

CITY OF VAN ALSTYNE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2018

City of Van Alstyne, Texas
Annual Financial Report
For the Year Ended September 30, 2018

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FINANCIAL SECTION



Susan LaFollett, CPA – Partner

Rod Abbott, CPA – Partner

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Van Alstyne, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Van Alstyne, Texas (the City), as of and for the year ended September 30, 2018, 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 City'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 City'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, 2018, 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.

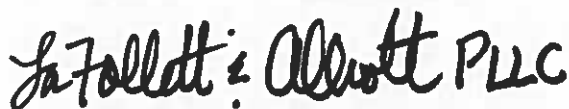
Other Matters

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 46 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 47 through 50 is also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2019, 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.



Tom Bean, Texas
June 11, 2019

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, 2018. 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 FY18 by \$13,917,858. This is an increase of \$1,326,655 over FY17's net position value of \$12,591,203. Unrestricted net position at the close of FY18 is \$391,732 and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,326,655 or 11%, as a result of this year's operations.
- The City's governmental fund types on page 10 and 12 reported combined ending fund balances of \$2,577,279, which is a decrease of \$283,706 in comparison with the prior year amount of \$2,860,985.
- The unassigned governmental fund balances of \$1,202,335 (47%) 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 2018, the General Fund had approximately \$343,198 in monthly expenses, so the unassigned fund balance of \$1,202,335 represents 4 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 \$13,917,858 at the close of FY18. Seventy-five percent (75%) 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, 2018:

City of Van Alstyne - Statement of Net Position

	<u>FY17</u>	<u>FY18</u>
Current and other assets	\$5,767,656	\$6,918,701
Capital assets	20,447,590	22,129,718
Total assets	<u>26,215,246</u>	<u>29,048,419</u>
Deferred outflow of resources	271,135	125,991
Total deferred outflow of resources	<u>271,135</u>	<u>125,991</u>
Current liabilities	2,193,044	3,518,466
L-T liabilities	11,696,646	11,540,486
Total liabilities	<u>13,889,690</u>	<u>15,058,952</u>
Deferred inflow of resources	5,488	197,600
Total deferred outflow of resources	<u>5,488</u>	<u>197,600</u>
Net position		
Net investment in capital assets	8,715,783	10,452,595
Restricted	3,088,572	3,073,531
Unrestricted	786,848	391,732
Total net position	<u>\$ 12,591,203</u>	<u>\$ 13,917,858</u>

City of Van Alstyne - Statement of Activities

Revenues:		
Program revenues	\$ 4,333,281	\$ 5,208,750
Operating grants and contributions	184,225	32,772
Capital grants and contributions	3,516,281	-
General revenues	2,906,857	2,878,605
Total revenues	<u>10,940,644</u>	<u>8,120,127</u>
Expenses:		
Water, sewer, and sanitation	2,351,204	2,565,047
General government	1,031,053	1,389,382
Police and communications	999,332	909,949
Fire protection and ambulance	704,022	754,516
Municipal court	362,223	331,478
Streets and infrastructure	220,994	346,075
Parks	193,043	275,147
Library	165,440	181,154
Interest	88,849	76,550
Total expenses	<u>6,116,160</u>	<u>6,829,298</u>
Increase in net position	4,824,484	1,290,829
Net position - beginning of year	7,766,719	12,591,203
Cumulative change in accounting principle	-	(54,914)
Prior period adjustment	-	90,740
Net position - end of year	<u>\$ 12,591,203</u>	<u>\$ 13,917,858</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

Net position of the City's governmental activities increased from \$5,493,494 to \$6,358,599. \$1,090,222 of the increase in net position of governmental activities is attributable to an increase in receivables and deposits held in trust by GTUA. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$1,179,881 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 \$2,577,279 compared to \$2,860,985 in FY17. This represents a decrease of \$283,706 compared to last year's increase of \$600,886.

Revenues for the City's General Fund (as shown on page 12) were \$4,050,710 while total expenditures were \$4,118,372. This resulted in a deficiency of revenues under expenditures in the amount of \$67,662 from current operations. Last year's result was an excess of revenues over expenditures in the amount of \$156,890. The unassigned portion of \$1,202,335 represents approximately 3.5 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 \$7,559,259 compared to the net position \$7,097,709 in FY17. This represents an increase of \$461,550. \$280,783 of the increase in net position is attributable to an increase in deposits held in trust by GTUA.

Revenues for the City's Water and Sewer Fund (as shown on page 15) were \$2,989,534 while total operating expenses were \$2,120,024. These totals plus non-operating items resulted in an increase in net position of \$378,852. Last year's result was a net increase of \$2,066,043. FY17 unrestricted net position of negative (\$176,391) was increased to negative (\$788,149) in FY18. The negative unrestricted portion of net position (\$788,149) 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 amended. See General Fund Budgetary Comparison presented on page 46. A review of the actual expenditures compared to the appropriations in the General Fund budget yields several significant variances, as discussed below. The following is a summary discussion of General Fund budget variances for FY18:

Revenues were \$133,298 less than budgeted

- Miscellaneous revenue was \$35,157 (410%) more than budgeted due to increased reimbursed salary revenue in the General Fund.
- Court revenues were \$157,756 (21%) less than budgeted because violation receipts were less than anticipated.
- Ambulance revenues were \$36,787 (7%) less than budgeted because collection rates and non-emergency transfers declined during FY18.

Expenses were \$377,137 less than budgeted

- General government expenses were \$46,414 (3%) less than budgeted due to a decrease in legal expenses, building inspections, and payroll for the EDC and CDC.
- Debt service principal payments were \$11,652 (12%) less than budgeted due to the addition of new debt during the fiscal year that has not yet required payments.

- Police and municipal court expenditures were \$152,712 (19%) and \$82,183 (20%) less than budgeted, respectively, 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, 2018 amounts to \$22,129,718, compared to \$20,447,590 at September 30, 2017. 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 shared use paths 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 \$2,784,091.

Long-term Debt

At year-end, the City had total contractual obligations, bonds, notes and other debt outstanding of \$12,017,743. The City entered into new debt during the year in the original principal amount of \$1,116,668 for the purchase and construction of capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following economic factors currently affect the City and were considered in developing the 2018 – 2019 budget.

- Water/wastewater rates were increased 5% 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 decreased from \$0.635138 to \$0.595932 per \$100 assessed valuation. The rate decrease is due to ongoing residential development as well as the addition of a large manufacturing company in Van Alstyne's Industrial Park.
- In FY18 sixty-two single family permits have been issued. This is a 33% decrease over those issued in FY17. However, as we enter FY19, there are 1,312 residential lots in the city limits in various stages of development.
- 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, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Community Development Corporation
ASSETS					
Cash and cash equivalents	\$ 3,335,023	\$ 725,318	\$ 4,060,341	\$ 460,533	\$ 293,502
Receivables, net	817,809	341,964	1,159,773	30,091	30,091
Internal balances	(130)	130	-	-	-
Restricted Assets:					
Deposits held in trust by GTUA	-	1,698,587	1,698,587	-	-
Capital assets not being depreciated:					
Land	56,958	283,956	340,914	261,316	-
Construction in progress	1,001,823	762,322	1,764,145	-	-
Capital assets net of accumulated depreciation:					
Buildings and improvements	208,965	-	208,965	46,255	-
Machinery and equipment	681,408	358,643	1,040,051	-	-
Parks	698,152	-	698,152	-	-
Streets and infrastructure	3,226,917	14,850,574	18,077,491	-	-
Total Assets	10,026,925	19,021,494	29,048,419	798,195	323,593
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - OPEB	6,092	1,027	7,119	-	-
Deferred outflows - pension	99,699	19,173	118,872	-	-
Total Deferred Outflows of Resources	105,791	20,200	125,991	-	-
LIABILITIES					
Accounts payable	1,027,401	176,314	1,203,715	33,532	3,331
Accrued liabilities	62,993	31,704	94,697	4,285	2,171
Accrued interest	21,253	993,245	1,014,498	6,101	-
Customer deposits	-	197,232	197,232	-	-
Unearned revenue	-	27,011	27,011	-	-
Long term liabilities:					
Due within one year:					
Debt	398,264	526,942	925,206	8,867	-
Compensated absences	49,659	6,448	56,107	-	-
Due in more than one year:					
Debt	1,672,185	9,420,352	11,092,537	98,532	-
Total OPEB liability	63,723	11,138	74,861	-	-
Net pension liability	312,911	60,177	373,088	-	-
Total Liabilities	3,608,389	11,450,563	15,058,952	151,317	5,502
DEFERRED INFLOW OF RESOURCES					
Deferred inflow - pension	165,728	31,872	197,600	-	-
Total Deferred Inflows of Resources	165,728	31,872	197,600	-	-
NET POSITION					
Net investment in capital assets	3,803,774	6,648,821	10,452,595	200,172	-
Restricted for:					
Deposits held in trust by GTUA	-	1,698,587	1,698,587	-	-
Capital projects	685,388	-	685,388	-	-
Debt service	584,086	-	584,086	-	-
Court security and technology	56,597	-	56,597	-	-
Police seizure	22,329	-	22,329	-	-
Streets	23,192	-	23,192	-	-
Library technology	3,352	-	3,352	-	-
Unrestricted	1,179,881	(788,149)	391,732	446,706	318,091
Total Net Position	\$ 6,358,599	\$ 7,559,259	\$ 13,917,858	\$ 646,878	\$ 318,091

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, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government								
Police	1,389,382	\$ 510,058	\$ -	\$ -	(879,324)		\$ (879,324)	
Fire protection and ambulance	697,551	-	6,039	-	(691,512)		(691,512)	
Municipal court	754,516	653,417	788	-	(100,311)		(100,311)	
Streets and infrastructure	331,478	653,722	-	-	322,244		322,244	
Emergency communications	346,075	484,518	-	-	138,443		138,443	
Parks	212,397	-	25,945	-	(212,397)		(212,397)	
Library	275,147	-	-	-	(249,202)		(249,202)	
Interest on long-term debt	181,154	8,109	-	-	(173,045)		(173,045)	
Total governmental activities	76,550	-	-	-	(76,550)		(76,550)	
	<u>4,264,251</u>	<u>2,309,824</u>	<u>32,772</u>	<u>-</u>	<u>(1,921,655)</u>		<u>(1,921,655)</u>	
Business-type activities:								
Water, sewer, and sanitation	2,565,047	2,898,926	-	-	-	\$ 333,879	333,879	
Total business-type activities	<u>2,565,047</u>	<u>2,898,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,879</u>	<u>333,879</u>	
Total primary government	<u>\$ 6,829,298</u>	<u>\$ 5,208,750</u>	<u>\$ 32,772</u>	<u>\$ -</u>	<u>(1,921,655)</u>	<u>333,879</u>	<u>(1,587,776)</u>	
Component units:								
Economic Development Corporation	\$ 213,382	\$ -	\$ -	\$ -				\$ (213,382)
Community Development Corporation	172,240	-	-	-				(172,240)
Total component units	<u>\$ 385,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(213,382)</u>
								<u>\$ -</u>
General revenues:								
Property taxes					1,476,957	-	1,476,957	
General sales and use taxes					1,018,400	-	1,018,400	
Franchise taxes					211,880	-	211,880	
Insurance proceeds					-	-	-	
Gain on sale of assets					4,005	-	4,005	
Miscellaneous					43,737	90,608	134,345	
Investment earnings					13,674	19,344	33,018	
Transfers in (out)					64,979	(64,979)	-	
Total general revenues					<u>2,833,632</u>	<u>44,973</u>	<u>2,878,605</u>	
Change in net position					911,977	378,852	1,290,829	
Net position- beginning					5,493,494	7,097,709	12,591,203	
Cumulative change in accounting principle					(46,872)	(8,042)	(54,914)	
Prior period adjustment					-	90,740	90,740	
Net position - ending					<u>\$ 6,358,599</u>	<u>\$ 7,559,259</u>	<u>\$ 13,917,858</u>	
								<u>\$ 646,878</u>
								<u>\$ 318,091</u>

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

City of Van Alstyne, Texas
Balance Sheets
Governmental Funds
September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,236,584	\$ 554,499	\$ 1,543,940	\$ 3,335,023
Due from other funds	-	26,656	-	26,656
Receivables, net of allowance	797,352	20,457	-	817,809
Total assets	<u>2,033,936</u>	<u>601,612</u>	<u>1,543,940</u>	<u>4,179,488</u>
LIABILITIES				
Accounts payable	168,849	-	858,552	1,027,401
Accrued liabilities	62,993	-	-	62,993
Due to other funds	26,786	-	-	26,786
Total liabilities	<u>258,628</u>	<u>-</u>	<u>858,552</u>	<u>1,117,180</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues:				
Ambulance	313,560	-	-	313,560
Property taxes	46,183	17,526	-	63,709
Court fines	107,760	-	-	107,760
Total deferred inflows of resources	<u>467,503</u>	<u>17,526</u>	<u>-</u>	<u>485,029</u>
FUND BALANCES				
Restricted for:				
Capital projects	-	-	685,388	685,388
Debt service	-	584,086	-	584,086
Court security and technology	56,597	-	-	56,597
Police seizure	22,329	-	-	22,329
Streets	23,192	-	-	23,192
Library technology	3,352	-	-	3,352
Unassigned	1,202,335	-	-	1,202,335
Total fund balances	<u>1,307,805</u>	<u>584,086</u>	<u>685,388</u>	<u>2,577,279</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,033,936</u>	<u>\$ 601,612</u>	<u>\$ 1,543,940</u>	<u>\$ 4,179,488</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, 2018

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

Total fund balances - governmental funds (pg 10)	\$ 2,577,279
Capital assets used in governmental activities are not financial resources. Therefore, they are not reported in the governmental funds.	5,874,223
Delinquent property taxes, ambulance revenue, and court fines are not current financial resources. Therefore, they are deferred in the governmental funds.	485,029
Long term liabilities, including bonds payable and compensated absences, are not due and payable in the current period. Therefore, they are not reported in the governmental funds.	(2,120,108)
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.	(21,253)
Net pension liability is not a current financial use; therefore, it is not reported in the governmental funds.	(312,911)
Total OPEB liability is not a current financial use; therefore, it is not reported in the governmental funds.	(63,723)
Deferred outflows (inflows) of resources represent a consumption (source) of net position that applies to a future period(s) and are not recognized as an outflow (inflow) of resources (expense/expenditure) until then.	
Pension amounts	(66,029)
OPEB amounts	6,092
Net position of governmental activities (pg 8)	<u>\$ 6,358,599</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, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 1,146,293	\$ 332,441	\$ -	\$ 1,478,734
General sales and use	1,018,400	-	-	1,018,400
Franchise	211,880	-	-	211,880
Municipal court	598,033	-	-	598,033
Ambulance services	476,124	-	-	476,124
Street development fees	-	-	484,518	484,518
License and permits	142,312	-	-	142,312
Intergovernmental	187,018	-	-	187,018
Grants	6,827	-	-	6,827
Developer construction fees	180,728	-	-	180,728
Park donations	25,945	-	-	25,945
Miscellaneous	43,737	-	-	43,737
Investment earnings	5,304	2,172	6,198	13,674
Library	8,109	-	-	8,109
Total revenues	<u>4,050,710</u>	<u>334,613</u>	<u>490,716</u>	<u>4,876,039</u>
EXPENDITURES				
Current:				
General government	1,389,477	-	-	1,389,477
Police	640,248	-	-	640,248
Fire protection and ambulance	642,590	-	-	642,590
Municipal court	331,976	-	-	331,976
Emergency communications	214,087	-	-	214,087
Library	170,499	-	-	170,499
Parks	175,386	-	-	175,386
Streets and infrastructure	124,639	-	20,028	144,667
Debt Service:				
Principal	94,065	230,000	-	324,065
Interest	12,562	64,150	-	76,712
Capital Outlay:				
Streets and infrastructure	252,601	-	1,266,179	1,518,780
Parks	41,187	-	-	41,187
Police	29,055	-	-	29,055
Total expenditures	<u>4,118,372</u>	<u>294,150</u>	<u>1,286,207</u>	<u>5,698,729</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(67,662)</u>	<u>40,463</u>	<u>(795,491)</u>	<u>(822,690)</u>
OTHER FINANCING SOURCES(USES)				
Proceeds from the sale of general capital assets	4,005	-	-	4,005
Proceeds from issuance of tax note payable	-	-	470,000	470,000
Transfers in (out)	64,979	-	-	64,979
Total other financing sources (uses)	<u>68,984</u>	<u>-</u>	<u>470,000</u>	<u>538,984</u>
Net change in fund balances	1,322	40,463	(325,491)	(283,706)
Fund balances - beginning	1,306,483	543,623	1,010,879	2,860,985
Fund balances - ending	<u>\$ 1,307,805</u>	<u>\$ 584,086</u>	<u>\$ 685,388</u>	<u>\$ 2,577,279</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, 2018

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) \$ (283,706)

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

Capital outlays	1,589,022
Depreciation expense	(498,800)

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.	324,065
New debt proceeds	(470,000)

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.

231,205

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.

162

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.

6,927

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.

23,861

Full accrual based OPEB 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.

(10,759)

Change in net position of governmental activities (pg 9)	\$ 911,977
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The notes to the financial statements are an integral part of these financial statements.

City of Van Alstyne, Texas
Statement of Net Position
Proprietary Fund
September 30, 2018

	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 725,318
Accounts receivables, net	341,964
Due from other funds	130
Total current assets	<u>1,067,412</u>
Noncurrent Assets:	
Deposits held in trust by GTUA	1,698,587
Total noncurrent assets	<u>1,698,587</u>
Capital assets:	
Land	283,956
Construction in progress	762,322
Machinery and equipment	797,971
Infrastructure	20,193,936
Less accumulated depreciation	<u>(5,782,690)</u>
Total capital assets	<u>16,255,495</u>
Total assets	<u>19,021,494</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow - pension	19,173
Deferred outflow - OPEB	1,027
Total deferred outflows of resources	<u>20,200</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	176,314
Accrued liabilities	31,704
Unearned revenue	27,011
Customer deposits payable	197,232
Accrued interest payable	993,245
Compensated absences	6,448
Contractual obligations - current	301,942
Bonds payable - current	225,000
Total current liabilities	<u>1,958,896</u>
Noncurrent Liabilities:	
Net pension liability	60,177
Total OPEB liability	11,138
Contractual obligations	6,840,352
Bonds payable	2,580,000
Total noncurrent liabilities	<u>9,491,667</u>
Total liabilities	<u>11,450,563</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow - pension	31,872
Total deferred inflows of resources	<u>31,872</u>
NET POSITION	
Net investment in capital assets	6,648,821
Restricted deposits held in trust by GTUA	1,698,587
Unrestricted	(788,149)
Total net position	<u>\$ 7,559,259</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, 2018

	<u>Water & Sewer Fund</u>
Operating Revenues	
Water	\$ 1,451,891
Sewer	1,121,958
Sanitation	219,120
Other services	49,467
Late charges and penalties	56,490
Miscellaneous	90,608
Total operating revenues	<u>2,989,534</u>
Operating Expenses	
Contractual services	533,338
Depreciation and amortization	574,248
Maintenance and repairs	421,610
Personnel services	382,898
Utilities	164,707
Administrative	43,223
Total operating expenses	<u>2,120,024</u>
Operating income	<u>869,510</u>
Nonoperating Revenues (Expenses)	
Interest income	19,344
Fiscal agent fees	(94,214)
Interest expense	(350,809)
Total nonoperating revenue (expenses)	<u>(425,679)</u>
Income before capital contributions and transfers	443,831
Transfers in (out)	<u>(64,979)</u>
Change in net position	378,852
Net position - beginning	7,097,709
Prior period adjustment	90,740
Cumulative effect of change in accounting principle	(8,042)
Net position - ending	<u><u>\$ 7,559,259</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, 2018

	Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers and users	\$ 2,861,484
Cash paid to employees	(392,410)
Cash paid to suppliers	(778,736)
Net cash provided by operating activities	<u>1,690,338</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in (out) to other funds	(64,979)
Net cash provided by noncapital financing activities	<u>(64,979)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid for acquisition and construction of capital assets	(1,166,153)
Cash from GTUA restricted deposits	(280,783)
Proceeds from debt issuance	646,668
Cash paid for fiscal agent fees	(94,214)
Interest paid on long-term debt	(350,809)
Principal payments on debt	(506,667)
Net cash provided by (used for) capital and related financing activities	<u>(1,751,958)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	19,344
Net cash provided by investing activities	<u>19,344</u>
Net increase (decrease) in cash and cash equivalents	(107,255)
Cash and cash equivalents, October 1, 2017	<u>832,573</u>
Cash and cash equivalents, September 30, 2018	<u><u>725,318</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	869,510
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation and amortization	574,248
(Increase) decrease in accounts receivable	(37,310)
(Increase) decrease in due from other funds	(130)
(Increase) decrease in deferred OPEB balances	(1,027)
Increase (decrease) in deferred pension balances	51,607
Increase (decrease) in accounts payable	112,527
Increase (decrease) in deferred revenue	(12,787)
Increase (decrease) in customer deposits	16,673
Increase (decrease) in compensated absences	1,654
Increase (decrease) in accrued liabilities	7,858
Increase (decrease) in net pension liability	(47,851)
Increase (decrease) in total OPEB liability	3,095
Increase (decrease) in accrued interest payable	152,271
Net cash provided by operating activities	<u><u>\$ 1,690,338</u></u>

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

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, 2018

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 major governmental funds:

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

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

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

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

E. Measurement focus and basis of accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which 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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

E. Measurement focus and basis of accounting (continued)

Reimbursement basis grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measureable and available only when cash is received by the City.

F. Budgetary information

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

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

Cash and Cash Equivalents

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

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, 2018

Note 1: Summary of Significant Accounting Policies (continued)

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

Pension and Other Post-Employment Benefits (OPEB)

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about the Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Information regarding the City's Total Pension Liability and Total OPEB Liability is obtained from the TMRS through reports prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68. Accounting and Financial Reporting for Pensions and GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the Statement of Financial Position and/or Balance Sheet will sometimes report a separate section for deferred outflows and deferred inflows of resources. Deferred outflows of resources 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. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The City has several items that qualify for reporting as deferred outflows of resources. These deferred outflows result from pension and OPEB contributions after the measurement date (deferred and recognized in the following year) and differences in pension and OPEB assumption changes.

The City has several items that qualify for reporting as deferred inflows of resources. Deferred inflows of resources described as unavailable revenues only arise under modified accrual basis of accounting and are reported in the governmental funds Balance Sheet. The governmental funds report unavailable revenue from property taxes, court fines, and ambulance billing. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Also, the City reports deferred inflows of resources for pension amounts that relate to the differences in expected and actual economic experience, changes in actuarial assumptions, and projected and actual investment earnings.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

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

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.

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, 2018, 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, 2018

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, 2018

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 2017 was 0.635138 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, 2018 are \$49,659 and \$6,448, respectively.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 2: Cash and Cash Equivalents

As of September 30, 2018, the City maintained all banking accounts at Independent Bank.

At September 30, 2018, the City's total carrying value of cash and cash equivalents is \$4,060,341, which consists of \$850 in petty cash and \$4,144,377 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 \$5,692,650 in securities pledged in the City's name by the depository bank to collateralize 100% of all remaining deposits.

At September 30, 2018, the EDC has cash and cash equivalents in the amount of \$493,725 held by depository banks and all amounts are insured by the FDIC.

At September 30, 2018, the CDC has cash and cash equivalents in the amount of \$330,080 held by depository banks of which \$250,000 is insured by the FDIC and \$250,000 in securities pledged in the CDC's name by the depository bank to collateralize 100% of all remaining deposits.

Note 3: Capital Assets

The following is a summary of changes in capital assets for the year ended September 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Reclasses</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 56,958	\$ 173,277	\$ -	\$ 230,235
Construction in progress	121,350	880,473	-	1,001,823
Depreciable capital assets:				
Building and improvements	644,370	-	-	644,370
Machinery and equipment	1,992,670	282,671	-	2,275,341
Parks	1,921,824	-	-	1,921,824
Streets and infrastructure	4,234,195	252,601	-	4,486,796
Totals	8,971,367	1,589,022	-	10,560,389
Less accumulated depreciation	(4,187,366)	(498,800)	-	(4,686,166)
Governmental activities capital assets, net	<u>\$ 4,784,001</u>	<u>\$ 1,090,222</u>	<u>\$ -</u>	<u>\$ 5,874,223</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 312,872	\$ -	\$ (28,916)	\$ 283,956
Construction in progress	86,570	675,752	-	762,322
Depreciable capital assets:				
Waterworks system	14,077,551	272,727	-	14,350,278
Sewer system	5,747,669	95,989	-	5,843,658
Machinery and equipment	647,369	150,602	-	797,971
Totals	20,872,031	1,195,070	(28,916)	22,038,185
Less accumulated depreciation	(5,208,442)	(574,248)	-	(5,782,690)
Business-type activities capital assets, net	<u>\$15,663,589</u>	<u>\$ 620,822</u>	<u>\$ (28,916)</u>	<u>\$ 16,255,495</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 3: Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements & Reclasses</u>	<u>Ending Balance</u>
Economic Development Corporation				
Capital assets not being depreciated:				
Land	\$ 261,316	\$ -	\$ -	\$ 261,316
Depreciable capital assets:				
Building and improvements	84,877	-	-	84,877
Less accumulated depreciation	<u>(36,265)</u>	<u>(2,357)</u>	<u>-</u>	<u>(38,622)</u>
EDC capital assets, net	<u>\$ 309,928</u>	<u>\$ (2,357)</u>	<u>\$ -</u>	<u>\$ 307,571</u>

Depreciation expense for the year ended September 30, 2018 was charged to functions of the primary government and the business-type activities as follows:

Governmental Activities:	
General Government	\$ 5,785
Library	11,735
Ambulance	54,854
Fire Department	61,558
Police Department	63,227
Parks	100,233
Streets	201,408
	<u>\$ 498,800</u>
Business-Type Activities:	
Water and sewer	\$ 574,248
	<u>\$ 574,248</u>
EDC Activities:	
Economic Development	\$ 2,357
	<u>\$ 2,357</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 4: Receivables

Receivables as of the year ended September 30, 2018 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	\$ 1,238,740	\$ -	\$ -	\$ 1,238,740	\$ -	\$ -
Municipal court	741,578	-	-	741,578	-	-
Sales taxes	180,544	-	-	180,544	30,091	30,091
Property taxes	51,216	20,844	-	72,060	-	-
Franchise & other	122,116	-	-	122,116	-	-
Accounts	-	-	346,878	346,878	-	-
	<u>2,334,194</u>	<u>20,844</u>	<u>346,878</u>	<u>2,701,916</u>	<u>30,091</u>	<u>30,091</u>
Less: allowance for doubtful accounts	(1,536,842)	(387)	(4,914)	(1,542,143)	-	-
Net	<u>\$ 797,352</u>	<u>\$ 20,457</u>	<u>\$ 341,964</u>	<u>\$ 1,159,773</u>	<u>\$ 30,091</u>	<u>\$ 30,091</u>

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, 2018, the components of the unavailable revenue in the General and Debt Service Funds are as follows:

Ambulance services	\$ 313,560
Delinquent property taxes	63,709
Municipal court fines	107,760
	<u>\$ 485,029</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, 2018 is as follows:

Transfers Out:	Transfers In:	
	General Fund	Total
Water/Sewer Fund	\$ 64,979	\$ 64,979
Total	<u>\$ 64,979</u>	<u>\$ 64,979</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

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

Due from:	Due to:		
	Debt Service Fund	Water and Sewer Fund	Total
General Fund	\$ 26,656	\$ 130	\$ 26,786
Total	\$ 26,656	\$ 130	\$ 26,786

Note 6: Changes in Long-Term Debt

The following schedule summarizes the changes in long term debt for the year ended September 30, 2018:

	Balance 9/30/2017	Additions	Retirements	Balance 9/30/2018	Due within one year
Governmental Activities					
<u>Contractual obligations, bonds, and notes payable:</u>					
2006 Series - General Obligation Tax & Revenue Refunding Bond	\$ 625,000	\$ -	\$ (200,000)	\$ 425,000	\$ 210,000
2011A Series - General Obligation Refunding Bond	895,000	-	(30,000)	865,000	35,000
2014 Contractual Obligation #6602	114,834	-	(56,416)	58,418	58,972
2014 Contractual Obligation #6603	289,680	-	(37,649)	252,031	38,697
2017 Series - Contractual Obligation	-	275,000	-	275,000	55,595
2018 Series - Tax Note	-	195,000	-	195,000	-
Total:	<u>1,924,514</u>	<u>470,000</u>	<u>(324,065)</u>	<u>2,070,449</u>	<u>398,264</u>
Compensated absences:	<u>\$ 56,586</u>	<u>\$ -</u>	<u>\$ (6,927)</u>	<u>\$ 49,659</u>	<u>\$ 49,659</u>
Business-Type Activities					
<u>Contractual obligations and bonds payable:</u>					
GTUA CGMA Phase 1 Contractual Obligation	\$ 435,000	\$ -	\$ (30,000)	\$ 405,000	\$ 31,250
GTUA CGMA Phase 2 Contractual Obligation	2,168,750	-	-	2,168,750	-
GTUA CGMA Phase 3 Contractual Obligation	900,000	-	(11,250)	888,750	12,500
2011B Series - General Obligation Refunding Bond	1,140,000	-	(100,000)	1,040,000	105,000
GTUA 2014A Series - Contractual Obligation	350,000	-	(45,000)	305,000	50,000
GTUA 2014B Series - Contractual Obligation	1,525,000	-	(65,000)	1,460,000	70,000
2014 Contractual Obligation #6577	490,649	-	(75,501)	415,148	77,967
2014 Contractual Obligation #6578	82,894	-	(26,716)	56,178	27,691
GTUA 2015 Series Contractual Obligation	2,715,000	-	(95,000)	2,620,000	95,000
2017 Series - Certificates of Obligation	-	492,000	(27,000)	465,000	28,000
2018 Contractual Obligation #7987	-	154,668	(31,200)	123,468	29,534
Total:	<u>9,807,293</u>	<u>646,668</u>	<u>(506,667)</u>	<u>9,947,294</u>	<u>526,942</u>
Compensated absences:	<u>\$ 4,794</u>	<u>\$ 1,654</u>	<u>\$ -</u>	<u>\$ 6,448</u>	<u>\$ 6,448</u>
Economic Development Corporation					
<u>Contractual obligations and bonds payable:</u>					
2018 Series - Sales Tax Note	\$ -	\$ 113,500	\$ -	\$ 113,500	\$ 8,867
Total:	<u>\$ -</u>	<u>\$ 113,500</u>	<u>\$ -</u>	<u>\$ 113,500</u>	<u>\$ 8,867</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 7: Long Term Debt – Governmental Activities

Contractual Obligations, Bonds, and Notes Payable

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, 2018 is \$425,000

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, 2018 is \$865,000

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.

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, 2018 is \$252,031

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, 2018 is \$58,418

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

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

On March 30, 2018, the City issued 2018 series Tax Note in the original principal amount of \$195,000 payable to Independent Bank. The proceeds were utilized to finance the costs incurred with acquiring land for a future municipal complex. The Note has a fixed interest rate of 3.80% and is secured by the tax revenues of the City. The Note requires principal and interest payments beginning on February 15, 2019 through the maturity date of February 15, 2025. The outstanding principal balance of the 2018 series Tax Note at September 30, 2018 is \$195,000

On May 30, 2018, the City entered into a long-term contract obligation with GCC. Per the agreement, contract #8200 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, which serves as collateral. The note is payable in annual installments of principal and interest in the amount of \$60,205 beginning October 15, 2018 through the maturity date of October 15, 2022. The note has an interest rate of 3.90%. The outstanding principal balance of the note payable at September 30, 2018 is \$275,000

Total contractual obligations, bonds, and notes payable at September 30, 2018: \$2,070,449

The principal and interest requirements related to the contractual obligations, bonds, and notes payable at September 30, 2018 are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 398,264	\$ 78,069	\$ 476,333
2020	349,675	65,335	415,010
2021	314,965	50,285	365,250
2022	329,374	38,127	367,501
2023	343,906	25,607	369,514
2024-2028	334,266	12,863	347,129
	<u>\$ 2,070,449</u>	<u>\$ 270,286</u>	<u>\$ 2,340,735</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, 2018

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, 2018, the City's obligation under this contract is \$405,000

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, 2018, the obligation had deferred interest payable in the amount of \$962,295. 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, 2018, 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, 2018, the City's obligation under this contract is \$888,750

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 it's percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its water contract (i.e. the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities.

The sum of the four (4) fractional amounts shall always equal one-hundred percent (100%) of the debt service on the contractual obligation with GTUA. The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs. The City is taking water from the pipeline and incurred a take or pay charge in the amount of \$171,420 for the year ended September 30, 2018.

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, 2018

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, 2018 is \$305,000

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, 2018 is \$1,460,000

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, 2018 is \$2,620,000

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

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, 2018 is \$1,040,000

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, 2018, the City's obligation under this contract is \$415,148

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, 2018, the City's obligation under this contract is \$56,178

On November 10, 2017, the City entered into a long-term contract obligation with GCC for the purpose of financing public works equipment. Per the agreement, contract #7987 with GCC requires payments to be remitted to First Financial Bank, N.A. in the original principal amount of \$154,668. The note is payable in annual installments of principal and interest in the amount of \$33,177 beginning April 15, 2018 through the maturity date of April 15, 2022. The note has an interest rate of 2.95%. The outstanding principal balance of the note payable at September 30, 2018 is \$123,468

On December 1, 2017, the City issued Certificates of Obligation, Series 2017 with ZB, N.A. for the purpose of financing the construction of a new public works building, moving a water line and street repairs. Per the agreement, payments are required to be remitted in the original principal amount of \$492,000. The note is payable in annual installments of principal and interest beginning December 1, 2017 through the maturity date of September 30, 2033. The note has an interest rate of 2.69%. The outstanding principal balance of the note payable at September 30, 2018 is \$465,000

Total contractual obligations and bonds payable at September 30, 2018 \$9,947,294

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

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

The principal and interest requirements related to the business-type contractual obligations and bonds at September 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	526,942	467,695	994,638
2020	464,324	454,546	918,870
2021	529,501	440,425	969,926
2022	535,566	425,849	961,415
2023	544,544	410,371	954,915
2024-2028	2,609,000	1,490,623	4,099,623
2029-2033	2,773,750	814,696	3,588,446
2034-2038	1,558,667	321,711	1,880,378
2039-2040	405,000	35,709	440,709
	<u>\$ 9,947,294</u>	<u>\$ 4,861,624</u>	<u>\$ 14,808,919</u>

Note 9: Long-Term Debt – Economic Development Corporation

On April 20, 2018, the EDC issued a 2018 Sales Tax Note with GCC for the purpose of acquiring land. Per the agreement, contract #8135 with GCC requires payments to be remitted to GCC in the original principal amount of \$113,500. The note is payable in annual installments of principal and interest in the amount of \$14,968 beginning April 20, 2019 through the maturity date of April 20, 2028. The note has an interest rate of 5.376%. The outstanding principal balance of the note payable at September 30, 2018 is \$113,500

The principal and interest requirements related to the EDC note payable at September 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	8,867	6,102	14,968
2020	9,343	5,625	14,968
2021	9,846	5,123	14,968
2022	10,375	4,593	14,968
2023	10,933	4,036	14,968
2024-2028	64,137	10,705	74,842
	<u>\$ 113,500</u>	<u>\$ 36,183</u>	<u>\$ 149,684</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 10: 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 \$584,086 and \$685,388 respectively, at September 30, 2018. 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 \$105,737. The Water and Sewer Fund has restricted cash held in trust by GTUA in amount of \$1,698,587 at September 30, 2018 that will be used for water and sewer system capital improvements and repayment of contractual obligation.

Note 11: Pension Plan

Plan Description

The City participates as one of 883 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.tmr.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 payment 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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 11: Pension Plan (continued)

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

Employees Covered by Benefit Terms

At the December 31, 2017 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	52
Active employees	31
	<hr/> 99

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 10.48% and 10.64% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$170,563 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 11: Pension Plan (continued)

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.5-10.5% per year, including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2017, 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 2017 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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 11: Pension Plan (continued)

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 (Arithmetic)
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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

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.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 11: Pension Plan (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ 4,215,657	\$ 3,478,089	\$ 737,568
Changes for the year:			
Service cost	226,715	-	226,715
Interest	288,734	-	288,734
Change of benefit terms	-	-	-
Difference between expected and actual experience	(129,120)	-	(129,120)
Changes of assumptions	-	-	-
Contributions - employer	-	173,050	(173,050)
Contributions - employee	-	99,074	(99,074)
Net investment income	-	481,310	(481,310)
Benefit payments, including refunds of employee contributions	(102,951)	(102,951)	-
Administrative expense	-	(2,498)	2,498
Other changes	-	(127)	127
Net changes	\$ 283,378	\$ 647,858	\$ (364,480)
Balance at 12/31/2017	\$ 4,499,035	\$ 4,125,947	\$ 373,088

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%
\$1,294,947	\$373,088	(\$338,743)

Pension Plan Fiduciary Net Position

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

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 11: Pension Plan (continued)

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

For the year ended September 30, 2018, the City recognized pension expense of \$148,025. The calculation and amount is provided in the TMRS Reporting Package. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ (89,451)
Changes in actuarial assumptions	-	(2,837)
Difference between projected and actual investment earnings	-	(105,312)
Contributions subsequent to the measurement date	118,872	-
Total	<u>\$ 118,872</u>	<u>\$ (197,600)</u>

\$118,872 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Net Deferred (Inflows) Outflows of Resources</u>
2019	\$ (40,098)
2020	(38,611)
2021	(69,584)
2022	(49,307)
2023	-
Thereafter	-
Total	<u>\$ (197,600)</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 12: Other Post-Employment Benefits (OPEB) Plan

Plan Description

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer other postemployment benefit plan (OPEB) (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

Benefits Provided

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). The death benefit for retirees is considered another post-employment benefit ("OPEB") and is a fixed amount of \$7,500.

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	11
Active employees	31
Total:	51

Contributions

The member 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 employees' entire careers.

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 12: Other Post-Employment Benefits (OPEB) Plan (continued)

There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The City's contributions to the SDBF for the year ended September 30, 2018 were \$2,021, and were equal to the required contributions. The contribution rates to the SDBF for the City are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2017	0.12%	0.04%
2018	0.13%	0.04%

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial cost method:	Entry Age Normal
Inflation:	2.5% per year
Salary increases:	3.5% to 10.5%, including inflation
Discount rate:	3.31%
Retiree's share of benefit-related costs:	0.00%
Health care cost trend rates:	Not disclosed as the plan only provides SDB.
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality:	
Service Retirees	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.
Disabled Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 12: Other Post-Employment Benefits (OPEB) Plan (continued)

The actuarial assumptions used in the December 31, 2017, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal actuarial cost method. Salary increases were based on a service-related table.

Discount Rate:

A single discount rate of 3.31% was used to measure the Total OPEB Liability and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Changes in Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/2016	\$ 63,141
Changes for the year:	
Service cost	3,137
Interest on Total OPEB Liability	2,434
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	6,809
Benefit payments	(660)
Net changes	\$ 11,720
Balance at 12/31/2017	\$ 74,861

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 12: Other Post-Employment Benefits (OPEB) Plan (continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.31%) or 1 percentage-point higher (4.31%) than the current rate:

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate		
1% Decrease	Current Discount Rate	1% Increase
2.31%	3.31%	4.31%
\$92,977	\$74,861	\$61,514

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$12,827. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes of assumptions	\$ 5,667	\$ -
Contributions made subsequent to measurement date	1,452	-
	<u>\$ 7,119</u>	<u>\$ -</u>

The \$1,452 contributions made after the measurement date of the total OPEB liability but before the end of the City's reporting period will be recognized as a reduction of the total OPEB liability in the subsequent fiscal period. The other amount reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	Deferred outflows (inflows) of resources
2019	\$ 1,142
2020	1,142
2021	1,142
2022	1,142
2023	1,099
Thereafter	-
Total	<u>\$ 5,667</u>

City of Van Alstyne, Texas
Notes to the Financial Statements
September 30, 2018

Note 13: Cumulative Effects of Change in Accounting Principle

As a result of the implementation of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)" an adjustment has been made to record the City's total OPEB liability as of October 1, 2017. As a result, beginning net position of the governmental activities has been decreased by \$46,872 and the beginning net position of the proprietary fund has been decreased by \$8,042.

Note 14: Prior Period Adjustment

The Water and Sewer Fund had the following restatements to net position due to revenue related to unbilled water revenue not reported in the previous period:

	Water and Sewer Fund
Beginning balances as previously reported	\$ 7,097,709
Unbilled water revenue	90,740
Restated beginning balances	<u>\$ 7,188,449</u>

Note 15: Subsequent Events

Management has evaluated subsequent events through May 14, 2019, the date on which the financial statements were available to be issued. There are no subsequent events requiring disclosure at this time.

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, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes:				
Property	\$ 1,143,224	1,143,224	\$ 1,146,293	\$ 3,069
General sales and use	886,000	1,026,000	1,018,400	(7,600)
Franchise	180,000	180,000	211,880	31,880
Municipal court	755,789	755,789	598,033	(157,756)
Ambulance services	512,911	512,911	476,124	(36,787)
License and permits	123,500	136,000	142,312	6,312
Intergovernmental	209,768	233,601	187,018	(46,583)
Grants	10,054	16,093	6,827	(9,266)
Developer construction fees	-	150,000	180,728	30,728
Park donations	30,900	9,000	25,945	16,945
Miscellaneous	10,080	8,580	43,737	35,157
Investment earnings	4,330	4,330	5,304	974
Library	8,480	8,480	8,109	(371)
Total Revenues	3,875,036	4,184,008	4,050,710	(133,298)
EXPENDITURES				
Current:				
General government	926,129	1,435,891	1,389,477	46,414
Police	796,396	792,960	640,248	152,712
Fire protection and ambulance	641,747	741,620	642,590	99,030
Municipal court	412,641	414,159	331,976	82,183
Emergency communications	226,833	230,649	214,087	16,562
Library	171,069	172,069	170,499	1,570
Parks	156,380	169,538	175,386	(5,848)
Streets and infrastructure	83,044	94,344	124,639	(30,295)
Debt Service:				
Principal	94,065	105,717	94,065	11,652
Interest	12,562	12,562	12,562	-
Capital Outlay:				
Streets and infrastructure	281,600	296,000	252,601	43,399
Parks	-	-	41,187	(41,187)
Police	30,000	30,000	29,055	945
Total expenditures	3,832,466	4,495,509	4,118,372	377,137
Excess (deficiency) of revenues over (under) expenditures	42,570	(311,501)	(67,662)	243,839
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of general capital assets	3,000	3,000	4,005	1,005
Transfers in (out)	(45,489)	5,005	64,979	59,974
Total Other financing Sources (Uses)	(42,489)	8,005	68,984	60,979
Net change in fund balances	\$ 81	\$ (303,496)	\$ 1,322	\$ 304,818

Notes to Required Supplementary Information

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

City of Van Alstyne, Texas
Schedules of Changes in Net Pension Liability and Related Ratios ¹
Texas Municipal Retirement System
Last Ten Measured Years

	2014	2015	2016	2017
Total pension liability				
Service Cost	\$ 174,573	\$ 188,085	\$ 197,874	\$ 226,715
Interest (on the Total Pension Liability)	232,187	253,994	262,778	288,734
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	18,835	(32,674)	23,275	(129,120)
Change of assumptions	-	(10,791)	-	-
Benefit payments, including refunds of employee contributions	(88,387)	(153,259)	(124,694)	(102,951)
Net Change in Total Pension Liability	337,208	245,355	359,233	283,378
Total Pension Liability - Beginning	3,273,861	3,611,069	3,856,424	4,215,657
Total Pension Liability - Ending (a)	<u>\$ 3,611,069</u>	<u>\$ 3,856,424</u>	<u>\$ 4,215,657</u>	<u>\$ 4,499,035</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 120,262	\$ 139,552	\$ 150,448	\$ 173,050
Contributions - Employee	82,639	80,839	85,970	99,074
Net Investment Income	160,990	4,556	212,855	481,310
Benefit payments, including refunds of employee contribution	(88,387)	(153,259)	(124,694)	(102,951)
Administrative Expense	(1,680)	(2,775)	(2,409)	(2,498)
Other	(138)	(137)	(130)	(127)
Net Change in Plan Fiduciary Net Position	273,686	68,776	322,040	647,858
Plan Fiduciary Net Position - Beginning	2,813,587	3,087,273	3,156,049	3,478,089
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,087,273</u>	<u>\$ 3,156,049</u>	<u>\$ 3,478,089</u>	<u>\$ 4,125,947</u>
Net Pension Liability - Ending (a) - (b)	523,796	700,375	737,568	373,088
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.49%	81.84%	82.50%	91.71%
Covered Payroll	\$ 1,377,309	\$ 1,347,317	\$ 1,432,831	\$ 1,651,240
Net Pension Liability as a Percentage of Covered Payroll	38.03%	51.98%	51.48%	22.59%

NOTES TO SCHEDULE OF NET PENSION LIABILITY

¹ The schedule above reflects the changes in the net pension liability for the current year. GASB 68 requires ten fiscal years of data to be provided in this schedule. However, until a full ten-year trend is compiled, only available information is shown.

City of Van Alstyne, Texas
Schedules of Pension Contributions ¹
Texas Municipal Retirement System
Last Ten Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 139,552	\$ 148,430	\$ 161,434	\$ 170,563
Contributions in relation to the actuarially determined	<u>139,552</u>	<u>148,430</u>	<u>161,434</u>	<u>170,563</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,347,317	\$ 1,432,831	\$ 1,522,643	\$ 1,591,167
Contributions as a percentage of covered payroll	10.36%	10.36%	10.60%	10.72%

NOTES TO SCHEDULE OF CONTRIBUTIONS TO PENSION PLAN

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

Valuation Date:

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

Other Information:

Notes There were no benefit changes during the year.

City of Van Alstyne, Texas
Schedule Of Changes In Total OPEB Liability And Related Ratios ¹
Texas Municipal Retirement System
Last Ten Measured Years

	<u>2017</u>
Total OPEB liability	
Service Cost	\$ 3,137
Interest (on the Total OPEB Liability)	2,434
Effect of plan changes	-
Effect of assumption changes or inputs	-
Effect of economic/demographic (gains) or losses	6,809
Benefit payments	<u>(660)</u>
Net Change in Total OPEB Liability	<u>11,720</u>
Total OPEB Liability - Beginning	<u>63,141</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 74,861</u></u>
 Covered Payroll	 \$ 1,651,240
Total OPEB Liability as a Percentage of Covered Payroll	 4.53%

NOTES TO SCHEDULE OF TOTAL OPEB LIABILITY

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, recalculations of prior years are not reported in accordance with the standards of GASB 74/75 and should not be shown here. Therefore, only years for which the new GASB statements have been implemented have been shown and ultimately ten years will be presented .

City of Van Alstyne, Texas
Schedule Of OPEB Contributions ¹
Texas Municipal Retirement System
Last Ten Fiscal Years

	2018
Actuarially Determined Contribution	\$ 2,021
Contributions in relation to the actuarially determined contribution	<u>2,021</u>
Contribution deficiency (excess)	-
Covered payroll	\$ 1,591,167
Contributions as a percentage of covered payroll	0.1%

NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS

¹ This schedule is presented to illustrate the requirement to show for ten years. However, recalculations of prior years are not reported in accordance with the standards of GASB 74/75 and should not be shown here. Therefore, only years for which the new GASB statements have been implemented will be shown and ultimately ten years will be presented.

Valuation Timing:

Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.5% to 10.5% including inflation
Discount Rate	3.31%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality:

Service Retirees

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.

Disabled Retirees

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Other Information:

Notes

There were no benefit changes during the year.

COMPLIANCE AND INTERNAL CONTROL SECTION



LaFollett and Abbott PLLC
Certified Public Accountants

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 11, 2019.

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 City'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2018- 001 and 2018-002.

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 June 11, 2019.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Tom Bean, Texas
June 11, 2019

City of Van Alstyne, Texas
Schedule of Audit Findings and Responses
For The Year Ended September 30, 2018

FINANCIAL STATEMENT FINDINGS

Material Weakness

2018-001: Economic Development Corporation (EDC) Financial Reporting

Criteria: Internal controls over financial reporting should be adequate to ensure that the financial transactions and the related general ledger balances are properly recorded.

Condition: The EDC did not post routine closing adjustments at year end. Also, various other material transactions were incorrectly recorded, including two note payables in the amount of \$149,683 and \$113,500. This is a recurring finding.

Possible Asserted

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

Cause: Internal controls over the financial reporting process are not properly designed and implemented to ensure the accuracy and completeness of financial transactions. The EDC maintains their financial transactions on QuickBooks and the staff size does not provide for separation of duties without board members also performing duties, which can be difficult given board rotation.

Perspective: Staff is not properly trained to record the financial transactions of the EDC and the board did not provide adequate review.

Recommendation: We recommend the accounting for the EDC be moved to the ASYST software system and performed by City staff. Check signing will still be performed by an authorized EDC board member.

Management's

Response: The City has moved the accounting for the EDC to the ASYST software system and it is maintained by he City Controller and Finance Clerk.

City of Van Alstyne, Texas
Schedule of Audit Findings and Responses
For The Year Ended September 30, 2018

FINANCIAL STATEMENT FINDINGS

Material Weakness

2018-002: Economic Development Corporation (EDC) Board Oversight

Criteria: The EDC Board should be structured to provide oversight to staff and insure that operational objectives are conducted as approved. The approval of contracts and agreements by the EDC board are required to be documented in the EDC minutes to provide support for significant transactions.

Condition: The new board was not aware that the EDC had entered into a note agreement and had an upcoming principle payment due until the time of the audit. The minutes of the EDC did not document that a note payable agreement in the amount of \$113,500 was entered to by the EDC.

Possible Asserted

Effect: The EDC operational objectives are compromised.

Cause: Board structure and procedures for recording minutes to meetings are not adequate to provide for oversight of the EDC operations.

Perspective: Written board member duties would assist in the proper oversight of EDC operations.

Recommendation: We recommend the EDC board chairperson supervise staff and insure that operational objectives are conducted as approved. Additionally, ensure the board secretary is properly trained to record minutes to meetings that document significant transactions.

Management's

Response: The EDC has a completely new board and all significant transactions and information will be recorded in the minutes.

City of Van Alstyne, Texas
Summary Schedule of Prior Audit Findings and Responses
For The Year Ended September 30, 2018

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 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.

Status: Finding is considered fully resolved.

City of Van Alstyne, Texas
Summary Schedule of Prior Audit Findings and Responses
For The Year Ended September 30, 2018

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.

Status: City implemented written cash handling procedures. Finding is considered fully resolved.