

**CITY OF SANGER, TEXAS**

**FINANCIAL REPORT**

**SEPTEMBER 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor Thomas Muir  
and Members of the City Council  
City of Sanger, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sanger, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and budgetary comparison schedule on pages 3 through 11 and 47 through 48 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

To the Honorable Mayor Thomas Muir  
and the Members of the City Council  
City of Sanger, Texas

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Combining Schedule of Revenues and Expenses – Proprietary Fund by Department and Analysis of Property Taxes Receivable on pages 49 through 51 are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Fort Worth, TX  
February 21, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2012**

The management of the City of Sanger offers readers of the financial statements this narrative overview and analysis of the financial activities of the City of Sanger for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements and accompanying footnotes of this report.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Sanger exceeded its liabilities at the close of the most recent fiscal year by \$23,507,689 (net assets). Of this amount, \$5,931,366 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total capital assets increased by \$451,268.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$2,693,754.
- The fund balance of the General Fund decreased by \$26,826 or 3% to \$773,397 at September 30, 2012 primarily due to a transfer to the Capital Projects Fund of \$200,000.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The Management's Discussion and Analysis is intended to serve as an introduction to the City of Sanger's basic financial statements. This annual report consists of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide 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 private-sector business. The statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The statement of net assets includes all of the government's assets and liabilities, with the difference between the two being reported as net assets. Over time, increases or decreases in net assets are an indicator as to whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, additional non-financial factors (such as the City's tax base) will need to be considered.

The statement of activities presents information on how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but not used vacation leave).

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2012**  
**(CONTINUED)**

**Major Features of the City of Sanger's Government-wide and Fund Financial Statements**

Both the statement of net assets and the statement of activities are prepared using the accrual basis of accounting as opposed to the modified accrual basis of accounting.

In its Statement of Net Assets and Statement of Activities, the City of Sanger is divided between two kinds of activities:

- **Governmental activities.** Most of the City's basic services are included here, such as general government, public safety, streets, sanitation, and culture and recreation. Property taxes, sales taxes, franchise fees, and charges for services finance most of these activities.
- **Business-type activities.** A fee is charged to customers by the City to cover the cost of services it provides. The City's utility systems (electric, water, and wastewater) activities are reported here.

**Fund Financial Statements.** The fund financial statements provide more detailed information about the City's most significant funds and not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Certain funds are restricted by State law and by bond covenants.
- The City Council establishes guidelines to control and manage money for particular purposes or to show that it is properly using certain revenue resources.

The City has two categories of funds: governmental funds and proprietary funds.

- **Governmental funds.** The City's basic services are included in governmental funds, which focus on cash and other financial assets that can readily be converted to cash flow, as well as the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the subsequent pages, explaining the relationship (or differences) between them. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following each of the fund financial statements.
- **Proprietary funds (business-type funds).** Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like government-wide statements, provide both short and long-term financial information. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012  
(CONTINUED)**

**Major Features of the City of Sanger's Government-wide and Fund Financial Statements**

	<b>Government-wide</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire government (except fiduciary funds) and the its component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private business: electric, water, and wastewater utilities
Required Financial Statements	Statement of net assets  Statement of activities	Balance Sheet  Statement of revenues, expenditures and changes in fund balances	Statement of net assets  Statement of revenues, expenses and changes in fund net assets Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2012**  
**(CONTINUED)**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As of September 30, 2012, the City's combined net assets were \$23,507,689, of which \$10,313,749 can be attributed to governmental activities and \$13,193,940 attributed to business-type activities. This analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**Net Assets**

Net assets at September 30, 2012, were \$23,507,689, representing an increase of \$2,676,673 in total net assets of governmental and business-type activities. The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, building, machinery, equipment, and infrastructure – streets, drainage, water, wastewater, and electric) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1 – Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Cash and cash equivalents	\$ 415,126	\$ 477,062	\$ 2,293,053	\$ 1,053,839	\$ 2,708,179	\$ 1,530,901
Certificates of deposit	408,004	405,436	335,825	419,966	743,829	825,402
Accounts receivable, net	411,622	344,678	1,537,373	1,178,950	1,948,995	1,523,628
Inventories		-	433,508	300,607	433,508	300,607
Due from other funds	263,811	-	-	-	263,811	-
Restricted cash and cash equivalents	1,735,949	2,424,955	2,623,570	2,312,309	4,359,519	4,737,264
Bond issuance costs, net	281,317	295,168	73,087	102,643	354,404	397,811
Capital assets, net of accumulated depreciation	14,973,623	14,146,175	12,789,033	13,165,213	27,762,656	27,311,388
<b>Total assets</b>	<b>\$ 18,489,452</b>	<b>\$ 18,093,474</b>	<b>\$ 20,085,449</b>	<b>\$ 18,533,527</b>	<b>\$ 38,574,901</b>	<b>\$ 36,627,001</b>
<b>Liabilities</b>						
Accounts payable	\$ 272,746	\$ 684,916	\$ 581,313	\$ 498,353	\$ 854,059	\$ 1,183,269
Customer deposits	-	-	315,761	297,609	315,761	297,609
Other liabilities	163,986	99,009	147,008	166,171	310,994	265,180
Due to other funds	-	-	263,811	-	263,811	-
Current portion long-term debt	676,619	578,015	657,993	534,466	1,334,612	1,112,481
Compensated absences	110,404	77,947	67,973	54,220	178,377	132,167
Long-term debt	6,951,948	7,311,051	4,857,650	5,494,228	11,809,598	12,805,279
<b>Total liabilities</b>	<b>\$ 8,175,703</b>	<b>\$ 8,750,938</b>	<b>\$ 6,891,509</b>	<b>\$ 7,045,047</b>	<b>\$ 15,067,212</b>	<b>\$ 15,795,985</b>
<b>Net assets</b>						
Invested in capital assets	\$ 7,371,097	\$ 6,274,498	\$ 7,287,190	\$ 7,150,229	\$ 14,658,287	\$ 13,424,727
Restricted for specific purpose	610,227	524,980	2,307,809	2,014,700	2,918,036	2,539,680
Unrestricted	2,332,425	2,543,058	3,598,941	2,323,551	5,931,366	4,866,609
<b>Net assets</b>	<b>\$ 10,313,749</b>	<b>\$ 9,342,536</b>	<b>\$ 13,193,940</b>	<b>\$ 11,488,480</b>	<b>\$ 23,507,689</b>	<b>\$ 20,831,016</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2012**  
**(CONTINUED)**

**Changes in Net Assets**

Governmental activities increased the City's net assets by \$971,213 and business-type activities increased the City's net assets by \$1,705,460. The key elements of these changes are contained in Table 2.

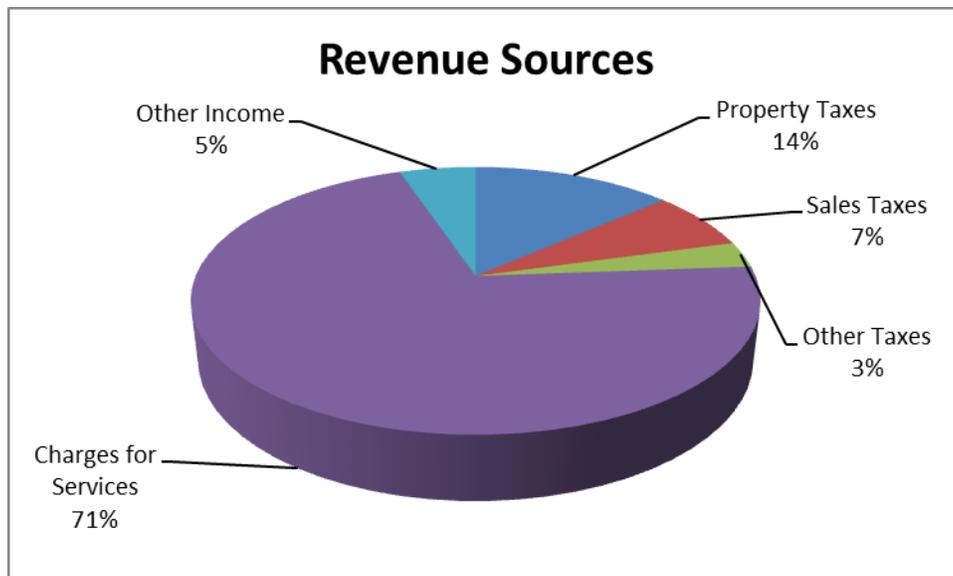
**Table 2 – Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 1,511,279	\$ 1,424,884	\$ 10,740,154	\$ 10,189,544	\$ 12,251,433	\$ 11,614,428
Grants and donations	500,000	195,102	-	-	500,000	195,102
General Revenues:						
Taxes	4,108,822	4,046,632	-	-	4,108,822	4,046,632
Licenses and permits	130,869	44,827	-	-	130,869	44,827
Investment earnings	16,826	34,292	32,902	30,882	49,728	65,174
Transfers	-	307,241	-	(307,241)	-	-
Miscellaneous	211,956	150,708	-	-	211,956	150,708
Gain (loss) on sale of assets	-	7,436	-	-	-	7,436
<b>Total revenues</b>	<b>6,479,752</b>	<b>6,211,122</b>	<b>10,773,056</b>	<b>9,913,185</b>	<b>17,252,808</b>	<b>16,124,307</b>
<b>Expenses</b>						
General government	750,649	705,012	-	-	750,649	705,012
Police and animal control	1,503,327	1,436,505	-	-	1,503,327	1,436,505
Streets and sanitation	1,445,542	1,349,968	-	-	1,445,542	1,349,968
Fire and EMS	766,011	692,184	-	-	766,011	692,184
Court	209,333	228,030	-	-	209,333	228,030
Culture and recreation	493,541	425,674	-	-	493,541	425,674
Interest on long-term debt	340,136	377,693	217,588	317,323	557,724	695,016
Proprietary expenses	-	-	8,850,008	8,902,681	8,850,008	8,902,681
<b>Total expenses</b>	<b>5,508,539</b>	<b>5,215,066</b>	<b>9,067,596</b>	<b>9,220,004</b>	<b>14,576,135</b>	<b>14,435,070</b>
Change in net assets	971,213	996,056	1,705,460	693,181	2,676,673	1,689,237
Beginning net assets	9,342,536	8,346,480	11,488,480	10,795,299	20,831,016	19,141,779
<b>Ending net assets</b>	<b>\$ 10,313,749</b>	<b>\$ 9,342,536</b>	<b>\$ 13,193,940</b>	<b>\$ 11,488,480</b>	<b>\$ 23,507,689</b>	<b>\$ 20,831,016</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012  
(CONTINUED)**

The City's total revenues for the year ended September 30, 2012, were \$17,252,808 with a significant portion, 71%, of the City's total revenue coming from charges for services, 14% from property taxes, 7% from sales taxes, while 8% is obtained from the remaining revenue sources (see Figure 1). Because Sanger owns an electric utility, revenues from charges for services are a large percentage of overall revenues. Without the ownership of its electricity utility, the City's property tax rate would be approximately ten cents higher per \$100 valuation than its current rate in order to generate the same amount of operating revenue.

**Figure 1**



Governmental activities revenues total \$6,479,752 for the year ended September 30, 2012, of which \$4,108,822 (63%) is attributed to taxes. Significant general governmental expenses include public safety (including Fire and EMS and police and animal control), which incurred expenses of \$2,269,338, and streets and sanitation, which incurred expenses of \$1,445,542.

Business-type activities increased the City's net assets by \$1,705,460 and governmental activities increased the City's net assets by \$971,213, accounting for positive growth in the government-wide net assets in fiscal year ended September 30, 2012. Business-type operating revenues increased by \$859,871 to \$10,773,056 for the year ended September 30, 2012, as a result of an increase in tap fees for new construction. Business-type expenses decreased in fiscal year ending September 30, 2012 mainly due to decreases in interest expense and transfers, resulting in total business-type activity expenses of \$9,067,596.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2012**  
**(CONTINUED)**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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 resources available to spend. This information is useful in assessing the financial requirements of the City.

As of September 30, 2012, the City's governmental funds reported a combined ending fund balance of \$2,693,754, a reduction of \$52,546 from the previous fiscal year's balance of \$2,746,300. The decline in fund balance is primarily due to infrastructure improvements. Of this fund balance, \$773,397 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed to pay debt service (\$350,895), complete capital projects (\$224,097), or enhance economic development (\$1,345,365).

**General Fund.** The General Fund is the chief operating fund of the City. At September 30, 2012, the unassigned fund balance of the General Fund was \$773,397 a decrease of \$26,826 from the prior year. The decrease is primarily due to a \$200,000 transfer from the Streets Department to the Capital Projects Fund for infrastructure improvements. The City has continued a very conservative approach to purchasing and employment during 2012 as a result of the uncertain economic conditions.

**Capital Projects Fund.** The entire balance of the capital projects fund is restricted for capital construction and acquisition. At September 30, 2012, the capital projects fund had a fund balance of \$224,097, a decrease of \$525,881 from 2011.

At the end of 2012, the City had invested \$27,762,656 in a broad range of capital assets, including land, equipment, buildings, vehicles, streets, drainage, water, wastewater, and electrical systems. (see Table 3).

**Table 3 – Capital Assets**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Land	\$ 862,307	\$ 862,307	\$ 323,164	\$ 323,164	\$ 1,185,471	\$ 1,185,471
Construction in progress	272,385	3,239,639	291,414	-	563,799	3,239,639
Infrastructure	10,550,634	9,800,941	22,112,636	22,072,504	32,663,270	31,873,445
Buildings and equipment	9,614,364	5,667,489	2,459,441	2,282,128	12,073,805	7,949,617
Total historical cost	21,299,690	19,570,376	25,186,655	24,677,796	46,486,345	44,248,172
Total accumulated depreciation	(6,326,067)	(5,424,201)	(12,397,622)	(11,512,583)	(18,723,689)	(16,936,784)
<b>Net capital assets</b>	<b>\$ 14,973,623</b>	<b>\$ 14,146,175</b>	<b>\$ 12,789,033</b>	<b>\$ 13,165,213</b>	<b>\$ 27,762,656</b>	<b>\$ 27,311,388</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012  
(CONTINUED)**

**Debt Service Fund.** The debt service fund has a total fund balance of \$350,895 at September 30, 2012, an increase of \$114,360 over 2011.

As of September 30, 2012, the City had \$13,144,210 in long-term debt (see Table 4).

**Table 4 – Long-term Debt**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	Notes payable	\$ 553,391	\$ 596,104	\$ -	\$ -	\$ 553,391
Capital leases	340,119	70,162	370,401	376,494	710,520	446,656
Bonds payable	6,735,057	7,222,800	5,145,242	5,652,200	11,880,299	12,875,000
<b>Total long-term debt</b>	<b>\$ 7,628,567</b>	<b>\$ 7,889,066</b>	<b>\$ 5,515,643</b>	<b>\$ 6,028,694</b>	<b>\$ 13,144,210</b>	<b>\$ 13,917,760</b>

**Proprietary Fund.** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Table 5 represents the cost of each of the City's business-type activities as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The cost of business-type activities for fiscal year ended September 30, 2012 was \$8,850,008. The amount for charges for services that the City's tax payers paid for these activities was \$10,740,154. Excess funds are used by the City to help support the general fund, keeping the property tax rate from increasing. Excess funds are also used to fund capital improvements.

**Table 5 – Proprietary Fund Activities**

	Total Operating Expenses		% Change	Total Operating Income (Loss)		% Change
	2012	2011		2012	2011	
Water	\$ 1,064,019	\$ 1,166,704	-8.80%	\$ 438,488	\$ 113,337	286.89%
Sewer	824,434	785,829	4.91%	519,495	306,110	69.71%
Electric	6,307,713	6,249,768	0.93%	1,527,218	1,498,344	1.93%
Other	653,842	700,380	-6.64%	(595,055)	(630,928)	-5.69%
<b>Total</b>	<b>\$ 8,850,008</b>	<b>\$ 8,902,681</b>	<b>-0.59%</b>	<b>\$ 1,890,146</b>	<b>\$ 1,286,863</b>	<b>46.88%</b>

**ECONOMIC FACTORS AND FISCAL YEAR BUDGET AND RATES**

The fiscal year 2012-2013 budget incorporates no increase in the property tax rate. It remains at \$.633049 per \$100 valuation. Certified appraised values used for the fiscal year 2013 budget are \$37 million higher than the amounts budgeted in the 2011-2012 fiscal year, thus increasing the budgeted property tax revenue. The General Fund budgeted increase in fund balance for fiscal year 2012-2013 is \$9,805.

The 2012-2013 budget includes no change in either the water or wastewater rates. The Enterprise Fund budgeted increase in fund balance is \$161,318.

If revenues projected in the 2013 budget are realized, the City will be able to continue operations, absorb inflationary costs, and increase its total fund balance by \$461,516 for the City as a whole.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012  
(CONTINUED)**

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or would like additional information, please contact the City Manager at the City of Sanger City Hall at 502 Elm Street, Sanger, Texas 76266.

**CITY OF SANGER, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 415,126	\$ 2,293,053	\$ 2,708,179
Certificates of deposit	408,004	335,825	743,829
Accounts receivable, net			
Property taxes net of allowance of \$60,667	80,907	-	80,907
Sales taxes	183,600	-	183,600
Emergency medical services, net of allowance of \$1,582,222	107,490	-	107,490
Utility accounts, net of allowance of \$111,174	-	1,504,299	1,504,299
Other	39,625	33,074	72,699
Inventories	-	433,508	433,508
Internal balances	263,811	(263,811)	-
Restricted cash	1,259,697	1,040,028	2,299,725
Restricted certificates of deposit	476,252	1,583,542	2,059,794
Bond issue costs, net	281,317	73,087	354,404
Capital assets			
Capital assets not being depreciated	1,134,692	614,578	1,749,270
Capital assets being depreciated, net	13,838,931	12,174,455	26,013,386
<b>TOTAL ASSETS</b>	<b>\$ 18,489,452</b>	<b>\$ 19,821,638</b>	<b>\$ 38,311,090</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 272,746	\$ 581,313	\$ 854,059
Customer deposits	-	315,761	315,761
Accrued interest payable	46,257	53,033	99,290
Deferred rent	40,008	-	40,008
Compensated absences, due within one year	45,164	34,108	79,272
Bonds payable, due within one year	537,288	479,993	1,017,281
Notes payable, due within one year	36,576	-	36,576
Capital leases, due within one year	102,755	178,000	280,755
Other	77,721	93,975	171,696
Noncurrent liabilities			
Compensated absences, due in more than one year	65,240	33,865	99,105
Bonds payable, due in more than one year	6,197,769	4,665,249	10,863,018
Notes payable, due in more than one year	516,815	-	516,815
Capital leases, due in more than one year	237,364	192,401	429,765
<b>TOTAL LIABILITIES</b>	<b>8,175,703</b>	<b>6,627,698</b>	<b>14,803,401</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,371,097	7,287,190	14,658,287
Restricted			
Debt service	610,227	951,238	1,561,465
Capital improvements	-	1,356,571	1,356,571
Unrestricted	2,332,425	3,598,941	5,931,366
<b>TOTAL NET ASSETS</b>	<b>\$ 10,313,749</b>	<b>\$ 13,193,940</b>	<b>\$ 23,507,689</b>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2012**

Program Activities	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities</b>						
General government	\$ 750,649	\$ 803,173	\$ -	\$ 52,524	\$ -	\$ 52,524
Police and animal control	1,503,327	-	-	(1,503,327)	-	(1,503,327)
Streets and sanitation	1,445,542	-	500,000	(945,542)	-	(945,542)
Fire and EMS	766,011	516,203	-	(249,808)	-	(249,808)
Court	209,333	191,903	-	(17,430)	-	(17,430)
Culture and recreation	493,541	-	-	(493,541)	-	(493,541)
Interest on long term debt	340,136	-	-	(340,136)	-	(340,136)
<b>Total governmental activities</b>	<b>5,508,539</b>	<b>1,511,279</b>	<b>500,000</b>	<b>(3,497,260)</b>	<b>-</b>	<b>(3,497,260)</b>
<b>Business-type activities</b>						
Water	1,064,019	1,502,507	-	-	438,488	438,488
Sewer	824,434	1,343,929	-	-	519,495	519,495
Electric	6,307,713	7,834,931	-	-	1,527,218	1,527,218
Interest on long-term debt	217,588	-	-	-	(217,588)	(217,588)
Other	653,842	58,787	-	-	(595,055)	(595,055)
<b>Total business-type activities</b>	<b>9,067,596</b>	<b>10,740,154</b>	<b>-</b>	<b>-</b>	<b>1,672,558</b>	<b>1,672,558</b>
<b>Total primary government</b>	<b>\$ 14,576,135</b>	<b>\$ 12,251,433</b>	<b>\$ 500,000</b>	<b>\$ (3,497,260)</b>	<b>\$ 1,672,558</b>	<b>\$ (1,824,702)</b>
		General revenues				
		Taxes				
		Ad valorem		\$ 2,339,482	\$ -	\$ 2,339,482
		Sales		1,229,855	-	1,229,855
		Franchise taxes		539,485	-	539,485
		Licenses and permits		130,869	-	130,869
		Interest income		16,826	32,902	49,728
		Miscellaneous revenues		211,956	-	211,956
		<b>Total general revenues</b>		<b>4,468,473</b>	<b>32,902</b>	<b>4,501,375</b>
		<b>Change in net assets</b>		<b>971,213</b>	<b>1,705,460</b>	<b>2,676,673</b>
		<b>NET ASSETS, beginning of year</b>		<b>9,342,536</b>	<b>11,488,480</b>	<b>20,831,016</b>
		<b>NET ASSETS, end of year</b>		<b>\$ 10,313,749</b>	<b>\$ 13,193,940</b>	<b>\$ 23,507,689</b>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS  
BALANCE SHEET – GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 277,434	\$ 4,466	\$ -
Certificates of deposit	408,004	-	-
Accounts receivable, net			
Property taxes, net of allowance of \$60,667	56,635	24,272	-
Sales taxes	91,800	-	-
Emergency medical services, net of allowance of \$1,582,222	107,490	-	-
Other	26,356	-	11,594
Due from other funds	-	-	263,811
Restricted cash	94,796	346,997	45,677
Restricted certificates of deposit	111,565	-	-
	<u>111,565</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b>\$ 1,174,080</b>	<b>\$ 375,735</b>	<b>\$ 321,082</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 157,511	\$ -	\$ 96,985
Deferred revenue	165,451	24,840	-
Other liabilities	77,721	-	-
	<u>77,721</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<b>400,683</b>	<b>24,840</b>	<b>96,985</b>
<b>Fund balances</b>			
Restricted			
Debt service	-	350,895	-
Capital projects	-	-	224,097
Economic development	-	-	-
Unassigned	773,397	-	-
	<u>773,397</u>	<u>-</u>	<u>-</u>
<b>Total fund balances</b>	<b>773,397</b>	<b>350,895</b>	<b>224,097</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,174,080</b>	<b>\$ 375,735</b>	<b>\$ 321,082</b>

The Notes to Basic Financial Statements are an integral part of this statement.

<u>4A Fund</u>	<u>4B Fund</u>	<u>Total Governmental Funds</u>
\$ 113,031	\$ 20,195	\$ 415,126
-	-	408,004
-	-	80,907
45,900	45,900	183,600
-	-	107,490
277	1,398	39,625
-	-	263,811
606,454	165,773	1,259,697
93,343	271,344	476,252
<u>\$ 859,005</u>	<u>\$ 504,610</u>	<u>\$ 3,234,512</u>
\$ -	\$ 18,250	\$ 272,746
-	-	190,291
-	-	77,721
-	18,250	540,758
-	-	350,895
-	-	224,097
859,005	486,360	1,345,365
-	-	773,397
<u>859,005</u>	<u>486,360</u>	<u>2,693,754</u>
<u>\$ 859,005</u>	<u>\$ 504,610</u>	<u>\$ 3,234,512</u>

**CITY OF SANGER, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

Total fund balances - governmental funds	\$ 2,693,754
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	14,973,623
Costs associated with the issuance of governmental long-term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements.	281,317
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(46,257)
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	190,291
Escalating payments for rent income are recorded when received as current financial resources in the fund financial statements whereas they are deferred and recorded ratably over the life of lease in the government-wide financial statements.	(40,008)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(7,738,971)</u>
Net assets of governmental activities	<u><u>\$ 10,313,749</u></u>

**CITY OF SANGER, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>REVENUES</b>			
Property taxes	\$ 1,637,637	\$ 701,845	\$ -
Sales taxes	616,427		
Licenses and permits	130,869	-	-
Charges for services	803,173	-	-
Fire and rescue	479,381	-	-
Court	191,903	-	-
Franchise taxes	539,485	-	-
Intergovernmental revenues	-	-	500,000
Interest	5,326	2,986	3,400
Miscellaneous	87,875	-	36,000
<b>Total revenues</b>	<b>4,492,076</b>	<b>704,831</b>	<b>539,400</b>
<b>EXPENDITURES</b>			
Current			
General government	628,847	22	-
Police and animal control	1,408,666	-	-
Streets and sanitation	838,133	-	-
Fire and EMS	633,763	-	-
Court	208,947	-	-
Culture and recreation	419,795	-	-
Capital outlay	481,377	-	1,265,281
Debt service			
Principal retirement	79,211	496,800	-
Interest charges	1,282	273,649	-
Fiscal agent's fees and debt issue costs	-	48,811	-
<b>Total expenditures</b>	<b>4,700,021</b>	<b>819,282</b>	<b>1,265,281</b>
Excess (deficiency) of revenues over expenditures	(207,945)	(114,451)	(725,881)
Other financing sources (uses)			
Proceeds on sale of assets	10,000	-	-
Proceeds from capital lease	340,119	-	-
Proceeds from bond refunding	-	1,537,800	-
Premium on bond refunding	-	41,221	-
Payment on bond refunding	-	(1,530,210)	-
Transfers in	31,000	180,000	200,000
Transfers out	(200,000)	-	-
<b>Total other financing sources (uses)</b>	<b>181,119</b>	<b>228,811</b>	<b>200,000</b>
<b>Net change in fund balances</b>	<b>(26,826)</b>	<b>114,360</b>	<b>(525,881)</b>
<b>FUND BALANCES, beginning of year</b>	<b>800,223</b>	<b>236,535</b>	<b>749,978</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 773,397</b>	<b>\$ 350,895</b>	<b>\$ 224,097</b>

The Notes to Basic Financial Statements are an integral part of this statement.

<u>4A Fund</u>	<u>4B Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,339,482
306,714	306,714	1,229,855
-	-	130,869
-	-	803,173
-	-	479,381
-	-	191,903
-	-	539,485
-	-	500,000
1,633	3,481	16,826
52,778	5,311	181,964
<u>361,125</u>	<u>315,506</u>	<u>6,412,938</u>
-	18,563	647,432
-	-	1,408,666
-	-	838,133
-	-	633,763
-	-	208,947
-	-	419,795
-	-	1,746,658
33,664	-	609,675
27,603	-	302,534
-	-	48,811
<u>61,267</u>	<u>18,563</u>	<u>6,864,414</u>
299,858	296,943	(451,476)
-	-	10,000
-	-	340,119
-	-	1,537,800
-	-	41,221
-	-	(1,530,210)
-	-	411,000
<u>(15,500)</u>	<u>(195,500)</u>	<u>(411,000)</u>
<u>(15,500)</u>	<u>(195,500)</u>	<u>398,930</u>
284,358	101,443	(52,546)
<u>574,647</u>	<u>384,917</u>	<u>2,746,300</u>
<u>\$ 859,005</u>	<u>\$ 486,360</u>	<u>\$ 2,693,754</u>

**CITY OF SANGER, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds \$ (52,546)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 1,746,658

Depreciation expense on capital assets is reported in the statement of activities and does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (964,491)

Governmental funds recognize all amounts received on the sale of fixed assets as a gain. However, in the statement of activities, the gain or loss is offset by the remaining net book value of the asset. (24,719)

The issuance of long-term debt (e.g. bonds) 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount consists of repayments of \$609,675 and issuance costs of \$48,811 less proceeds of \$340,119, premiums of \$41,221, amortization of debt issuance costs of \$22,908 and a change in long-term compensated absences payable of \$32,457, which is the net effect of these differences in the treatment of long-term debt and related items. 221,781

The refunding of long-term debt (e.g. bonds) provides current financial resources and consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. (7,590)

Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (14,694)

Governmental funds recognize escalating rental income as received. However, in the statement of activities, the rent is deferred and recognized ratably over the term of the lease agreement. 29,992

Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. 36,822

Change in net assets of governmental activities \$ 971,213

**CITY OF SANGER, TEXAS  
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS  
SEPTEMBER 30, 2012**

		<u>Water, Sewer, and Electric Fund</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$	2,293,053
Certificates of deposit		335,825
Receivables		
Utility accounts receivable, net of allowance of \$111,174		1,504,299
Other		33,074
Inventories		433,508
<b>Total current assets</b>		<u>4,599,759</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, at cost		
Land and land improvements		323,164
Buildings and equipment		2,459,441
Infrastructure		22,112,636
Construction in progress		291,414
Accumulated depreciation		<u>(12,397,622)</u>
Total capital assets, net of accumulated depreciation		12,789,033
Bond issue costs, net		73,087
Restricted cash and cash equivalents		1,040,028
Restricted certificates of deposit		<u>1,583,542</u>
<b>Total noncurrent assets</b>		<u>15,485,690</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>20,085,449</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$	581,313
Accrued interest payable		53,033
Compensated absences, due within one year		34,108
Bonds payable, due within one year		479,993
Capital lease obligation, due within one year		178,000
Due to other funds		263,811
Other		<u>93,975</u>
<b>Total current liabilities</b>		1,684,233
<b>NONCURRENT LIABILITIES</b>		
Compensated absences, due in more than one year		33,865
Bonds payable, due in more than one year		4,665,249
Capital lease obligation, due in more than one year		192,401
Customer deposits		<u>315,761</u>
<b>Total liabilities</b>		6,891,509
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		7,287,190
Restricted		
Revenue bond retirement		951,238
Capital improvements		1,356,571
Unrestricted		<u>3,598,941</u>
<b>TOTAL NET ASSETS</b>	<b>\$</b>	<b><u>13,193,940</u></b>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND  
NET ASSETS – PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	<u><b>Water, Sewer, and Electric Fund</b></u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 10,228,112
Connection fees	58,410
Tap fees	396,350
Miscellaneous	<u>57,282</u>
<b>Total operating revenue</b>	<b>10,740,154</b>
<b>OPERATING EXPENSES</b>	
Salaries, wages and benefits	1,334,282
Purchased professional and technical services	148,115
Utilities	343,184
Materials and supplies	126,149
Water and electric purchases	5,045,931
Franchise fees	355,622
Depreciation	885,039
Repairs and maintenance	535,312
Bad debt expense	<u>76,374</u>
<b>Total operating expenses</b>	<b><u>8,850,008</u></b>
Operating income	1,890,146
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment income	32,902
Interest and amortization expense	<u>(217,588)</u>
<b>Total nonoperating expenses</b>	<b><u>(184,686)</u></b>
<b>Change in net assets</b>	<b>1,705,460</b>
<b>NET ASSETS, beginning of year</b>	<b><u>11,488,480</u></b>
<b>NET ASSETS, end of year</b>	<b><u><u>\$ 13,193,940</u></u></b>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS  
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	<u><b>Water, Sewer, and Electric Fund</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 10,399,883
Cash paid to employees	(1,354,368)
Cash paid to suppliers	<u>(6,693,881)</u>
<b>Net cash provided by operating activities</b>	2,351,634
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on long-term debt	(494,293)
Capital expenditures	(217,445)
Interest and fees paid on debt issuance	<u>(206,464)</u>
<b>Net cash used in capital and related financing activities</b>	(918,202)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Reinvested interest	(10,490)
Proceeds on maturity of investments	200,000
Interest on investments	<u>32,902</u>
<b>Net cash provided by investing activities</b>	<u>222,412</u>
<b>Net change in cash</b>	1,655,844
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b>	<u>1,677,237</u>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<u><u>\$ 3,333,081</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS  
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

	<u>Water, Sewer, and Electric Fund</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET ASSETS</b>	
Cash and investments	\$ 2,293,053
Restricted cash and cash equivalents	<u>1,040,028</u>
<b>Cash and cash equivalents - ending</b>	<b><u><u>\$ 3,333,081</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 1,890,146
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	885,039
Increase in accounts receivable	(358,423)
Increase in inventory	(132,901)
Decrease in accounts payable and accrued liabilities	55,357
Increase in other liabilities	(5,736)
Increase in customer deposits	<u>18,152</u>
<b>Net cash provided by operating activities</b>	<b><u><u>\$ 2,351,634</u></u></b>
<b>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>	
<b>Related to issuance of refunding bonds:</b>	
Decrease in bond issue costs, net	\$ (22,061)
Increase in bonds payable	(57,200)
Increase in deferred loss on refunding bonds	79,261
<b>Related to capital asset additions:</b>	
Capital assets additions financed through inter-fund balances	\$ 291,414

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sanger (the City) was incorporated in 1886. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, police and fire protection, emergency ambulance services, highways and streets, water and wastewater operations, electricity operations, and public improvements.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

**Financial Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Financial Reporting Entity – Continued**

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government.

The following entities were found to be component units of the City and are included in the accompanying financial statements:

Blended Component Unit (4A) - The Sanger Texas Industrial Development Corporation (STIDC) is governed by a board of five directors, all of whom are appointed by the City Council of the City of Sanger and any of whom can be removed from office by the City Council at its will. The STIDC was incorporated in the state of Texas a non-profit industrial development corporation under Section 4A of the Development Corporation Act of 1979. The purpose of the STIDC is to promote economic development within the City of Sanger.

Blended Component Unit (4B) - The Sanger Texas Development Corporation (STDC) is governed by a board of seven directors, all of whom are appointed by the City Council at its will. The STDC was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4B of the Development Corporation Act of 1979. The purpose of the STDC is to promote economic and community development within the City of Sanger.

**Basis of Presentation**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of interfund activity within the governmental and business-type activities columns has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**CITY OF SANGER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

**General Fund**

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted to signify the amounts that are restricted exclusively for debt service expenditures.

**Capital Projects Fund**

The Capital Projects Fund is used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets and drainage improvements in the City and construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

**4A and 4B Funds**

The 4A and 4B Funds are used to account for sales tax revenues collected for the purposes set forth by the Sanger Economic Development Corporation.

**CITY OF SANGER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Financial Statements – Continued**

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

**Water, Sewer and Electric Fund**

The Water, Sewer and Electric Fund is the primary operating fund for water, sewer distribution and electric. It also accounts for all financial resources of the City concerning water, sewer and electric sales. Its activity is financed with debt secured by a pledge of the net revenues and has the requirement that the cost of providing services, including capital costs, be recovered by user fees and charges.

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and wastewater services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the related fund liability is incurred.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Measurement Focus and Basis of Accounting – Continued**

However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

**Cash and Investments**

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash and investments are available upon demand. The City considers pooled and other cash and investments amounts that are purchased with a maturity of ninety days or less to be cash equivalents.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds and certificates of deposits within established criterion.

**Restricted Resources**

If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed.

**Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. Personal property taxes not collected by April 1 are forwarded for collection proceedings. Real property taxes not collected by July 1 are forwarded for collection proceedings.

**CITY OF SANGER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Inventories and Prepaid Items**

Inventories, which are recognized as expenses as consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies for the Proprietary Fund. Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

**Interfund Receivables and Payables**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**Transactions between Funds**

Interfund services provided and used are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund reimbursed. All other interfund transactions are recorded as transfers.

**Capital Assets**

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

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	5-50 years
Machinery and equipment	3-20 years
Infrastructure	10-30 years

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Accumulated Vacation, Compensatory Time and Sick Leave**

The amounts owed to employees for unpaid vacation and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements.

**Nature and Purpose of Reservations and Designations of Fund Equity**

The City implemented Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) during the year ended September 30, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances in its financial statements as follows:

1. Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.
2. Spendable Fund Balance
  - a. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
  - i. The aggregate fund balance of the debt service fund is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Nature and Purpose of Reservations and Designations of Fund Equity – Continued**

- ii. The fund balance of the capital projects fund reflects an amount restricted for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of bonds, which primarily have restricted use.
  - iii. The proceeds of specific revenue sources which are restricted to expenditures for specified purposes as designated by grantors, contributors, by vote of citizens, or governmental entities over state or local program grants.
- b. **Committed Fund Balance** – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. Examples include, but are not specifically limited to, council action regarding construction, claims, and judgments, retirement of loans/notes payable, and capital expenditures. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
- c. **Assigned Fund Balance** – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. The City has delegated to the City Manager the ability to determine and define the amounts of those components of fund balance that are classified as Assigned. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.
- d. **Unassigned Fund Balance** – Includes the residual classification of the General Fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

**CITY OF SANGER, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2. CASH AND INVESTMENTS**

Cash and investments as of September 30, 2012 consist of the following:

Deposits with financial institutions	\$ 5,007,904
Certificates of deposit	<u>2,803,623</u>
	<u>\$ 7,811,527</u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in certificates of deposit which purchase a combination of shorter term investments with an average maturity of less than 30 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

As of September 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Certificates of deposit	\$ 2,803,623	134 days

As of September 30, 2012 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2012</u>
Certificates of deposit	\$ 2,803,623	N/A	N/A

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2012, other than certificates of deposit, the City did not have 5% or more of its investments with one issuer.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Custodial Credit Risk – Continued**

At September 30, 2012, the carrying amount of the City's cash on hand and deposits was \$5,007,904 and the bank balance was \$5,183,145. The full bank balance was covered by depository insurance under the FDIC and pledged securities in the City's name.

**NOTE 3. RESTRICTED ASSETS**

Restricted assets are held for the following purposes in accordance with bond ordinances or other legal restrictions for the Proprietary Fund as follows:

Debt service - interest and sinking fund	\$ 951,238
Capital improvements	1,356,571
Refundable utility deposits	<u>315,761</u>
	<u>\$ 2,623,570</u>

Restricted assets are held for the following purposes in accordance with bond ordinances or other legal restrictions for the Governmental Funds as follows:

Debt service	\$ 346,997
Capital improvements	202,110
Economic and community development	<u>1,186,842</u>
	<u>\$ 1,735,949</u>

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance October 1, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
Governmental activities				
Capital assets not being depreciated				
Land	\$ 862,307	\$ -	\$ -	\$ 862,307
Construction in progress	3,239,639	1,265,281	(4,232,535)	272,385
Total capital assets not being depreciated	4,101,946	1,265,281	(4,232,535)	1,134,692
Capital assets being depreciated				
Infrastructure	9,800,941	-	749,693	10,550,634
Buildings and improvements	3,567,983	70,000	3,482,842	7,120,825
Machinery and equipment	2,099,506	481,377	(87,344)	2,493,539
Total capital assets being depreciated	15,468,430	551,377	4,145,191	20,164,998
Less accumulated depreciation				
Infrastructure	3,305,559	580,486	-	3,886,045
Buildings and improvements	787,822	149,475	-	937,297
Machinery and equipment	1,330,820	234,530	(62,625)	1,502,725
Total accumulated depreciation	5,424,201	964,491	(62,625)	6,326,067
Total capital assets being depreciated, net	10,044,229	(413,114)	4,207,816	13,838,931
Net governmental activities capital assets	<u>\$ 14,146,175</u>	<u>\$ 852,167</u>	<u>\$ (24,719)</u>	<u>\$ 14,973,623</u>

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS – CONTINUED**

	Balance October 1, 2011	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2012
Business-type activities				
Capital assets not being depreciated				
Land	\$ 323,164	\$ -	\$ -	\$ 323,164
Construction in progress	-	291,414	-	291,414
Total capital assets not being depreciated	323,164	291,414	-	614,578
Capital assets being depreciated				
Infrastructure	22,072,504	40,132	-	22,112,636
Buildings and improvements	860,132	-	-	860,132
Machinery and equipment	1,421,996	177,313	-	1,599,309
Total capital assets being depreciated	24,354,632	217,445	-	24,572,077
Less accumulated depreciation				
Infrastructure	10,235,131	724,578	-	10,959,709
Buildings and improvements	164,565	52,239	-	216,804
Machinery and equipment	1,112,887	108,222	-	1,221,109
Total accumulated depreciation	11,512,583	885,039	-	12,397,622
Total capital assets being depreciated, net	12,842,049	(667,594)	-	12,174,455
Net business-type activities capital assets	<u>\$ 13,165,213</u>	<u>\$ (376,180)</u>	<u>\$ -</u>	<u>\$ 12,789,033</u>

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS – CONTINUED**

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities	
General government	\$ 70,760
Public safety	94,661
Streets and sanitation	607,409
Fire and rescue	117,529
Court	386
Culture and recreation	<u>73,746</u>
Total governmental activities	<u>\$ 964,491</u>
Business-type activities	
Water	\$ 273,790
Sewer	220,701
Electric	375,093
Other	<u>15,455</u>
Total business-type activities	<u>\$ 885,039</u>

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT**

At September 30, 2012, the City's bonds and notes payable consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
\$6,500,000 Series 2006, Combination Tax and Revenue Certificates of Obligation, dated August 7, 2006, due in annual installments through 2022, bearing interest rates of 4% to 5%.	\$ 2,001,000	\$ 2,349,000
\$1,750,000 Series 2007, Combination Tax and Revenue Certificates of Obligation, dated June 15, 2007, due in annual installments through 2027, bearing interest at 4.4%.	493,000	957,000
\$3,200,000 Series 2009, Combination Tax and Revenue Certificates of Obligation, dated July 30, 2009, due in annual installments through 2026, bearing interest rates of 3% to 4.75%.	2,770,000	-
\$3,495,000 Series 2012, General Obligation Refunding, dated March 20, 2012, due in annual installments through 2021, bearing interest rates of 2% to 3%.	1,504,800	1,915,200
Note payable to a financial institution in monthly installments of \$5,106 including interest at 4.6%, due June 5, 2024, secured by property financed.	553,391	-
Deferred loss on refunding bonds.	(33,743)	(75,958)
	<u>\$ 7,288,448</u>	<u>\$ 5,145,242</u>

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2012:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due within One Year
<b>Governmental activities</b>					
Compensated absences	\$ 77,947	\$ 108,885	\$ (76,428)	\$ 110,404	\$ 45,164
Notes payable	596,104	-	(42,713)	553,391	36,576
Certificates of obligation	7,222,800	1,537,800	(1,991,800)	6,768,800	541,200
Capital leases	70,162	340,119	(70,162)	340,119	102,755
Deferred loss on refunding bonds	-	(35,210)	1,467	(33,743)	(3,912)
Total governmental activities	7,967,013	1,951,594	(2,179,636)	7,738,971	721,783
<b>Business-type activities</b>					
Compensated absences	54,220	82,211	(68,458)	67,973	34,108
Revenue bonds	5,652,200	1,957,200	(2,388,200)	5,221,200	488,800
Capital leases	376,494	-	(6,093)	370,401	178,000
Deferred loss on refunding bonds	-	(79,261)	3,303	(75,958)	(8,807)
Total business-type activities	6,082,914	1,960,150	(2,459,448)	5,583,616	692,101
Total primary government	<u>\$ 14,049,927</u>	<u>\$ 3,911,744</u>	<u>\$ (4,639,084)</u>	<u>\$ 13,322,587</u>	<u>\$ 1,413,884</u>

The City issues general obligation bonds, which are direct obligations of the City and pledge the full faith and credit of the City.

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund.

General obligation bonds issued for governmental activity purposes are liquidated by the debt service fund. Notes payable issued for governmental activity purposes are liquidated by the General Fund. Revenue bonds and notes payable issued for business-type activities are repaid from those activities.

During fiscal year 2012, the City issued \$3,495,000 in General Obligation Refunding Bonds with interest rates ranging from 2% - 3%, which was used to advance refund the outstanding Series 1996 and Series 2002 Utility System Revenue Bonds and the Series 2002 Combination Tax and Revenue Certificates of Obligation for a total of \$3,395,000. The average interest rate on the bonds being refunded was 4.86%. The net proceeds of \$3,477,750 (after payment of issuance costs) were used to pay the outstanding balance on the refunded bonds. As a result, the refunded bonds were considered defeased, and the liability for those bonds has been removed from the government-wide statements. As of September 30, 2012, \$3,395,000 of bonds outstanding are considered defeased.

The City advance refunded the bonds to reduce its total debt service payments over the next 10 years by \$492,023 and to obtain an economic gain of \$395,704 (the difference between the present value of the debt service payments on the old and new debt).

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

The annual requirements to amortize all debts outstanding as of September 30, 2012, are as follows:

Revenue Bonds Due Fiscal Year Ending September 30	Business-Type Activities		Total
	Principal	Interest	
2013	\$ 488,800	\$ 360,480	\$ 849,280
2014	503,000	352,391	855,391
2015	519,500	349,433	868,933
2016	536,400	340,551	876,951
2017	514,000	286,608	800,608
2018-2022	2,270,100	1,054,317	3,324,417
2023-2027	389,400	52,998	442,398
	<u>\$ 5,221,200</u>	<u>\$ 2,796,778</u>	<u>\$ 8,017,978</u>

Certificates of Obligation Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2013	\$ 541,200	\$ 258,253	\$ 799,453
2014	557,000	240,761	797,761
2015	575,500	222,699	798,199
2016	593,600	204,054	797,654
2017	581,000	180,783	761,783
2018-2022	2,759,900	562,028	3,321,928
2023-2027	1,160,600	141,939	1,302,539
	<u>\$ 6,768,800</u>	<u>\$ 1,810,517</u>	<u>\$ 8,579,317</u>

Notes Payable Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2013	\$ 36,576	\$ 24,620	\$ 61,196
2014	38,368	22,898	61,266
2015	40,171	21,094	61,265
2016	42,058	19,209	61,267
2017	44,034	17,233	61,267
2018-2022	253,217	53,118	306,335
2023-2027	98,967	3,939	102,906
	<u>\$ 553,391</u>	<u>\$ 162,111</u>	<u>\$ 715,502</u>

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL LEASE OBLIGATIONS**

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total capitalized cost of approximately \$948,989 and an amortized value of approximately \$750,515 at September 30, 2012. Amortization expense has been included in depreciation expense for the year ended September 30, 2012.

The following is a schedule of future minimum payments under the capital leases together with the present value of the net minimum lease payments as of September 30, 2012:

2013		\$	315,905
2014			211,451
2015			211,478
2016			36,946
			775,780
Less amount representing interest			65,260
Present value of net minimum lease payments		\$	710,520

**NOTE 7. PENSION PLAN**

**Plan Description**

The City of Sanger provides pension benefits for all of its full-time 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. The report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. PENSION PLAN – CONTINUED**

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

Deposit rate	6%
Matching ratio (City to employee)	2-1
A member is vested after	5 years
Updated service credit	100% repeating, transfers
Annuity increase (to retirees)	0% of CPI repeating

**Benefits**

Benefits depend upon the sum of the employee's contributions to the plan, and City-financed monetary credits, both with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions.

In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are 5 years at 60 years of age or 20 years at any age.

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial 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 finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the 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 SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. PENSION PLAN – CONTINUED**

**Contributions – Continued**

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2011 valuation is effective for rates beginning January 2012). The annual pension cost is \$191,163 for the year ended September 30, 2012, and there is no net pension obligation as of September 30, 2012.

Trend information for the past three years for TMRS is as follows:

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Actual Amount of APC Contributed	Net Pension Obligation
2010	\$ 187,668	100%	\$ 187,668	\$ -
2011	217,754	100%	217,754	-
2012	191,163	100%	191,163	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	23 years; closed period	22.7 years; closed period	21.8 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*	7.5%	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%	3.0%	3.0%
	0.0%	0.0%	0.0%

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. PENSION PLAN – CONTINUED**

**Contributions – Continued**

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAAL as a percentage of Covered Payroll
12/31/11	\$ 4,691,607	\$ 5,122,534	91.6%	\$ 430,927	\$ 2,662,684	16.2%

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. The schedule of funding progress, presented as Required Supplementary Information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**NOTE 8. COMMITMENTS**

The City entered into a three year contract in 2009 with the AEP Energy Partners, Inc. for the delivery of electricity. During 2012, this contract was extended for an additional seven years to expire in 2019. Payments under this contract are based on meter readings charged per month.

The City had outstanding encumbrances totaling \$108,398 as of September 30, 2012.

At September 30, 2012, the City was committed to several long-term construction contracts. The Capital Projects Fund and the Enterprise Fund were contractually committed to \$73,076 and \$27,603, respectively, under these contracts.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9. RENTAL INCOME**

On March 1, 2012, the City entered into a non-cancelable lease agreement with a corporation of which a city council member is a principal member of management. The leased property is owned by the 4A Fund and has a cost \$1,083,797 with accumulated depreciation of \$99,706 as of September 30, 2012. The lease provides for a base rent and an adjustment each year related to excess operating expenses (if any) incurred annually. During the year ended September 30, 2012, the City received \$32,778 in rental revenue. Minimum future rentals on non-cancelable tenant operating leases at September 30, 2012 are as follows for fiscal years ending September 30:

2013	\$	78,667
2014		78,667
2015		45,889
Future minimum rentals	\$	203,223

**NOTE 10. INTERFUND BALANCES AND TRANSFERS**

The Enterprise Fund owes the Capital Projects Fund \$263,811 at September 30, 2012. The interfund balance is related to reimbursement for capital assets, and is to be repaid or collected in the normal course of business, within one year of the fiscal year-end.

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Transfers In	Transfers Out	Amount
General fund	4A fund	\$ 15,500
General fund	4B fund	15,500
Capital projects fund	General fund	200,000
Debt service fund	4B fund	180,000
		\$ 411,000

Transfers are primarily used to move funds from:

- The 4A and 4B funds to the general fund for payment of administrative costs.
- The general fund to the capital projects fund to reimburse for project costs.
- 4B fund to the debt service fund to service the debt related to the 4B fund.

**CITY OF SANGER, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 11. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City insures its buildings and contents, law enforcement liability, public officials' liability, general liability and auto liability under a renewable one year policy with the Texas Municipal League. The City insures its workers compensation risk by participating in the Texas Municipal League Intergovernmental Risk Pool which is a self-insurance policy mechanism for political subdivisions in Texas. Rates are set by the State Insurance Board. Each participant's contribution to the pool is adjusted based on its workers' compensation history. The City is responsible only to the extent of premiums paid and contributions made to Texas Municipal League and the Intergovernmental Risk Pool. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in each of the past three fiscal years.

**NOTE 12. CONDUIT DEBT**

The City issued notes payable totaling \$232,358,091 for the purpose of assisting with financing needed by not-for-profit organizations to promote their cause. Final maturities on notes payable range from March 2017 through December 2041. The notes are secured by various assets of the borrower.

The total amount outstanding on all of the notes payable is \$230,350,185 as of September 30, 2012. The City has no liability for the notes payable in the event of default by the borrowers. Accordingly, the bonds are not reported as liabilities in the City's financial statements.

**NOTE 13. PLEDGED REVENUES**

The City has pledged revenues derived from the operation of the utility system, net of operating and maintenance expenses, to repay \$6,617,200 in utility revenue bonds. The total amount of outstanding principal as of September 30, 2012 was \$5,221,200. Proceeds from the bonds provided financing for improvements to the utility system, as well as refunding \$1,900,000 in bonds. The bonds are payable solely from the net earnings of the utility system and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$8,017,978. Principal and interest paid for the current year and net utility system revenues were \$699,669 and \$1,890,146, respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SANGER, TEXAS  
SCHEDULE OF FUNDING PROGRESS FOR  
PARTICIPATION IN TEXAS MUNICIPAL RETIREMENT SYSTEM  
YEAR ENDED SEPTEMBER 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/09	\$ 3,419,092	\$ 3,973,365	86.1%	\$ 554,273	\$ 2,503,067	22.1%
12/31/10	4,202,344	4,663,669	90.1%	461,325	2,454,429	18.8%
12/31/11	4,691,607	5,122,534	91.6%	430,927	2,662,684	16.2%

**CITY OF SANGER, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual Amount</b>	<b>Variance with Final Budget Over / (Under)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Property taxes	\$ 1,671,380	\$ 1,671,380	\$ 1,637,637	\$ (33,743)
Sales taxes	483,420	483,420	616,427	133,007
Licenses and permits	53,990	53,990	130,869	76,879
Charges for services	690,575	690,575	803,173	112,598
Fire and rescue	457,000	457,000	479,381	22,381
Court	345,122	345,122	191,903	(153,219)
Franchise taxes	543,800	543,800	539,485	(4,315)
Interest	10,000	10,000	5,326	(4,674)
Miscellaneous revenues	145,600	145,600	87,875	(57,725)
<b>Total revenues</b>	<b>4,400,887</b>	<b>4,400,887</b>	<b>4,492,076</b>	<b>91,189</b>
<b>Expenditures</b>				
Current				
General government	684,998	684,998	628,847	(56,151)
Public safety	1,454,823	1,454,823	1,408,666	(46,157)
Streets and sanitation	918,523	918,523	838,133	(80,390)
Fire and rescue	675,709	675,709	633,763	(41,946)
Court	233,095	233,095	208,947	(24,148)
Culture and recreation	493,214	493,214	419,795	(73,419)
Principal	78,153	78,153	79,211	1,058
Interest and other	-	-	1,282	1,282
Capital outlay	329,015	329,015	481,377	152,362
<b>Total expenditures</b>	<b>4,867,530</b>	<b>4,867,530</b>	<b>4,700,021</b>	<b>(167,509)</b>
Excess (deficiency) of revenues over expenditures	(466,643)	(466,643)	(207,945)	258,698
<b>Other financing sources (uses)</b>				
Proceeds on sale of assets	7,500	7,500	10,000	2,500
Proceeds from capital lease	-	-	340,119	340,119
Operating transfers in	109,154	109,154	31,000	(78,154)
Operating transfers out	-	-	(200,000)	(200,000)
<b>Total other financing sources (uses)</b>	<b>116,654</b>	<b>116,654</b>	<b>181,119</b>	<b>64,465</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(349,989)	(349,989)	(26,826)	323,163
<b>FUND BALANCE, beginning of year</b>	<b>800,223</b>	<b>800,223</b>	<b>800,223</b>	<b>-</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 450,234</b>	<b>\$ 450,234</b>	<b>\$ 773,397</b>	<b>\$ 323,163</b>

## **SUPPLEMENTARY INFORMATION**

**CITY OF SANGER, TEXAS  
COMBINING SCHEDULE OF REVENUES AND EXPENSES  
PROPRIETARY FUND BY DEPARTMENT  
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Water</u>	<u>Sewer</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,321,657	\$ 1,128,429
Connection fees	-	-
Tap fees	180,850	215,500
Miscellaneous	-	-
	<u>1,502,507</u>	<u>1,343,929</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	217,647	123,675
Purchased professional and technical services	10,243	3,325
Utilities	154,409	162,689
Materials and supplies	20,960	25,433
Water and electric purchases	220,743	-
Franchise fees	-	-
Depreciation	289,245	220,701
Repairs and maintenance	141,508	279,965
Bad debt expense	9,264	8,646
	<u>1,064,019</u>	<u>824,434</u>
Operating income (loss)	438,488	519,495
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and investment income	-	-
Interest and amortization expense	<u>(73,259)</u>	<u>(37,266)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(73,259)</u>	<u>(37,266)</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ 365,229</u>	<u>\$ 482,229</u>

<u>Electric</u>	<u>Fleet Services</u>	<u>Administration</u>	<u>Data Processing</u>	<u>Total</u>
\$ 7,776,521	\$ -	\$ 1,505	\$ -	\$ 10,228,112
58,410	-	-	-	58,410
-	-	-	-	396,350
-	-	57,282	-	57,282
<u>7,834,931</u>	<u>-</u>	<u>58,787</u>	<u>-</u>	<u>10,740,154</u>
507,409	45,938	228,984	210,629	1,334,282
46,198	689	44,766	42,894	148,115
11,569	4,141	5,279	5,097	343,184
49,454	2,303	14,253	13,746	126,149
4,825,188	-	-	-	5,045,931
355,622	-	-	-	355,622
375,093	-	-	-	885,039
78,716	5,325	19,280	10,518	535,312
58,464	-	-	-	76,374
<u>6,307,713</u>	<u>58,396</u>	<u>312,562</u>	<u>282,884</u>	<u>8,850,008</u>
1,527,218	(58,396)	(253,775)	(282,884)	1,890,146
-	-	32,902	-	32,902
(105,974)	-	(1,089)	-	(217,588)
<u>(105,974)</u>	<u>-</u>	<u>31,813</u>	<u>-</u>	<u>(184,686)</u>
<u>\$ 1,421,244</u>	<u>\$ (58,396)</u>	<u>\$ (221,962)</u>	<u>\$ (282,884)</u>	<u>\$ 1,705,460</u>

**CITY OF SANGER, TEXAS  
ANALYSIS OF PROPERTY TAXES RECEIVABLE  
YEAR ENDED SEPTEMBER 30, 2012  
WITH COMPARATIVE TOTALS FOR  
FOUR YEARS PRIOR**

	Fiscal Year				
	2012	2011	2010	2009	2008
Adjusted tax roll	\$ 2,311,086	\$ 2,330,034	\$ 2,256,987	\$ 2,308,903	\$ 2,118,117
Less collections	<u>2,280,947</u>	<u>2,276,461</u>	<u>2,216,114</u>	<u>2,256,275</u>	<u>2,078,588</u>
Current year property taxes receivable	30,139	53,573	40,873	52,628	39,529
Prior year property taxes receivable	<u>111,435</u>	<u>86,871</u>	<u>79,796</u>	<u>74,407</u>	<u>71,283</u>
Total property taxes receivable, gross (1)	<u>\$ 141,574</u>	<u>\$ 140,444</u>	<u>\$ 120,669</u>	<u>\$ 127,035</u>	<u>\$ 110,812</u>
Total assessed property value	\$ 365,072,180	\$ 359,484,787	\$ 364,030,183	\$ 341,028,251	\$ 336,831,151
Tax rate per \$100	\$ 0.63305	\$ 0.63305	\$ 0.62000	\$ 0.62000	\$ 0.59960
Percent of current taxes collected to billed	98.70%	97.70%	98.19%	97.72%	98.13%

(1) before deducting allowance for doubtful accounts