental activities \$ 1,430,127

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011**

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
General revenues:				
Property taxes	\$ 651,592	\$ 440,485	\$ -	\$ 1,092,077
Ambulance	874,093	-	-	874,093
Sales tax	492,706	-	-	492,706
Court fees	795,701	-	-	795,701
Local contributions	185,327	49,000	-	234,327
Franchise taxes	159,142	-	-	159,142
Interest revenue	2,184	771	2,571	5,526
Other revenue	108,946	33	-	108,979
Permits and fees	28,516	-	-	28,516
Grants	25,048	-	-	25,048
Total revenues	3,323,255	490,289	2,571	3,816,115
EXPENDITURES				
Current:				
Police	818,661	-	-	818,661
Ambulance and fire	952,867	-	-	952,867
General government	425,242	-	-	425,242
Streets	155,728	-	-	155,728
Library	178,375	-	-	178,375
Emergency communications	181,904	-	-	181,904
Municipal court	83,201	-	-	83,201
State court costs	332,275	-	-	332,275
Parks and other	192,268	-	-	192,268
Debt Service:				
Principal payments	114,100	206,700	-	320,800
Interest and other charges	19,729	131,077	-	150,806
Bond fees and other	-	60,152	-	60,152
Capital Outlay	254,329	-	-	254,329
Total expenditures	3,708,679	397,929	-	4,106,608
Excess (deficiency) of revenues over expenditures	(385,424)	92,360	2,571	(290,493)
OTHER FINANCING SOURCES (USES)				
Transfers	91,200	103,057	(48,525)	145,732
Total other financing sources (uses)	91,200	103,057	(48,525)	145,732
Net changes in fund balances	(294,224)	195,417	(45,954)	(144,761)
Fund balances - beginning	1,166,577	(169,625)	331,682	1,328,634
Fund balances - ending	\$ 872,353	\$ 25,792	\$ 285,728	\$ 1,183,873

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011**

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

Net change in fund balances - total governmental funds	\$	(144,761)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital asset purchases capitalized		254,329
Depreciation expense		(406,370)

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

Additions to long-term liabilities		(1,275,989)
Payments and reductions of long-term liabilities		<u>1,356,144</u>

Change in Net Assets of Governmental Activities	\$	<u><u>(216,647)</u></u>
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**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2011**

	Water & Sewer Fund
ASSETS	
Current assets	
Unrestricted:	
Cash and equivalents	\$ 357,141
Accounts receivable	92,476
Prepaid expenses	265,054
Restricted:	
Cash reserves held by GTUA	96,260
Cash deposits held by GTUA	81,931
Total current assets	892,862
Noncurrent assets	
Capital assets, net of depreciation	10,142,965
Total noncurrent assets	10,142,965
Total assets	\$ 11,035,827
LIABILITIES	
Current liabilities	
Accounts payable	\$ 64,534
Accrued and other payables	35,880
Customer deposits	88,278
Current portion of noncurrent liabilities	61,250
Due to other funds	-
Total current liabilities	249,942
Noncurrent liabilities	
Long-term portion of contractual obligations and payables	5,529,778
Total noncurrent liabilities	5,529,778
Total liabilities	5,779,720
NET ASSETS	
Invested in capital assets, net of related debt	4,551,937
Restricted cash held by GTUA	178,191
Unrestricted	525,979
Total net assets	5,256,107
Total liabilities and net assets	\$ 11,035,827

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2011**

	Water & Sewer Fund
OPERATING REVENUES:	
Water charges	\$ 688,185
Sewer charges	501,339
Solid waste charges	145,601
Water and sewer impact fees	8,632
Water and sewer tap fees	4,500
Penalties and interest	31,756
Other services	17,767
Total operating revenues	1,397,780
OPERATING EXPENSES:	
Employees and related benefits	324,078
Utilities and telephone	189,314
Maintenance, supplies and repairs	203,824
Contract services	220,824
Administrative and other operating expenses	30,269
Depreciation and amortization	281,912
Total operating expenses	1,250,221
Net operating income	147,559
Non-operating revenue (expenses)	
Interest income	16,665
Interest expense	(220,354)
Bond issuance costs	(84,740)
Total non-operating revenue (expenses)	(288,429)
Net income before operating transfers	(140,870)
Reclassifying bonds to debt service	-
Net operating transfers from (to) governmental funds	86,441
Changes in fund net assets	(54,429)
Net assets - beginning of year	5,310,536
Net assets - end of year	\$ 5,256,107

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2011**

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,377,310
Payments to suppliers	(618,306)
Payments to and on behalf of employees	(323,072)
Net cash provided (used) by operating activities	435,932
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds and payments on capital debt	(115,501)
Interest paid on capital debt	(226,282)
Net cash provided (used) by financing activities	(341,783)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of capital assets	(2,478)
Interest income	16,665
Net cash provided (used) by investing activities	14,187
Net increase (decrease) in cash and cash equivalents	108,336
Balances - beginning of the year	248,805
Balances - end of the year	\$ 357,141
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Net operating income (loss)	147,559
Adjustments to reconcile operating activities to net cash provided (used) by operating activities:	
Depreciation and amortization	281,912
(Increase) decrease in accounts receivable	(20,470)
Increase (decrease) in accounts payable	25,415
Increase (decrease) in customer deposits	1,005
Increase (decrease) in accrued and other payables	511
Net cash provided (used) by operating activities	\$ 435,932

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

BASIS OF PRESENTATION

Government-wide Financial Statements

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

Fund Financial Statements

Governmental Funds

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

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

Proprietary Funds

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Basis of Accounting

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

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

CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

ASSETS, LIABILITIES, AND EQUITY

Cash and equivalents

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

Receivables

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

Capital Assets

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

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

Noncurrent Liabilities

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

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

Accumulated Vacation, Sick Pay, and Other Employee Benefit Amounts

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

REVENUES, EXPENDITURES, AND EXPENSES

Sales Tax

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

Property Tax

The City's property taxes are collected by the Grayson County Tax Assessor Collector. For the year ended September 30, 2011, the property tax rate was \$0.679990 per \$100 assessed valuation. The property tax is divided into the maintenance and operation of the General fund and the Debt Service Fund.

Operating Revenue and Expenses

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

Expenditures

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

Interfund Transfers

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

Use of Estimates

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

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

BUDGET

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

RISK MANAGEMENT

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

COMMITMENTS AND CONTINGENCIES

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

DETAIL NOTES ON TRANSACTION CLASSES AND ACCOUNTS

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

CASH AND EQUIVALENTS

As of September 30, 2011, the City maintains banking accounts at Texas Star Bank and Landmark Bank. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the Federal Deposit Insurance Corporation. At September 30, 2011 the City's deposits in its depository bank totaled \$1,649,220. The Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on FDIC coverage to \$250,000 per depositor. This coverage limit will return to \$100,000 after December 31, 2013. The depository bank has pledged securities to fully collateralize the balance above the FDIC insured amount.

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 are as follows:

	Balance		Balance	
<u>Governmental Activities</u>	9/30/2010	Additions	Reductions	9/30/2011
Land	\$ 51,458	\$ -	\$ -	\$ 51,458
Buildings & improvements	469,448	-	-	469,448
Machinery & equipment	1,988,544	249,604	-	2,238,148
Parks	1,838,996	4,725	-	1,843,721
Streets & infrastructure	1,663,658	-	-	1,663,658
Totals	6,012,104	254,329	-	6,266,433
Less accumulated depreciation	(2,782,226)	(406,370)	-	(3,188,596)
Net capital assets - govt.	3,229,878	(152,041)	-	3,077,837
<u>Business-Type Activities</u>				
Land	274,712	-	-	274,712
Machinery & equipment	252,830	2,479	-	255,309
Water system	9,006,254	-	-	9,006,254
Sewer system	3,913,466	-	-	3,913,466
Totals	13,447,262	2,479	-	13,449,741
Less accumulated depreciation	(3,024,864)	(281,912)	-	(3,306,776)
Net capital assets - business	10,422,398	(279,433)	-	10,142,965
Net capital assets - govt. wide	\$ 13,652,276	\$ (431,474)	\$ -	\$ 13,220,802

CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NONCURRENT LIABILITIES

During the year ended September 30, 2011, the changes in noncurrent liabilities were:

<u>Business-Type Activities</u>	<u>Balance</u> <u>9/30/2010</u>	<u>Additions</u> <u>& Adjustments</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/2011</u>	<u>Due within</u> <u>one year</u>	<u>Interest</u>
Contractual obligations						
GTUA 2002 1.475M	\$ 1,115,000	\$ -	\$ (1,115,000)	\$ -	\$ -	\$ -
GTUA 2002 9.55M	695,000	-	(695,000)	-	-	-
GTUA CGMA Phase 1	620,000	-	(20,000)	600,000	20,000	31,220
GTUA CGMA Phase 2	2,168,750	-	-	2,168,750	-	50,822
GTUA CGMA Phase 3	1,242,500	-	(32,500)	1,210,000	41,250	63,645
Bank of NY 2011B	-	1,605,000	-	1,605,000	-	56,325
	<u>\$ 5,841,250</u>	<u>\$ 1,605,000</u>	<u>\$ (1,862,500)</u>	<u>\$ 5,583,750</u>	<u>\$ 61,250</u>	<u>\$ 202,012</u>
Deferred and due to advanced refunding	(78,703)	-	8,745	(69,958)		
Compensated absences	6,272	1,006	-	7,278		
	<u>\$ 5,768,819</u>	<u>\$ 1,606,006</u>	<u>\$ (1,853,755)</u>	<u>\$ 5,521,070</u>	<u>\$ 61,250</u>	
 <u>Governmental Activities</u>						
Contractual obligations						
2000 Bonds for streets	\$ 1,010,000	\$ -	\$ (1,010,000)	\$ -	\$ -	\$ -
2002 Bonds for parks	105,800	-	(51,700)	54,100	54,100	2,570
Bank of America 2006 Bonds	1,820,000	-	(155,000)	1,665,000	155,000	75,258
S & N Payable	313,500	-	(22,000)	291,500	22,000	-
Bank of NY 2011A	-	1,060,000	-	1,060,000	30,000	39,025
	<u>\$ 3,249,300</u>	<u>\$ 1,060,000</u>	<u>\$ (1,238,700)</u>	<u>\$ 3,070,600</u>	<u>\$ 261,100</u>	<u>\$ 116,853</u>
Notes payable						
Telephone system	39,939	-	(9,542)	30,396	8,184	1,118
(3) Patrol cars	62,570	-	(30,686)	31,884	31,884	1,286
Ambulance	-	87,508	(30,051)	57,457	32,000	2,586
Pot hole truck	-	128,481	-	128,481	25,696	5,782
	<u>\$ 102,509</u>	<u>\$ 215,989</u>	<u>\$ (70,279)</u>	<u>\$ 248,218</u>	<u>\$ 97,764</u>	<u>\$ 10,772</u>
Capital leases						
Fire truck	147,123	-	(21,821)	125,302	22,836	5,827
	<u>\$ 147,123</u>	<u>\$ -</u>	<u>\$ (21,821)</u>	<u>\$ 125,302</u>	<u>\$ 22,836</u>	<u>\$ 5,827</u>
Compensated absences	58,857	-	(8,918)	49,939		
	<u>\$ 3,557,789</u>	<u>\$ 1,275,989</u>	<u>\$ (1,339,718)</u>	<u>\$ 3,494,059</u>	<u>\$ 381,700</u>	

CONTRACTUAL OBLIGATIONS OF BUSINESS-TYPE ACTIVITIES

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

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

CONTRACTUAL OBLIGATIONS OF BUSINESS-TYPE ACTIVITIES, cont.

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

The original total principal obligation of the two 2002 series contracts was \$2,430,000. \$955,000 of the principal is for sewer system improvements with interest rates varying between 1.25% and 4.55%. \$1,475,000 of the principal is for water system improvements with interest rates varying between 3.81% and 5.76%. As of September 30, 2010, the principal balance of the obligation was \$1,810,000. This balance was cleared with City's issuance, on May 1, 2011, of Combination Tax and Revenue Refunding Bonds, Series 2011B, in the amount of \$1,605,000. At September 30, 2011, the balance of these Series 2011B bonds was \$1,605,000.

Collin Grayson Municipal Alliance Transmission Water Pipeline

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 GTUA for the purpose of providing funds for the construction of a transmission water pipeline that will provide water to the CGMA cities. The cost of the pipeline is being funded with contractual obligations in three phases.

The original principal obligation for Phase I of the pipeline project was \$2,800,000, of which twenty-five percent (25%) or \$700,000 pertained to the City. The Phase I contract has interest rates varying between 2.29% and 5.74%. As of September 30, 2011, the City's obligation under this contract was \$600,000. The City's obligation to GTUA under the Phase I contract is to expire with the retirement of the obligation in the fiscal year ending September 30, 2028.

The original principal obligation for Phase II of the pipeline project was \$8,675,000, of which twenty-five percent (25%) or \$2,168,750 pertained to the City. The Phase II contract has interest rates varying between 5.68% and 5.83%. The payments for this contract have been deferred. At September 30, 2011, the City's obligation under this contract was \$2,168,750. The City's obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2040.

The original principal obligation for Phase III of the pipeline project was issued in the amount of \$5,000,000, of which twenty-five percent (25%) or \$1,250,000 pertained to the City. The Phase III contract has interest rates varying between 2.67% and 5.62%. At September 30, 2011, the City's obligation under this contract was \$1,210,000. The City's obligation to GTUA under Phase III contract expires with the retirement of the GTUA obligation in the fiscal year ending September 30, 2036.

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

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

On November 14, 2006, the City issued a 2006 series General Obligation Tax and Revenue Refunding Bond with the Bank of America in the original principal amount of \$2,400,000. The proceeds were used to defease the 1995 and 2000 series contractual obligations with GTUA, as noted above, which carried a higher rate of interest. The 2006 bond has a fixed interest rate of 4.52%, while the original water contracts, noted above, had varying interest rates of 3.3% to 6.25%. At September 30, 2011, the remaining principal balance for the 2006 series is \$1,665,000. Net of the deferred contra-liability due to the refunding of \$69,958, the remaining principal balance of the 2006 series bonds is \$1,595,042. The City's obligation to Bank of America expires with the retirement of the bond in the fiscal year ending September 30, 2020.

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

CONTRACTUAL OBLIGATIONS OF BUSINESS-TYPE ACTIVITIES, cont.

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

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30, 2012	\$ 52,500	\$ 201,272	\$ 253,772
September 30, 2013	147,500	217,685	365,185
September 30, 2014	157,500	231,978	389,478
September 30, 2015	166,250	245,887	412,137
September 30, 2016	170,000	258,963	428,963
Thereafter	4,890,000	4,251,853	9,141,853
Totals	\$ 5,583,750	\$ 5,407,638	\$ 10,991,388

CONTRACTUAL OBLIGATIONS OF GOVERNMENTAL ACTIVITIES

On July 11, 2000 the City entered into a long-term contractual obligation with U.S. Trust Company of Texas (now Bank of New York Mellon). These Combination Tax and Revenue Certificates of Obligation, Series 2000 were issued in the amount of \$1,500,000. The City will repay this obligation over the next twenty years with interest rates varying from 5.2% to 7.2%. The proceeds will be used to install an Emergency Warning System, street repairs, and for improvements to water and sewer lines. Outstanding principal balance at September 30, 2010 was \$1,010,000. This balance was cleared with City's issuance, on May 1, 2011, of General Obligation Refunding Bonds, Series 2011A, in the amount of \$1,060,000. At September 30, 2011, the balance of these Series 2011A bonds was \$1,060,000.

In December 2002 the City entered into a long-term contractual obligation with Independent Bank. These Combination Tax and Revenue Certificates of Obligation, Series 2002, were issued in the amount of \$451,000. The City was to repay this obligation over the next ten years with an annual interest rate of 4.75%. The City has an intergovernmental joint use and lease agreement with the Van Alstyne Independent School District stating the school district will pay up to \$49,000 per year for the debt service on these certificates of obligation. The debt proceeds will be used to finance construction of Forrest Moore Park. The outstanding principal balance at September 30, 2011 is \$54,100.

During the year ended September 30, 2005, the Economic Development Corporation (VAEDC) assisted S&N Enterprises, Incorporated (S&N) to obtain a grant/loan in the amount of \$440,000 from the Texas Capital Fund to purchase their building and premises. To repay the grant/loan, the City entered into a long-term contractual obligation with the Office of Rural Community Affairs on November 1, 2004 for the original principal amount of \$440,000. This note, which carries 0% interest, requires the City to make monthly payments of \$1833.33 until the balance is paid. Also, on November 1, 2004, the City (lessor) entered into a long-term capital lease agreement with S&N (lessee), whereby S&N is required to repay the City \$440,000 in monthly installments of \$1833.33 until the balance is paid. The City will hold the title to the land and improvements until the balance of \$440,000 is paid in full. At September 30, 2011, the outstanding principal balance of the long-term debt and the corresponding long-term lease receivable is \$291,500. During the year ended September 30, 2011, the City made principal payments on the debt and collected payments on the lease in the amount of \$22,000. The principal and interest requirements related to these governmental contractual obligations are as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30, 2012	261,100	116,853	377,953
September 30, 2013	212,000	106,677	318,677
September 30, 2014	212,000	98,719	310,719
September 30, 2015	222,000	90,761	312,761
September 30, 2016	237,000	82,226	319,226
Thereafter	1,926,500	313,917	2,240,417
Totals	\$ 3,070,600	\$ 809,153	\$ 3,879,753

**CITY OF VAN ALSTYNE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

CONTRACTUAL OBLIGATIONS OF GOVERNMENTAL ACTIVITIES, cont.

On June 22, 2005, the City entered into a 10-year capital lease agreement with Kansas State Bank of Manhattan for a fully equipped fire truck. The future minimum lease obligations and the net present value of these minimum lease payments at September 30, 2011 were as follows:

<u>Fiscal year ending</u>	<u>Fire Truck</u>
September 30, 2012	\$ 28,662
September 30, 2013	28,662
September 30, 2014	28,662
September 30, 2015	28,662
September 30, 2016	28,662
Thereafter	-
Totals	<u>143,310</u>
Less interest portion	<u>(18,008)</u>
Present value of future minimum payments	\$ 125,302
Cost of equipment	\$ 222,205

NOTES PAYABLE OF GOVERNMENTAL ACTIVITIES

On May 20, 2009, the City entered into a note payable agreement with Landmark Bank in the original principal amount of \$49,548. The proceeds of the note were used to purchase a telephone system. The note balance is payable in monthly payments and has an interest rate of 4.0%. At September 30, 2011, the outstanding principal balance was \$30,396

On October 16, 2009, the City entered into a note payable agreement with Landmark Bank in the original principal amount of \$94,277. The proceeds of the note were used to purchase three new patrol cars. The note balance is payable in three annual payments and has an interest rate of 4.1%. At September 30, 2011, the outstanding principal balance was \$31,884.

On November 24, 2010, the City entered into a note payable with Landmark Bank in the original amount of \$87,508. The proceeds of the note were to purchase a new ambulance. The note balance is payable over three years and has an interest rate of 4.25%. At September 30, 2011, the outstanding principal balance was \$57,458.

On February 15, 2011, the City entered into a note payable with Landmark Bank in the original amount of \$128,481. The proceeds of the note were to purchase a new pot hole truck. The note balance is payable over five years and has an interest rate of 4.3%. At September 30, 2011, the outstanding principal balance was \$128,481.

The principal and interest requirements related to these notes payable at September 30, 2011, were as follows:

<u>Fiscal year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
September 30, 2012	95,607	8,407	104,014
September 30, 2013	63,903	6,834	70,737
September 30, 2014	35,536	3,836	39,372
September 30, 2015	26,515	2,334	28,849
September 30, 2016	26,657	1,192	27,849
Thereafter	-	-	-
	<u>248,218</u>	<u>22,603</u>	<u>270,821</u>

RESTRICTED NET ASSETS

At September 30, 2011, the City had restricted assets in the amount of \$385,792 in the governmental type funds, which represents assets not available for general operating use. The restricted portion of the fund balance totaled \$71,415 for the General Fund, \$293,614 for the Debt Service Fund, and \$20,763 for the Capital Projects Fund.

At September 30, 2011, the water and sewer fund had restricted cash in the amount of \$178,191 which was held by the GTUA for future water and sewer projects and the related debt service.

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.

SUBSEQUENT EVENTS

No events have occurred as of March 13, 2012 that would require adjustment to or disclosure in the financial statements.

**CITY OF VAN ALSTYNE, TEXAS
ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

ASSETS

Current assets	
Cash and equivalents	\$ 24,303
Accounts receivable - sales tax	15,858
Loans receivable - current portion	13,747
Total current assets	53,908
Noncurrent assets	
Loans receivable - noncurrent portion	75,829
Capital assets, net of depreciation	422,013
Deposits held by others	367
Total noncurrent assets	498,209
Total assets	\$ 552,117

LIABILITIES

Current liabilities	
Accrued and other payables	\$ -
Notes payable - current portion	20,863
Total current liabilities	20,863
Noncurrent liabilities	
Notes payable - noncurrent portion	217,245
Total liabilities	238,108

NET ASSETS

Invested in capital assets, net of related debt	183,905
Unrestricted	130,104
Total net assets	314,009
Total liabilities and net assets	\$ 552,117

**CITY OF VAN ALSTYNE
ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011**

Revenues:	
Sales tax	\$ 83,195
Interest	1,145
Fees	125
Brochure income	4,950
Total revenues	<u>89,415</u>
Expenses:	
Accounting	537
Advertising	8,404
Brick sales	550
Communication	1,129
Depreciation	13,586
Dues & subscriptions	1,029
EXIM	577
Insurance	2,370
Interest	9,600
Lease	7,200
Legal	3,959
Maintenance and repairs	6,926
Office maintenance	650
Payroll taxes	2,590
Postage	89
Property taxes	1,162
Salaries	26,650
Summit expense	16
Supplies	576
Training	(75)
Travel	86
Utilities	1,435
Website	574
Total expenses	<u>89,620</u>
Change in net assets	(205)
Net assets - beginning of year	<u>314,214</u>
Net assets - end of year	<u><u>\$ 314,009</u></u>

**CITY OF VAN ALSTYNE, TEXAS
COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

ASSETS

Current assets	
Cash and equivalents	\$ 98,612
Accounts receivable - sales tax	15,858
Total current assets	114,470
Noncurrent assets	
Deposits held by others	266
Total noncurrent assets	266
Total assets	\$ 114,736

LIABILITIES

Current liabilities	
None	\$ -

NET ASSETS

Unrestricted	114,736
Total liabilities and net assets	\$ 114,736

**CITY OF VAN ALSTYNE, TEXAS
COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011**

Revenues:	
Sales tax	\$ 82,118
Interest	363
Total revenues	<u>82,481</u>
Expenses:	
Legal fees	56
Maintenance and repairs	650
Parks	20,269
Payroll taxes	2,718
Rent	7,200
Salaries	26,650
Supplies	1,003
TEDC	450
Telephone	1,095
Training	98
Travel	132
Utilities	797
Total expenses	<u>61,118</u>
Change in net assets	21,363
Net assets - beginning of year	<u>93,373</u>
Net assets - end of year	<u><u>\$ 114,736</u></u>

CITY OF VAN ALSTYNE, TEXAS
NOTES TO THE DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2011

FINANCIAL REPORTING ENTITY

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

BASIS OF PRESENTATION

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

CASH AND EQUIVALENTS

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

RECEIVABLES

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

CAPITAL ASSETS

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

NONCURRENT LIABILITIES

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

On August 30, 2007, Van Alstyne Economic Development Corporation entered into a note payable agreement with Landmark Bank in the original principal amount of \$196,797.46. For the period to August 30, 2010, principal and interest (4.75%) was payable in monthly payments of \$1,795.58. As provided in the agreement, the EDC has been making payments in excess of the required amount. At September 30, 2011, the outstanding principal balance was \$91,453. The note is secured by all security agreements, collateral assignments, assignment guarantees, deeds of trust and lien instruments executed by the EDC.

On September 9, 2010, Van Alstyne Economic Development Corporation entered into a note payable agreement with Landmark Bank in the original amount of \$150,000.00. Principal and interest (4.25%) is payable in monthly payments of \$812.00. At September 30, 2011, the outstanding principal balance was \$146,654. The note is secured by all security agreements, collateral assignments, assignment guarantees, deeds of trust, and lien instruments executed by the EDC.

OPERATING EXPENSES

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

**CITY OF VAN ALSTYNE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
BUDGETED AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2011**

	<u>Budget</u>	<u>Actual</u>
REVENUES		
Administration		
Property taxes	\$ 642,137	\$ 651,592
Franchise taxes	125,000	159,142
Sales tax	450,000	492,706
Permits and fees	20,400	28,516
Miscellaneous revenue	11,000	27,415
Interest income	2,400	1,957
Library	53,502	67,576
Ambulance - fire	1,149,378	1,037,154
Police	2,500	24,739
Municipal court	720,000	796,063
Parks - miscellaneous revenue	15,000	14,525
Community center - rental fee	5,000	3,650
Debt service fund		
Property taxes	370,849	440,485
Local - VAISD	49,000	49,000
Water & sewer fund		
Water services	807,100	761,462
Sewer services	541,100	507,832
Sanitation services	149,923	145,601
Total revenues	<u>5,114,289</u>	<u>5,209,415</u>
EXPENDITURES/EXPENSES		
Governmental funds		
Administration	451,454	423,204
Library	157,806	178,375
Ambulance - fire	970,297	960,326
Police	839,766	821,290
Communications	183,942	181,904
Municipal court	85,093	83,201
State court	250,000	332,275
Parks and centers	173,234	194,306
Streets	228,856	164,450
Debt Service:		
Principal payments	269,400	320,800
Interest and other charges	149,914	150,806
Bond fees	535	60,152
Proprietary fund		
Water, sewer & sanitation operating expenses	1,009,628	1,053,408
Interest expense	179,208	194,620
Total expenditures	<u>4,949,133</u>	<u>5,119,117</u>
Net increase (decrease) before capital outlay	\$ 165,156	\$ 90,298
Capital outlay	-	(254,329)
Net increase (decrease)	<u>\$ 165,156</u>	<u>\$ (164,031)</u>

**CITY OF VAN ALSTYNE, TEXAS
PENSION FUNDING DATA
as of December 31, 2011**

Exhibit 2

Plan Information

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (TMRS). TMRS is a statewide agent multiple-employer public employee retirement system that administers 842 nontraditional, joint contributory, hybrid defined benefit plans covering all eligible employees of member cities in Texas. Complete information is available in the TMRS Comprehensive Annual Financial Report at www.tmrs.org.

Benefit Information

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

At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity.

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

Contribution Information

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

**CITY OF VAN ALSTYNE, TEXAS
PENSION FUNDING DATA
as of December 31, 2011**

Exhibit 2

Fiscal Year Funding	Trend Information	
	Annual Pension Cost (APC)	Percentage of APC Contributed
9/30/2007	\$ 69,923	100%
9/30/2008	\$ 86,426	100%
9/30/2009	\$ 94,082	100%
9/30/2010	\$ 128,223	100%
9/30/2011	\$ 146,871	100%

Schedule of Funding Progress (Dollar amounts in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b)-(a)	UAAL as a Percentage Funded Ratio (a)(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
12/31/2006	\$ 1,005	\$ 1,213	\$ 208	82.9%	\$ 1,051	19.8%
12/31/2007	\$ 1,174	\$ 1,617	\$ 443	72.6%	\$ 1,067	41.5%
12/31/2008	\$ 1,335	\$ 1,810	\$ 475	73.8%	\$ 1,144	41.5%
12/31/2009	\$ 1,546	\$ 2,064	\$ 518	74.9%	\$ 1,254	41.3%
12/31/2010	\$ 1,916	\$ 2,484	\$ 568	77.1%	\$ 1,503	37.8%
12/31/2011	not available					

Complete information available at www.tnrs.org.

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

To the City Council
Van Alstyne, Texas

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, and each major fund of the City of Van Alstyne, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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



Brown & Davis, LLP
Certified Public Accountants

March 13, 2012