

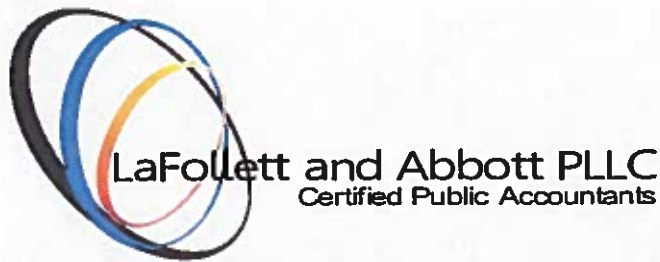
CITY OF VAN ALSTYNE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2017

City of Van Alstyne, Texas
Annual Financial Report
For the Year Ended September 30, 2017

TABLE OF CONTENTS

| | PAGE |
|---|-------|
| FINANCIAL SECTION | |
| Independent Auditor's Report..... | 1-2 |
| <u>Required Supplementary Information:</u> | |
| Management Discussion and Analysis..... | 3-7 |
| <u>Basic Financial Statements</u> | |
| <u>Government-Wide Financial Statements</u> | |
| Statement of Net Position..... | 8 |
| Statement of Activities..... | 9 |
| <u>Fund Financial Statements</u> | |
| Balance Sheets - Governmental Funds..... | 10 |
| Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Position..... | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds..... | 12 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities..... | 13 |
| Statement of Net Position - Proprietary Fund..... | 14 |
| Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund..... | 15 |
| Statement of Cash Flows - Proprietary Fund..... | 16 |
| Notes to the Financial Statements..... | 17-41 |
| <u>Required Supplementary Information:</u> | |
| General Fund Budgetary Comparison - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual..... | 42 |
| Schedule of Texas Municipal Retirement System Contributions - Last 10 Fiscal Years..... | 43 |
| Schedule of Changes in Net Pension Liability and Related Ratios - Last 10 Fiscal Years | 44 |
| COMPLIANCE AND INTERNAL CONTROLS SECTION | |
| 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 <i>Government Auditing Standards</i> | 45-49 |

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows 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 May 8, 2018, 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.

LaFollett and Abbott PLLC

Tom Bean, Texas
May 8, 2018

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, 2017. Please read it in conjunction with the City's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of FY17 by \$12,591,203. This is an increase of \$4,824,484 over FY16's net position value of \$7,766,719. Unrestricted net position at the close of FY17 is \$786,848 and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$4,824,484 or 62%, 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 \$2,860,985, which is an increase of \$600,886 in comparison with the prior year amount of \$2,260,099.
- The unassigned governmental fund balances of \$1,190,217 (42%) are available for spending at the City's discretion. The remainder of the governmental fund balances are restricted for a specific purpose, primarily capital projects and debt service. For 2017, the General Fund had approximately \$327,944 in monthly expenses, so the unassigned fund balance of \$1,190,217 represents 3 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, City administration, and interest on long-term debt are reported here. City property taxes and charges for services finance most of these activities.

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 11 and 13.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position serves as one useful indicator of a government's financial position. In the case of the City, net position is \$12,591,203 at the close of FY17. Sixty-nine percent (69%) 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, 2017:

City of Van Alstyne - Statement of Net Position

| | <u>FY16</u> | <u>FY17</u> |
|-------------------------------------|--------------------|----------------------|
| Current and other assets | \$6,082,142 | \$5,767,656 |
| Capital assets | 16,462,965 | 20,447,590 |
| Total assets | <u>22,545,107</u> | <u>26,215,246</u> |
| Deferred outflow of resources | 305,415 | 271,135 |
| Total deferred outflow of resources | <u>305,415</u> | <u>271,135</u> |
| Current liabilities | 2,469,078 | 2,193,044 |
| L-T liabilities | 12,591,682 | 11,696,646 |
| Total liabilities | <u>15,060,760</u> | <u>13,889,690</u> |
| Deferred outflow of resources | 23,043 | 5,488 |
| Total deferred outflow of resources | <u>23,043</u> | <u>5,488</u> |
| Net position | | |
| Net investment in capital assets | 3,756,666 | 8,715,783 |
| Restricted | 3,181,451 | 3,088,572 |
| Unrestricted | 828,602 | 786,848 |
| Total net position | <u>\$7,766,719</u> | <u>\$ 12,591,203</u> |

City of Van Alstyne - Statement of Activities

| | | |
|------------------------------------|--------------------|----------------------|
| Revenues: | | |
| Program revenues | \$4,194,635 | \$ 4,333,281 |
| Operating grants and contributions | 121,943 | 184,225 |
| Capital grants and contributions | 44,400 | 3,516,281 |
| General revenues | <u>2,628,823</u> | <u>2,906,857</u> |
| Total revenues | <u>6,989,801</u> | <u>10,940,644</u> |
| Expenses: | | |
| Water, sewer, and sanitation | 2,242,731 | 2,351,204 |
| General government | 821,538 | 1,031,053 |
| Police and communications | 965,600 | 999,332 |
| Fire protection and ambulance | 747,863 | 704,022 |
| Municipal court | 374,367 | 362,223 |
| Streets and infrastructure | 184,957 | 220,994 |
| Parks | 175,454 | 193,043 |
| Library | 171,612 | 165,440 |
| Interest | 97,745 | 88,849 |
| Total expenses | <u>5,781,867</u> | <u>6,116,160</u> |
| Increase in net position | 1,207,934 | 4,824,484 |
| Net position - beginning of year | 6,569,431 | 7,766,719 |
| Prior period adjustment | (10,646) | - |
| Net position - end of year | <u>\$7,766,719</u> | <u>\$ 12,591,203</u> |

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net position of the City's governmental activities increased from \$2,735,053 to \$5,493,494. \$1,854,187 of the increase in net position of governmental activities is attributable to capital contributions. 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 \$963,239 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 balance of \$2,860,985 compared to \$2,260,099 in FY16. This represents an increase of \$600,886 compared to last year's increase of \$726,585.

Revenues for the City's General Fund (as shown on page 12) were \$4,092,213 while total expenditures were \$3,935,323. This resulted in an excess of revenues over expenditures in the amount of \$156,890 from current operations. Last year's result was an excess of revenues over expenditures in the amount of \$78,945. The unassigned portion of \$1,190,217 represents 3.6 months of operating expenses.

The City's Water and Sewer Funds (as presented in the statement of net position on page 14) reported a net position of \$7,097,709 compared to the net position \$5,031,666 in FY16. This represents an increase of \$2,066,043. \$1,629,009 of the increase in net position is attributable to capital contributions.

Revenues for the City's Water and Sewer Fund (as shown on page 15) were \$2,818,120 while total operating expenses were \$1,880,716. These totals plus non-operating items resulted in an increase in net position of \$2,066,043. Last year's result was a net increase of \$328,886. FY16 unrestricted net position of negative (\$165,668) was increased to negative (\$176,391) in FY17. The negative unrestricted portion of net position (\$176,391) does not allow for any reserves for the Water and Sewer Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original adopted budget for the General Fund was not amended. See General Fund Budgetary Comparison presented on page 42. A review of the actual expenditures compared to the appropriations in the General Fund budget yields several significant variances, as discussed below. FY17's General Fund expenditures exceeded the appropriations in total by \$152,831 due to increased debt payments for the S&N Enterprises, Inc. (S&N) note payable, as discussed on page 29. This is not considered a budget violation because the City received the related amount from S&N for an early payoff of the corresponding note receivable. The following is a summary discussion of General Fund budget variances for FY17:

Revenues were \$303,023 more than budgeted

- General sales and use taxes were \$180,797 (24%) more than budgeted due to increased development.
- Court revenues were \$144,268 (19%) less than budgeted because violation receipts were less than anticipated.
- Ambulance revenues were \$47,190 (19%) less than budgeted because collection rates and non-emergency transfers declined during FY17.
- Lease income from S&N was \$161,333 (733%) more than budgeted, as discussed above.

Expenses were \$152,831 more than budgeted

- General government expenses were \$277,776 (38%) more than budgeted due to an increase in development, engineering services, legal expenses, and payroll for the EDC and CDC. The EDC and CDC reimbursed the City but amounts were not included in the budget.
- Debt service principal payments were \$159,499 (141%) more than budgeted due to the S&N note payable, as discussed above.
- Municipal court expenditures were \$130,332 (27%) less than budgeted because revenues were down and certain expenditures were not made.

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, 2017 amounts to \$20,447,590, compared to \$16,462,965 at September 30, 2016. 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 construction of playground equipment and water lines, as well as, the purchase of equipment, water and sewer system improvements, and street and infrastructure additions city wide in the amount of \$4,950,529.

Long-term Debt

At year-end, the City had total contractual obligations, bonds and other debt outstanding of \$11,731,807. The City did not enter into new debt during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic factors currently affect the City and were considered in developing the 2017 – 2018 budget.

- Water/wastewater rates were increased 3% to keep up with costs and inflation. To keep rates competitive staff worked with City Council to address the ongoing need for infrastructure repair work and the ongoing/increasing utility debt payments. Rates are primarily addressed by forecasting water sales and impact fees through historical consumption trends, development and system needs.
- The property tax rate increased from \$0.612639 to \$0.635138 per \$100 assessed valuation. Increasing this rate was carefully considered to minimize the impact to citizens and remains below the effective tax rate.
- In FY17 ninety-five single family permits have been issued. This is a 10.5% increase over those issued in FY16. This number is anticipated to grow to over 1,100 in the next twenty-four months.
- 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, 2017

| | Primary Government | | | Component Units | |
|--|-------------------------|--------------------------|---------------|----------------------------------|-----------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Economic Development Corporation | Community Development Corporation |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 2,753,757 | \$ 832,573 | \$ 3,586,330 | \$ 355,370 | \$ 300,696 |
| Receivables, net | 549,608 | 213,914 | 763,522 | 30,377 | 42,887 |
| Deposits held in trust by GTUA | - | 1,417,804 | 1,417,804 | - | - |
| Capital assets not being depreciated: | | | | | |
| Land | 56,958 | 312,872 | 369,830 | 261,316 | - |
| Construction in progress | 121,350 | 86,570 | 207,920 | - | - |
| Capital Assets net of accumulated depreciation: | | | | | |
| Buildings and improvements | 235,348 | - | 235,348 | 48,612 | - |
| Machinery and equipment | 569,513 | 315,596 | 885,109 | - | - |
| Parks | 625,108 | - | 625,108 | - | - |
| Streets and infrastructure | 3,175,724 | 14,948,551 | 18,124,275 | - | - |
| Total Assets | 8,087,366 | 18,127,880 | 26,215,246 | 695,675 | 343,583 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Pension - investment experience | 120,740 | 20,719 | 141,459 | - | - |
| Pension - TMRs contributions | 105,660 | 18,131 | 123,791 | - | - |
| Pension - expected vs actual economic experience | 5,023 | 862 | 5,885 | - | - |
| Total Deferred Outflows of Resources | 231,423 | 39,712 | 271,135 | - | - |
| LIABILITIES | | | | | |
| Accounts payable | 135,824 | 63,787 | 199,611 | 9,128 | 23,578 |
| Accrued liabilities | 52,732 | 23,846 | 76,578 | 859 | 312 |
| Accrued interest | 21,415 | 840,974 | 862,389 | - | - |
| Customer deposits | - | 180,559 | 180,559 | - | - |
| Unearned revenue | - | 39,798 | 39,798 | - | - |
| Long term liabilities: | | | | | |
| Due within one year: | | | | | |
| Debt | 324,065 | 448,664 | 772,729 | - | - |
| Compensated absences | 56,586 | 4,794 | 61,380 | - | - |
| Due in more than one year: | | | | | |
| Debt | 1,600,449 | 9,358,629 | 10,959,078 | - | - |
| Net pension liability | 629,540 | 108,028 | 737,568 | - | - |
| Total Liabilities | 2,820,611 | 11,069,079 | 13,889,690 | 9,987 | 23,890 |
| DEFERRED INFLOW OF RESOURCES | | | | | |
| Pension - actual vs assumption changes | 4,684 | 804 | 5,488 | - | - |
| Total Deferred Inflows of Resources | 4,684 | 804 | 5,488 | - | - |
| NET POSITION | | | | | |
| Net investment in capital assets | 2,859,487 | 5,856,296 | 8,715,783 | 309,928 | - |
| Restricted for: | | | | | |
| Deposits held in trust by GTUA | - | 1,417,804 | 1,417,804 | - | - |
| Capital projects | 1,010,879 | - | 1,010,879 | - | - |
| Debt service | 543,623 | - | 543,623 | - | - |
| Court security and technology | 57,611 | - | 57,611 | - | - |
| Police seizure | 31,856 | - | 31,856 | - | - |
| Streets | 23,459 | - | 23,459 | - | - |
| Library technology | 3,340 | - | 3,340 | - | - |
| Unrestricted | 963,239 | (176,391) | 786,848 | 375,760 | 319,693 |
| Total Net Position | \$ 5,493,494 | \$ 7,097,709 | \$ 12,591,203 | \$ 685,688 | \$ 319,693 |

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, 2017

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | | Primary Government | | Component Units |
| | | | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | 1,031,052 | \$ 392,910 | \$ - | \$ 9,000 | (629,142) | | \$ (629,142) |
| Police | 792,750 | - | 38,056 | - | (754,694) | | (754,694) |
| Fire protection and ambulance | 704,022 | 375,646 | 46,397 | - | (281,979) | | (281,979) |
| Municipal court | 362,223 | 574,026 | - | - | 211,803 | | 211,803 |
| Streets and infrastructure | 220,994 | 363,578 | - | 1,854,157 | 1,996,741 | | 1,996,741 |
| Emergency communications | 206,583 | - | - | - | (206,583) | | (206,583) |
| Parks | 193,043 | - | 16,734 | 6,650 | (169,659) | | (169,659) |
| Library | 165,440 | 7,907 | - | 17,465 | (140,068) | | (140,068) |
| Interest on long-term debt | 88,849 | - | - | - | (88,849) | | (88,849) |
| Total governmental activities | 3,764,956 | 1,714,067 | 101,187 | 1,887,272 | (62,430) | 1,897,019 | (62,430) |
| Business-type activities: | | | | | | | |
| Water, sewer, and sanitation | 2,351,204 | 2,619,214 | - | 1,629,009 | - | 1,897,019 | 1,897,019 |
| Total business-type activities | 2,351,204 | 2,619,214 | - | 1,629,009 | - | 1,897,019 | 1,897,019 |
| Total primary government | \$ 6,116,160 | \$ 4,333,281 | \$ 101,187 | \$ 3,516,281 | (62,430) | 1,897,019 | 1,834,589 |
| Component units: | | | | | | | |
| Economic Development Corporation | \$ 164,630 | \$ - | \$ - | \$ - | - | - | \$ (164,630) |
| Community Development Corporation | 107,336 | - | - | - | - | - | (107,336) |
| Total component units | \$ 271,966 | \$ - | \$ - | \$ - | - | - | (107,336) |
| General revenues: | | | | | | | |
| Property taxes | | | | | 1,477,577 | - | 1,477,577 |
| General sales and use taxes | | | | | 930,797 | - | 930,797 |
| Franchise taxes | | | | | 181,721 | - | 181,721 |
| Insurance proceeds | | | | | - | 115,868 | 115,868 |
| Loss on sale of assets | | | | | (24,480) | - | (24,480) |
| Miscellaneous | | | | | 17,334 | 83,038 | 100,372 |
| Lease income - S&N project | | | | | 183,333 | - | 183,333 |
| Investment earnings | | | | | 9,610 | 15,097 | 24,707 |
| Transfers in (out) | | | | | 44,979 | (44,979) | - |
| Total general revenues | | | | | 2,820,871 | 169,024 | 2,989,895 |
| Change in net position | | | | | 2,758,441 | 2,066,043 | 4,824,484 |
| Net position- beginning | | | | | 2,735,053 | 5,031,666 | 7,766,719 |
| Prior period adjustment | | | | | - | - | - |
| Net position - ending | | | | | \$ 5,493,494 | \$ 7,097,709 | \$ 12,591,203 |
| Economic Development Corporation | | | | | | | |
| Community Development Corporation | | | | | | 154,404 | 155,133 |
| Total component units | | | | | | 154,404 | 155,133 |
| Component units: | | | | | | | |
| Economic Development Corporation | | | | | | 20,680 | 20,680 |
| Community Development Corporation | | | | | | - | - |
| Total component units | | | | | | 20,680 | 20,680 |
| Component units: | | | | | | | |
| Economic Development Corporation | | | | | | 175,084 | 155,238 |
| Community Development Corporation | | | | | | 10,454 | 47,902 |
| Total component units | | | | | | 675,234 | 267,835 |
| Component units: | | | | | | | |
| Economic Development Corporation | | | | | | - | 3,956 |
| Community Development Corporation | | | | | | - | - |
| Total component units | | | | | | - | 3,956 |
| Component units: | | | | | | | |
| Economic Development Corporation | | | | | | 685,688 | 319,693 |
| Community Development Corporation | | | | | | - | - |
| Total component units | | | | | | 685,688 | 319,693 |

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, 2017

| | General Fund | Debt Service Fund | Capital Projects Fund | Total Governmental Funds |
|---|---------------------|-------------------------|-----------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,225,343 | \$ 517,535 | \$ 1,010,879 | \$ 2,753,757 |
| Due from other funds | - | 22,552 | - | 22,552 |
| Receivables, net of allowance | 527,391 | 22,217 | - | 549,608 |
| Total assets | <u>1,752,734</u> | <u>562,304</u> | <u>1,010,879</u> | <u>3,325,917</u> |
| LIABILITIES | | | | |
| Accounts payable | 135,824 | - | - | 135,824 |
| Accrued liabilities | 52,732 | - | - | 52,732 |
| Due to other funds | 22,552 | - | - | 22,552 |
| Total liabilities | <u>211,108</u> | <u>-</u> | <u>-</u> | <u>211,108</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenues: | | | | |
| Ambulance | 136,267 | - | - | 136,267 |
| Property taxes | 46,805 | 18,681 | - | 65,486 |
| Court fines | 52,071 | - | - | 52,071 |
| Total deferred inflows of resources | <u>235,143</u> | <u>18,681</u> | <u>-</u> | <u>253,824</u> |
| FUND BALANCES | | | | |
| Restricted for: | | | | |
| Capital projects | - | - | 1,010,879 | 1,010,879 |
| Debt service | - | 543,623 | - | 543,623 |
| Court security and technology | 57,611 | - | - | 57,611 |
| Police seizure | 31,856 | - | - | 31,856 |
| Streets | 23,459 | - | - | 23,459 |
| Library technology | 3,340 | - | - | 3,340 |
| Unassigned | 1,190,217 | - | - | 1,190,217 |
| Total fund balances | <u>1,306,483</u> | <u>543,623</u> | <u>1,010,879</u> | <u>2,860,985</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 1,752,734</u> | <u>\$ 562,304</u> | <u>\$ 1,010,879</u> | <u>\$ 3,325,917</u> |

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

City of Van Alstyne, Texas
Reconciliation of the Governmental Funds Balance Sheets
to the Statement of Net Position
For the Year Ended September 30, 2017

Amounts reported for the governmental activities in the Statement of Net Position (pg 8) are different because:

| | |
|--|---------------------|
| Total fund balances - governmental funds (pg 10) | \$ 2,860,985 |
| Capital assets used in governmental activities are not financial resources. Therefore, they are not reported in the governmental funds. | 4,784,001 |
| Delinquent property taxes, ambulance revenue, and court fines are not current financial resources. Therefore, they are deferred in the governmental funds. | 253,824 |
| 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. | (1,981,100) |
| 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. | (21,415) |
| Net pension liability is not a current financial use; therefore, it is not reported in the governmental funds. | (629,540) |
| TMRS pension contributions after the December 31, 2016 measurement date are expensed in the governmental funds, but are recognized as deferred outflows of resources on the Statement of Net Position. | 105,660 |
| Unamortized pension investment gains and losses are not current resources/uses; therefore they are not reported in the governmental funds. | 121,079 |
| Net position of governmental activities (pg 8) | <u>\$ 5,493,494</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, 2017

| | General Fund | Debt Service Fund | Capital Projects Fund | Total Governmental Funds |
|--|---------------------|-------------------------|-----------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 1,142,332 | \$ 331,252 | \$ - | \$ 1,473,584 |
| General sales and use | 930,797 | - | - | 930,797 |
| Franchise | 181,721 | - | - | 181,721 |
| Municipal court | 611,521 | - | - | 611,521 |
| Ambulance services | 521,051 | - | - | 521,051 |
| Street development fees | - | - | 363,578 | 363,578 |
| License and permits | 215,485 | - | - | 215,485 |
| Intergovernmental | 154,769 | - | - | 154,769 |
| Lease income - S&N project | 183,333 | - | - | 183,333 |
| Grants | 84,453 | - | - | 84,453 |
| Developer construction fees | 22,656 | - | - | 22,656 |
| Park donations | 16,734 | - | - | 16,734 |
| Miscellaneous | 14,648 | 2,686 | - | 17,334 |
| Investment earnings | 4,806 | 1,925 | 2,879 | 9,610 |
| Library | 7,907 | - | - | 7,907 |
| Total revenues | <u>4,092,213</u> | <u>335,863</u> | <u>366,457</u> | <u>4,794,533</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,009,994 | - | - | 1,009,994 |
| Police | 718,930 | - | - | 718,930 |
| Fire protection and ambulance | 599,335 | - | - | 599,335 |
| Municipal court | 359,221 | - | - | 359,221 |
| Emergency communications | 201,667 | - | - | 201,667 |
| Library | 151,200 | - | - | 151,200 |
| Parks | 92,144 | - | - | 92,144 |
| Streets and infrastructure | 51,221 | - | 6,750 | 57,971 |
| Debt Service: | | | | |
| Principal | 272,799 | 225,000 | - | 497,799 |
| Interest | 15,309 | 73,866 | - | 89,175 |
| Capital Outlay: | | | | |
| Streets and infrastructure | 247,725 | - | - | 247,725 |
| Parks | 128,000 | - | - | 128,000 |
| Police | 52,695 | - | - | 52,695 |
| Fire protection and ambulance | 35,083 | - | - | 35,083 |
| Total expenditures | <u>3,935,323</u> | <u>298,866</u> | <u>6,750</u> | <u>4,240,939</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>156,890</u> | <u>36,997</u> | <u>359,707</u> | <u>553,594</u> |
| OTHER FINANCING SOURCES(USES) | | | | |
| Proceeds from the sale of general capital assets | 2,313 | - | - | 2,313 |
| Transfers in (out) | 44,979 | - | - | 44,979 |
| Total other financing sources (uses) | <u>47,292</u> | <u>-</u> | <u>-</u> | <u>47,292</u> |
| Net change in fund balances | 204,182 | 36,997 | 359,707 | 600,886 |
| Fund balances - beginning | <u>1,102,301</u> | <u>506,626</u> | <u>651,172</u> | <u>2,260,099</u> |
| Fund balances - ending | <u>\$ 1,306,483</u> | <u>\$ 543,623</u> | <u>\$ 1,010,879</u> | <u>\$ 2,860,985</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, 2017

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) | \$ 600,886 |
|--|------------|

| | |
|--|-----------|
| 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 and donated assets exceed depreciation. | 1,928,033 |
|--|-----------|

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. | 497,799 |
|--|---------|

| | |
|---|-----------|
| 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. | (178,907) |
|---|-----------|

| | |
|--|-----|
| Accrued long term debt interest is not recorded in the governmental fund financials but the increase in the balance is recognized for the full accrual government-wide financial statements as interest expense. | 326 |
|--|-----|

| | |
|--|----------|
| Changes to accrued compensated absences are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position. | (14,696) |
|--|----------|

| | |
|--|----------|
| Full accrual based pension expense is not recorded in the governmental fund financials but the (increase) decrease from adjusting the City's contribution expense is realized on the government-wide financial statements. | (48,207) |
|--|----------|

| | |
|--|----------|
| The difference between the proceeds and the loss on sale is shown as a decrease to net position. | (26,793) |
|--|----------|

| | |
|--|---|
| 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;">\$ 2,758,441</div> |
|--|---|

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, 2017

| | <u>Water & Sewer Fund</u> |
|--|-----------------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 832,573 |
| Accounts receivables, net | <u>213,914</u> |
| Total current assets | <u>1,046,487</u> |
| Noncurrent Assets: | |
| Deposits held in trust by GTUA | <u>1,417,804</u> |
| Total noncurrent assets | <u>1,417,804</u> |
| Capital assets: | |
| Land | 312,872 |
| Construction in progress | 86,570 |
| Machinery and equipment | 647,369 |
| Infrastructure | 19,825,220 |
| Less accumulated depreciation | <u>(5,208,442)</u> |
| Total capital assets | <u>15,663,589</u> |
| Total assets | <u>18,127,880</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pension - investment experience | 20,719 |
| Pension - TMRs contributions | 18,131 |
| Pension - expected vs actual economic experience | <u>862</u> |
| Total deferred outflows of resources | <u>39,712</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts payable | 63,787 |
| Accrued liabilities | 23,846 |
| Unearned revenue | 39,798 |
| Customer deposits payable | 180,559 |
| Accrued interest payable | 840,974 |
| Compensated absences | 4,794 |
| Contractual obligations - current | 143,664 |
| Bonds payable - current | <u>305,000</u> |
| Total current liabilities | <u>1,602,422</u> |
| Noncurrent Liabilities: | |
| Net pension liability | 108,028 |
| Contractual obligations | 6,553,629 |
| Bonds payable | <u>2,805,000</u> |
| Total noncurrent liabilities | <u>9,466,657</u> |
| Total liabilities | <u>11,069,079</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Pension - actual vs assumption changes | <u>804</u> |
| Total deferred inflows of resources | <u>804</u> |
| NET POSITION | |
| Net investment in capital assets | 5,856,296 |
| Restricted deposits held in trust by GTUA | 1,417,804 |
| Unrestricted | <u>(176,391)</u> |
| Total net position | <u>\$ 7,097,709</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, 2017

| | Water & Sewer Fund |
|---|----------------------------|
| Operating Revenues | |
| Water | \$ 1,361,125 |
| Sewer | 935,381 |
| Sanitation | 207,703 |
| Other services | 61,016 |
| Late charges and penalties | 53,989 |
| Miscellaneous | 198,906 |
| Total operating revenues | <u>2,818,120</u> |
| Operating Expenses | |
| Contractual services | 533,102 |
| Depreciation and amortization | 516,369 |
| Maintenance and repairs | 325,897 |
| Personnel services | 315,582 |
| Utilities | 158,013 |
| Administrative | 31,753 |
| Total operating expenses | <u>1,880,716</u> |
| Operating income | <u>937,404</u> |
| Nonoperating Revenues (Expenses) | |
| Interest income | 15,097 |
| Fiscal agent fees | (101,261) |
| Interest expense | (369,227) |
| Total nonoperating revenue (expenses) | <u>(455,391)</u> |
| Income before capital contributions and transfers | 482,013 |
| Capital contributions | 1,629,009 |
| Transfers in (out) | <u>(44,979)</u> |
| Change in net position | 2,066,043 |
| Net position - beginning | <u>5,031,666</u> |
| Net position - ending | <u><u>\$ 7,097,709</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, 2017

| | Water & Sewer Fund |
|---|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash receipts from customers and users | \$ 2,813,367 |
| Cash paid to employees | (324,071) |
| Cash paid to suppliers | (1,098,680) |
| Net cash provided by operating activities | <u>1,390,616</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfers in (out) to other funds | (44,979) |
| Net cash provided by noncapital financing activities | <u>(44,979)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Cash paid for acquisition and construction of capital assets | (970,745) |
| Cash from GTUA restricted deposits | 483,312 |
| Cash paid for fiscal agent fees | (101,261) |
| Interest paid on long-term debt | (369,227) |
| Principal payments on debt | (476,693) |
| Net cash provided by (used for) capital and related financing activities | <u>(1,434,614)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | 15,097 |
| Net cash provided by investing activities | <u>15,097</u> |
| Net increase (decrease) in cash and cash equivalents | (73,880) |
| Cash and cash equivalents, October 1, 2016 | <u>906,453</u> |
| Cash and cash equivalents, September 30, 2017 | <u>832,573</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | 937,404 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | |
| Depreciation and amortization | 516,369 |
| (Increase) decrease in accounts receivable | (4,753) |
| Increase (decrease) in deferred pension balances | 3,435 |
| Increase (decrease) in accounts payable | (120,431) |
| Increase (decrease) in deferred revenue | 17,823 |
| Increase (decrease) in customer deposits | 30,088 |
| Increase (decrease) in compensated absences | (2,302) |
| Increase (decrease) in accrued liabilities | 10,791 |
| Increase (decrease) in net pension liability | 2,276 |
| Increase (decrease) in accrued interest payable | (84) |
| Net cash provided by operating activities | <u>\$ 1,390,616</u> |
| NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | |
| Capital contributions | <u>\$ 1,629,009</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, 2017

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, 2017

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. 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, 2017

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, 2017

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 - 16 Years |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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 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. Deferred inflows of resources described *unavailable revenues* only arise under modified accrual basis of accounting. Accordingly, the items labels *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 note receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. As a component of implementing GASB Statement No. 68, a deferred inflow is recorded in the government-wide Statement of Net Position and fund level financials for the proprietary Statements of Net Position for the difference in projected and actual experience in the actuarial measurement of the total pension liability, as well as unamortized pension gains, not recognized in the current year. The amount is deferred and amortized over a period of years determined by the Plan 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.

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, 2017

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

The City reports fund balances based on the requirements of 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, 2017, 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, 2017

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 and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. 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, 2017

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 2016 was 0.609942 per \$100 of assessed value for General Fund operations 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. Further, within the General Fund allocation twenty-five percent (25%) is allocated to fund street projects.

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, 2017 are \$56,586 and \$4,794, respectively.

Excess of Expenditures over Appropriations

For the year ended September 30, 2017, General Fund expenditures exceeded appropriations at the legal level of control by the net amount of \$152,831, as shown on page 42. The overage was caused by an increase in debt principal payments for the S&N Enterprises, Inc. (S&N) note payable, as discussed on page 29. This is not considered a violation as the City received the amount from S&N for an early payoff of the corresponding note receivable.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 2: Cash and Cash Equivalents

As of September 30, 2017, the City maintained all banking accounts at Independent Bank.

At September 30, 2017, the City's total carrying value of cash and cash equivalents is \$3,586,330, which consists of \$850 in petty cash and \$3,634,841 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 \$4,376,589 in securities pledged in the City's name by the depository bank to collateralize 100% of all remaining deposits.

At September 30, 2017, the EDC has cash and cash equivalents in the amount of \$371,836 held by depository banks and all amounts are insured by the FDIC.

At September 30, 2017, the CDC has cash and cash equivalents in the amount of \$322,169 held by depository banks of which \$250,000 is insured by the FDIC and \$72,169 is uninsured at September 30, 2017. 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, 2017:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements & Reclases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|---------------------------------------|---------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 56,958 | \$ - | \$ - | \$ 56,958 |
| Construction in progress | 44,400 | 141,753 | (64,803) | 121,350 |
| Depreciable capital assets: | | | | |
| Building and improvements | 617,905 | 26,465 | - | 644,370 |
| Machinery and equipment | 2,018,869 | 87,778 | (113,978) | 1,992,669 |
| Parks | 1,843,721 | 13,300 | 64,803 | 1,921,824 |
| Streets and infrastructure | 2,152,716 | 2,081,479 | - | 4,234,195 |
| Totals | 6,734,569 | 2,350,775 | (113,978) | 8,971,366 |
| Less accumulated depreciation | (3,851,808) | (422,742) | 87,185 | (4,187,365) |
| Governmental activities capital assets, net | <u>\$ 2,882,761</u> | <u>\$ 1,928,033</u> | <u>\$ (26,793)</u> | <u>\$ 4,784,001</u> |
| Business-Type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 354,031 | \$ - | \$ (41,159) | \$ 312,872 |
| Construction in progress | 3,232,288 | 86,570 | (3,232,288) | 86,570 |
| Depreciable capital assets: | | | | |
| Waterworks system | 9,530,216 | 1,273,888 | 3,273,447 | 14,077,551 |
| Sewer system | 4,508,373 | 1,239,296 | - | 5,747,669 |
| Machinery and equipment | 749,062 | - | (101,693) | 647,369 |
| Totals | 18,373,970 | 2,599,754 | (101,693) | 20,872,031 |
| Less accumulated depreciation | (4,793,766) | (516,369) | 101,693 | (5,208,442) |
| Business-type activities capital assets, net | <u>\$13,580,204</u> | <u>\$2,083,385</u> | <u>\$ -</u> | <u>\$ 15,663,589</u> |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 3: Capital Assets (continued)

Depreciation expense for the year ended September 30, 2017 was charged to functions of the primary government and the business-type activities as follows:

| | |
|----------------------------------|-------------------|
| Governmental Activities: | |
| General Government | \$ 5,775 |
| Library | 10,716 |
| Ambulance | 54,854 |
| Fire Department | 36,051 |
| Police Department | 52,963 |
| Parks | 99,360 |
| Streets | 163,023 |
| | <u>\$ 422,742</u> |
| Business-Type Activities: | |
| Water and sewer | \$ 516,369 |
| | <u>\$ 516,369</u> |

Note 4: Receivables

Receivables as of the year ended September 30, 2017 for the primary government, component units, and the proprietary funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Debt Service Fund | Water and Sewer Fund | Total | EDC | CDC |
|--|--------------------|----------------------|-------------------------|--------------------|------------------|------------------|
| Ambulance | \$ 1,133,073 | \$ - | \$ - | \$ 1,133,073 | \$ - | \$ - |
| Municipal court | 938,271 | - | - | 938,271 | - | - |
| Sales taxes | 182,261 | - | - | 182,261 | 30,377 | 30,377 |
| Property taxes | 53,496 | 22,640 | - | 76,136 | - | - |
| Franchise & other | 52,955 | - | - | 52,955 | - | - |
| Accounts | - | - | 218,828 | 218,828 | - | - |
| Due from city | - | - | - | - | - | 12,510 |
| | <u>2,360,056</u> | <u>22,640</u> | <u>218,828</u> | <u>2,601,524</u> | <u>30,377</u> | <u>42,887</u> |
| Less: allowance for doubtful accounts | <u>(1,832,665)</u> | <u>(423)</u> | <u>(4,914)</u> | <u>(1,838,002)</u> | <u>-</u> | <u>-</u> |
| Net | <u>\$ 527,391</u> | <u>\$ 22,217</u> | <u>\$ 213,914</u> | <u>\$ 763,522</u> | <u>\$ 30,377</u> | <u>\$ 42,887</u> |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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, 2017, the components of the unavailable revenue in the General and Debt Service Funds are as follows:

| | |
|---------------------------|-------------------|
| Ambulance services | \$ 136,267 |
| Delinquent property taxes | 65,486 |
| Municipal court fines | 52,071 |
| | <u>\$ 253,824</u> |

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

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, 2017 is as follows:

| | Transfers In: | |
|-----------------------|----------------------|------------------|
| | General Fund | Total |
| Transfers Out: | | |
| Water/Sewer Fund | \$ 44,979 | \$ 44,979 |
| Total | <u>\$ 44,979</u> | <u>\$ 44,979</u> |
| | Due to: | |
| | Debt Service | |
| | Fund | Total |
| Due from: | | |
| General Fund | \$ 22,552 | \$ 22,552 |
| Total | <u>\$ 22,552</u> | <u>\$ 22,552</u> |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 6: Changes in Long-Term Debt

The following schedule summarizes the changes in long term debt for the year ended September 30, 2017:

| | <u>Balance</u> <u>9/30/2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>9/30/2017</u> | <u>Due within</u> <u>one year</u> |
|---|------------------------------------|------------------|--------------------|------------------------------------|--------------------------------------|
| Governmental Activities | | | | | |
| <u>Contractual obligations and bonds payable:</u> | | | | | |
| S & N project - Texas Capital Fund | \$ 181,500 | \$ - | \$ (181,500) | \$ - | \$ - |
| 2006 series - Bank of America | 820,000 | - | (195,000) | 625,000 | 200,000 |
| 2011A series - Bank of New York | 925,000 | - | (30,000) | 895,000 | 30,000 |
| 2014 Govt. Capital Corp. #6603 | 325,325 | - | (35,645) | 289,680 | 37,503 |
| 2014 Govt. Capital Corp. #6602 | 170,488 | - | (55,654) | 114,834 | 56,562 |
| Total: | <u>2,422,313</u> | <u>-</u> | <u>(497,799)</u> | <u>1,924,514</u> | <u>324,065</u> |
| Compensated absences: | <u>\$ 41,890</u> | <u>\$ 14,696</u> | <u>\$ -</u> | <u>\$ 56,586</u> | <u>\$ 56,586</u> |
| Business-Type Activities | | | | | |
| <u>Contractual obligations and bonds payable:</u> | | | | | |
| GTUA CGMA Phase 1 | \$ 462,500 | \$ - | \$ (27,500) | \$ 435,000 | \$ 30,000 |
| GTUA CGMA Phase 2 | 2,168,750 | - | - | 2,168,750 | - |
| GTUA CGMA Phase 3 | 955,000 | - | (55,000) | 900,000 | 11,250 |
| 2011B series Bank of New York | 1,240,000 | - | (100,000) | 1,140,000 | 100,000 |
| GTUA 2014A series | 395,000 | - | (45,000) | 350,000 | 45,000 |
| GTUA 2014B series | 1,590,000 | - | (65,000) | 1,525,000 | 65,000 |
| 2014 Govt. Capital Corp. #6577 | 563,819 | - | (73,170) | 490,649 | 75,560 |
| 2014 Govt. Capital Corp. #6578 | 108,917 | - | (26,023) | 82,894 | 26,854 |
| GTUA 2015 series | 2,800,000 | - | (85,000) | 2,715,000 | 95,000 |
| Total: | <u>10,283,986</u> | <u>-</u> | <u>(476,693)</u> | <u>9,807,293</u> | <u>448,664</u> |
| Compensated absences: | <u>\$ 7,096</u> | <u>\$ -</u> | <u>\$ (2,302)</u> | <u>\$ 4,794</u> | <u>\$ 4,794</u> |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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, 2017, the City made principal payments on the debt and collected payments on the lease receivable in the amount of \$181,500. The outstanding principal balance of the long-term obligation and the corresponding long-term lease receivable at September 30, 2017 is \$0

On November 16, 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, 2017 is \$625,000

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, 2017 is \$895,000

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, 2017

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 16, 2015 through the maturity date of November 16, 2023. The note has an interest rate of 3.185%. The outstanding principal balance of the note payable at September 30, 2017 is \$289,680

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, 2017 is \$114,834

Total contractual obligations and bonds payable at September 30, 2017: \$1,924,514

The principal and interest requirements related to the contractual obligations and bonds payable at September 30, 2017 are as follows:

| Fiscal Year | Principal | Interest | Total |
|----------------|---------------------|-------------------|---------------------|
| 2018 | \$ 324,065 | \$ 75,962 | \$ 400,027 |
| 2019 | 341,915 | 63,173 | 405,088 |
| 2020 | 289,930 | 49,520 | 339,450 |
| 2021 | 226,202 | 37,305 | 263,507 |
| 2022 | 237,514 | 35,993 | 273,507 |
| 2023-2025 | 504,888 | 53,881 | 558,769 |
| | <u>\$ 1,924,514</u> | <u>\$ 315,834</u> | <u>\$ 2,240,347</u> |

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

Contractual Obligations and Bonds 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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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

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, 2017, the City's obligation under this contract is \$435,000

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, 2017, the obligation had deferred interest payable in the amount of \$783,371. 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, 2017, 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, 2017, the City's obligation under this contract is \$900,000

Each CGMA 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 CGMA cities. From the time water has been delivered to each CGMA city through the pipeline for three months and forward and while water continues to flow to each CGMA city, upon a monthly basis, the City shall be charged its percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its 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, 2017.

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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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

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, 2017 is

\$350,000

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, 2017 is

\$1,525,000

On April 25, 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, 2015 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, 2017 is

\$2,715,000

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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

Contractual Obligations and 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, 2017 is \$1,140,000

Per the agreement noted above in Note 7, 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 16, 2023. As of September 30, 2017, the City's obligation under this contract is \$490,649

Per the agreement noted above in Note 7, 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 3.116%. 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, 2017, the City's obligation under this contract is \$82,894

Total contractual obligations and bonds payable at September 30, 2017 \$9,807,293

The principal and interest requirements related to the business-type contractual obligations and bonds at September 30, 2017 are as follows:

| Fiscal Year | Principal | Interest | Total |
|----------------|---------------------|---------------------|----------------------|
| 2018 | \$ 448,664 | \$ 354,763 | \$ 803,427 |
| 2019 | 469,325 | 449,030 | 918,355 |
| 2020 | 480,169 | 437,332 | 917,501 |
| 2021 | 471,698 | 424,703 | 896,401 |
| 2022 | 476,840 | 411,658 | 888,498 |
| 2023-2027 | 2,512,067 | 1,622,578 | 4,134,645 |
| 2028-2032 | 2,510,000 | 873,522 | 3,383,522 |
| 2033-2037 | 1,848,530 | 385,065 | 2,233,595 |
| 2038-2040 | 590,000 | 70,106 | 660,106 |
| | <u>\$ 9,807,293</u> | <u>\$ 5,028,757</u> | <u>\$ 14,836,050</u> |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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 these coverages. The City accounts for risk management issues in accordance with GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues."

Restricted Assets

The governmental funds have restricted cash for debt service and capital projects in the amount of \$517,535 and \$1,010,879 respectively, at September 30, 2017. The governmental funds have restricted cash for certain other specified purposes, including special projects, police seizure, library technology, street infrastructure, and court security & technology in the amount of \$116,266. The Water and Sewer Fund has restricted cash held in trust by GTUA in amount of \$1,417,804 at September 30, 2017 that will be used for water and sewer system capital improvements and repayment of contractual obligation.

Significant Component Unit Disclosure

The following is a summary of changes in EDC capital assets for the year ended September 30, 2017:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---------------------------------------|----------------------|-----------------|-------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 250,209 | \$ 11,107 | \$ - | \$ 261,316 |
| Depreciable capital assets: | | | | |
| Building and improvements | 84,877 | - | - | 84,877 |
| Totals | 335,086 | 11,107 | - | 346,193 |
| Less accumulated depreciation | (33,908) | (2,357) | | (36,265) |
| EDC capital assets, net | <u>\$ 301,178</u> | <u>\$ 8,750</u> | <u>\$ -</u> | <u>\$ 309,928</u> |

Related Party Transaction

An EDC board member is the provider of optional employee benefits in the 457 Plan for the City, EDC, and CDC. The amount of benefit provided to employees for FY17 was \$11,950.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

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-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 |
| Updated service credits | 100% repeating transfers |
| Annuity increases (to retirees) | 1.86% per year |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 10: Pension Plan (continued)

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|----------|
| Inactive employees or beneficiaries currently receiving benefits | 16 |
| Inactive employees entitled to but not yet receiving benefits | 44 |
| Active employees | 32 |
| | <hr/> 92 |

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%, 160%, 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 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 10.50% and 10.48% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$161,434 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.60% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 10: Pension Plan (continued)

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, 2016, valuation were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial 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 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. 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 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% | 4.55% |
| International Equity | 17.5% | 6.35% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 4.15% |
| Real Return | 10.0% | 4.15% |
| Real Estate | 10.0% | 4.75% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 7.75% |
| Total: | 100.0% | |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 10: Pension Plan (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. 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.

Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|-------------------------|-----------------------------|-----------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)-(b) |
| Balance at 12/31/2015 | \$ 3,856,424 | \$ 3,156,049 | \$ 700,375 |
| Changes for the year: | | | |
| Service cost | 197,874 | - | 197,874 |
| Interest | 262,778 | - | 262,778 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | 23,275 | - | 23,275 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 150,448 | (150,448) |
| Contributions - employee | - | 85,970 | (85,970) |
| Net investment income | - | 212,855 | (212,855) |
| Benefit payments, including refunds of employee contributions | (124,694) | (124,694) | - |
| Administrative expense | - | (2,409) | 2,409 |
| Other changes | - | (130) | 130 |
| Net changes | \$ 359,233 | \$ 322,040 | \$ 37,193 |
| Balance at 12/31/2016 | \$ 4,215,657 | \$ 3,478,089 | \$ 737,568 |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 10: Pension Plan (continued)

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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

| Sensitivity of the Net Pension Liability to Changes in the Discount Rate | | |
|---|---|--------------------------|
| 1% Decrease 5.75% | Current Single Rate Assumption 6.75% | 1% Increase 7.75% |
| \$1,593,468 | \$737,568 | \$73,241 |

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.

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

For the year ended September 30, 2017, the City recognized pension expense of \$213,562. The calculation and amount is provided in the GRS Reporting Package. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred (Inflows) Outflows in Future Expense</u> |
|---|--|
| Differences between expected and actual economic experience | \$ 5,885 |
| Changes in actuarial assumptions | \$ (5,488) |
| Difference between projected and actual investment earnings | \$ 141,459 |
| Contributions subsequent to the measurement date | \$ 123,791 |
| Total | <u>\$ 265,647</u> |

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 10: Pension Plan (continued)

\$123,791 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, 2018. 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 |
|------------|--|
| 2018 | \$ 49,374 |
| 2019 | 45,480 |
| 2020 | 46,967 |
| 2021 | 35 |
| 2022 | - |
| Thereafter | - |
| Total | <u>\$ 141,856</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 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.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$1,793, \$1,576, and \$1,347 respectively, which equaled required contributions each year.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2017

Note 11: Prior Period Adjustment

The CDC had the following restatements to net position due to expenses that were recorded in the improper period:

| | <u>CDC</u> |
|---|------------------|
| Beginning balances as previously reported | \$267,835 |
| CDC expense | <u>3,956</u> |
| Restated beginning balances | <u>\$271,791</u> |

Note 12: Subsequent Events

Management has evaluated subsequent events through May 8, 2018, the date on which the financial statements were available to be issued. There are three subsequent events related to new debt that require disclosure. The following debt was issued subsequent to year end:

| Name | Amount | Date Issued | Interest Rate | Maturity Date | Purpose |
|--|-----------|-------------|---------------|---------------|--|
| Government Capital Contract No. 7987 | \$153,873 | 11/14/2017 | 2.95% | 4/15/2022 | Public Works vehicles and equipment |
| Certificate of Obligation, Series 2017 | \$492,000 | 12/28/2017 | 2.69% | 12/1/2032 | New Public Works facility and relocation of 1,000 ft of water lines |
| Tax Note, Series 2018 | \$195,000 | 3/30/2018 | 3.80% | 2/15/2025 | Purchase the remainder of the city block where the Public Works yard and office is located |

REQUIRED SUPPLEMENTARY INFORMATION

City of Van Alstyne, Texas
General Fund Budgetary Comparison
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended September 30, 2017

| | Original and Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|--|--|-------------------|-------------------------------|
| REVENUES | | | |
| Taxes: | | | |
| Property | \$ 1,142,003 | \$ 1,142,332 | \$ 329 |
| General sales and use | 750,000 | 930,797 | 180,797 |
| Franchise | 170,000 | 181,721 | 11,721 |
| Municipal court | 755,789 | 611,521 | (144,268) |
| Ambulance services | 568,241 | 521,051 | (47,190) |
| License and permits | 125,000 | 215,485 | 90,485 |
| Intergovernmental | 164,979 | 154,769 | (10,210) |
| Lease income - S&N project | 22,000 | 183,333 | 161,333 |
| Grants | 49,757 | 84,453 | 34,696 |
| Developer construction fees | 10,000 | 22,656 | 12,656 |
| Park donations | 7,800 | 16,734 | 8,934 |
| Miscellaneous | 12,885 | 14,648 | 1,763 |
| Investment earnings | 3,456 | 4,806 | 1,350 |
| Library | 7,280 | 7,907 | 627 |
| Total Revenues | 3,789,190 | 4,092,213 | 303,023 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 732,218 | 1,009,994 | 277,776 |
| Police | 787,277 | 718,930 | (68,347) |
| Fire protection and ambulance | 633,529 | 599,335 | (34,194) |
| Municipal court | 489,553 | 359,221 | (130,332) |
| Emergency communications | 192,710 | 201,667 | 8,957 |
| Library | 155,185 | 151,200 | (3,985) |
| Parks | 89,555 | 92,144 | 2,589 |
| Streets and infrastructure | 63,043 | 51,221 | (11,822) |
| Debt Service: | | | |
| Principal | 113,300 | 272,799 | 159,499 |
| Interest | 15,328 | 15,309 | (19) |
| Capital Outlay: | | | |
| Streets and infrastructure | 260,000 | 247,725 | (12,275) |
| Parks | 120,950 | 128,000 | 7,050 |
| Police | 69,844 | 52,695 | (17,149) |
| Fire protection and ambulance | 60,000 | 35,083 | (24,917) |
| Total expenditures | 3,782,492 | 3,935,323 | 152,831 |
| Excess (deficiency) of revenues over (under) expenditures | 6,698 | 156,890 | 150,192 |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from the sale of general capital assets | 5,000 | 2,313 | (2,687) |
| Transfers in (out) | (11,583) | 44,979 | 56,562 |
| Total Other financing Sources (Uses) | (6,583) | 47,292 | 53,875 |
| Net change in fund balances | \$ 115 | \$ 204,182 | \$ 204,067 |

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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

| | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|----------------|----------------|----------------|
| Actuarially Determined Contribution | \$ 139,552 | \$ 148,430 | \$ 161,434 |
| Contributions in relation to the actuarially determined | <u>139,552</u> | <u>148,430</u> | <u>161,434</u> |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - |
| Covered employee payroll | \$ 1,347,317 | \$ 1,432,831 | \$ 1,522,643 |
| Contributions as a percentage of covered employee payroll | 10.36% | 10.36% | 10.60% |

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 later.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 28 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.5% to 10.5% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014 |
| 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 generational basis with scale BB |

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 Fiscal Years (will ultimately be displayed)

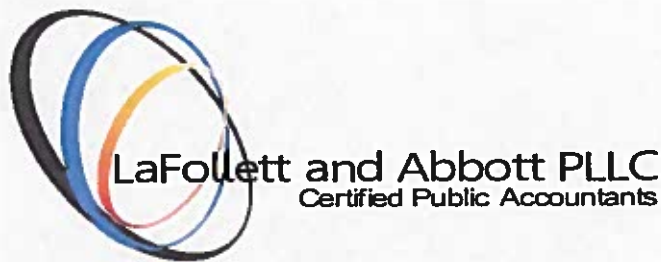
| | 2014 | 2015 | 2016 |
|--|---------------------|---------------------|---------------------|
| Total pension liability | | | |
| Service Cost | \$ 174,573 | \$ 188,085 | \$ 197,874 |
| Interest (on the Total Pension Liability) | 232,187 | 253,994 | 262,778 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | 18,835 | (32,674) | 23,275 |
| Change of assumptions | - | (10,791) | - |
| Benefit payments, including refunds of employee contributions | (88,387) | (153,259) | (124,694) |
| Net Change in Total Pension Liability | 337,208 | 245,355 | 359,233 |
| Total Pension Liability - Beginning | 3,273,861 | 3,611,069 | 3,856,424 |
| Total Pension Liability - Ending (a) | <u>\$ 3,611,069</u> | <u>\$ 3,856,424</u> | <u>\$ 4,215,657</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | \$ 120,262 | \$ 139,552 | \$ 150,448 |
| Contributions - Employee | 82,639 | 80,839 | 85,970 |
| Net Investment Income | 160,990 | 4,556 | 212,855 |
| Benefit payments, including refunds of employee contribution | (88,387) | (153,259) | (124,694) |
| Administrative Expense | (1,680) | (2,775) | (2,409) |
| Other | (138) | (137) | (130) |
| Net Change in Plan Fiduciary Net Position | 273,686 | 68,776 | 322,040 |
| Plan Fiduciary Net Position - Beginning | 2,813,587 | 3,087,273 | 3,156,049 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 3,087,273</u> | <u>\$ 3,156,049</u> | <u>\$ 3,478,089</u> |
| Net Pension Liability - Ending (a) - (b) | 523,796 | 700,375 | 737,568 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 85.49% | 81.84% | 82.50% |
| Covered Employee Payroll | \$ 1,377,309 | \$ 1,347,317 | \$ 1,432,831 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 38.03% | 51.98% | 51.48% |

Notes to Schedule: N/A

Note to City: The schedule above reflects the changes in the net pension liability for the current year. GASB 68 requires 10 fiscal years of data to be provided in this schedule. The employer/city will be required to build this schedule over the 10 year period; as such, the employer should retain the annual GASB packages to utilize in building this schedule.

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 8, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2017-001 and 2017-002.

Compliance and Other Matters

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

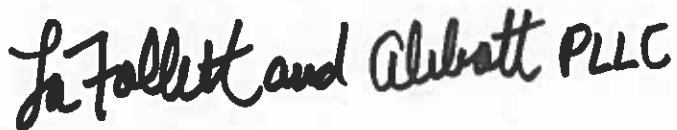
We noted other matters that we reported to the City in a separate letter dated May 8, 2018.

The City of Van Alstyne, Texas's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses and in the separate letter. The City's response was not subjected to the auditing 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.

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

Tom Bean, Texas
May 8, 2018

City of Van Alstyne, Texas
Schedule of Findings and Responses
For The Year Ended September 30, 2017

FINANCIAL STATEMENT FINDINGS

Significant Deficiency

2017-001: Cash Reconciliations

Criteria: Month end closing procedures should be adequate to ensure that cash balances are properly reconciled to the bank statements and that reconciliations are reviewed and approved by a supervisor or manager.

Condition: In FY16, the City has numerous cash accounts that are reconciled manually. The manual process resulted in errors that were not detected until the audit. The reconciliation errors resulted in cash that was overstated by \$38,939 in the Debt Service Fund and understated by \$13,014 in the General Fund.

In FY17, the City implemented an automated reconciliation process for all funds, except the Water Fund. However, the cash reconciliations are performed by a clerk with check signing authority and review and approval of the reconciliations by a supervisor or manager were not performed.

Possible Asserted

Effect: The cash control objectives are compromised and may not provide for the timely detection of errors.

Cause: Internal controls over the cash reconciliation process, including separation of duties and review by a supervisor, are not properly designed and implemented to ensure the accuracy and completeness of cash transactions.

Perspective: Proper segregation of duties and review of the cash reconciliations by a supervisor or manager would assist in the timely detection of errors in cash transactions.

Recommendation: We recommend the monthly cash reconciliations be performed by a staff member with no check signing authority. A supervisor or manager should review and sign monthly reconciliations to document approval.

Management's
Response:

Management has implemented a procedure as recommended. The City Clerk, who does not have check signing authority, will reconcile accounts monthly and the City Manager will review and approve.

City of Van Alstyne, Texas
Schedule of Findings and Responses
For The Year Ended September 30, 2017

FINANCIAL STATEMENT FINDINGS (continued)

Significant Deficiency

2017-002: Review of Key Cash Receipts and Disbursement Procedures

Criteria: Key cash receipts and disbursement procedures should be adequately reviewed and approved by a supervisor or manager.

Condition: A review and approval of key cash receipts and disbursement procedures including (1) daily cash drawer counts and reconciliations, (2) bank deposit slip packages, (3) check registers (4) payroll and (5) accounts payable are not performed.

Possible Asserted

Effect: Internal control objectives over key cash receipts and disbursement functions are compromised and may not provide for the timely detection of errors.

Cause: Internal controls over key cash receipts and disbursements are not properly designed and implemented to ensure the accuracy and completeness of financial transactions.

Perspective: The City has some separation of duties but the lack of review and approval by a supervisor or manager may contribute to errors.

Recommendation: We recommend the City develop and implement written policies for cash receipts and disbursement procedures, including separation of duties and an independent review by a supervisor. Supervisor or manager should sign to document approval.

**Management's
Response:**

Management will work to implement a written policy that will outline cash receipt and disbursement procedures as recommended by June 1st.

City of Van Alstyne, Texas
Summary Schedule of Prior Audit Findings and Responses
For The Year Ended September 30, 2017

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Material Weakness

2016-002: Accounts Payable Reconciliation

Criteria: The accounts payable system interfaces with general ledger system but the detail per the account payable module must be reconciled to the general ledger.

Condition: In FY16, the City did not reconcile accounts payable detail per the module to the general ledger. Also, the check voiding process was incorrectly performed and certain transactions were recorded twice in the general ledger. As a result, accounts payable and various expenses per the general ledger were over stated in the amount of \$36,114 and \$41,182 in the General Fund and Water & Sewer Fund, respectively.

Possible Asserted Effect: The accounts payable control objectives were compromised. Internal controls over the reconciliation process, including supervision and review, were not adequate to timely detect errors in the process.

Cause: Internal controls did not operate to properly detect misstatements in accounts payable transactions.

Perspective: The accounts payable module per the system was correct and a timely reconciliation process would have detected the errors.

Recommendation: We recommend the accounts payable clerk reconcile the accounts payable detail per the module to the general ledger on a monthly basis and that management perform an independent review of all reconciliations.

Management's Response: The accounts payable clerk will work to reconcile the accounts payable detail per the module and the general ledger monthly. Management will work to set aside time to perform the monthly independent review of all reconciliations.

Status: Finding is considered partially resolved in FY17, as the City reconciled the accounts payable detail to the general ledger without exception. See lack of review by a supervisor or manager in finding 2017-002, above.