

CITY OF VAN ALSTYNE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2015

City of Van Alstyne, Texas
Annual Financial Report
For the Year Ended September 30, 2015

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FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Van Alstyne, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Van Alstyne, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 42 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 43 and 44 is also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Van Alstyne, Texas internal control over financial reporting and compliance.

Ja Farrell and Abbott PLLC

Tom Bean, Texas
June 14, 2016

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

Our discussion and analysis of City of Van Alstyne's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2015. 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 FY15 by \$6,569,431. This is an increase of \$667,955 over FY14's restated net position value of \$5,901,476. Unrestricted net position at the close of FY15 is \$780,713 and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$667,955 or 11%, as a result of this year's operations.
- The City's governmental fund types on page 10 and 12 reported combined ending fund balances of \$1,544,160, which is a decrease of \$198,492 in comparison with the prior year amount of \$1,742,652.
- The unassigned governmental fund balances of \$701,868 (45%) are available for spending at the City's discretion. The remainder of the governmental fund balances are restricted for a specific purpose, primarily debt service. For 2015, the General Fund had approximately \$313,000 in monthly expenses, so the unassigned fund balance of \$701,868 represents 2 plus months of expenses.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 8 and 9). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 10) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements (starting on page 17) provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

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

The Statement of Net Position and the Statement of Activities

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

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

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions, 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary – use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 11 and 14.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position serves as one useful indicator of a government's financial position. In the case of the City, net position is \$6,569,431 at the close of FY15. Four percent (4%) of the City's net position is invested in capital assets; land, buildings, infrastructure, machinery and equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

The following is a summary of the Statement of Net Position and the Statement of Activities as of and for the year ended September 30, 2015:

City of Van Alstyne - Statement of Net Position

	<u>FY14</u>	<u>FY15</u>
Current and other assets	\$6,538,165	\$8,259,734
Capital assets	12,713,042	13,853,127
Total assets	<u>19,251,207</u>	<u>22,112,861</u>
Deferred outflow of resources	-	150,630
Total deferred outflow of resources	<u>-</u>	<u>150,630</u>
Current liabilities	2,296,730	1,606,341
L-T liabilities	10,685,138	14,087,719
Total liabilities	<u>12,981,868</u>	<u>15,694,060</u>
Net position		
Net investment in capital assets	1,809,119	295,207
Restricted	2,994,290	5,493,511
Unrestricted	1,465,930	780,713
Total net position	<u>\$ 6,269,339</u>	<u>\$ 6,569,431</u>

City of Van Alstyne - Statement of Activities

Revenues:		
Program revenues	\$ 3,566,633	\$ 4,064,441
Operating grants and contributions	21,786	38,939
Capital grants and contributions	38,465	-
General revenues	2,326,779	2,354,418
Total revenues	<u>5,953,663</u>	<u>6,457,798</u>
Expenses:		
Water, sewer, and sanitation	2,179,712	2,250,416
Police and communications	833,507	797,923
Fire protection and ambulance	930,847	938,187
General government	545,020	765,343
Streets and infrastructure	466,855	239,845
Municipal court	262,492	344,687
Parks	176,068	183,644
Library	162,836	161,860
Interest	112,962	107,938
Total expenses	<u>5,670,299</u>	<u>5,789,843</u>
Increase in net position	283,364	667,955
Net position - beginning of year, restated	5,985,975	5,901,476
Net position - end of year	<u>\$ 6,269,339</u>	<u>\$ 6,569,431</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net position of the City's governmental activities increased from the restated \$1,439,020 to \$1,866,651. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$1,077,992 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 \$1,544,160 compared to \$1,742,652 in FY14. This represents a decrease of \$198,492 compared to last year's increase of \$602,091.

Revenues for the City's General Fund (as shown on page 12) were \$3,388,188 while total expenditures and other uses were \$3,764,079. This resulted in a deficiency of revenues under expenditures in the amount of \$375,891 from current operations. Last year's result was a deficiency of revenues under expenditures of \$307,390. The unassigned portion of \$701,868 represents only 2.24 months of operating expenses as compared to the optimal 3 – 6 months.

The City's Water and Sewer Funds (as presented in the statement of net position on page 15) reported a net position of \$4,702,780 compared to the restated net position \$4,462,456 in FY14. This represents an increase of \$240,324. Most of the increase is attributable to increased water revenues.

Revenues for the City's Water and Sewer Fund (as shown on page 15) were \$2,488,857 while total expenses were \$1,892,640. These totals plus non-operating items resulted in an increase in net position of \$240,324. Last year's result was a net increase of \$42,652. FY14 net position of \$339,659 decreased to a negative (\$297,279) in FY15. The negative unrestricted portion of net position (\$297,279) does not allow for any reserves for the Water and Sewer Fund. This decrease is the result of operational expenses with increased debt and restricted deposits held by GTUA.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original adopted budget for the General Fund was not amended. See General Fund Balances – Budget and Actual as presented on page 42. The following is a summary of budget variances for FY15:

Revenues: Revenues were \$178,305 less than budgeted

- General sales and use taxes were \$82,813 (13%) more than budgeted
- Ambulance services were \$321,460 (37%) less than budgeted

Expenses: Expenses were \$207,690 more than budgeted

- Ambulance services capital outlays were \$307,035 (519%) more than budgeted
- Streets were \$207,051 (67%) less than budgeted
- Police were \$170,613 (23%) less than budgeted

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets net of accumulated depreciation for all activities as of September 30, 2015 amounts to \$13,853,127, compared to \$12,713,042 at September 30, 2014. This investment in capital assets includes land, buildings and improvements, street improvements, city parks, machinery and equipment, and water and sewer facilities. Major capital asset purchases during the current fiscal year included the purchase of land, equipment, and sewer system improvements.

Long-term Debt

At year-end, the City had total contractual obligations, bonds and other debt outstanding of \$13,563,923. The City entered into new debt during the year in the original principal amount of \$2,875,000 for the purchase and construction of water and sewer assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic factors currently affect the City and were considered in developing the 2015 – 2016 budgets.

- Water/wastewater rates were increased 4-8% to keep up with costs and inflation. To keep rates competitive staff worked with City Council to address the ongoing need for infrastructure repair work and the ongoing utility debt payments. Rates are primarily addressed by forecasting water sales and impact fees through historical consumption trends and system needs.
- Property tax rate remained stable at \$0.612639 per \$100 assessed valuation.
- Departmental budget expenditures are anticipated to be similar to FY 2015 unless revenues increase significantly during the second half of FY 2016.
- In 2015 eighty six single family permits have been issued. This is a 121% increase over the thirty-nine permits issued in 2014.
- Sales tax revenues continue to increase providing funds to Street Maintenance and Repair, Economic Development Corporation, Community Development Corporation, and Property Tax Relief.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Van Alstyne, Texas
Statement of Net Position
September 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Community Development Corporation
ASSETS					
Cash and cash equivalents	\$ 1,443,295	\$ 752,796	\$ 2,196,091	\$ 196,855	\$ 262,237
Receivables, net	1,192,131	220,293	1,412,424	23,288	23,556
Notes receivable, net	-	-	-	64,549	-
Deposits held in trust by GTUA	-	4,651,219	4,651,219	-	-
Capital assets not being depreciated:					
Land	56,958	312,872	369,830	261,317	-
Construction in progress	-	628,252	628,252	-	-
Capital Assets net of accumulated depreciation:					
Buildings and improvements	106,987	-	106,987	53,328	-
Machinery and equipment	761,969	465,744	1,227,713	-	-
Parks	738,787	-	738,787	-	-
Streets and infrastructure	1,105,702	9,675,856	10,781,558	-	-
Total Assets	<u>5,405,829</u>	<u>16,707,032</u>	<u>22,112,861</u>	<u>599,337</u>	<u>285,793</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - actual experience vs assumptions	12,159	2,130	14,289	-	-
Deferred outflows of resources - investment experience	24,481	4,288	28,769	-	-
Deferred outflows of resources - TMRS contributions	91,538	16,034	107,572	-	-
Total Deferred Outflows of Resources	<u>128,178</u>	<u>22,452</u>	<u>150,630</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Accounts payable	155,713	97,445	253,158	2,266	22,444
Accrued liabilities	11,528	12,332	23,860	1,430	-
Accrued interest	26,041	951,199	977,240	-	-
Customer deposits	-	128,404	128,404	-	-
Unearned revenue	205,334	18,345	223,679	-	-
Noncurrent liabilities:					
Net pension liability	444,706	79,090	523,796	-	-
Due within one year	351,348	449,898	801,246	-	-
Due in more than one year	2,472,686	10,289,991	12,762,677	-	-
Total Liabilities	<u>3,667,356</u>	<u>12,026,704</u>	<u>15,694,060</u>	<u>3,696</u>	<u>22,444</u>
NET POSITION					
Net investment in capital assets	(53,633)	348,840	295,207	314,645	-
Restricted for:					
Deposits held in trust by GTUA	-	4,651,219	4,651,219	-	-
Debt service	498,379	-	498,379	-	-
Capital projects	207,937	-	207,937	-	-
Court security and technology	82,126	-	82,126	-	-
Police seizure	28,514	-	28,514	-	-
Special projects - S&N	8,739	-	8,739	-	-
Library technology	16,597	-	16,597	-	-
Unrestricted	1,077,992	(297,279)	780,713	280,996	263,349
Total Net Position	<u>\$ 1,866,651</u>	<u>\$ 4,702,780</u>	<u>\$ 6,569,431</u>	<u>\$ 595,641</u>	<u>\$ 263,349</u>

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

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Economic Development Corporation	Community Development Corporation
					Governmental Activities	Business-Type Activities			
Primary government:									
Governmental activities:									
Fire protection and ambulance	\$ 938,187	\$ 619,196	\$ 13,071	\$ -	\$ (305,920)	\$ (305,920)			
General government	765,343	102,842	-	-	(662,501)	(662,501)			
Police	593,069	-	1,014	-	(592,055)	(592,055)			
Municipal court	344,687	727,020	-	-	382,333	382,333			
Streets and infrastructure	239,845	121,563	500	-	(117,782)	(117,782)			
Parks	183,644	-	22,074	-	(161,570)	(161,570)			
Emergency communications	204,853	-	-	-	(204,853)	(204,853)			
Library	161,860	4,963	2,280	-	(154,617)	(154,617)			
Interest on long-term debt	107,938	-	-	-	(107,938)	(107,938)			
Total governmental activities	3,539,427	1,575,584	38,939	-	(1,924,904)	(1,924,904)			
Business-type activities:									
Water, sewer, and sanitation	2,250,416	2,488,857	-	-	-	238,441	238,441		
Total business-type activities	2,250,416	2,488,857	-	-	-	238,441	238,441		
Total primary government	\$ 5,789,843	\$ 4,064,441	\$ 38,939	\$ -	(1,924,904)	238,441	(1,686,463)		
Component units:									
Economic Development Corporation	\$ 46,916	\$ -	\$ -	\$ -			\$ (46,916)	\$ -	\$ -
Community Development Corporation	51,482	-	-	-			-	(51,482)	(51,482)
Total component units	\$ 98,398	\$ -	\$ -	\$ -			\$ (46,916)	\$ -	\$ (51,482)
General revenues:									
Property taxes					1,339,681	-	1,339,681	-	-
General sales and use taxes					728,813	-	728,813	121,469	121,469
Franchise taxes					188,285	-	188,285	-	-
Insurance proceeds					30,135	-	30,135	-	-
Miscellaneous					42,498	-	42,498	-	-
Investment earnings					4,148	18,801	22,949	1,209	322
Gain on sale of assets					2,057	-	2,057	-	-
Transfers in (out)					16,918	(16,918)	-	-	-
Total general revenues					2,352,535	1,883	2,354,418	122,678	121,791
Change in net position					427,631	240,324	667,955	75,762	70,309
Net position - beginning, restated					1,439,020	4,462,456	5,901,476	519,879	193,040
Net position - ending					\$ 1,866,651	\$ 4,702,780	\$ 6,569,431	\$ 595,641	\$ 263,349

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

City of Van Alstyne, Texas
Balance Sheets
Governmental Funds
September 30, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 759,335	\$ 476,023	\$ 207,937	\$ 1,443,295
Due from other funds	-	20,856	-	20,856
Receivables, net of allowance	1,173,220	18,911	-	1,192,131
Total assets	1,932,555	515,790	207,937	2,656,282
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	157,211	(1,500)	-	155,711
Accrued liabilities	11,528	-	-	11,528
Due to other funds	20,856	-	-	20,856
Total liabilities	189,595	(1,500)	-	188,095
Deferred inflows of resources:				
Unavailable revenues				
Ambulance	645,893	-	-	645,893
Lease income	205,334	-	-	205,334
Property taxes	43,334	18,911	-	62,245
Court fines	10,555	-	-	10,555
Total deferred inflows of resources	905,116	18,911	-	924,027
Fund balances:				
Restricted for:				
Debt service	-	498,379	-	498,379
Capital projects	-	-	207,937	207,937
Court security and technology	82,126	-	-	82,126
Police seizure	28,514	-	-	28,514
Special projects - S&N	8,739	-	-	8,739
Library technology	16,597	-	-	16,597
Unassigned	701,868	-	-	701,868
Total fund balances	837,844	498,379	207,937	1,544,160
Total liabilities, deferred inflows of resources and fund balances	\$ 1,932,555	\$ 515,790	\$ 207,937	\$ 2,656,282

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

City of Van Alstyne, Texas
Reconciliation of the Governmental Funds Balance Sheets
to the Statement of Net Position
For the Year Ended September 30, 2015

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

Total fund balances - governmental funds (pg 10)	\$ 1,544,160
Capital assets used in governmental activities are not financial resources. Therefore, they are not reported in the governmental funds.	2,770,403
Delinquent property taxes, ambulance revenue, and court fines are not current financial resources. Therefore, they are deferred in the governmental funds.	718,693
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.	(2,824,036)
Other net amounts, including interest payable on long term debt are not due in the current period. Therefore, they are not reported in the governmental funds	(26,041)
Net pension liability is not a current financial use; therefore, it is not reported in the governmental funds.	(444,706)
TMRS pension contributions after the December 31, 2014 measurement date are expensed in the governmental funds, but are recognized as deferred outflows of resources on the Statement of Net Position.	91,538
Deferred outflows of resources due to pension investment actual experience vs assumptions are not current financial resources/uses; therefore they are not reported in the governmental funds. The net of these amounts is:	36,640
Net position of governmental activities (pg 8)	<u>\$ 1,866,651</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, 2015

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 1,001,883	\$ 315,286	\$ -	\$ 1,317,169
General sales and use	728,813	-	-	728,813
Franchise	188,285	-	-	188,285
Municipal court	732,753	-	-	732,753
Ambulance services	544,814	-	-	544,814
Street development fees	-	-	121,563	121,563
License and permits	92,907	-	-	92,907
Donations and other	53,160	1,397	-	54,557
Lease income - S&N	22,000	-	-	22,000
Intergovernmental	12,535	-	-	12,535
Library	7,243	-	-	7,243
Investment earnings	3,795	-	353	4,148
Total revenues	<u>3,388,188</u>	<u>316,683</u>	<u>121,916</u>	<u>3,826,787</u>
EXPENDITURES				
Current:				
Fire protection and ambulance	844,509	-	-	844,509
General government	721,137	-	-	721,137
Police	578,140	-	-	578,140
Municipal court	344,197	-	-	344,197
Emergency communications	203,444	-	-	203,444
Library	151,765	-	-	151,765
Streets and infrastructure	100,283	-	19,549	119,832
Parks	90,692	-	-	90,692
Debt Service:				
Principal	139,973	200,000	-	339,973
Interest	17,485	90,761	-	108,246
Capital Outlay:				
Ambulance	366,209	-	-	366,209
Streets	105,443	-	-	105,443
Police	81,658	-	-	81,658
Library	10,975	-	-	10,975
General government	8,169	-	-	8,169
Total expenditures	<u>3,764,079</u>	<u>290,761</u>	<u>19,549</u>	<u>4,074,389</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(375,891)</u>	<u>25,922</u>	<u>102,367</u>	<u>(247,602)</u>
OTHER FINANCING SOURCES(USES)				
Proceeds from the sale of general capital assets	2,057	-	-	2,057
Transfers in (out)	50,452	-	(33,534)	16,918
Insurance proceeds	-	-	30,135	30,135
Total other financing sources (uses)	<u>52,509</u>	<u>-</u>	<u>(3,399)</u>	<u>49,110</u>
Net change in fund balance	(323,382)	25,922	98,968	(198,492)
Fund balances - beginning	1,161,226	472,457	108,969	1,742,652
Fund balances - ending	<u>\$ 837,844</u>	<u>\$ 498,379</u>	<u>\$ 207,937</u>	<u>\$ 1,544,160</u>

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

City of Van Alstyne, Texas
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the Year Ended September 30, 2015

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

Net change in fund balances - total governmental funds (pg 12)	\$ (198,492)
--	--------------

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 capital outlays exceeds depreciation.	204,978
--	---------

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	339,973
---------------------------------------	---------

Governmental funds report some prior year tax, court, and ambulance revenues as income in the current year. However, in the statement of activities, the revenue is recognized in the year in which it is earned.	91,161
---	--------

Various other reclassification and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include changes in accrued interest and pension expense. The net effect of these reclassifications and recognitions is to decrease net position.	(9,989)
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Change in net position of governmental activities (pg 9)	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 427,631</div>
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The notes to the financial statements are an integral part of these financial statements.

City of Van Alstyne, Texas
Statement of Net Position
Proprietary Fund
September 30, 2015

	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 752,796
Accounts receivables, net	220,293
Total current assets	<u>973,089</u>
Noncurrent Assets:	
Deposits held in trust by GTUA	4,651,219
Capital assets:	
Land	312,872
Construction in progress	628,252
Machinery and equipment	723,162
Infrastructure	13,812,138
Less accumulated depreciation	<u>(4,393,700)</u>
Total noncurrent assets	<u>15,733,943</u>
Total assets	<u>16,707,032</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - actual experience vs assumptions	2,130
Deferred outflows of resources - investment experience	4,288
Deferred outflows of resources - TMRS contributions	16,034
Total deferred outflows of resources	<u>22,452</u>
Total assets and deferred outflows of resources	<u>\$ 16,729,484</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 97,445
Accrued liabilities	12,332
Deferred revenue	18,345
Customer deposits payable	128,404
Accrued interest payable	951,199
Compensated absences	6,005
Contractual obligations - current	354,898
Bonds payable - current	95,000
Total current liabilities	<u>1,663,628</u>
Noncurrent Liabilities:	
Net pension liability	79,090
Contractual obligations	7,058,986
Bonds payable	3,225,000
Total noncurrent liabilities	<u>10,363,076</u>
Total liabilities	<u>12,026,704</u>
NET POSITION	
Net investment in capital assets	\$ 348,840
Restricted deposits held in trust by GTUA	4,651,219
Unrestricted	<u>(297,279)</u>
Total net position	<u>\$ 4,702,780</u>

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

City of Van Alstyne, Texas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2015

	Water & Sewer Fund
Operating Revenues	
Water	\$ 1,257,393
Sewer	869,090
Sanitation	189,677
Tap and connection fees	70,816
Other services	54,682
Late charges and penalties	47,199
Total operating revenues	<u>2,488,857</u>
Operating Expenses	
Depreciation and amortization	377,101
Maintenance and repairs	485,172
Contractual services	420,778
Personnel services	287,443
Utilities	167,311
Administrative	28,887
Total operating expenses	<u>1,766,692</u>
Operating income (loss)	<u>722,165</u>
Nonoperating Revenues (Expenses)	
Interest income	18,801
Interest expense	(357,776)
Bond issuance costs	(108,110)
Fiscal agent fees	(17,838)
Transfers in (out)	(16,918)
Total nonoperating revenue (expenses)	<u>(481,841)</u>
Change in net position	240,324
Net position - beginning, as restated	<u>4,462,456</u>
Net position - ending	<u><u>\$ 4,702,780</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, 2015

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers and users	\$ 2,438,511
Cash paid to employees	(294,287)
Cash paid to suppliers	(1,131,729)
Net cash provided by operating activities	<u>1,012,495</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in (out) to other funds	(16,918)
Net cash provided by noncapital financing activities	<u>(16,918)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from debt issuance	2,875,000
Cash to GTUA reserve accounts	(2,361,449)
Cash paid for acquisition and construction of capital assets	(1,314,022)
Cash paid to escrow agent	(17,838)
Cash paid for bond issuance costs	(108,110)
Interest paid on long-term debt	(72,254)
Principal payments on debt	(388,197)
Net cash provided by (used for) capital and related financing activities	<u>(1,386,870)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	18,801
Net cash provided by investing activities	<u>18,801</u>
Net increase (decrease) in cash and cash equivalents	(372,492)
Cash and cash equivalents, October 1, 2014	<u>1,125,288</u>
Cash and cash equivalents, September 30, 2015	<u><u>752,796</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	722,165
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation and amortization	377,101
(Increase) decrease in accounts receivable	(50,346)
Increase (decrease) in accounts payable	(8,036)
Increase (decrease) in deferred revenue	(42,960)
Increase (decrease) in customer deposits	15,239
Increase (decrease) in other liabilities	(668)
Net cash provided by operating activities	<u>\$ 1,012,495</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, 2015

Note 1: Summary of Significant Accounting Policies

A. Description of government-wide financial statements

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

B. Reporting entity

The City of Van Alstyne, Texas (City) operates under a city manager form of government. The general governmental functions include fire protection, ambulance services, general administrative services, police protection, municipal court, streets and infrastructure, parks, emergency communications, and library services. Enterprise Funds are used to account for the operations of its water, sewer, and sanitation services.

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

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

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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

C. Basis of presentation – government-wide financial statements (continued)

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

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. For 2015, all funds except the Capital Projects Fund are considered major.

The City reports the following governmental funds:

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

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

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

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

D. Basis of presentation – fund financial statements (continued)

between funds included in the business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

E. Measurement focus and basis of accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

E. Measurement focus and basis of accounting (continued)

requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measureable and available only when cash is received by the City.

F. Budgetary information

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

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

Cash and Cash Equivalents

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

Use of Estimates

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

Capital Assets

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

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

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate financial statement element, deferred outflows of resources, which represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. As a component of implementing GASB Statement No. 68, the City's has several items that qualify in this category that are recorded as deferred outflows in the government-wide Statement of Net Position and fund level financial statements for the proprietary fund Statement of Net Position. First, is the City's pension plan contributions made from the measurement date of the pension plan to the current fiscal year end are deferred and will be recognized in the subsequent fiscal year end. Second, the difference between projected and actual investment earnings that are amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Last, the difference in the projected and actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The amount is amortized over a period of years determined by the TMRS actuary. The differences are amortized over the average remaining service life of all participants in the respective pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

In addition to liabilities, the financial statements will sometimes report a separate financial statement element, deferred inflows of resources that represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has several items that qualify in this category, which arise only under a modified accrual basis of accounting. Accordingly, the items labeled unavailable revenues are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes, court fines, ambulance billing, and a lease. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred outflows are used to report consumption of net position by the City that are applicable to a future reporting period. Deferred outflows of resources are used to report acquisitions of net position by the City that are applicable to future reporting periods. The deferred outflow is reclassified to revenue on the government-wide financial statements.

Net Position

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Fund Balances

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

As of September 30, 2015, 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, 2015

Note 1: Summary of Significant Accounting Policies (continued)

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

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

Transactions Between Funds

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

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

H. Revenues and expenditures/expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function 2) grants and contributions. All taxes, including those dedicated for a specific purpose, are reported as general revenues.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and products in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services.

The Water and Sewer Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies (continued)

H. Revenues and expenditures/expenses (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 2015 was .612639 per \$100 of assessed value for General Fund operation and Debt Service.

Sales Taxes

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

Compensated Absences

City employees accrue 40 hours of vacation leave after six full months of service. After that, regular full time employees earn 80 to 160 hours of paid vacation leave based on years of service. The City allows its employees to carryover earned and unused vacation hours at an amount not to exceed one-half of the hours they are eligible to receive that year. After six full months of employment, city employees accumulate sick leave at the rate of 60 hours per year with a maximum of 720 hours. Accumulated sick leave will not be compensated for in any way at the time of termination. The accrued compensated absences for governmental and business-type activities at September 30, 2015 are \$51,198 and \$6,005, respectively.

Note 2: Cash and Cash Equivalents

As of September 30, 2015, the City maintained all banking accounts at Texas Star and Independent Bank.

At September 30, 2015, the City's total cash and cash equivalents are \$2,196,091, which consists of \$1,053 in petty cash and \$2,195,038 held by depository banks. The cash and cash equivalents held by banks is insured for \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and \$2,567,998 in securities pledged in the City's name by the depository bank to collateralize 100% of all remaining deposits.

At September 30, 2015, the EDC has cash and cash equivalents in the amount of \$196,805 held by depository banks and fully insured by the FDIC.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 2: Cash and Cash Equivalents (continued)

At September 30, 2015, the CDC has cash and cash equivalents in the amount of \$262,237 held by depository banks of which \$250,000 is insured by the FDIC and \$12,237 is uninsured at September 30, 2015. The CDC does not believe there is any significant risk involved with this uninsured cash.

Note 3: Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 56,958	\$ -	\$ -	\$ -	56,958
Construction in progress	53,436	-	(53,436)	-	-
Depreciable capital assets:					
Building and improvements	469,448	16,394	-	-	485,842
Machinery and equipment	1,901,516	450,616	-	(94,276)	2,257,856
Parks	1,843,721	-	-	-	1,843,721
Streets and infrastructure	1,743,658	105,445	53,436	-	1,902,539
Totals	6,068,737	572,455	-	(94,276)	6,546,916
Less accumulated depreciation	(3,501,741)	(367,477)	-	92,705	(3,776,513)
Governmental activities capital assets, net	<u>\$ 2,566,996</u>	<u>\$ 204,978</u>	<u>\$ -</u>	<u>\$ (1,571)</u>	<u>\$ 2,770,403</u>
Business-Type Activities					
Capital assets not being depreciated:					
Land	\$ 274,712	\$ 38,160	\$ -	\$ -	\$ 312,872
Construction in progress	174,260	453,992	-	-	628,252
Depreciable capital assets:					
Waterworks system	9,006,254	403,311	-	-	9,409,565
Sewer system	4,103,573	299,000	-	-	4,402,573
Machinery and equipment	603,603	119,559	-	-	723,162
Totals	14,162,402	1,314,022	-	-	15,476,424
Less accumulated depreciation	(4,016,599)	(377,101)	-	-	(4,393,700)
Business-type activities capital assets, net	<u>\$10,145,803</u>	<u>\$ 936,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,082,724</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 3: Capital Assets (continued)

Depreciation expense for the year ended September 30, 2015 was charged to functions of the primary government and the business-type activities as follows:

Governmental Activities:	
General Government	\$ 12,944
Library	9,295
Ambulance	39,147
Fire Department	50,956
Police Department	42,495
Parks	92,627
Streets	120,013
	<u>\$ 367,477</u>
Business-Type Activities:	
Water and sewer	\$ 377,101
	<u>\$ 377,101</u>

Note 4: Receivables

Receivables as of the year ended September 30, 2015 for the governmental funds and the proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Water and Sewer Fund	Total
Ambulance	\$ 6,187,914	\$ -	\$ -	\$6,187,914
Municipal court	961,508	-	-	961,508
Leases	205,334	-	-	205,334
Sales taxes	139,730	-	-	139,730
Property taxes	44,219	18,911	-	63,130
Franchise & other	34,495	-	-	34,495
Accounts	-	-	225,207	225,207
	<u>7,573,200</u>	<u>18,911</u>	<u>225,207</u>	<u>7,817,318</u>
Less: allowance for doubtful accounts	(6,399,980)	-	(4,914)	(6,404,894)
Net	<u>\$ 1,173,220</u>	<u>\$ 18,911</u>	<u>\$ 220,293</u>	<u>\$ 1,412,424</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 4: Receivables (continued)

Governmental funds report unavailable revenue in connection with receivables for revenue that are not considered available to liquidate liabilities of the current period. At September 30, 2015, the components of the unavailable revenue in the General and Debt Service Funds are as follows:

Ambulance services	\$ 645,893
Leases	205,334
Delinquent property taxes	62,245
Municipal court fines	10,555
	<u>\$ 924,027</u>

Note 5: Inter-fund Transfers and Due to/from

The Capital Projects Fund transferred funds to the General Fund due to the closure of the Park Construction account. The Water/Sewer Fund transferred funds to the General Fund for reimbursement of salaries. The General Fund owes the Debt Service for Bond interest. The composition of inter-fund transfers and due to/from in and out for the year ended September 30, 2015 is as follows:

		Transfers In:			
		General Fund	Capital Projects Fund	Water/Sewer Fund	Total
Transfers Out:					
General Fund	\$ -	\$ -	-	-	-
Capital Projects Fund	33,534	-	-	-	33,534
Water/Sewer Fund	16,918	-	-	-	16,918
Total	\$ 50,452	\$ -	-	-	\$ 50,452

		Due to:			
		General Fund	Capital Projects Fund	Debt Service Fund	Total
Due from:					
General Fund	\$ -	\$ -	-	\$ 20,856	\$ 20,856
Capital Projects Fund	-	-	-	-	-
Water/Sewer Fund	-	-	-	-	-
Total	\$ -	\$ -	-	\$ 20,856	\$ 20,856

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 6: Changes in Long-Term Debt

The following schedule summarizes the changes in long term debt for the year ended September 30, 2015:

	Balance 9/30/2014	Additions	Retirements	Balance 9/30/2015	Due within one year
Governmental Activities					
<u>Contractual obligations and bonds payable:</u>					
S & N project - Texas Capital Fund	\$ 225,500	\$ -	\$ (22,000)	\$ 203,500	\$ 22,000
2006 series - Bank of America	1,180,000	-	(175,000)	1,005,000	185,000
2011A series - Bank of New York	980,000	-	(25,000)	955,000	30,000
2014 Govt. Capital Corp. #6603	400,000	-	(39,452)	360,548	35,223
2014 Govt. Capital Corp. #6602	275,000	-	(51,945)	223,055	53,392
	<u>3,060,500</u>	<u>-</u>	<u>(313,397)</u>	<u>2,747,103</u>	<u>325,615</u>
<u>Notes payable:</u>					
Pot hole truck - Landmark	52,224	-	(26,491)	25,733	25,733
	<u>52,224</u>	<u>-</u>	<u>(26,491)</u>	<u>25,733</u>	<u>25,733</u>
Compensated absences	53,347	-	(2,149)	51,198	-
	<u>53,347</u>	<u>-</u>	<u>(2,149)</u>	<u>51,198</u>	<u>-</u>
Total	<u>\$ 3,166,071</u>	<u>\$ -</u>	<u>\$ (342,037)</u>	<u>\$ 2,824,034</u>	<u>\$ 351,348</u>
Business-Type Activities					
<u>Contractual obligations and bonds payable:</u>					
GTUA CGMA Phase 1	\$ 513,750	\$ -	\$ (25,000)	\$ 488,750	\$ 26,250
GTUA CGMA Phase 2	2,168,750	-	-	2,168,750	-
GTUA CGMA Phase 3	1,057,500	-	(50,000)	1,007,500	52,500
2011B series Bank of New York	1,430,000	-	(95,000)	1,335,000	95,000
GTUA 2014A series	485,000	-	(45,000)	440,000	45,000
GTUA 2014B series	1,730,000	-	(80,000)	1,650,000	60,000
2014 Govt. Capital Corp. #6577	703,452	-	(68,722)	634,730	70,911
2014 Govt. Capital Corp. #6578	158,629	-	(24,475)	134,154	25,237
GTUA 2015 series	-	2,875,000	-	2,875,000	75,000
	<u>8,247,081</u>	<u>2,875,000</u>	<u>(388,197)</u>	<u>10,733,884</u>	<u>449,898</u>
Compensated absences	6,460	-	(455)	6,005	-
Total	<u>\$ 8,253,541</u>	<u>\$ 2,875,000</u>	<u>\$ (388,652)</u>	<u>\$ 10,739,889</u>	<u>\$ 449,898</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 7: Long Term Debt – Governmental Activities

Contractual Obligations and Bonds Payable

During the year ended September 30, 2005, the EDC assisted S & N Enterprises, Incorporated (S & N) to obtain a loan in the amount of \$440,000 from the Texas Capital Fund to purchase a building and premises. To facilitate this process, the City entered into a long-term contractual obligation with the Office of Rural Community Affairs on November 1, 2004 for the original principal amount of \$440,000. This loan, which carries 0% interest, requires the City to make monthly payments of \$1,833 beginning on December 1, 2004 until the balance is paid on November 30, 2024. Also, on November 1, 2004, the City (lessor) entered into a long-term capital lease agreement with S & N (lessee), whereby S & N is required to repay the City \$440,000 in monthly installments of \$1,833 beginning on December 1, 2004 until the balance is paid. The City will hold the title to the land and improvements until the balance of \$440,000 is paid in full. During the year ended September 30, 2015, the City made principal payments on the debt and collected payments on the lease receivable in the amount of \$22,000. The outstanding principal balance of the long-term obligation and the corresponding long-term lease receivable at September 30, 2015 is \$203,500

On November 15, 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 decrease 1995 series contractual obligations in the amount of \$225,000 and 2000 series contractual obligations in the amount of \$2,035,000 through an advanced refunding. The 2006 series bonds have a fixed interest rate of 4.52% and are secured by the tax revenues of the City. The 2006 series bonds require principal and interest payments beginning on October 1, 2006 through the maturity date of June 1, 2020. The outstanding principal balance of the 2006 series bonds at September 30, 2015 is \$1,005,000

On May 1, 2011, the City issued General Obligation Refunding Bonds series 2011A in the amount of \$1,060,000 payable to the Bank of New York Mellon, N.A. The proceeds were utilized to refund a portion of the City's outstanding debt. The 2011A bonds have an interest rate that varies from 2.0% to 4.0%. The bonds are secured and payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the ordinances. The 2011A series bonds require principal and interest payments beginning on May 1, 2011 through the maturity date of September 1, 2024. The outstanding principal balance of the 2011A series bonds at September 30, 2015 is \$955,000

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 7: Long Term Debt – Governmental Activities (continued)

Per the agreement, contract #6603 with GCC requires payments to be remitted to First Financial Bank, N.A. in the original principal amount of \$400,000. The proceeds of the note were utilized to purchase a fire engine truck, which serves as collateral. The note is payable in annual installments of principal and interest in the amount of \$46,707 beginning November 15, 2015 through the maturity date of November 15, 2023. The note has an interest rate of 3.185%. The outstanding principal balance of the note payable at September 30, 2015 is \$360,548

Per the agreement, contract #6602 with GCC requires payments to be remitted to First Financial Bank, N.A. in the original principal amount of \$275,000. The proceeds of the note were utilized to purchase an ambulance and command vehicle, which serve as collateral. The note is payable in annual installments of principal and interest in the amount of \$59,902 beginning April 15, 2015 through the maturity date of April 15, 2019. The note has an interest rate of 2.926%. The outstanding principal balance of the note payable at September 30, 2015 is \$223,055

Total contractual obligations and bonds payable at September 30, 2015: \$2,747,103

The principal and interest requirements related to the contractual obligations and bonds payable at September 30, 2015 are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 325,615	\$ 100,238	\$ 425,853
2017	338,300	87,284	425,584
2018	346,065	74,768	420,833
2019	363,915	61,940	425,855
2020	311,930	48,248	360,178
2021-2025	1,061,278	89,874	1,151,152
	<u>\$ 2,747,103</u>	<u>\$ 462,352</u>	<u>\$ 3,209,455</u>

Notes Payable

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, 2014 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, 2015 is \$25,648

The future principal and interest requirements for the note payable at September 30, 2015 are as follows:

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 7: Long Term Debt – Governmental Activities (continued)

Fiscal Year	Principal	Interest	Total
2016	25,733	1,192	26,925
	<u>\$ 25,733</u>	<u>\$ 1,192</u>	<u>\$ 26,925</u>

Note 8: Long-Term Debt – Business-Type Activities

Contractual Obligations with Greater Texoma Utility Authority

On December 14, 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%. The City’s obligation to GTUA under the Phase I contract is to expire with the retirement of the obligation in the fiscal year ending September 30, 2028. As of September 30, 2015, the City’s obligation under this contract is \$488,750

The original principal obligation for Phase II of the pipeline project was \$8,675,000, of which twenty-five percent (25%) or \$2,168,750 pertained to the City. The Phase II contract has interest rates varying between 5.68% and 5.83%. The payments for this contract were deferred until fiscal year 2009 when interest only payments commenced. Principal payments will begin in fiscal year 2026. As a result of the deferred principal payments, the obligation is accruing deferred interest payable. At September 30, 2015, the obligation had deferred interest payable in the amount of \$665,677. The City’s obligation under the contract will expire with the retirement of the obligation in the fiscal year ending September 30, 2040. At September 30, 2015, the City’s obligation under this contract is \$2,168,750

The original principal obligation for Phase III of the pipeline project was \$5,000,000, of which twenty-five percent (25%) or \$1,250,000 pertained to the City. The Phase III contract has interest rates varying between 2.67% and 5.62%. The City’s obligation to GTUA under Phase III contract expires with the retirement of the GTUA obligation in the fiscal year ending September 30, 2036. At September 30, 2015, the City’s obligation under this contract is \$1,007,500

Each CMGA city is required to make payments to GTUA in an amount equivalent to twenty-five percent (25%) of the total obligation to cover their portion of the cost of the obligation until the pipeline project is complete and the water is pumping for three months. GTUA has the capacity to pump water to the CMGA cities. From the time water has been delivered to each CMGA city through the pipeline for three months and forward and while water continues to flow to each CGMA city, upon a monthly basis, the City shall be charged it’s percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 8: Long-Term Debt – Business-Type Activities (continued)

water contract (i.e. the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities.

The sum of the four (4) fractional amounts shall always equal one-hundred percent (100%) of the debt service on the contractual obligation with GTUA. The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs. The City is not taking water from the pipeline and incurred a take or pay charge in the amount of \$94,900 for the year ended September 30, 2015.

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

Under the terms of long term service contracts between the City and GTUA, the city recognizes that GTUA has an undivided ownership interest in the pipeline equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance and sale of GTUA bonds. The City has an obligation to make payments as specified in the contract with GTUA to pay the principal and interest on the bonds, maintain cash reserves for the security and payment of the bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributable to the bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds.

Under terms of the contracts, the City's obligation to make payments to GTUA and GTUA's ownership interest in the facilities will terminate when all of GTUA's bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding. The City is obligated for the repayment of principal and interest on the debt through a pledging of water and sewer revenues. The structure of the transaction has the qualities of a capital lease therefore the amounts are included in long-term liabilities and capital assets with the associated accumulated depreciation.

On August 18, 2014, the City issued Contract Revenue Bonds series 2014A in the amount of \$485,000 payable to the Greater Texoma Utility Authority. The proceeds were for the construction, acquisition, and improvement of water system facilities for the City. The 2014A bonds have an interest rate that varies from 2.0% to 4.0%. The 2014A series bonds require interest payments beginning September 30, 2015 through the maturity date of September 30, 2024. The 2014A series bond has principal payments that begin September 30, 2015 through the maturity date.

The outstanding balance of the 2014A series bonds at September 30, 2015 is \$440,000

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 8: Long-Term Debt – Business-Type Activities (continued)

On August 18, 2014, the City issued Contract Revenue Bonds series 2014B in the amount of \$1,730,000 payable to the Greater Texoma Utility Authority. The proceeds were for the construction, acquisition, and improvement of water system facilities for the City. The 2014B bonds have an interest rate that varies from 2.0% to 4.0%. The 2014B series bonds require interest payments beginning September 30, 2015 through the maturity date of September 30, 2034. The 2014B series bond has principal payments that begin September 30, 2015 through the maturity date.

The outstanding balance of the 2014B series bonds at September 30, 2015 is \$1,650,000

On April 22, 2015, the City issued Contract Revenue Bonds, Series 2015 in the amount of \$2,875,000 payable to the Greater Texoma Utility Authority. It is the intent of the City to authorize the Authority to proceed with construction, acquisition, and improvement of facilities. The Series 2015 bonds have an interest rate that varies from .04% to 2.52%. The Series 2015 bonds require interest payments beginning September 30, 2016 through the maturity date of September 30, 2034. The Series 2015 bond has principal payments that begin September 30, 2015 through the maturity date. The outstanding balance of the Series 2015 bonds at September 30, 2015 is \$2,875,000

Other Contractual Obligations

Per the agreement noted above in Note 6, contract #6577 with GCC requires payments to be remitted to Prosperity Bank in the original principal amount of \$786,716. The proceeds were used to purchase various public works equipment. The contract has an interest rate of 3.185%. The contract requires ten annual payments of principal and interest in the amount of \$91,140 beginning on August 15, 2015 through the maturity date August 15, 2023. As of September 30, 2015, the City's obligation under this contract is \$634,730

Per the agreement noted above in Note 6, contract #6578 with GCC requires payments to be remitted to North Dallas Bank and Trust Company in the original amount of \$186,367. The proceeds were used to purchase vehicles and heavy equipment. The contract has an interest rate of 3.115%. The contract requires seven annual payments of principal and interest in the amount of \$29,420 beginning on August 15, 2015 through the maturity date August 15, 2020. As of September 30, 2015, the City's obligation under this contract is \$134,154

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 8: Long-Term Debt – Business-Type Activities (continued)

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, 2014 through the maturity date. The outstanding principal balance of the 2011B series bonds at September 30, 2015 is \$1,335,000

Total contractual obligations and bonds payable at September 30, 2015 \$10,733,884

The principal and interest requirements related to the business-type contractual obligations and bonds at September 30, 2015 are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 449,898	\$ 335,032	\$ 784,930
2017	476,693	368,058	844,751
2018	448,584	357,798	806,382
2019	469,325	451,181	920,506
2020	433,919	439,643	873,562
2021-2025	2,375,465	1,998,335	4,373,800
2026-2030	2,506,250	1,075,308	3,581,558
2031-2035	2,440,000	601,968	3,041,968
2036-2040	1,133,750	180,369	1,314,119
	<u>\$ 10,733,884</u>	<u>\$ 5,807,692</u>	<u>\$ 16,541,576</u>

Note 9: Other Information

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disaster. The City purchases commercial insurance through Texas Municipal League. The City retains no risk of loss for this coverage's. The City accounts for risk management issues in accordance with GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues."

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 9: Other Information (continued)

Restricted Assets

The governmental funds have restricted cash for debt service and capital projects in the amount of \$498,379 and \$207,937 respectively, at September 30, 2015. The governmental funds have restricted cash for certain other specified purposes, including special projects, police seizure, library technology, and court security & technology in the amount of \$135,976. The water and sewer fund has restricted cash held in trust by GTUA in amount of \$4,651,219 at September 30, 2015 that will be used for water and sewer system capital improvements and repayment of contractual obligation.

Significant Component Unit Disclosures

Notes Receivables

In prior years, the EDC received a Rural Business Enterprise Grant where by the proceeds are utilized to assist local businesses through loans. The loans bear interest at 2%. The EDC utilizes the grant funds as a revolving loan fund and plan to make loans to other businesses once the current loan balances are collected. At September 30, 2015 the EDC had notes receivable, net of allowances, from various local businesses in the amount of \$64,549.

Related Party Transaction

The EDC and CDC paid rent for their office space to a related party in the amount of \$14,435 for the year ended September 30, 2015.

Note Payable

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, 2015 is \$0

Note 10: Pension Plan

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 10: Pension Plan (continued)

qualified plan under Section 401 (a) of the Internal Revenue Code.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com. All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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 may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	6%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	Minimum age 60 with 5 years of service Any age with 20 years of service

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	42
Active employees	32
	<hr/> 85

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 10: Pension Plan (continued)

cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.81% and 10.46% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$136,698 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 10: Pension Plan (continued)

both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term expected Real Rate of Return
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total:	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 10: Pension Plan (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2013	\$ 3,273,861	\$ 2,813,587	\$ 460,274
Changes for the year:			-
Service cost	174,573	-	174,573
Interest	232,187	-	232,187
Change of benefit terms	-	-	-
Difference between expected and actual experience	18,835	-	18,835
Changes of assumptions	-	-	-
Contributions - employer	-	120,262	(120,262)
Contributions - employee	-	82,639	(82,639)
Net investment income	-	160,990	(160,990)
Benefit payments, including refunds of employee contributions	(88,387)	(88,387)	-
Administrative expense	-	(1,680)	1,680
Other changes	-	(138)	138
Net changes	\$ 337,208	\$ 273,686	\$ 63,522
Balance at 12/31/2014	\$ 3,611,069	\$ 3,087,273	\$ 523,796

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

Sensitivity of the Net Pension Liability to Changes in the Discount Rate		
1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$1,268,630	\$523,796	(\$53,410)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 10: Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$140,726. The calculation and amount is provided in the GRS Reporting Package. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred (Inflows) Outflows in Future Expense
Differences between expected and actual economic experience	\$ 14,289
Changes in actuarial assumptions	\$ -
Difference between projected and actual investment earnings	\$ 28,769
Contributions subsequent to the measurement date	\$ 107,572
Total	<u>\$ 150,630</u>

\$107,572 reported as deferred outflow of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Net Deferred (Inflows) Outflows of Resources
2015	\$ 11,738
2016	11,738
2017	11,738
2018	7,844
2019	-
Thereafter	-
Total	<u>\$ 43,058</u>

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2015

Note 10: Pension Plan (continued)

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. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employees' entire careers. For the years ended September 30, 2015, 2014, 2013 the City's annual required contribution rate and the actual contribution rate to the TMRS SDBF is 0.03%, 0.02%, and 0.02%, respectively.

Note 11: Prior Period Adjustment

The City had the following restatements to net position:

<u>Government-wide Effects</u>	<u>Governmental Activities</u>
Net position - beginning as previously reported	\$ 1,743,188
Prior period adjustment - deferred outflows for TMRS contributions	76,706
Prior period adjustment - net pension liability per GASB 68	(380,874)
Net position - beginning as adjusted	<u>\$ 1,439,020</u>
 <u>Proprietary Fund Types</u>	 <u>Water & Sewer Fund</u>
Net position - beginning as previously reported	\$ 4,526,151
Prior period adjustment - deferred outflows for TMRS contributions	15,705
Prior period adjustment - net pension liability per GASB 68	(79,400)
Net position - beginning as adjusted	<u>\$ 4,462,456</u>

Note 12: Subsequent Events

Management has evaluated subsequent events through June 14, 2016, the date on which the financial statements were available to be issued. There are no subsequent events to disclose for the City through this date.

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, 2015

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes:			
Property	\$ 1,006,472	\$ 1,001,883	\$ (4,589)
General sales and use	646,000	728,813	82,813
Franchise	170,000	188,285	18,285
Municipal court	656,768	732,753	75,985
Ambulance services	866,274	544,814	(321,460)
License and permits	83,800	92,907	9,107
Donations and other	25,450	53,160	27,710
Lease income - S&N	22,000	22,000	-
Intergovernmental	80,559	12,535	(68,024)
Library	6,780	7,243	463
Investment earnings	2,390	3,795	1,405
Total Revenues	<u>3,566,493</u>	<u>3,388,188</u>	<u>(178,305)</u>
EXPENDITURES			
Current:			
Fire protection and ambulance	755,750	844,509	(88,759)
Police	748,753	578,140	170,613
General government	668,013	721,137	(53,124)
Municipal court	338,845	344,197	(5,352)
Streets	307,334	100,283	207,051
Emergency communications	212,736	203,444	9,292
Library	161,958	151,765	10,193
Parks	99,532	90,692	8,840
Debt Service:			-
Principal	121,904	139,973	(18,069)
Interest	10,634	17,485	(6,851)
Capital Outlays:			-
Ambulance	59,174	366,209	(307,035)
Streets	26,515	105,443	(78,928)
Police	44,041	81,658	(37,617)
Library	1,200	10,975	(9,775)
General government	-	8,169	(8,169)
Total expenditures	<u>3,556,389</u>	<u>3,764,079</u>	<u>(207,690)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,104</u>	<u>(375,891)</u>	<u>(385,995)</u>
OTHER FINANCING SOURCES (USES)			
Sale of general capital assets	2,000	2,057	57
Transfers in (out)	(30,000)	50,452	80,452
Total Other financing Sources (Uses)	<u>(28,000)</u>	<u>52,509</u>	<u>80,509</u>
Net change in fund balances	<u>\$ (17,896)</u>	<u>\$ (323,382)</u>	<u>\$ (305,486)</u>

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

City of Van Alstyne
Schedule of Texas Municipal Retirement System Contributions
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2015</u>
Actuarially Determined Contribution	\$ 136,698
Contributions in relation to the actuarially determined	<u>\$ 136,698</u>
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 1,715,333
Contributions as a percentage of covered employee payroll	7.97%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully

Other Information:

Notes There were no benefit changes during the year.

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

City of Van Alstyne
Schedules of Changes in Net Pension Liability and Related Ratios
Last 10 Years (will ultimately be displayed)

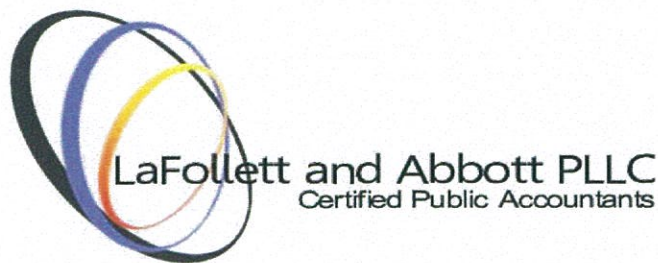
	<u>2014</u>
Total pension liability	
Service Cost	\$ 174,573
Interest (on the Total Pension Liability)	232,187
Changes of benefit terms	-
Difference between expected and actual experience	18,835
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(88,387)
Net Change in Total Pension Liability	337,208
Total Pension Liability - Beginning	3,273,861
Total Pension Liability - Ending (a)	<u>\$ 3,611,069</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 120,262
Contributions - Employee	82,639
Net Investment Income	160,990
Benefit payments, including refunds of employee contribution	(88,387)
Administrative Expense	(1,680)
Other	(138)
Net Change in Plan Fiduciary Net Position	273,686
Plan Fiduciary Net Position - Beginning	2,813,587
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,087,273</u>
Net Pension Liability - Ending (a) - (b)	523,796
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.49%
Covered Employee Payroll	\$ 1,377,309
Net Pension Liability as a Percentage of Covered Employee Payroll	38.03%

Notes to Schedule: N/A

Note to City: GASB 68 requires 10 fiscal years of data to be provided in this schedule. GRS will provide the current year results. The employer will be required to build this shcedule over the next 10 year period.

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

COMPLIANCE AND INTERNAL CONTROL SECTION



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

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

To the City Council
City of Van Alstyne, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Van Alstyne, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency to be a material weakness: 2015-001.

2015-001

The City's internal controls over ambulance services are not adequate to properly supervise the process, including adopting realistic budgets, monitoring spending based on adopted budgets, and overseeing the billing and collection process. The following are indicators of this matter:

- During FY15, ambulance revenue decreased from FY14 by \$95,173 (21%) and accounts receivable increased by \$668,400 (12%).
- Actual ambulance revenue of \$544,814 is under the budgeted amount of \$866,274 by \$321,460 (37%) while capital outlays of \$366,209 are over the budgeted amount of \$59,174 by \$307,035 (519%).
- The City did not timely detect that the third party billing company owed them \$89,076 at September 30, 2015.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted other matters that we reported to the City in a separate letter dated June 14, 2016.

City of Van Alstyne, Texas Response to Finding

The City's response is as follows:

Management accepts the internal control weaknesses identified. City staff works to adopt realistic budgets based on historic values, service trends, facility relationships and the Head of Department's forecast and supporting documentation. Staff also works to monitor spending based on adopted budgets. The capital outlay expense overage was supported by debt proceeds approved by the governing body; however, staff is in agreement that the actual ambulance revenues were unacceptably under budget as a result of a lack of access and communication with the third party billing company. The head of the department had established ineffectual communications with the vendor and as a result, efforts to collect fees due to the City seemed to cease. Administrative staff was unable to obtain access to billing and collection reports until, as a last resort, legal representatives of the City contacted the company.

With this, all reports and due funds were finally received by the City in June of 2016. In an effort to correct this internal control weakness administrative staff has gained access to the billing and collection process via a new third party billing and collection company and routinely monitors receipts and receipt reports provided to insure agreement. Administrative staff also routinely participates in phone meetings and electronic mail communications with the third party billing company to insure effective communication.

The City's response was not subject to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

LaFollett and Abbott PLLC

Tom Bean, Texas
June 14, 2016