

CITY OF VAN ALSTYNE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2012

City of Van Alstyne, Texas
Annual Financial Report
For the Year Ended September 30, 2012

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the City Council of the
City of Van Alstyne, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Van Alstyne, Texas (the City), as of and for the year ended September 30, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Van Alstyne as of September 30, 2012, and the changes in financial position 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 issued a report dated April 9, 2013 on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of 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 compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 page 38 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 pages 39 through 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.

Intelligent & Company LLC

Tom Bean, Texas
April 9, 2013

CITY OF VAN ALSTYNE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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 FY12 by \$6,096,435. This is an increase of \$125,848 over FY11's net asset value of \$5,970,587, as restated. Unrestricted net assets at the close of FY12 are \$1,007,199 and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$125,848 or 2.1%, as a result of this year's operations.
- The City's governmental fund types reported combined ending fund balances of \$1,214,514, which is a decrease of \$107,525 in comparison with the prior year amount of \$1,322,039, as restated. The unassigned fund balances of \$507,840 (42%) are available for spending at the City's discretion. The remainder of the fund balances are restricted for a specific purpose, primarily debt service and capital projects.

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 (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 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 (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 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 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 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 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 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 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.

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 Assets 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 assets serve as one useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$6,096,435 at the close of FY12.

Sixty-nine percent (69%) of the City's net assets are 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 Assets and the Statement of Activities as of and for the year ended September 30, 2012:

City of Van Alstyne - Statement of Net Assets

	<u>FY12</u>	<u>FY11</u>
Current and other assets	\$ 3,104,765	\$2,858,819
Capital assets	<u>12,776,885</u>	<u>13,220,802</u>
Total assets	<u>15,881,650</u>	<u>\$16,079,621</u>
Current liabilities	1,215,975	732,446
L-T liabilities	<u>8,569,240</u>	<u>9,376,588</u>
Total liabilities	<u>9,785,215</u>	<u>10,109,034</u>
Net assets:		
Invested in capital assets, net of debt	4,207,645	3,844,214
Restricted	881,591	563,983
Unrestricted	<u>1,007,199</u>	<u>1,562,390</u>
Total net assets (restated in FY11)	<u>\$ 6,096,435</u>	<u>\$ 5,970,587</u>

City of Van Alstyne - Statement of Activities

Revenues:		
Program revenues	\$ 3,424,787	\$ 3,357,407
General revenues	<u>1,827,399</u>	<u>1,864,681</u>
Total revenues	<u>5,252,186</u>	<u>5,222,088</u>
Expenses:		
Water, sewer, and sanitation	1,644,128	1,555,315
Police and communications	941,373	1,034,632
Fire protection and ambulance	921,433	1,080,842
General government	456,545	444,510
Municipal court	325,708	415,476
Streets	301,315	265,269
Parks	251,505	291,138
Library	173,038	195,024
Interest	<u>111,293</u>	<u>210,958</u>
Total expenses	<u>5,126,338</u>	<u>5,493,164</u>
Increase (decrease) in net assets	<u>\$ 125,848</u>	<u>\$ (271,076)</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net assets of the City's governmental activities increased from \$5,970,587, as restated, to \$6,096,435. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$869,418 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 \$1,214,514 compared to \$1,322,039, as restated, in FY11. This represents a decrease of \$107,525 compared to last year's decrease of \$147,471. Most of the decrease is attributable to debt service and capital outlays.

Revenues for the City's general fund (as shown on page 12) were \$3,125,833 while total expenditures and other uses were \$3,300,059. This resulted in a deficiency of revenues under expenditures in the amount of \$174,226 from current operations. Last year's result was a deficiency of revenues under expenditures of \$385,424.

Revenues for the City's water fund were \$1,533,836 while total expenses were \$1,387,586. This resulted in net operating income of \$146,250. Last year's result was a net operating income of \$147,559.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for all activities as of September 30, 2012 amounts to \$12,776,885, compared to \$13,220,802 (net of accumulated depreciation) at September 30, 2011. 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 a police car, street improvements, and equipment.

Long-term Debt

At year-end, the City had total contractual obligations, bonds and other debt outstanding of \$8,569,240. The City entered into no new debt during the year. Principal payments totaled \$504,365 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 2012 – 2013 budgets.

- A 20% increase in water/wastewater rates beginning October 1, 2012 in anticipation of current and future expense increases due to deterioration of infrastructure.
- A property tax rate increase of 9% to fund increases in the governmental contractual obligations.
- Sales tax revenue has remained steady and is on target for budgeted projections.
- Homebuilding permits have increased from 4 in FY11 to 27 in FY12 and the City has issued 22 in the first half of FY13.
- Departmental budget restrictions were implemented in recognition of the overall decline in revenues as a result of the ongoing recession.

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 Assets
September 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Community Development Corporation
ASSETS					
Cash and cash equivalents	\$ 1,280,369	\$ 442,118	\$ 1,722,487	\$ 53,467	\$ 113,442
Receivables, net	742,809	157,428	900,237	17,012	17,012
Notes receivable, net	-	-	-	85,226	17,126
Prepaid expenses	28,662	-	28,662	367	267
Prepaid bond issue costs	-	251,600	251,600	-	-
Restricted Assets:					
Deposits held in trust by GTUA	-	201,779	201,779	-	-
Capital assets not being depreciated:					
Land	51,458	274,712	326,170	261,316	-
Construction in progress	53,436	-	53,436	-	-
Capital Assets net of accumulated depreciation:					
Buildings	119,497	-	119,497	205,089	-
Machinery and equipment	431,313	22,760	454,073	10,617	-
Parks	1,016,053	-	1,016,053	-	-
Infrastructure	1,211,482	9,596,174	10,807,656	-	-
Total Assets	<u>4,935,079</u>	<u>10,946,571</u>	<u>15,881,650</u>	<u>633,094</u>	<u>147,847</u>
LIABILITIES					
Accounts payable	171,054	58,393	229,447	-	-
Accrued liabilities	37,034	14,908	51,942	4,511	-
Accrued interest	26,822	544,644	571,466	-	-
Customer deposits	-	93,620	93,620	-	-
Deferred revenue	269,500	-	269,500	-	-
Noncurrent liabilities:					
Due within one year	345,655	154,300	499,955	30,300	-
Due in more than one year	2,738,035	5,331,250	8,069,285	199,258	-
Total Liabilities	<u>3,588,100</u>	<u>6,197,115</u>	<u>9,785,215</u>	<u>234,069</u>	<u>-</u>
NET ASSETS					
Net investment in capital assets	(200,451)	4,409,896	4,209,445	247,464	-
Restricted for:					
Court security and technology	74,807	-	74,807	-	-
Police seizure	29,247	-	29,247	-	-
Special projects - S&N	8,678	-	8,678	-	-
Library technology	6,474	-	6,474	-	-
Debt service	344,634	-	344,634	-	-
Capital projects	214,172	-	214,172	-	-
Deposits held in trust by GTUA	-	201,779	201,779	-	-
Unrestricted	869,418	137,781	1,007,199	151,561	147,847
Total Net Assets	<u>\$ 1,346,979</u>	<u>\$ 4,749,456</u>	<u>\$ 6,096,435</u>	<u>\$ 399,025</u>	<u>\$ 147,847</u>

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

City of Van Alstyne, Texas
Statement of Activities

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Charges for Services			Capital Grants and Contributions	Primary Government		Component Units		
	Expenses	Operating Grants and Contributions			Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Community Development Corporation
Primary government:									
Governmental activities:									
Fire protection and ambulance	\$	921,433	\$	8,708	\$	10,345	\$	17,907	
Police		760,612	-	1,980		38,118		(720,514)	
General government		456,545	57,662	7,748		110,958		(280,177)	
Municipal court		325,708	649,609	-	-	-		323,901	
Streets		301,315	-	-	-	-		(301,315)	
Parks		251,505	-	13,424	-	-		(238,081)	
Emergency communications		180,761	-	-	-	-		(180,761)	
Library		173,038	2,649	69,463	-	-		(100,926)	
Interest on long-term debt		111,293	-	-	-	-		(111,293)	
Total governmental activities		3,482,210	1,630,207	101,323		159,421		(1,591,259)	
Business-type activities:									
Water, sewer, and sanitation		1,644,128	1,533,836	-	-	-		(110,292)	
Total business-type activities		1,644,128	1,533,836	-	-	-		(110,292)	
Total primary government		5,126,338	3,164,043	101,323		159,421		(1,701,551)	
Component Units:									
Economic Development Corporation	\$	115,409	\$	13,431	\$	50,000	\$	-	\$
Community Development Corporation		61,187	-	-		-		-	(61,187)
Total component units		176,596	13,431	50,000		-		(51,978)	(61,187)
General revenues:									
Property taxes							1,042,909	-	-
General sales and use taxes							565,072	-	565,072
Franchise taxes							162,352	-	162,352
Gain on sale of capital assets							15,320	12,312	27,632
Investment earnings							4,894	24,540	29,434
Total general revenues							1,790,547	36,852	1,827,399
Change in net assets							199,288	(73,440)	125,848
Net assets - beginning, restated							1,147,691	4,822,896	5,970,587
Net assets - ending							1,346,979	4,749,456	6,096,435
							\$	\$	\$

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

City of Van Alstyne, Texas
Balance Sheet
Governmental Funds
September 30, 2012

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 668,128	\$ 344,634	\$ 267,607	\$ 1,280,369
Prepaid expenses	28,662	-	-	28,662
Receivables, net:				
Ambulance services	287,911	-	-	287,911
Leases	269,500	-	-	269,500
Sales taxes	102,073	-	-	102,073
Property taxes	41,000	23,452	-	64,452
Other	18,873	-	-	18,873
Total assets	<u>1,416,147</u>	<u>368,086</u>	<u>267,607</u>	<u>2,051,840</u>
LIABILITIES				
Accounts payable	117,618	-	53,435	171,053
Accrued liabilities	37,034	-	-	37,034
Deferred revenue	605,787	23,452	-	629,239
Total liabilities	<u>760,439</u>	<u>23,452</u>	<u>53,435</u>	<u>837,326</u>
FUND BALANCES				
Non-spendable:				
Prepaid items	28,662	-	-	28,662
Restricted:				
Court security and technology	74,807	-	-	74,807
Police seizure	29,247	-	-	29,247
Special projects - S&N	8,678	-	-	8,678
Library technology	6,474	-	-	6,474
Debt service	-	344,634	-	344,634
Capital projects	-	-	214,172	214,172
Unassigned	507,840	-	-	507,840
Total fund balances	<u>655,708</u>	<u>344,634</u>	<u>214,172</u>	<u>1,214,514</u>
Total liabilities and fund balances	<u>\$ 1,416,147</u>	<u>\$ 368,086</u>	<u>\$ 267,607</u>	<u>\$ 2,051,840</u>

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

City of Van Alstyne, Texas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
For the Year Ended September 30, 2012

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

Total Fund Balances of Governmental Funds	\$ 1,214,514
Capital assets used in Governmental Activities are not financial resources; therefore, they are not reported in the Governmental Funds.	2,883,239
Delinquent property taxes, ambulance revenue, and court revenue are not current financial resources; therefore, they are deferred in the Governmental Funds.	351,002
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.	(3,083,690)
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	(18,086)
Net Assets of Governmental Activities	<u>\$ 1,346,979</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, 2012

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 690,997	\$ 347,521	\$ -	\$ 1,038,518
General sales and use	565,072	-	-	565,072
Franchise	162,352	-	-	162,352
Ambulance services	820,970	-	-	820,970
Municipal court	674,246	-	-	674,246
Intergovernmental	59,131	49,000	60,000	168,131
Other revenue	72,226	1,958	-	74,184
License and permits	31,544	-	-	31,544
Lease income - S&N	22,000	-	-	22,000
Library	12,981	-	-	12,981
Grants	12,325	-	-	12,325
Investment earnings	1,989	1,025	1,880	4,894
Total revenues	<u>3,125,833</u>	<u>399,504</u>	<u>61,880</u>	<u>3,587,217</u>
EXPENDITURES				
Current:				
Fire protection and ambulance	843,210	-	-	843,210
Police	721,407	-	-	721,407
General government	439,025	-	-	439,025
Municipal court	325,708	-	-	325,708
Emergency communications	180,761	-	-	180,761
Streets	173,786	-	-	173,786
Library	161,791	-	-	161,791
Parks	152,360	-	-	152,360
Debt Service:				
Principal	165,264	239,100	-	404,364
Interest	12,412	116,967	-	129,379
Bond fees	-	500	-	500
Capital Outlay:				
Streets	86,519	-	53,436	139,955
Police	30,978	-	-	30,978
Fire protection and ambulance	3,454	-	-	3,454
General government	3,384	-	-	3,384
Total expenditures	<u>3,300,059</u>	<u>356,567</u>	<u>53,436</u>	<u>3,710,062</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(174,226)</u>	<u>42,937</u>	<u>8,444</u>	<u>(122,845)</u>
OTHER FINANCING SOURCES(USES)				
Transfers in	80,000	-	-	80,000
Transfers (out)	-	-	(80,000)	(80,000)
Sale of general capital assets	15,320	-	-	15,320
Total other financing sources (uses)	<u>95,320</u>	<u>-</u>	<u>(80,000)</u>	<u>15,320</u>
Net change in fund balance	(78,906)	42,937	(71,556)	(107,525)
Fund balances - beginning (restated)	734,614	301,697	285,728	1,322,039
Fund balances - ending	<u>\$ 655,708</u>	<u>\$ 344,634</u>	<u>\$ 214,172</u>	<u>\$ 1,214,514</u>

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

City of Van Alstyne, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2012

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

Net Change in Fund Balances - Total Governmental Funds	\$	(107,525)
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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.

(194,598)

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.

Long-term debt repaid in current year		410,370
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Governmental funds report some prior year tax and court 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		91,041
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Change in Net Assets of Governmental Activities	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">199,288</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 Assets
Proprietary Fund
September 30, 2012

	<u>Water & Sewer Fund</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 442,118
Accounts receivables, net	157,428
Prepaid bond issue costs	251,600
Total current assets	<u>851,146</u>
Noncurrent Assets:	
Deposits held in trust by GTUA	201,779
Capital assets, net of depreciation	9,893,646
Total noncurrent assets	<u>10,095,425</u>
Total assets	<u>10,946,571</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	58,393
Accrued liabilities	14,908
Customer deposits payable	93,620
Accrued interest payable	544,644
Compensated absences	1,800
Contractual obligations - current	67,500
Bonds payable - current	85,000
Total current liabilities	<u>865,865</u>
Noncurrent Liabilities:	
Contractual obligations	1,520,000
Bonds payable	3,811,250
Total noncurrent liabilities	<u>5,331,250</u>
Total liabilities	<u>6,197,115</u>
NET ASSETS	
Net investment in capital assets	4,409,896
Deposits held in trust by GTUA	201,779
Unrestricted	137,781
Total net assets	<u>\$ 4,749,456</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 Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2012

	<u>Water & Sewer Fund</u>
Operating Revenues:	
Water	\$ 727,214
Sewer	565,715
Sanitation	168,431
Other services	32,895
Late charges and penalties	28,552
Tap and connection fees	11,029
Total operating revenues	<u>1,533,836</u>
Operating Expenses:	
Contractual services	340,443
Maintenance and repairs	325,746
Depreciation and amortization	280,806
Personnel services	221,630
Utilities	187,525
Administrative	31,436
Total operating expenses	<u>1,387,586</u>
Operating income (loss)	<u>146,250</u>
Nonoperating Revenues (Expenses):	
Interest income	24,540
Gain on sale of assets	12,312
Interest expense	(256,542)
Total nonoperating revenue (expenses)	<u>(219,690)</u>
Change in net assets	(73,440)
Net assets - beginning (restated)	<u>4,822,896</u>
Net assets - ending	<u><u>\$ 4,749,456</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, 2012

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,468,884
Cash paid to employees	(220,290)
Cash paid to suppliers for goods and services	(941,260)
Net cash provided by operating activities	<u>307,334</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided by noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(18,032)
Proceeds from the sale assets	12,312
Interest paid on capital debt	(116,637)
Principal paid on capital debt	(100,000)
Net cash provided by (used for) capital and related financing activities	<u>(222,357)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	24,540
Net cash provided by investing activities	<u>24,540</u>
Net increase (decrease) in cash and cash equivalents	84,977
Cash and cash equivalents, October 1, 2011	<u>357,141</u>
Cash and cash equivalents, September 30, 2012	<u><u>442,118</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) Operating Activities:	
Operating Income (Loss)	146,250
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by operating activities	
Depreciation and amortization	280,806
(Increase) decrease in restricted cash account held by GTUA	(23,588)
(Increase) decrease in accounts receivable	(64,952)
Increase (decrease) in accounts payable	(6,141)
Increase (decrease) in other current liabilities	(13,694)
Increase (decrease) in compensated absences	(6,005)
Increase (decrease) in customer deposits	(5,342)
Net Cash Provided by Operating Activities	<u><u>\$ 307,334</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, 2012

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 assets and the statement of activities) report information on all nonfiduciary 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 nonexchange 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, ambulance services, streets, sanitation, 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 Van Alstyne Fire Department provides fire protection for the City.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely presented component units - The Van Alstyne Economic Development Corporation (EDC) and the Van Alstyne Community Development Corporation (CDC) are non-profit organizations established on behalf of the City under the Development Act of 1979. They are governed by boards comprised of the City's elected council and other appointed members. The transactions of the EDC and CDC are maintained in separate funds and discretely presented in separate columns in the financial statements. They do not issue separate financial statements.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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.

The City reports the following major 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, 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, 2012

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.

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

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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 measurable 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, 2012

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. Interest has not been capitalized during the construction period on property, plant, and equipment.

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, 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 Assets

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, 2012

Note: 1 Summary of Significant Accounting Policies (continued)

Net assets represent 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 assets 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 Balance

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 place on the purposes for which resources can be used.

As of September 30, 2012, 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, 2012

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.

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.

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, 2012

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 2011 was .697633 per \$100 of assessed value for general fund operation and debt service.

Sales Taxes

The City levies a two-cent sales tax on taxable sales within the City. Seventy-five percent of the sales tax is allocated to the general fund and twenty-five percent 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, 2012 are \$43,935 and \$1,800, respectively.

Note 2: Cash and cash equivalents

As of September 30, 2012, the City maintained all banking accounts at Texas Star Bank.

At September 30, 2012, the City's total cash and cash equivalents is \$1,722,487, which consists of \$903 in petty cash and \$1,721,585 held by depository banks. The cash and cash equivalents held by banks is insured for \$250,000 by the Federal Deposit Insurance Corporation and \$2,521,830 in securities have been pledged by the depository bank to collateralize 100% of all remaining deposits.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

Note 3: Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2012:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 51,458	\$ -	\$ -	\$ 51,458
Construction in progress	-	53,436	-	53,436
Depreciable capital assets:				
Building and improvements	469,448	-	-	469,448
Machinery and equipment	2,238,148	44,336	-	2,282,484
Parks	1,843,720	-	-	1,843,720
Streets and infrastructure	1,663,658	80,000	-	1,743,658
Totals at historical cost	6,266,432	177,772	-	6,444,204
Less accumulated depreciation	(3,188,596)	(372,369)	-	(3,560,965)
Governmental activities capital assets, net	<u>\$ 3,077,836</u>	<u>\$ (194,597)</u>	<u>\$ -</u>	<u>\$ 2,883,239</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 274,712	\$ -	\$ -	\$ 274,712
Depreciable capital assets:				
Waterworks system	9,006,254	-	-	9,006,254
Sewer system	3,913,466	-	-	3,913,466
Machinery and equipment	255,309	18,032	(29,400)	243,941
Totals at historical cost	13,449,741	18,032	(29,400)	13,438,373
Less accumulated depreciation	(3,306,776)	(267,351)	29,400	(3,544,727)
Business-type activities capital assets, net	<u>\$ 10,142,965</u>	<u>\$ (249,319)</u>	<u>\$ -</u>	<u>\$ 9,893,646</u>

Depreciation expense for the year ended September 30, 2012 was charged to functions of the primary government and the business-type activities as follows:

Governmental Activities:

Streets	\$ 127,529
Parks	99,146
Fire and ambulance	78,223
Police	39,205
General government	17,020
Library	11,246
	<u>\$ 372,369</u>

Business-Type Activities:

Water and sewer	\$ 267,351
	<u>\$ 267,351</u>

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

Note 4: Receivables

Receivables as of the year ended September 30, 2012 for the governmental funds and the proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds	Water and Sewer Fund	Total
Ambulance	\$ 4,798,512	\$ -	\$ 4,798,512
Municipal court	727,769	-	727,769
Leases	269,500	-	269,500
Sales taxes	102,073	-	102,073
Property taxes	65,289	-	65,289
Other	11,498	-	11,498
Accounts	-	157,428	157,428
	<u>5,974,641</u>	<u>157,428</u>	<u>6,132,069</u>
Less: allowance for doubtful accounts	<u>(5,231,832)</u>	<u>-</u>	<u>(5,231,832)</u>
Net	<u>\$ 742,809</u>	<u>\$ 157,428</u>	<u>\$ 900,237</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, 2012, the various components of the deferred revenue are as follows:

Ambulance services	\$ 287,911
Leases	269,501
Delinquent property taxes	41,000
Municipal court fines	7,375
	<u>\$ 605,787</u>

CITY OF VAN ALSTYNE, TEXAS

Notes to the Financial Statements

September 30, 2012

Note 5: Changes in Long-Term Debt

The following schedule summarizes the changes in long-term debt for the year ended September 30, 2012:

Governmental Activities	Balance 9/30/2011	Additions	Retirements	Balance 9/30/2012	Due within one year
Contractual obligations and bonds payable:					
2002 series	\$ 54,100	\$ -	\$ (54,100)	\$ -	\$ -
2006 series	1,665,000	-	(155,000)	1,510,000	165,000
S & N project	291,500	-	(22,000)	269,500	22,000
Refunding 2011A	1,060,000	-	(30,000)	1,030,000	25,000
	<u>3,070,600</u>	<u>-</u>	<u>(261,100)</u>	<u>2,809,500</u>	<u>212,000</u>
Notes payable:					
Telephone system	30,396	-	(9,924)	20,472	10,338
Patrol cars	31,884	-	(31,884)	-	-
Ambulance	57,457	-	(28,297)	29,160	29,160
Pot hole truck	128,481	-	(26,427)	102,054	25,213
	<u>248,218</u>	<u>-</u>	<u>(96,532)</u>	<u>151,686</u>	<u>64,711</u>
Capital leases:					
Fire truck	125,302	-	(46,733)	78,569	25,009
	<u>125,302</u>	<u>-</u>	<u>(46,733)</u>	<u>78,569</u>	<u>25,009</u>
Compensated absences	49,940	-	(6,005)	43,935	43,935
	<u>\$ 3,494,060</u>	<u>\$ -</u>	<u>\$ (410,370)</u>	<u>\$ 3,083,690</u>	<u>\$ 345,655</u>

Business-Type Activities	Balance 9/30/2011	Additions	Retirements	Balance 9/30/2012	Due within one year
Contractual obligations and bonds payable:					
GTUA CGMA Phase 1	\$ 600,000	\$ -	\$ (40,000)	\$ 560,000	\$ 22,500
GTUA CGMA Phase 2	2,168,750	-	-	2,168,750	-
GTUA CGMA Phase 3	1,210,000	-	(60,000)	1,150,000	45,000
Refunding 2011B	1,605,000	-	-	1,605,000	85,000
	<u>5,583,750</u>	<u>-</u>	<u>(100,000)</u>	<u>5,483,750</u>	<u>152,500</u>
Compensated absences	7,278	-	(5,478)	1,800	1,800
	<u>\$ 5,591,028</u>	<u>\$ -</u>	<u>\$ (105,478)</u>	<u>\$ 5,485,550</u>	<u>\$ 154,300</u>

CITY OF VAN ALSTYNE, TEXAS

Notes to the Financial Statements

September 30, 2012

Note 6: Long-Term Debt – Governmental Activities

Contractual Obligations and Bonds Payable

In December of 2002, the City issued 2002 series Combination Tax and Revenue Certificates of Obligations in the original principal amount of \$451,000 payable to Independent Bank. The City will 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 were utilized to construct Forrest Moore Park. The final payment was made during the year and the outstanding principal balance at September 30, 2012 is \$0.

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 note, which carries 0% interest, requires the City to make monthly payments of \$1833 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 \$1833 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, 2012, 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 debt and the corresponding long-term lease receivable at September 30, 2012 is \$269,500.

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 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, 2012 is \$1,510,000.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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

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, 2012 is \$1,030,000.

The principal and interest requirements related to these contractual obligations and bonds payable at September 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 212,000	\$ 106,677	\$ 318,677
2014	212,000	98,719	310,719
2015	222,000	90,761	312,761
2016	237,000	82,226	319,226
2017	247,000	73,114	320,114
2018-2022	1,215,000	215,803	1,430,803
2023-2025	464,500	25,200	489,700
	<u>\$ 2,809,500</u>	<u>\$ 692,500</u>	<u>\$3,502,000</u>

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 outstanding principal balance of the note payable at September 30, 2012 is \$20,472.

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 utilized to purchase three (3) patrol cars, which serve as collateral. The note is payable in three (3) annual installments of principal and interest beginning March 15, 2010 through the maturity date of March 15, 2012. The note has an interest rate of 4.1%. The final payment was made during the year and the outstanding principal balance at September 30, 2012 is \$0.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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

On November 24, 2010, the City entered into a note payable agreement with Landmark Bank in the original principal amount of \$87,508. The proceeds of the note were utilized to purchase an ambulance, which serves as collateral. The note is payable in three (3) annual installments of principal and interest beginning February 15, 2011 through the maturity date of February 15, 2013. The note has an interest rate of 4.25%. The outstanding principal balance of the note payable at September 30, 2012 is \$29,160.

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, 2012 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, 2012 is \$102,054.

The principal and interest requirements related to these notes payable at September 30, 2012 are as follows:

Fiscal Year	Principal	Interest	' Total
2013	\$ 64,711	\$ 6,835	\$ 71,546
2014	35,553	3,835	39,388
2015	26,515	2,334	28,849
2016	24,907	1,192	26,099
	\$ 151,686	\$ 14,196	\$ 165,882

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%.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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

The minimum lease obligations and net present value of these minimum lease payments at September 30, 2011 are as follows:

Fiscal Year	Fire Truck
2013	\$ 28,662
2014	28,663
2015	28,662
Total	85,987
Less interest	(7,418)
Present value of future minimum payments	\$ 78,569
Cost of equipment	\$ 222,205

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

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 Greater Texoma Utility Authority (“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, 2012, the City’s obligation under this contract was \$560,000. 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 were deferred until fiscal year 2009 when interest only payments commenced. Principal payments will begin in fiscal year 2026. At September 30, 2012, the City’s obligation under this contract was \$2,168,750. As a result of the deferred principal payments, the obligation is accruing deferred interest payable. At September 30, 2012, the obligation had deferred interest payable in the amount of \$544,644. The City’s obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2040.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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

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%. At September 30, 2012, the City's obligation under this contract was \$1,150,000. 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 CMGA city is 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 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 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 \$83,729 for the year ended September 30, 2012.

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.

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.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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

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.

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, 2012 is \$1,605,000.

The principal and interest requirements related to these business-type contractual obligations and bonds at September 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 152,500	\$ 216,368	\$ 368,868
2014	161,250	230,506	391,756
2015	170,000	244,286	414,286
2016	173,750	257,234	430,984
2017	182,500	250,649	433,149
2018-2022	771,250	1,573,290	2,344,540
2023-2027	1,128,750	1,269,127	2,397,877
2028-2032	985,000	679,078	1,664,078
2033-2037	1,168,750	368,816	1,537,566
2038-2040	590,000	70,105	660,105
	<u>\$ 5,483,750</u>	<u>\$ 5,159,459</u>	<u>\$ 10,643,209</u>

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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 these coverages. 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 certain specified purposes, including capital projects and debt service in the amount of \$677,912 at September 30, 2012. The water and sewer fund has restricted cash held in trust by GTUA in amount of \$201,779 at September 30, 2012 that will be used for water and sewer system capital improvements and repayment of contractual obligation.

Commitments and Contingencies

During the year ended September 31, 2012, the Texas Commission of Environmental Quality (TCEQ) assessed a possible fine in the amount of \$30,845 relating to the City's sewer plant. However, in lieu of the fine the City submitted a request to the TCEQ for a supplemental environmental project (SEP) plan. Subsequent to year end, the TCEQ approved the SEP plan whereby the City was required to contribute the fine amount to a third party recipient, Texas Association of Resource Conservation & Development Areas, for a household hazardous waste program by January 14, 2013. The City contributed \$30,845 to the waste program as required.

Interfund Transfers

During September 30, 2012, the capital projects fund transferred \$80,000 to the general fund for capital outlays.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

Note 8: Other Information (continued)

Significant Component Unit Disclosures

The EDC has various notes payable outstanding at September 30, 2012, the following schedule summarizes the changes for the year then ended:

Note payable	Balance 9/30/11	Additions	Retirements	Balance 9/30/12	Due Within One Year
CDC	\$ -	\$20,000	\$ (2,874)	\$ 17,126	\$ 3,900
Railspur	91,453	-	(22,216)	69,237	22,662
Building	146,654	-	(3,459)	143,195	3,738
	<u>\$ 238,107</u>	<u>\$20,000</u>	<u>\$ (28,549)</u>	<u>\$ 229,558</u>	<u>\$ 30,300</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, 2012 is \$69,237.

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%. The outstanding principal balance of the note payable at September 30, 2012 is \$143,195.

On January 16, 2012, the EDC entered into a note payable agreement with CDC in the original principal amount of \$20,000. The proceeds of the note were utilized for the EDC's allocated portion on the Atmos gas line project. The note is un-collateralized. The note is payable in monthly installments of principal and interest beginning January 16, 2012 through the maturity date in fiscal year 2017. The note has an interest rate of 2%. The outstanding principal balance of the note payable at September 30, 2012 is \$17,126.

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

Note 8: Other Information (continued)

The principal and interest requirements related to the notes payable as of September 30, 2012 are as follows:

Year	Principal	Interest	Totals
2013	\$ 30,300	\$ 9,384	\$ 39,684
2014	32,102	7,582	39,684
2015	161,965	6,412	168,377
2016	4,128	84	4,212
2017	1,063	12	1,075
	<u>\$ 229,558</u>	<u>\$ 23,474</u>	<u>\$ 253,032</u>

The EDC received a Rural Business Enterprise Grant where by the proceeds were used to assist local businesses through loans. At September 30, the EDC had various notes receivable, net of allowances, from local businesses in the amount of \$85,226. The notes bear interest at 2%.

Note 9: Stewardship, Compliance, and Accountability

By its nature as a local government, the City and its component units are subject to various federal, state, and local laws and regulations related to the City budget. The City's revenue from ambulance services and municipal court fines was less than budget by \$207,638 and \$115,754, respectively. The City did not amend the budget but did reduce expenditures for the related services for the year ended September 30, 2012.

Note 10: Prior Period restatement of Fund Balances and Net Assets

The following is a summary of the restatement of beginning fund balances and net assets:

Fund Balance/Net Assets	General Fund	Debt Service Fund	Water/Sewer Fund	Governmental Activities
As reported at September 30, 2011	\$ 872,353	\$ 25,792	\$ 5,256,107	\$ 1,430,127
Accrued interest recorded in incorrect period	-	-	(466,327)	-
Debt payments recorded in incorrect period	-	-	37,500	-
Long term debt reported in the funds	142,600	239,100	-	-
Unrecorded liability	(291,500)	-	-	(291,500)
Various expenses recorded in incorrect period	11,161	36,805	(4,384)	9,064
Restated at September 30, 2011	<u>\$ 734,614</u>	<u>\$ 301,697</u>	<u>\$ 4,822,896</u>	<u>\$ 1,147,691</u>

CITY OF VAN ALSTYNE, TEXAS
Notes to the Financial Statements
September 30, 2012

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 as described in note 8.

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
REVENUES				
Taxes:				
Property	\$ 693,177	\$ 693,177	\$ 690,997	\$ (2,180)
General sales and use	474,767	474,767	565,072	90,305
Franchise	140,000	140,000	162,352	22,352
Ambulance services	1,028,608	1,028,608	820,970	(207,638)
Municipal courts	790,000	790,000	674,246	(115,754)
Intergovernmental	48,750	48,750	59,131	10,381
Other	46,550	46,550	72,228	25,678
License and permits	19,200	19,200	31,544	12,344
Lease income - S&N	-	-	21,998	21,998
Library	6,210	6,210	12,981	6,771
Grants	16,000	16,000	12,325	(3,675)
Investment earnings	2,100	2,100	1,989	(111)
Total Revenues	3,265,362	3,265,362	3,125,833	(139,529)
EXPENDITURES				
Current:				
Fire protection and ambulance	938,659	938,659	843,210	95,449
Police	847,405	847,405	721,407	125,998
General government	449,389	449,389	439,025	10,364
Municipal court	361,511	361,511	325,708	35,803
Emergency communications	184,440	184,440	180,761	3,679
Streets	169,857	169,857	173,786	(3,929)
Library	167,521	167,521	161,791	5,730
Parks	153,181	153,181	152,360	821
Debt Service:				
Principal	-	-	165,264	(165,264)
Interest	-	-	12,412	(12,412)
Capital Outlays:				
Streets	-	-	86,519	(86,519)
Police	-	-	30,978	(30,978)
Fire and ambulance	-	-	3,454	(3,454)
General government	-	-	3,384	(3,384)
Total expenditures	3,271,963	3,271,963	3,300,059	(28,096)
Excess (deficiency) of revenues over (under) expenditures	(6,601)	(6,601)	(174,226)	(167,625)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	80,000	80,000
Sale of general capital assets	-	-	15,320	15,320
Total Other financing Sources (Uses)	-	-	95,320	95,320
Net change in fund balances	\$ (6,601)	\$ (6,601)	\$ (78,906)	\$ (72,305)

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

CITY OF VAN ALSTYNE, TEXAS
Required Supplementary Information
September 30, 2012

RETIREMENT SYSTEM – PENSION FUNDING DATA

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide, Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually and these can be obtained by request at the following address: TMRS, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began 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 the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employer's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. The plan provisions are adopted by the governing body of the City within options available in the statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Deposit Rate:	6%
Matching Ratio (City to Employee):	2 to 1
Member Vested After:	5 years of service
Retirement Eligibility:	Minimum age 60 with 5 years of service Any age with 20 years of service

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. 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 currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution 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. December 31, 2011 valuation is effective for rates beginning January 1, 2012).

CITY OF VAN ALSTYNE, TEXAS
Required Supplementary Information
September 30, 2012

RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)

Funding Status and Progress

Even though the substance of the City's plan is not to provide a defined benefit in some form, additional disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation to the monetary credits granted by the City for services rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess programs made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB 5 for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the actuarial valuation as of December 31, 2011.

Schedule of Actuarial Liabilities and Funding Progress

<u>Actuarial Valuation Date</u>	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Value of Assets	\$ 2,186,398	\$ 1,916,000	\$ 1,546,000	\$ 1,335,000
Accrued Liability	\$ 2,620,299	\$ 2,484,000	\$ 2,064,000	\$ 1,810,000
(Unfunded) Accrued Liability	\$ (433,901)	\$ (568,000)	\$ (518,000)	\$ (475,000)
Percentage Funded	83.4%	77.1%	74.9%	73.8%
Annual Covered Payroll	\$ 1,454,824	\$ 1,503,000	\$ 1,254,000	\$ 1,144,000
Ratio of Unfunded (Funded) to Annual Covered Payroll	-29.8%	-37.8%	-41.3%	-41.5%
 <u>Financial Year ended September 30,</u>	 <u>2012</u>	 <u>2011</u>	 <u>2010</u>	 <u>2009</u>
Contributions Made	\$ 134,467	\$ 146,871	\$ 128,223	\$ 94,082

CITY OF VAN ALSTYNE, TEXAS
Required Supplementary Information
September 30, 2012

RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)

Actuarial Information (December 31, 2011)

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
GASB 25 Equivalent Single	
Amortization Period	26.3 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
Includes Inflation At	3.0%
Cost-of-Living-Adjustments	2.1%
City-specific Assumptions:	
Payroll growth assumption	3.0%

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 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

COMPLIANCE AND INTERNAL CONTROLS SECTION



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*

April 9, 2013

To the City Council of the
City of Van Alstyne, Texas

We have audited the financial statements of the City of Van Alstyne, Texas (the "City") as of and for the year ended September 30, 2012, and have issued our report thereon dated April 9, 2013. 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 opinion 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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*.

We noted certain matters that we reported to management of the City of Van Alstyne, Texas in a separate letter dated April 9, 2013.

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

A handwritten signature in black ink that reads "S. J. Follett & Company PLLC". The signature is written in a cursive, flowing style.

Tom Bean, Texas
April 9, 2013