

CITY OF VAN, TEXAS

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2014

CITY OF VAN, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2014

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YELDELL, WILSON, WOOD & REEVE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Van, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Van, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Van, Texas, as of September 30, 2014, 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 3-10 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Van, Texas' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
November 3, 2015

CITY OF VAN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Van, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,341,984 (*net position*). Of this amount, \$585,970 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$656,076.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$760,878, an increase of \$82,587 in comparison with prior year. Approximately 62% of this amount (\$473,314) is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$473,314, or approximately 29% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, cultural and recreational and public works. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be major fund. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic governmental fund financial statements can be found on pages 13-15 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprises fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-41 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents *required supplementary information* concerning the City's General fund Budget Comparison Schedule. Required supplementary information can be found on page 43 of this report.

This report also presents combining statements referred to earlier in connection with nonmajor governmental funds. Combining and individual fund statements and schedules can be found on pages 44-48 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$5,341,984, at the close of the most recent fiscal year.

CITY OF VAN'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,879,926	\$ 2,201,600	\$ 475,979	\$ 582,690	\$ 2,355,905	\$ 2,784,290
Capital assets	1,849,241	1,349,532	3,427,740	3,484,140	5,276,981	4,833,672
Total assets	<u>3,729,167</u>	<u>3,551,132</u>	<u>3,903,719</u>	<u>4,066,830</u>	<u>7,632,886</u>	<u>7,617,962</u>
Long term liabilities	546,854	595,989	476,176	669,323	1,023,030	1,265,312
Other liabilities	1,086,662	1,485,411	181,210	181,331	1,267,872	1,666,742
Total liabilities	<u>1,633,516</u>	<u>2,081,400</u>	<u>657,386</u>	<u>850,654</u>	<u>2,290,902</u>	<u>2,932,054</u>
Net position:						
Net investment in capital assets	1,398,295	829,201	2,992,740	2,859,140	4,391,035	3,688,341
Restricted	287,564	144,086	77,415	74,034	364,979	218,120
Unrestricted	409,792	496,445	176,178	283,002	585,970	779,447
Total net position	<u>\$ 2,095,651</u>	<u>\$ 1,469,732</u>	<u>\$ 3,246,333</u>	<u>\$ 3,216,176</u>	<u>\$ 5,341,984</u>	<u>\$ 4,685,908</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

By far, the largest portion of the City's net position (82.2%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's net investment in capital assets increased as a result of machinery and equipment additions and construction in progress additions, while long-term debt decreased due to scheduled debt payments being made.

An additional portion of the City's net position (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$585,970 is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's overall net position increased \$656,076 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF VAN'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 190,178	\$ 140,116	\$ 1,198,172	\$ 1,221,964	\$ 1,388,350	\$ 1,362,080
Operating grants and contributions	44,848	47,147	-	-	44,848	47,147
Capital grants and contributions	592,861	147,700	-	-	592,861	147,700
General revenues:						
Property taxes	720,418	769,881	-	-	720,418	769,881
Sales taxes	599,149	612,487	-	-	599,149	612,487
Franchise taxes	102,934	103,239	-	-	102,934	103,239
Hotel-motel taxes	5,884	6,194	-	-	5,884	6,194
Investment earnings	2,836	3,032	1,225	656	4,061	3,688
Rent	19,804	15,843	-	-	19,804	15,843
Gain on sale of capital assets	-	500	-	-	-	500
Miscellaneous	22,124	39,252	-	-	22,124	39,252
Total revenues	<u>2,301,036</u>	<u>1,885,391</u>	<u>1,199,397</u>	<u>1,222,620</u>	<u>3,500,433</u>	<u>3,108,011</u>
Expenses:						
General government	436,805	433,168	-	-	436,805	433,168
Public safety	1,021,205	809,846	-	-	1,021,205	809,846
Public works	110,395	236,834	-	-	110,395	236,834
Cultural and recreational	89,746	125,015	-	-	89,746	125,015
Interest on long-term debt	29,458	31,318	-	-	29,458	31,318
Water and sewer	-	-	1,156,748	1,152,461	1,156,748	1,152,461
Total expenses	<u>1,687,609</u>	<u>1,636,181</u>	<u>1,156,748</u>	<u>1,152,461</u>	<u>2,844,357</u>	<u>2,788,642</u>
Change in net position before transfers	613,427	249,210	42,649	70,159	656,076	319,369
Transfers	12,492	(66,247)	(12,492)	66,247	-	-
Increase in net position	<u>625,919</u>	<u>182,963</u>	<u>30,157</u>	<u>136,406</u>	<u>656,076</u>	<u>319,369</u>
Net position - beginning, as restated	1,469,732	1,286,769	3,216,176	3,079,770	4,685,908	4,366,539
Net position - ending	<u>\$ 2,095,651</u>	<u>\$ 1,469,732</u>	<u>\$ 3,246,333</u>	<u>\$ 3,216,176</u>	<u>\$ 5,341,984</u>	<u>\$ 4,685,908</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

- Capital grants and contributions increased by \$445,161 (301.40%) during the year. The majority of this increase is the product of the Van Economic Development Corporation contributing toward the construction of street improvements.
- Government charges for services increased by \$50,062 (35.73%) during the year. The majority of this increase is the product of increased ambulance fees.
- Public safety expenditures increased by \$211,359 (26.1%) during the year. This increase was programmed into the public safety budget.
- Public works expenditures decreased by \$126,439 (53.39%) during the year. The majority of this decrease is the product of budget restrictions.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At September 30, 2014, the City's governmental funds reported combined fund balances of \$760,878, an increase of \$82,587 in comparison with the prior year. Approximately 62.2% of this amount \$473,314 constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of the fund balance is *restricted* for particular purposes (\$287,564).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned and total fund balance of the general fund was \$473,314 and \$653,175, respectively. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned and total fund balance represent approximately 28.9% and 39.9% of total general fund expenditures, respectively.

The fund balance of the City's general fund increased by \$64,817 during the current fiscal year. As discussed earlier in connection with governmental activities, the increase primarily resulted from a series of expenditure restrictions imposed during the year and an increase in property tax and sales tax revenue which resulted from growth in the local economy.

Proprietary Funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer fund at the end of the year was \$176,178. The total growth in net position was \$30,157. Other factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights.

Final budget compared to actual results. General fund actual revenues of \$1,547,127 exceeded budgeted revenues of \$1,460,925 by \$86,202. Following are the main components that experienced an increase or decrease of actual revenue compared to budgeted revenue:

- The \$181,342 increase in property taxes resulted from an increase in taxable values and therefore levies.
- The \$83,731 decrease in sales tax resulted from an less growth in retail activity than originally budgeted.

Budgeted general fund expenditures of \$1,692,330 exceeded actual expenditures of \$1,512,886 by \$179,444.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$5,276,981 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. The total increase in capital assets for the current fiscal year was approximately 9.17%.

Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 189,846	\$ 189,846	\$ -	\$ -	\$ 189,846	\$ 189,846
Construction in progress	744,921	152,059	199,850	59,731	944,771	211,790
Buildings	200,796	221,429	48,532	52,084	249,328	273,513
Improvements	-	-	3,101,535	3,271,032	3,101,535	3,271,032
Machinery and equipment	611,446	674,580	77,823	101,293	689,269	775,873
Infrastructure	102,232	111,618	-	-	102,232	111,618
Total	\$ 1,849,241	\$ 1,349,532	\$ 3,427,740	\$ 3,484,140	\$ 5,276,981	\$ 4,833,672

Major capital asset events during the current fiscal year included the following:

- Construction in progress additions of approximately \$593,000 related to infrastructure improvements.
- Construction in progress additions of approximately \$140,000 related to water and sewer system improvements.
- Machinery and equipment additions of approximately \$80,000.

Additional information on the City's capital assets can be found in Note 2.E on pages 30-31 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$435,000, which is backed by the full faith and credit of the government. The remainder of the City's long-term obligations comprises contracts payable, note payable, and tax notes payable.

**Outstanding Debt at Year End
Contracts, Notes, Tax Note and Bonds Payable**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Contracts payable	\$ 417,423	\$ 471,259	\$ -	\$ -	\$ 417,423	\$ 471,259
Note payable	33,523	49,072	-	-	33,523	49,072
Revenue bonds	-	-	435,000	495,000	435,000	495,000
General obligation bonds	-	-	-	130,000	-	130,000
Total	<u>\$ 450,946</u>	<u>\$ 520,331</u>	<u>\$ 435,000</u>	<u>\$ 625,000</u>	<u>\$ 885,946</u>	<u>\$ 1,145,331</u>

Additional information on the City's long term-debt can be found in Note 2.I on pages 36-38 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2014-15 Budget, General Fund revenues increased 8% from the 2013-14 budget year with property taxes making up about 41% and sales tax making up about 42% of general fund budgeted revenues.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, P.O. Box 487, Van, Texas 75790-0487.

CITY OF VAN, TEXAS
STATEMENT OF NET POSITION
September 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Van Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 1,486,081	\$ 152,361	\$ 1,638,442	\$ -
Investments	206,447	40,686	247,133	-
Receivables (net of allowance for uncollectibles)	173,728	172,507	346,235	59,998
Due from primary government	-	-	-	1,032,574
Internal balances	13,670	(13,670)	-	-
Inventories	-	43,058	43,058	-
Land held for sale	-	-	-	19,193
Restricted cash and cash equivalents	-	81,037	81,037	-
Capital assets:				
Non-depreciable	934,767	199,850	1,134,617	-
Depreciable (net of accumulated depreciation)	914,474	3,227,890	4,142,364	34,387
Total assets	<u>3,729,167</u>	<u>3,903,719</u>	<u>7,632,886</u>	<u>1,146,152</u>
LIABILITIES				
Accounts payable and other current liabilities	34,054	64,534	98,588	198,186
Accrued payroll payable	20,034	5,105	25,139	1,057
Due to component unit	1,032,574	-	1,032,574	-
Customer deposits payable	-	107,949	107,949	-
Liabilities payable from restricted assets	-	48,622	48,622	-
Noncurrent liabilities:				
Due within one year	66,787	38,165	104,952	58,732
Due in more than one year	480,067	393,011	873,078	940,543
Total liabilities	<u>1,633,516</u>	<u>657,386</u>	<u>2,290,902</u>	<u>1,198,518</u>
NET POSITION				
Net investment in capital assets	1,398,295	2,992,740	4,391,035	34,387
Restricted for:				
Cultural and recreational	87,774	-	87,774	-
Debt service	179,851	77,415	257,266	-
Public safety	19,939	-	19,939	-
Unrestricted	409,792	176,178	585,970	(86,753)
Total net position	<u>\$ 2,095,651</u>	<u>\$ 3,246,333</u>	<u>\$ 5,341,984</u>	<u>\$ (52,366)</u>

See accompanying notes to financial statements.

CITY OF VAN, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2014

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Van Economic Development Corporation
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 436,805	\$ 10,520	\$ -	\$ -	\$ (426,285)	\$ -	\$ (426,285)	\$ -
Public safety	1,021,205	179,658	34,730	-	(806,817)	-	(806,817)	-
Cultural and recreational	89,746	-	10,118	-	(79,628)	-	(79,628)	-
Public works	110,395	-	-	592,861	482,466	-	482,466	-
Interest on long-term debt	29,458	-	-	-	(29,458)	-	(29,458)	-
Total governmental activities	<u>1,687,609</u>	<u>190,178</u>	<u>44,848</u>	<u>592,861</u>	<u>(859,722)</u>	<u>-</u>	<u>(859,722)</u>	<u>-</u>
Business-type activities:								
Water and sewer	1,156,748	1,198,172	-	-	-	41,424	41,424	-
Total business-type activities	<u>1,156,748</u>	<u>1,198,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,424</u>	<u>41,424</u>	<u>-</u>
Total primary government	<u>\$ 2,844,357</u>	<u>\$ 1,388,350</u>	<u>\$ 44,848</u>	<u>\$ 592,861</u>	<u>(859,722)</u>	<u>41,424</u>	<u>(818,298)</u>	<u>-</u>
Component unit:								
Van Economic Development Corporation	\$ 745,592	\$ -	\$ -	\$ -				(745,592)
Total component unit	<u>\$ 745,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(745,592)</u>
General revenues:								
Property taxes					720,418	-	720,418	-
Sales taxes					599,149	-	599,149	199,716
Franchise taxes					102,934	-	102,934	-
Hotel-motel taxes					5,884	-	5,884	-
Investment earnings					2,836	1,225	4,061	6,752
Rent					19,804	-	19,804	-
Miscellaneous					22,124	-	22,124	-
Transfers					12,492	(12,492)	-	-
Total general revenues and transfers					<u>1,485,641</u>	<u>(11,267)</u>	<u>1,474,374</u>	<u>206,468</u>
Change in net position					625,919	30,157	656,076	(539,124)
Net position - beginning, as restated					<u>1,469,732</u>	<u>3,216,176</u>	<u>4,685,908</u>	<u>486,758</u>
Net position - ending					<u>\$ 2,095,651</u>	<u>\$ 3,246,333</u>	<u>\$5,341,984</u>	<u>\$ (52,366)</u>

See accompanying notes to financial statements.

CITY OF VAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,379,649	\$ 106,432	\$ 1,486,081
Investments	206,447	-	206,447
Receivables (net of allowance for uncollectibles)	172,447	1,281	173,728
Due from other funds	13,670	-	13,670
Total assets	<u>\$ 1,772,213</u>	<u>\$ 107,713</u>	<u>\$ 1,879,926</u>
LIABILITIES			
Accounts payable	\$ 34,054	\$ -	\$ 34,054
Accrued payroll payable	20,034	-	20,034
Due to component unit	1,032,574	-	1,032,574
Total liabilities	<u>1,086,662</u>	<u>-</u>	<u>1,086,662</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	32,386	-	32,386
Total deferred inflow of resources	<u>32,386</u>	<u>-</u>	<u>32,386</u>
FUND BALANCES			
Restricted:			
Cultural and recreational	-	87,774	87,774
Public safety	-	19,939	19,939
Debt service	179,851	-	179,851
Unassigned	473,314	-	473,314
Total fund balances	<u>653,165</u>	<u>107,713</u>	<u>760,878</u>
Total liabilities, deferred inflow of resources, and fund balances	<u>\$ 1,772,213</u>	<u>\$ 107,713</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,849,241
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	32,386
Long-term liabilities, including contracts and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Due within one year	\$ (66,787)
Due in more than one year	<u>(480,067)</u>
Net position of governmental activities	<u>\$ 2,095,651</u>

CITY OF VAN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 725,930	\$ -	\$ 725,930
Sales taxes	599,149	-	599,149
Franchise taxes	102,934	-	102,934
Hotel-motel taxes	-	5,884	5,884
Licenses and permits	10,137	-	10,137
Fines and forfeitures	50,765	3,775	54,540
Charges for current services	125,502	-	125,502
Investment earnings	2,767	69	2,836
Rent	19,804	-	19,804
Other	22,125	-	22,125
Intergovernmental	26,265	-	26,265
Contributions and donations	8,464	10,118	18,582
Total revenues	<u>1,693,842</u>	<u>19,846</u>	<u>1,713,688</u>
EXPENDITURES			
Current:			
General government	433,599	-	433,599
Public safety	942,518	2,500	945,018
Cultural and recreational	64,680	4,826	69,506
Public works	96,627	-	96,627
Debt service:			
Principal retirement	69,385	-	69,385
Interest and fiscal charges	29,458	-	29,458
Total expenditures	<u>1,636,267</u>	<u>7,326</u>	<u>1,643,593</u>
Excess of revenues over expenditures	<u>57,575</u>	<u>12,520</u>	<u>70,095</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,492	5,250	17,742
Transfers out	(5,250)	-	(5,250)
Total other financing sources (uses)	<u>7,242</u>	<u>5,250</u>	<u>12,492</u>
Net change in fund balances	64,817	17,770	82,587
Fund balances - beginning, as restated	<u>588,348</u>	<u>89,943</u>	<u>678,291</u>
Fund balances - ending	<u>\$ 653,165</u>	<u>\$ 107,713</u>	<u>\$ 760,878</u>

See accompanying notes to financial statements.

CITY OF VAN, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2014

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net Change in Fund Balances - total governmental funds (page 14)	\$	82,587
<p>Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.</p>		
		671,892
<p>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.</p>		
		(172,183)
<p>The issuance of long-term debt (e.g. contacts and notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Contract principal retirement	\$ 53,836	
Notes principal retirement	<u>15,549</u>	69,385
<p>Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of changes in net position compensated absences are expensed as they are accrued. Change in the compensated absences liability.</p>		
		(20,250)
<p>Some property tax will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount of unavailable revenue on Fund statements.</p>		
		<u>(5,512)</u>
Change in net position of governmental activities (page 12)		<u><u>\$ 625,919</u></u>

CITY OF VAN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2014

	Business-type Activities - Enterprise (Water and Sewer) Fund
	Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 152,361
Investments	40,686
Restricted cash and cash equivalents	48,622
Receivables (net of allowance for uncollectibles)	172,507
Inventory	43,058
Total current assets	457,234
Noncurrent assets:	
Restricted cash and cash equivalents	32,415
Capital assets (net, where applicable of accumulated depreciation)	3,427,740
Total noncurrent assets	3,460,155
Total assets	3,917,389
LIABILITIES	
Current liabilities:	
Accounts payable	64,534
Accrued payroll payable	5,105
Due to other funds	13,670
Customer deposits payable	107,949
Compensated absences	23,165
Bonds payable	15,000
Current liabilities payable from restricted assets:	
Bonds payable	45,000
Accrued interest payable	3,622
Total current liabilities	278,045
Noncurrent liabilities:	
Compensated absences	18,011
Bonds payable	375,000
Total noncurrent liabilities	393,011
Total liabilities	671,056
NET POSITION	
Net investment in capital assets	2,992,740
Restricted for debt service	77,415
Unrestricted	176,178
Total net position	\$ 3,246,333

See accompanying notes to financial statements.

CITY OF VAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2014

	Business-type Activities - Enterprise (Water and Sewer) Fund
Operating revenues:	
Charges for services	\$ 1,186,524
Miscellaneous	11,648
Total operating revenues	1,198,172
Operating expenses:	
Personnel services	356,464
Supplies and materials	74,857
Maintenance and repair	81,124
Contractual services	405,121
Depreciation	209,867
Total operating expenses	1,127,433
Operating income	70,739
Nonoperating revenue (expenses):	
Investment earnings	1,225
Interest and fiscal charges	(29,315)
Total nonoperating revenue (expenses)	(28,090)
Income before transfers	42,649
Transfer out	(12,492)
Change in net position	30,157
Total net position - beginning	3,216,176
Total net position - ending	\$ 3,246,333

CITY OF VAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2014

	Business-type Activities - Enterprise (Water and Sewer) Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,215,005
Payments to suppliers	(551,193)
Payments to employees	(362,558)
Net cash provided by (used for) operating activities	301,254
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from other funds	17,788
Transfers to other funds	(12,492)
Net cash provided by (used for) noncapital financing activities	5,296
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(153,467)
Principal paid on bond maturities	(190,000)
Interest and fiscal charges paid on revenue bonds	(26,736)
Interest paid on tax notes	(3,486)
Net cash provided by (used for) capital and related financing activities	(373,689)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	743
Net cash provided by investing activities	743
Net change in cash and cash equivalents	(66,396)
Cash and cash equivalents October 1 (including \$78,563 reported in restricted accounts)	299,794
Cash and cash equivalents September 30 (including \$81,037 reported in restricted accounts)	\$ 233,398
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 70,739
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	209,867
(Increase) decrease in accounts receivable	14,655
(Increase) decrease in inventory	8,354
Increase (decrease) in accounts payable and accrued expenses	(4,539)
Net increase in customer deposits	2,178
Total adjustments	230,515
Net cash provided by (used for) operating activities	\$ 301,254

See accompanying notes to financial statements.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

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 of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

B. Reporting entity

The City of Van, Texas (the "City") is a general law municipality and was incorporated in 1946. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit.

Discretely presented component unit. The Corporation described below is included in the City's reporting entity because the City appoints the governing body and the Corporation is fiscally dependent on the City. The Corporation is reported as a discretely presented component unit since the governing body is not substantively the same as the governing body of the City, and it provides services to the citizens of Van and the surrounding area as opposed to only the primary government. To emphasize that it is legally separate from the City, it is reported in a separate column in the financial statements.

The *Van Economic Development Corporation* (the "Corporation") is responsible for disbursing the one-fourth percent sales tax to be used for economic and industrial development within the City. The members of the Corporation's board are appointed by the City and are comprised of seven directors which shall be persons who are business owners of the City or either a resident of the City, a resident of the county in which the major part of the area of the City is located, or reside in a place that is within 10 miles of the City's boundaries and is in a county bordering the county in which a major portion of the City is located. The Corporation is presented as a governmental fund type and has a September 30 year end.

Separate financial statements for the Corporation are not issued.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

As discussed earlier, the City has a discretely presented component unit. The Van Economic Development Corporation is considered to be major component unit and is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the sewage collection system and the water distribution system.

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. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at 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.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting (continued)

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven 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 (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Budgetary information

1. Budgetary basis of accounting

Annual budgets for the general and water and sewer funds are adopted on the budgetary basis of accounting. Appropriations in all budgeted funds lapse at the end of the fiscal year. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

2. Compliance with finance related legal and contractual provisions

The City has no material violations of finance related legal and contractual provisions, including the Texas Public Funds Investment Act.

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

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the City are reported at fair value.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. *Restricted assets*

Certain resources set aside for the repayment of the City's enterprise fund bonds are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond interest and sinking" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond reserve" account is used to report resources set aside to make up potential future deficiencies in the bond interest and sinking account.

4. *Receivables*

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to .2 percent of taxes levied each year.

5. *Inventories*

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and land held for resale. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

6. *Capital assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

As the government constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The amount of interest capitalized depends on the specific circumstances. No interest was capitalized during 2014; interest incurred and charged to expense totaled \$29,315.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	5-30
Improvements	15-30
Machinery and equipment	3-15
Infrastructure	4-40

7. *Deferred inflows of resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net position flow assumption

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Fund balance flow assumption

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the general fund.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

H. Revenues and expenditures/expenses

1. 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 or segment 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 specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Revenues and expenditures/expenses (continued)

2. Property taxes

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Van Zandt County Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Van Zandt County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

3. Compensated absences

The City's policy permits employees to accumulate earned but unused paid time off benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Unused paid time off benefits shall be taken during the year following its accumulation.

4. 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 producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes 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, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2014. At year end, the bank balance of the City's deposits was \$1,949,331. Of the bank balance, \$495,507 was covered by federal depository insurance and the remaining balance, \$1,453,824, was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$3,276,000.

B. Investments

Investments – Acceptable investments under the City's investment policy shall be limited to the following instruments and as further described by the Public Funds Investment Act: (1) obligations of the United States, its agencies and instrumentalities, (2) certificates of deposit that are issued by a depository institution that has its main office or a branch office in this state, (3) repurchase agreements. A master repurchase agreement must be signed by the bank/dealer prior to the investment transaction, (4) commercial paper, (5) money market mutual funds, and (6) investment pools. Only if the pool is approved and passed by a resolution of the City Council.

As of September 30, 2014, the City had the following investment:

<u>Investment Type</u>	<u>Fair Value</u>
Certificates of deposit	<u>\$ 247,133</u>

Concentration of credit risk. The City's investment policy contains no limitations on the amount that can be invested in any one issuer.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

C. Restricted assets

The balances of the restricted asset accounts in the proprietary fund are as follows:

Revenue bond interest and sinking	\$ 3,405
Revenue bond reserve	<u>77,632</u>
	<u><u>\$ 81,037</u></u>

D. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general, nonmajor governmental funds, and water and sewer funds, including the applicable allowances for uncollectible accounts:

Receivables:	General	Nonmajor Governmental	Water and Sewer	Total
Taxes	\$ 184,725	\$ 1,281	\$ -	\$ 186,006
Accounts	-	-	235,962	235,962
Gross receivables	<u>184,725</u>	<u>1,281</u>	<u>235,962</u>	<u>421,968</u>
Less: allowance for uncollectibles	(12,278)	-	(63,455)	(75,733)
Net total receivables	<u><u>\$ 172,447</u></u>	<u><u>\$ 1,281</u></u>	<u><u>\$ 172,507</u></u>	<u><u>\$ 346,235</u></u>

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Capital assets

Capital asset activity for the year ended September 30, 2014, was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 189,846	\$ -	\$ -	\$ 189,846
Construction in progress	152,059	592,862	-	744,921
Total capital assets not being depreciated	<u>341,905</u>	<u>592,862</u>	<u>-</u>	<u>934,767</u>
Capital assets being depreciated:				
Buildings	1,264,723	-	-	1,264,723
Machinery and equipment	1,462,033	79,030	-	1,541,063
Infrastructure	187,724	-	-	187,724
Totals capital assets being depreciated	<u>2,914,480</u>	<u>79,030</u>	<u>-</u>	<u>2,993,510</u>
Less accumulated depreciation for:				
Buildings	(1,043,294)	(20,633)	-	(1,063,927)
Machinery and equipment	(787,453)	(142,164)	-	(929,617)
Infrastructure	(76,106)	(9,386)	-	(85,492)
Total accumulated depreciation	<u>(1,906,853)</u>	<u>(172,183)</u>	<u>-</u>	<u>(2,079,036)</u>
Total capital assets, being depreciated, net	<u>1,007,627</u>	<u>(93,153)</u>	<u>-</u>	<u>914,474</u>
Governmental activities capital assets, net	<u>\$ 1,349,532</u>	<u>\$ 499,709</u>	<u>\$ -</u>	<u>\$ 1,849,241</u>

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental activities:

General government	\$ 1,687
Public safety	133,486
Cultural and recreational	20,242
Public works	16,768
Total depreciation expense - governmental activities	<u>\$ 172,183</u>

The construction in progress consists of infrastructure improvements.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Capital assets (continued)

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 59,731	\$ 140,119	\$ -	\$ 199,850
Total capital assets not being depreciated	<u>59,731</u>	<u>140,119</u>	<u>-</u>	<u>199,850</u>
Capital assets being depreciated:				
Buildings	139,550	-	-	139,550
Improvements	7,488,452	12,103	-	7,500,555
Machinery and equipment	273,157	1,245	-	274,402
Total capital assets being depreciated	<u>7,901,159</u>	<u>13,348</u>	<u>-</u>	<u>7,914,507</u>
Less accumulated depreciation for:				
Buildings	(87,466)	(3,552)	-	(91,018)
Improvements	(4,217,420)	(181,600)	-	(4,399,020)
Machinery and equipment	(171,864)	(24,715)	-	(196,579)
Total accumulated depreciation	<u>(4,476,750)</u>	<u>(209,867)</u>	<u>-</u>	<u>(4,686,617)</u>
Total capital assets being depreciated, net	<u>3,424,409</u>	<u>(196,519)</u>	<u>-</u>	<u>3,227,890</u>
Business-type capital assets, net	<u>\$ 3,484,140</u>	<u>\$ (56,400)</u>	<u>\$ -</u>	<u>\$ 3,427,740</u>

The construction in progress consists of water and sewer system improvements.

Construction Commitments -

<u>Project</u>	<u>Spent-to-date</u>	<u>Commitment Remaining</u>
Infrastructure improvements	<u>\$ 648,523</u>	<u>\$ 131,712</u>

The infrastructure improvements project is a commitment of the City's general fund. This project is being funded by contributions from the Van Economic Development Corporation.

<u>Project</u>	<u>Spent-to-date</u>	<u>Commitment Remaining</u>
Water and sewer system improvements	<u>\$ 132,269</u>	<u>\$ 9,091</u>

The water and sewer system improvements project is a commitment of the City's enterprise fund. This project is being funded by operating revenue.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Pension obligations

Texas Municipal Retirement System (TMRS)

Plan Description. The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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:

	Plan Year 2013	Plan Year 2014
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Pension obligations (continued)

The City contributes to the TMRS Plan at an actuarially determined rate, which for 2014 and 2013 was 2.27% and 2.30%, respectively. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 20,536
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	<u>20,536</u>
Contributions Made	<u>(20,536)</u>
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	<u><u>\$ -</u></u>

Six-year trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2009	\$ 30,171	\$ 30,171	100%	\$ -
2010	31,711	31,711	100%	-
2011	30,022	30,022	100%	-
2012	20,267	20,267	100%	-
2013	18,798	18,798	100%	-
2014	20,536	20,536	100%	-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25.0 years; closed period	25.0 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.0% 0.0%	3.0% 0.0%	3.0% 0.0%

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Pension obligations (continued)

Funded Status and Funding Progress. In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	\$ 862,420	\$ 762,779	113.1%	\$ (99,641)	\$ 645,607	-15.4%
12/31/2009	988,954	890,647	111.0%	(98,307)	730,363	-13.5%
12/31/2010	1,467,288	1,225,765	119.7%	(241,523)	673,214	-35.9%
12/31/2011	1,539,278	1,244,014	123.7%	(295,264)	661,222	-44.7%
12/31/2012	1,630,136	1,324,011	123.1%	(306,125)	746,764	-41.0%
12/31/2013	1,718,507	1,488,683	115.4%	(229,824)	844,946	-27.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

G. Other postemployment benefit (OPEB) obligations

Program description. The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Other postemployment benefit (OPEB) obligations (continued)

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to the TMRS SDBF and schedule of contribution rates are as follows:

Plan / Calendar Year	City's Contribution		Schedule of Contribution Rates As a Percentage of Covered Payroll		
	Annual Required Contribution	Actual Contribution Made	Annual Required Contribution	Actual Contribution Made	Percentage of ARC Contributed
	2009	\$ 1,685	\$ 1,685	0.23%	0.23%
2010	1,313	1,313	0.20%	0.20%	100.0%
2011	1,388	1,388	0.21%	0.21%	100.0%
2012	992	992	0.15%	0.15%	100.0%
2013	1,568	1,568	0.21%	0.21%	100.0%
2014	1,828	1,828	0.20%	0.20%	100.0%

H. 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; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

I. Long-term liabilities

Revenue Bonds

The City issues revenue bonds to provide funds for the acquisition and construction of major capital facilities. Revenue bonds have been issued for business-type activities. Revenue bonds are direct obligations and pledge the full faith and credit of the government and are further secured by and payable from a pledge of the surplus net revenues derived from the operation of the City's water and sewer system. Revenue bonds outstanding at September 30, 2014 are as follows:

Business-type Activities:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2000	\$ 1,000,000	2/1/2020	5.67%	<u>\$435,000</u>

Contracts Payable

Contracts payable outstanding at September 30, 2014 are as follows:

Governmental Activities:

<u>Contract Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>	<u>Collateral</u>
\$ 290,000	10/15/2018	5.10%	\$ 162,366	Fire truck
300,000	02/01/2026	5.25%	255,057	Fire truck
			<u>\$ 417,423</u>	

Note Payable

Note payable outstanding at September 30, 2014 are as follows:

Governmental Activities:

<u>Note Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>	<u>Collateral</u>
\$ 141,043	10/06/2016	5.11%	<u>\$ 33,523</u>	Fire truck

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

I. Long-term liabilities (continued)

Changes in long-term liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2014 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Contracts payable	\$ 471,259	\$ -	\$ (53,836)	\$ 417,423	\$ 44,926
Note payable	49,072	-	(15,549)	33,523	-
Compensated absences	75,658	77,886	(57,636)	95,908	21,861
Governmental activity					
Long-term liabilities	<u>\$ 595,989</u>	<u>\$ 77,886</u>	<u>\$ (127,021)</u>	<u>\$ 546,854</u>	<u>\$ 66,787</u>

Governmental contracts payable, note payable and compensated absences will be liquidated by the general fund.

Business-type activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 495,000	\$ -	\$ (60,000)	\$ 435,000	\$ 60,000
General obligation bonds	130,000	-	(130,000)	-	-
Total bonds payable	625,000	-	(190,000)	435,000	60,000
Compensated absences	44,323	33,067	(36,214)	41,176	23,165
Business-type activity					
Long-term liabilities	<u>\$ 669,323</u>	<u>\$ 33,067</u>	<u>\$ (226,214)</u>	<u>\$ 476,176</u>	<u>\$ 83,165</u>

Revenue bonds, general obligation bonds, and compensated absences issued for business-type activities are repaid from those activities.

The debt service requirements for the City's bonds, contracts payable, and note payable are as follows:

Year Ending September 30	Governmental Activities			
	Contracts Payable		Note Payable	
	Principal	Interest	Principal	Interest
2015	\$ 44,926	\$ 22,209	\$ -	\$ -
2016	47,299	19,836	16,344	1,714
2017	49,797	17,337	17,179	878
2018	52,428	14,707	-	-
2019	55,197	11,938	-	-
2020-2024	113,413	33,553	-	-
2025-2026	54,363	4,423	-	-
	<u>\$ 417,423</u>	<u>\$ 124,003</u>	<u>\$ 33,523</u>	<u>\$ 2,592</u>

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

I. Long-term liabilities (continued)

<u>Year Ending September 30</u>	<u>Business-Type Activities</u>	
	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 60,000	\$ 22,213
2016	65,000	18,821
2017	70,000	15,125
2018	75,000	11,138
2019	80,000	6,875
2020	85,000	2,338
	<u>\$ 435,000</u>	<u>\$ 76,510</u>

Among other provisions, the ordinances authorizing issuance of the City's revenue bonds required the following:

1. Interest and Sinking Fund

This section requires monthly transfers from the operating fund to the interest and sinking in the amount equal to 1/12 of next maturing interest plus 1/12 of next maturing principal for debt service payments for the 2000 Water and Sewer Revenue Bonds.

2. Reserve Fund

This fund is required to accumulate an amount equal to not less than the average annual principal and interest requirements of the 2000 Water and Sewer Revenue Bonds.

Reserve requirements for interest and sinking and reserve accounts in connection with the 2000 Water and Sewer Revenue Bonds are as follows:

	<u>Required at 9/30/2014</u>	<u>Actual at 9/30/2014</u>	<u>Excess or (Deficiency)</u>
Interest and sinking	\$ 48,622	\$ 3,405	\$ (45,217)
Reserve	80,859	77,632	(3,227)
	<u>\$ 129,481</u>	<u>\$ 81,037</u>	<u>\$ (48,444)</u>

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

J. Interfund receivables and payables

The composition of interfund balances as of September 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and sewer	<u>\$ 13,670</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

K. Interfund transfers

The composition of interfund transfers as of September 30, 2014 is as follows:

	<u>Transfer In:</u>		
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Transfer out:			
Water and Sewer	\$ 12,492	\$ -	\$ 12,492
General	-	5,250	5,250
	<u>\$ 12,492</u>	<u>\$ 5,250</u>	<u>\$ 17,742</u>

Transfers are primarily used to move funds from:

- The Water and Sewer fund to the General fund for operations .

L. Discretely presented component unit

1. Van Economic Development Corporation (Corporation)

Capital assets

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 47,092	\$ -	\$ -	\$ 47,092
Machinery and equipment	1,335	-	-	1,335
Totals capital assets being depreciated	<u>48,427</u>	<u>-</u>	<u>-</u>	<u>48,427</u>
Less accumulated depreciation for:				
Buildings	(9,666)	(3,729)	-	(13,395)
Machinery and equipment	(378)	(267)	-	(645)
Total accumulated depreciation	<u>(10,044)</u>	<u>(3,996)</u>	<u>-</u>	<u>(14,040)</u>
Total capital assets, being depreciated, net	<u>38,383</u>	<u>(3,996)</u>	<u>-</u>	<u>34,387</u>
Governmental activities capital assets, net	<u>\$ 38,383</u>	<u>\$ (3,996)</u>	<u>\$ -</u>	<u>\$ 34,387</u>

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

L. Discretely presented component unit (continued)

Note Payable

Note payable outstanding at September 30, 2014 is as follows:

Governmental Activities:

<u>Note Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>	<u>Collateral</u>
\$ 1,060,000	08/31/2028	3.25%	<u>\$ 998,218</u>	Sales tax

Changes in long-term liabilities

Changes in the Corporation's long-term liabilities for the year ended September 30, 2014 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Note payable	\$ 1,054,051	\$ -	\$ (55,833)	\$ 998,218	\$ 57,675
Compensated absences	5,709	1,907	(6,559)	1,057	1,057
Governmental activity					
Long-term liabilities	<u>\$ 1,059,760</u>	<u>\$ 1,907</u>	<u>\$ (62,392)</u>	<u>\$ 999,275</u>	<u>\$ 58,732</u>

Governmental note payable and compensated absences will be liquidated by the Corporation's general fund.

The debt service requirements for the Corporation's note payable is as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 57,675	\$ 31,588
2016	59,578	29,685
2017	61,543	27,720
2018	63,574	25,690
2019	65,671	23,593
2020-2024	362,315	84,002
2025-2028	327,862	21,753
	<u>\$ 998,218</u>	<u>\$ 244,031</u>

- construction contract for theater remodel \$186,000

CITY OF VAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2014

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

L. Discretely presented component unit (continued)

Subsequent events

Subsequent to year end, the Corporation approved the following item:

M. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

N. Subsequent events

Subsequent to year end, the City approved the following items:

- The City was awarded a grant in the amount of \$275,000 for a water line relocation.
- The City entered into construction, engineering, and grant administration contracts related to the water line relocation totaling approximately \$282,000.

O. Accounting changes and prior period adjustment

A correction has been made to the governmental activities beginning net position in the government-wide financial statements and to the fund balance of the other governmental funds in the fund financial statements due to an error in classification and recording of a financial transaction in the prior period, resulting in an understatement of assets and revenues of the prior year. The change to the beginning net position as of October 1, 2013 is summarized as follows:

	Government-wide Financial Statements	Fund Financial Statements Other Governmental Funds
As previously reported, October 1, 2013	\$ 1,465,432	\$ 85,643
Correct understatement of cash	4,300	4,300
Restated, October 1, 2013	\$ 1,469,732	\$ 89,943
Effect of restatement on operations for the year ending September 30, 2013:	\$ 4,300	\$ 4,300

REQUIRED SUPPLEMENTARY INFORMATION

General Fund

This supplementary schedule is included to supplement the basic financial statements as required by Governmental Accounting Standards Board.

CITY OF VAN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
Year Ended September 30, 2014

	Original and Final Budgeted Amounts	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget - Over (Under) Budget
REVENUES					
Property taxes	\$ 545,750	\$ 725,930	\$ 1,162	\$ 727,092	\$ 181,342
Sales taxes	664,725	599,149	(18,155)	580,994	(83,731)
Franchise taxes	123,000	102,934	(51)	102,883	(20,117)
Licenses and permits	5,800	10,137	-	10,137	4,337
Fines and forfeitures	75,000	50,765	24,934	75,699	699
Charges for current services	-	125,502	(124,981)	521	521
Investment earnings	2,200	2,767	(126)	2,641	441
Rent	19,450	19,804	-	19,804	354
Other	25,000	22,125	2,695	24,820	(180)
Intergovernmental	-	26,265	(26,265)	-	-
Contributions and donations	-	8,464	(5,928)	2,536	2,536
Total revenues	<u>1,460,925</u>	<u>1,693,842</u>	<u>(146,715)</u>	<u>1,547,127</u>	<u>86,202</u>
EXPENDITURES					
Current:					
General government	403,670	433,599	(4,057)	429,542	25,872
Public safety:					
Fire	210,092	110,234	47,799	158,033	(52,059)
Police	541,485	528,081	37,368	565,449	23,964
Municipal court	65,553	64,116	27,531	91,647	26,094
City marshal	101,970	110,643	(7,986)	102,657	687
Ambulance	-	129,444	(129,444)	-	-
Cultural and recreational:					
Parks and pool	43,000	24,509	1,743	26,252	(16,748)
Community center	19,500	15,678	(592)	15,086	(4,414)
Community library	15,685	8,758	(1,979)	6,779	(8,906)
City lake	2,875	8,357	-	8,357	5,482
Museum	-	7,378	5,481	12,859	12,859
Public works	288,500	96,627	(402)	96,225	(192,275)
Debt service:					
Principal retirement	-	69,385	(69,385)	-	-
Interest and fiscal charges	-	29,458	(29,458)	-	-
Total debt service	<u>-</u>	<u>98,843</u>	<u>(98,843)</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,692,330</u>	<u>1,636,267</u>	<u>(123,381)</u>	<u>1,512,886</u>	<u>(179,444)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(231,405)</u>	<u>57,575</u>	<u>(23,334)</u>	<u>34,241</u>	<u>265,646</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	12,492	(4,206)	8,286	8,286
Transfers out	(88,800)	(5,250)	5,250	-	88,800
Debt proceeds	200,492	-	-	-	(200,492)
Total other financing sources and uses	<u>111,692</u>	<u>7,242</u>	<u>1,044</u>	<u>8,286</u>	<u>(103,406)</u>
Net change in fund balance	<u>\$ (119,713)</u>	<u>\$ 64,817</u>	<u>\$ (22,290)</u>	<u>\$ 42,527</u>	<u>\$ 162,240</u>

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes.

Court Security Fund - This fund is used to account for the revenues to provide security services for buildings housing a municipal court.

Court Technology Fund - This fund is used to account for the revenues that are to be used for technological enhancements to the municipal court.

Seizures Fund - This fund is used to account for seized property to be used for official purposes as provided by Article 59.06 Texas Code of Criminal Procedure.

Tourism Fund - This fund is used to account for hotel/motel taxes received to be used for historic preservation and tourism promotion as authorized by statute.

Parks and Recreation - This fund is used to account for donated funds to be used for City park improvements.

Library - This fund is used to account for donated funds to be used for library operations.

CITY OF VAN, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2014

	Court Security	Court Technology	Seizures	Tourism	Parks and Recreation	Library	Total Nonmajor Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 7,581	\$ 12,043	\$ 315	\$ 74,559	\$ 4,344	\$ 7,590	\$ 106,432
Receivables	-	-	-	1,281	-	-	1,281
Total assets	<u>\$ 7,581</u>	<u>\$ 12,043</u>	<u>\$ 315</u>	<u>\$ 75,840</u>	<u>\$ 4,344</u>	<u>\$ 7,590</u>	<u>\$ 107,713</u>
LIABILITIES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES							
Restricted:							
Cultural and recreational	-	-	-	75,840	4,344	7,590	87,774
Public safety	7,581	12,043	315	-	-	-	19,939
Total fund balances	<u>7,581</u>	<u>12,043</u>	<u>315</u>	<u>75,840</u>	<u>4,344</u>	<u>7,590</u>	<u>107,713</u>
Total liabilities and fund balances	<u>\$ 7,581</u>	<u>\$ 12,043</u>	<u>\$ 315</u>	<u>\$ 75,840</u>	<u>\$ 4,344</u>	<u>\$ 7,590</u>	<u>\$ 107,713</u>

CITY OF VAN, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2014

	Court Security	Court Technology	Seizures	Tourism	Parks and Recreation	Library	Total Nonmajor Governmental Funds
REVENUES							
Hotel - motel taxes	\$ -	\$ -	\$ -	\$ 5,884	\$ -	\$ -	\$ 5,884
Fines and forfeitures	972	1,295	1,508	-	-	-	3,775
Investment earnings	-	-	-	69	-	-	69
Contributions and donations	-	-	-	-	4,475	5,643	10,118
Total revenues	<u>972</u>	<u>1,295</u>	<u>1,508</u>	<u>5,953</u>	<u>4,475</u>	<u>5,643</u>	<u>19,846</u>
EXPENDITURES							
Current:							
Public safety	-	-	2,500	-	-	-	2,500
Cultural and recreational	-	-	-	2,342	131	2,353	4,826
Total expenditures	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>2,342</u>	<u>131</u>	<u>2,353</u>	<u>7,326</u>
Excess (deficiency) of revenues over expenditures	<u>972</u>	<u>1,295</u>	<u>(992)</u>	<u>3,611</u>	<u>4,344</u>	<u>3,290</u>	<u>12,520</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	5,250	-	-	5,250
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,250</u>	<u>-</u>	<u>-</u>	<u>5,250</u>
Net change in fund balances	972	1,295	(992)	8,861	4,344	3,290	17,770
Fund balances - beginning, as restated	<u>6,609</u>	<u>10,748</u>	<u>1,307</u>	<u>66,979</u>	<u>-</u>	<u>4,300</u>	<u>89,943</u>
Fund balances - ending	<u>\$ 7,581</u>	<u>\$ 12,043</u>	<u>\$ 315</u>	<u>\$75,840</u>	<u>\$ 4,344</u>	<u>\$7,590</u>	<u>\$ 107,713</u>

Proprietary Fund

Enterprise Fund

The City's water and sewer utility operations are accounted for in this fund.

CITY OF VAN, TEXAS
SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET POSITION - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND SEWER
For the Fiscal Year Ended September 30, 2014

	Original and Final Budget	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
Operating revenues:					
Charges for services	\$ 1,008,500	\$ 1,186,524	\$ (176,485)	\$ 1,010,039	\$ 1,539
Miscellaneous	32,000	11,648	-	11,648	(20,352)
Total operating revenues	<u>1,040,500</u>	<u>1,198,172</u>	<u>(176,485)</u>	<u>1,021,687</u>	<u>(18,813)</u>
Operating expenses:					
Personnel services	330,740	356,464	8,342	364,806	34,066
Supplies and materials	54,600	74,857	-	74,857	20,257
Maintenance and repair	341,650	81,124	163,571	244,695	(96,955)
Contractual services	144,650	405,121	(206,536)	198,585	53,935
Depreciation	-	209,867	(209,867)	-	-
Total operating expenses	<u>871,640</u>	<u>1,127,433</u>	<u>(244,490)</u>	<u>882,943</u>	<u>11,303</u>
Operating income	<u>168,860</u>	<u>70,739</u>	<u>68,005</u>	<u>138,744</u>	<u>(30,116)</u>
Nonoperating revenue (expenses):					
Investment earnings	450	1,225	-	1,225	775
Principal, interest and fiscal charges	(217,000)	(29,315)	(194,450)	(223,765)	(6,765)
Total nonoperating revenue (expenses)	<u>(216,550)</u>	<u>(28,090)</u>	<u>(194,450)</u>	<u>(222,540)</u>	<u>(5,990)</u>
Income (loss) before transfers	(47,690)	42,649	(126,445)	(83,796)	(36,106)
Transfer out	-	(12,492)	12,492	-	-
Change in net position	<u>\$ (47,690)</u>	<u>\$ 30,157</u>	<u>\$ (113,953)</u>	<u>\$ (83,796)</u>	<u>\$ (36,106)</u>