

**CITY OF SANGER, TEXAS**

**FINANCIAL REPORT**

**SEPTEMBER 30, 2010**

# CONTENTS

	Page(s)
INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-11
 BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets .....	12
Statement of Activities.....	13
Fund Financial Statements	
Governmental Funds	
Balance Sheet .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	19
Proprietary Funds	
Statement of Net Assets.....	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	21
Statement of Cash Flows .....	22
Notes to Basic Financial Statements .....	24-43
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Participation for Texas Municipal Retirement System .....	44
Budgetary Comparison Schedule – General Fund .....	45
 SUPPLEMENTARY INFORMATION	
Combining Schedule of Revenues and Expenses – Proprietary Fund by Department.....	46
Analysis of Property Taxes Receivable.....	48



## 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, 2010, 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 of Sanger, Texas as of September 30, 2010, 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.

The management's discussion and analysis, the schedule of funding progress and budgetary comparison schedule on pages 3 through 11 and 44 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information on pages 46 through 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

WEAVER AND TIDWELL, L.L.P.

Fort Worth, TX  
August 18, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2010**

The City of Sanger's Management's Discussion and Analysis is designed to provide a narrative overview of the City's financial activity, and assist the reader in identifying changes in the City's financial position. The information presented here should be considered in conjunction with the City's financial statements and accompanying footnotes, which can be found on pages 24 through 43 of this report.

### **FINANCIAL HIGHLIGHTS**

- The City's total combined net assets were \$19,141,779 at September 30, 2010.
- The General Fund reported a fund balance of \$739,010 at September 30, 2010.
- The City's combined governmental funds reported a fund balance of \$5,726,234 at September 30, 2010.

### **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 also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two types of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The two remaining sets of statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
  - The governmental fund statements tell how general government services were financed in the short term as well as what remains for future spending.
  - Proprietary fund statements provide short and long-term financial information about the activities the government operates like businesses, such as utility services.

The financial statements also include notes to the financial statements explaining information in the financial statements and providing more detailed data.

The report also 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. Overtime, 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).

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.

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

	Government-wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's 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	Instances in which the City is the trustee or agent for someone else's resources
Required Financial Statements	Statement of net assets	Balance Sheet	Statement of net assets	Statement of fiduciary net assets
	Statement of activities	Statement of revenues, expenditures and changes in fund balances	Statement of revenues, expenses and changes in fund balances  Statement of cash flows	Statement of changes in fiduciary net assets
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	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	All assets and liabilities, both short-term and long-term, the Agency's funds do not currently contain capital assets, although they can
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	All revenues and expenses during year, regardless of when cash is received or paid

### 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.

- Some 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 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.

The notes provide additional information that is essential to understanding the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 43 of this report.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of September 30, 2010, the City's combined net assets were \$19,141,779, of which \$8,346,480 can be attributed to governmental activities and \$10,795,299 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, 2009, were \$18,411,459, representing an increase of \$730,320 in total net assets of governmental and business-type activities. The largest portion of the City's net assets (68%) reflects its investment in capital assets (e.g., land, building, machinery, and equipment) 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	
	2010	2009	2010	2009	2010	2009
<b>Assets</b>						
Cash and cash equivalents <sup>(1)</sup>	\$ 692,005	\$ 585,460	\$ 1,292,304	\$ 621,600	\$ 1,984,309	\$ 1,207,060
Accounts receivable, net	311,885	554,332	1,142,592	1,079,401	1,454,477	1,633,733
Inventories	-	-	276,825	276,825	276,825	276,825
Prepaid expense	11,910	-	-	6,653	11,910	6,653
Internal balances	-	(4,779)	-	4,779	-	-
Restricted cash and cash equivalents <sup>(1)</sup>	5,075,797	6,117,609	2,171,109	2,262,318	7,246,906	8,379,927
Bond issuance costs, net	316,292	337,415	123,161	146,747	439,453	484,162
Capital assets, net of accumulated depreciation	10,752,346	10,903,681	13,593,285	14,104,813	24,345,631	25,008,494
<b>Total assets</b>	<b>\$ 17,160,235</b>	<b>\$ 18,493,718</b>	<b>\$ 18,599,276</b>	<b>\$ 18,503,136</b>	<b>\$ 35,759,511</b>	<b>\$ 36,996,854</b>
<b>Liabilities</b>						
Accounts payable	\$ 198,142	\$ 800,043	\$ 565,806	\$ 457,572	\$ 763,948	\$ 1,257,615
Customer deposits	-	-	280,721	241,686	280,721	241,686
Other liabilities	97,238	129,982	125,929	327,210	223,167	457,192
Current portion long-term debt	575,710	547,176	746,494	714,216	1,322,204	1,261,392
Compensated absences	53,598	79,584	56,333	62,056	109,931	141,640
Long-term debt	7,889,067	8,478,791	6,028,694	6,747,079	13,917,761	15,225,870
<b>Total liabilities</b>	<b>\$ 8,813,755</b>	<b>\$ 10,035,576</b>	<b>\$ 7,803,977</b>	<b>\$ 8,549,819</b>	<b>\$ 16,617,732</b>	<b>\$ 18,585,395</b>
<b>Net assets</b>						
Invested in capital assets	\$ 6,213,125	\$ 2,162,363	\$ 6,831,720	\$ 6,741,443	\$ 13,044,845	\$ 8,903,806
Restricted for specific purpose	540,435	5,660,836	1,890,388	2,262,318	2,430,823	7,923,154
Unrestricted	1,592,920	634,943	2,073,191	949,556	3,666,111	1,584,499
<b>Net assets</b>	<b>\$ 8,346,480</b>	<b>\$ 8,458,142</b>	<b>\$ 10,795,299</b>	<b>\$ 9,953,317</b>	<b>\$ 19,141,779</b>	<b>\$ 18,411,459</b>

<sup>(1)</sup> Approximately 57% and 78% of the City's cash equivalent balances at September 30, 2010 and 2009, respectively, were comprised of bank certificates of deposit which, in accordance with generally accepted accounting principles, are treated as cash for financial statement presentation purposes.

## Changes in Net Assets

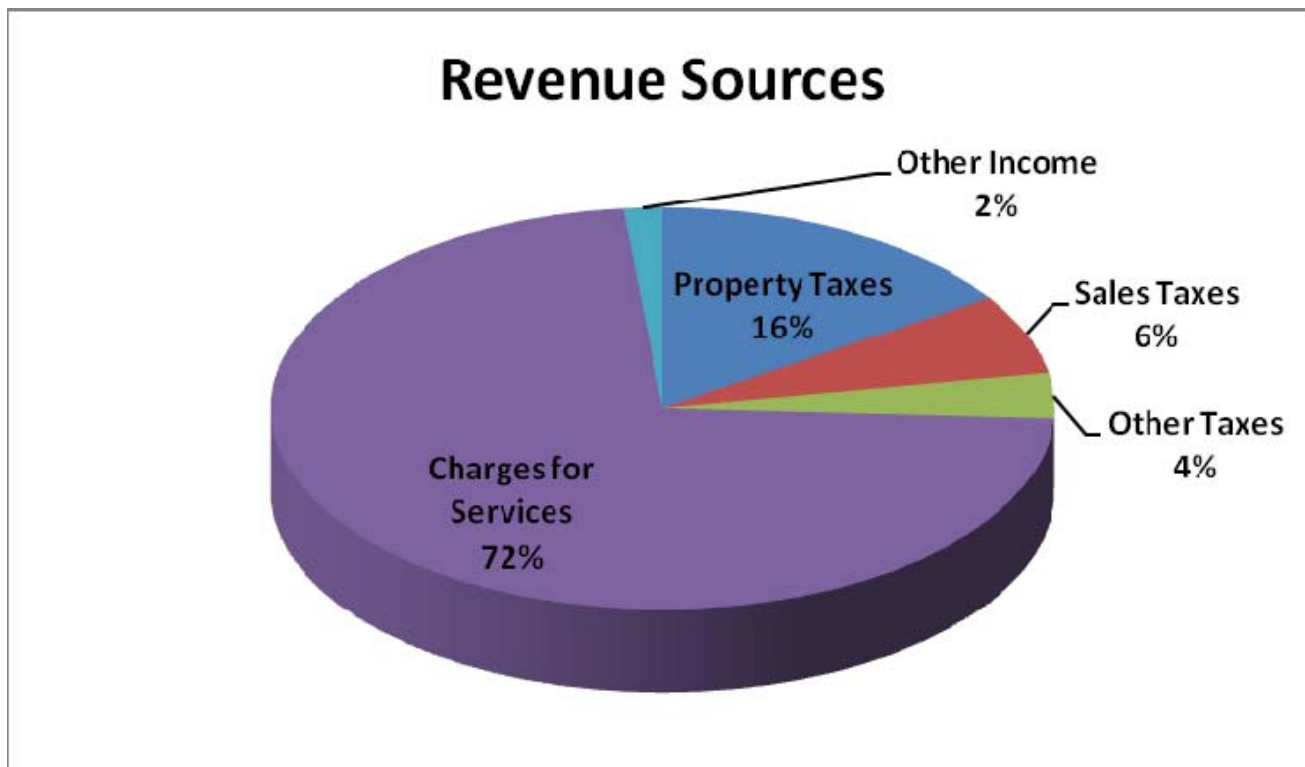
Governmental activities decreased the City's net assets by \$111,662 and business-type activities increased the City's net assets by \$841,982. The key elements of these changes are contained in Table 2.

**Table 2 – Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 1,127,202	\$ 1,732,063	\$ 9,458,927	\$ 9,490,083	\$ 10,586,129	\$ 11,222,146
Grants and donations	-	14,239	-	-	-	14,239
General Revenues:						
Taxes	3,759,621	3,889,376	-	-	3,759,621	3,889,376
Licenses and permits	44,635	67,866	-	-	44,635	67,866
Investment earnings	75,402	169,253	37,360	89,186	112,762	258,439
Transfers	(231,245)	(1,456,966)	231,245	1,456,966	-	-
Miscellaneous	102,288	-	-	-	102,288	-
Gain (loss) on sale of assets	(33,255)	32,322	11,814	2,500	(21,441)	34,822
<b>Total revenues</b>	<b>4,844,648</b>	<b>4,448,153</b>	<b>9,739,346</b>	<b>11,038,735</b>	<b>14,583,994</b>	<b>15,486,888</b>
<b>Expenses</b>						
General government	725,355	733,052	-	-	725,355	733,052
Public safety	1,276,750	1,262,219	-	-	1,276,750	1,262,219
Streets and sanitation	1,260,016	1,211,307	-	-	1,260,016	1,211,307
Fire and rescue	655,874	619,715	-	-	655,874	619,715
Court	194,526	194,052	-	-	194,526	194,052
Culture and recreation	465,034	452,868	-	-	465,034	452,868
Interest on long-term debt	378,755	289,449	403,065	322,886	781,820	612,335
Proprietary expenses	-	-	8,494,299	8,646,150	8,494,299	8,646,150
<b>Total expenses</b>	<b>4,956,310</b>	<b>4,762,662</b>	<b>8,897,364</b>	<b>8,969,036</b>	<b>13,853,674</b>	<b>13,731,698</b>
Change in net assets	(111,662)	(314,509)	841,982	2,069,699	730,320	1,755,190
Beginning net assets	8,458,142	5,006,725	9,953,317	11,530,821	18,411,459	16,537,546
Reclassifications	-	3,647,203	-	(3,647,203)	-	-
Prior-period adjustment	-	118,723	-	-	-	118,723
<b>Ending net assets</b>	<b>\$ 8,346,480</b>	<b>\$ 8,458,142</b>	<b>\$ 10,795,299</b>	<b>\$ 9,953,317</b>	<b>\$ 19,141,779</b>	<b>\$ 18,411,459</b>

The City's total revenues for the year ended September 30, 2010, was \$14,583,994 with a significant portion, 72%, of the City's total revenue coming from charges for services, 16% from property taxes, 6% from sales taxes, while 6% 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 \$4,844,648 for the year ended September 30, 2010, of which \$3,759,621 (78%) is attributed to taxes. Significant general governmental expenses include public safety (police and animal control), which incurred expenses of \$1,276,750, and streets and sanitation, which incurred expenses of \$1,260,016.

Business-type activities increased the City's net assets by \$841,982, accounting for all positive growth in the government-wide net assets in fiscal year ended September 30, 2010. Compared to last year, business-type operating revenues decreased by \$31,156 to \$9,458,927 for the year ended September 30, 2010, as a result of minimal decreases in both water and electric revenues. Business-type expenses also decreased in fiscal year ending September 30, 2010 due to a decrease in water and electric expenses, resulting in total business-type activity expenses of \$8,897,364.

## 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, 2010, the City's governmental funds reported a combined ending fund balance of \$5,726,234, a reduction of \$275,185 from the previous fiscal year's balance of \$6,001,419. The decline in fund balance is primarily due to expenditures for infrastructure improvements. Of this fund balance, \$739,010 constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to either purchase or construct capital assets (\$3,910,024), pay debt service (\$106,546), or enhance economic development (\$970,654).

**General Fund.** The General Fund is the chief operating fund of the City. At September 30, 2010, the unreserved and undesignated fund balance of the General Fund was \$739,010, an increase of \$193,355 over the prior year. The increase is primarily due to reductions in spending and not filling nonessential personnel vacancies. The City took a very conservative approach to purchasing and employment during 2010 because of the depressed economic conditions.

**Capital Projects Fund.** The entire balance of the capital projects fund is reserved for capital construction and acquisition. At September 30, 2010, the capital projects fund has a fund balance of \$3,910,024, a decrease of \$486,258 from 2009. At the end of 2010, the City had invested \$24,345,631 in a broad range of capital assets, including land, equipment, buildings, and vehicles (see Table 3).

**Table 3 – Capital Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 600,351	\$ 600,351	\$ 323,164	\$ 312,164	\$ 923,515	\$ 912,515
Construction in progress	3,039,158	3,975,123	-	2,028,744	3,039,158	6,003,867
Infrastructure	6,131,964	6,433,265	21,653,018	20,039,369	27,784,982	26,472,634
Buildings and equipment	5,588,158	5,241,731	2,265,559	2,287,450	7,853,717	7,529,181
Total historical cost	15,359,631	16,250,470	24,241,741	24,667,727	39,601,372	40,918,197
Total accumulated depreciation	(4,607,285)	(5,346,789)	(10,648,456)	(10,562,915)	(15,255,741)	(15,909,704)
<b>Net capital assets</b>	<b>\$ 10,752,346</b>	<b>\$ 10,903,681</b>	<b>\$ 13,593,285</b>	<b>\$ 14,104,812</b>	<b>\$ 24,345,631</b>	<b>\$ 25,008,493</b>

**Debt Service Fund.** The debt service fund has a total fund balance of \$106,546 at September 30, 2010, an increase of \$10,165 over 2009. As of September 30, 2010, the City had \$15,239,965 in long-term debt (see Table 4).

**Table 4 – Long-term Debt**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Notes payable	\$ 646,881	\$ 695,108	\$ -	\$ 6,654	\$ 646,881	\$ 701,762
Capital leases	148,196	222,777	494,888	592,723	643,084	815,500
Bonds payable	7,669,700	8,108,082	6,280,300	6,861,918	13,950,000	14,970,000
<b>Total long-term debt</b>	<b>\$ 8,464,777</b>	<b>\$ 9,025,967</b>	<b>\$ 6,775,188</b>	<b>\$ 7,461,295</b>	<b>\$ 15,239,965</b>	<b>\$ 16,487,262</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, 2010 was \$8,897,364. The amount for charges for services that the City's tax payers paid for these activities was \$9,458,927. 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 Cost of Services		% Change	Total Operating Income		% Change
	2010	2009		2010	2009	
Water	\$ 998,059	\$ 1,114,181	-10.42%	\$ 127,849	\$ 102,185	25.12%
Sewer	714,895	646,543	10.57%	215,085	272,236	-20.99%
Electric	6,202,332	6,255,536	-0.85%	1,155,642	1,086,223	6.39%
Other	982,078	952,776	3.08%	(937,013)	(939,597)	-0.28%
<b>Total</b>	<b>\$ 8,897,364</b>	<b>\$ 8,969,036</b>	<b>-0.80%</b>	<b>\$ 561,563</b>	<b>\$ 521,047</b>	<b>7.78%</b>

## ECONOMIC FACTORS AND FISCAL YEAR BUDGET AND RATES

Certified appraised values used for the fiscal year 2011 budget preparation are consistent with the amounts budgeted in the 2010 fiscal year.

If revenues projected in the 2011 budget are realized, the City will be able to continue operations and absorb inflationary costs without a decrease in its fund balance.

## 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  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 692,005	\$ 1,292,304	\$ 1,984,309
Accounts receivable, net			
Property taxes	69,179	-	69,179
Sales taxes	143,111	-	143,111
Emergency medical services, net of allowance of \$1,470,493	36,428	-	36,428
Utility accounts, net of allowance of \$12,187	-	1,128,152	1,128,152
Other	63,167	14,440	77,607
Inventories	-	276,825	276,825
Prepaid expenses	11,910	-	11,910
Restricted cash and cash equivalents	5,075,797	2,171,109	7,246,906
Bond issue costs, net	316,292	123,161	439,453
Capital assets			
Capital assets not being depreciated	3,639,509	323,164	3,962,673
Capital assets being depreciated, net	7,112,837	13,270,121	20,382,958
<b>TOTAL ASSETS</b>	<b><u>\$ 17,160,235</u></b>	<b><u>\$ 18,599,276</u></b>	<b><u>\$ 35,759,511</u></b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 198,142	\$ 565,806	\$ 763,948
Customer deposits	-	280,721	280,721
Accrued interest payable	35,624	61,188	96,812
Bonds payable, due within one year	446,900	628,100	1,075,000
Notes payable, due within one year	50,775	-	50,775
Capital leases, due within one year	78,035	118,394	196,429
Other	61,614	64,741	126,355
Noncurrent liabilities			
Compensated absences	53,598	56,333	109,931
Bonds payable, due in more than one year	7,222,800	5,652,200	12,875,000
Notes payable, due in more than one year	596,106	-	596,106
Capital leases, due in more than one year	70,161	376,494	446,655
<b>TOTAL LIABILITIES</b>	<b>8,813,755</b>	<b>7,803,977</b>	<b>16,617,732</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,213,125	6,831,720	13,044,845
Restricted			
Debt service	429,091	566,042	995,133
Capital improvements	111,344	1,324,346	1,435,690
Unrestricted	1,592,920	2,073,191	3,666,111
<b>TOTAL NET ASSETS</b>	<b><u>\$ 8,346,480</u></b>	<b><u>\$ 10,795,299</u></b>	<b><u>\$ 19,141,779</u></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, 2010**

Program Activities	Expenses	Program Revenues Fees, Fines and Charges for Services	Net (Expenses) Revenue and Changes in Net Assets		
			Governmental Activities	Business- type Activities	Total
<b>Governmental activities</b>					
General government	\$ 725,355	\$ 723,374	\$ (1,981)	\$ -	\$ (1,981)
Public safety	1,276,750	-	(1,276,750)	-	(1,276,750)
Streets and sanitation	1,260,016	-	(1,260,016)	-	(1,260,016)
Fire and rescue	655,874	192,863	(463,011)	-	(463,011)
Court	194,526	210,965	16,439	-	16,439
Culture and recreation	465,034	-	(465,034)	-	(465,034)
Interest on long term debt	378,755	-	(378,755)	-	(378,755)
<b>Total governmental activities</b>	<b>4,956,310</b>	<b>1,127,202</b>	<b>(3,829,108)</b>	<b>-</b>	<b>(3,829,108)</b>
<b>Business-type activities</b>					
Water	998,059	1,125,908	-	127,849	127,849
Sewer	714,895	929,980	-	215,085	215,085
Electric	6,202,332	7,357,974	-	1,155,642	1,155,642
Interest on long-term debt	403,065	-	-	(403,065)	(403,065)
Other	579,013	45,065	-	(533,948)	(533,948)
<b>Total business-type activities</b>	<b>8,897,364</b>	<b>9,458,927</b>	<b>-</b>	<b>561,563</b>	<b>561,563</b>
<b>Total primary government</b>	<b>\$ 13,853,674</b>	<b>\$ 10,586,129</b>	<b>\$ (3,829,108)</b>	<b>\$ 561,563</b>	<b>\$ (3,267,545)</b>
General revenues					
Taxes					
Ad valorem			\$ 2,284,379	\$ -	\$ 2,284,379
Sales			947,370	-	947,370
Franchise taxes			527,872	-	527,872
Licenses and permits			44,635	-	44,635
Interest income			75,402	37,360	112,762
Gain (loss) on sale of assets			(33,255)	11,814	(21,441)
Miscellaneous revenues			102,288	-	102,288
Transfers			(231,245)	231,245	-
<b>Total general revenues and transfers</b>			<b>3,717,446</b>	<b>280,419</b>	<b>3,997,865</b>
<b>Change in net assets</b>			<b>(111,662)</b>	<b>841,982</b>	<b>730,320</b>
<b>NET ASSETS, beginning of year</b>			<b>8,458,142</b>	<b>9,953,317</b>	<b>18,411,459</b>
<b>NET ASSETS, end of year</b>			<b>\$ 8,346,480</b>	<b>\$ 10,795,299</b>	<b>\$ 19,141,779</b>

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

**CITY OF SANGER, TEXAS  
BALANCE SHEET – GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>ASSETS</b>			
Cash and investments	\$ 668,434	\$ 23,571	\$ -
Accounts receivable, net			
Property taxes, net of allowance of \$51,490	48,425	20,754	-
Sales taxes	71,555	-	-
Emergency medical services, net of allowance of \$1,470,493	36,428	-	-
Other	57,443	-	3,030
Prepaid expenses	11,910	-	-
Restricted cash and investments	160,239	82,975	3,925,554
<b>Total assets</b>	<u>\$ 1,054,434</u>	<u>\$ 127,300</u>	<u>\$ 3,928,584</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 168,957	\$ -	\$ 18,560
Deferred revenue	84,853	20,754	-
Other current liabilities	61,614	-	-
<b>Total liabilities</b>	315,424	20,754	18,560
<b>Fund balances</b>			
Reserved - construction	-	-	3,910,024
Reserved - debt service	-	106,546	-
Reserved - economic development	-	-	-
Unreserved	739,010	-	-
<b>Total fund balances</b>	<u>739,010</u>	<u>106,546</u>	<u>3,910,024</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,054,434</u>	<u>\$ 127,300</u>	<u>\$ 3,928,584</u>

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>
\$ -	\$ -	\$ 692,005
-	-	69,179
35,778	35,778	143,111
-	-	36,428
548	2,146	63,167
-	-	11,910
<u>339,225</u>	<u>567,804</u>	<u>5,075,797</u>
<u>\$ 375,551</u>	<u>\$ 605,728</u>	<u>\$ 6,091,597</u>
\$ 10,625	\$ -	\$ 198,142
-	-	105,607
-	-	61,614
<u>10,625</u>	<u>-</u>	<u>365,363</u>
-	-	3,910,024
-	-	106,546
364,926	605,728	970,654
-	-	739,010
<u>364,926</u>	<u>605,728</u>	<u>5,726,234</u>
<u>\$ 375,551</u>	<u>\$ 605,728</u>	<u>\$ 6,091,597</u>

**CITY OF SANGER, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010**

Total fund balances - governmental funds	\$ 5,726,234
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	10,752,346
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.	316,292
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.	(35,624)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	105,607
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>(8,518,375)</u>
Net assets of governmental activities	<u><u>\$ 8,346,480</u></u>

**CITY OF SANGER, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2010**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>REVENUES</b>			
Property taxes	\$ 1,587,954	\$ 706,281	\$ -
Sales taxes	472,352		
Licenses and permits	44,635	-	-
Charges for services	723,374	-	-
Fire and rescue	451,346	-	-
Court	210,965	-	-
Franchise taxes	527,872	-	-
Interest	17,982	1,011	44,816
Miscellaneous	99,955	-	-
<b>Total revenues</b>	<u>4,136,435</u>	<u>707,292</u>	<u>44,816</u>
<b>EXPENDITURES</b>			
Current			
General government	555,668	2,428	122,376
Public safety	1,206,731	-	-
Streets and sanitation	762,615	-	-
Fire and rescue	559,344	-	-
Court	193,877	-	-
Culture and recreation	387,810	-	-
Capital outlay	349,030	-	162,773
Debt service			
Principal retirement	90,877	438,382	-
Interest charges	13,238	332,202	-
<b>Total expenditures</b>	<u>4,119,190</u>	<u>773,012</u>	<u>285,149</u>
Excess (deficiency) of revenues over expenditures	17,245	(65,720)	(240,333)
Other financing sources (uses)			
Proceeds on sale of assets	17,315	-	-
Transfers in	158,795	180,000	-
Transfers out	-	(104,115)	(245,925)
<b>Total other financing sources (uses)</b>	<u>176,110</u>	<u>75,885</u>	<u>(245,925)</u>
<b>Net change in fund balances</b>	193,355	10,165	(486,258)
<b>FUND BALANCES, beginning of year</b>	<u>545,655</u>	<u>96,381</u>	<u>4,396,282</u>
<b>FUND BALANCES, end of year</b>	<u>\$ 739,010</u>	<u>\$ 106,546</u>	<u>\$ 3,910,024</u>

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>
\$ -	\$ -	\$ 2,294,235
237,509	237,509	947,370
-	-	44,635
-	-	723,374
-	-	451,346
-	-	210,965
-	-	527,872
2,871	8,722	75,402
2,333	-	102,288
<u>242,713</u>	<u>246,231</u>	<u>5,377,487</u>
11,964	898	693,334
-	-	1,206,731
-	-	762,615
-	-	559,344
-	-	193,877
-	-	387,810
187,262	-	699,065
31,931	-	561,190
29,336	-	374,776
<u>260,493</u>	<u>898</u>	<u>5,438,742</u>
(17,780)	245,333	(61,255)
-	-	17,315
-	-	338,795
<u>(20,000)</u>	<u>(200,000)</u>	<u>(570,040)</u>
<u>(20,000)</u>	<u>(200,000)</u>	<u>(213,930)</u>
(37,780)	45,333	(275,185)
<u>402,706</u>	<u>560,395</u>	<u>6,001,419</u>
<u>\$ 364,926</u>	<u>\$ 605,728</u>	<u>\$ 5,726,234</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, 2010**

Net change in fund balances - total governmental funds \$ (275,185)

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. 699,065

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. (799,830)

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. (50,570)

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 proceeds of \$0 less repayments of \$561,190 plus amortization of debt issuance costs of \$21,123 plus a change in long-term compensated absences payable of \$25,986, which is the net effect of these differences in the treatment of long-term debt and related items. 566,053

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. 17,142

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. (268,337)

Change in net assets of governmental activities \$ (111,662)

**CITY OF SANGER, TEXAS  
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS  
SEPTEMBER 30, 2010**

	<b>Water, Sewer, and Electric Fund</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 1,292,304
Receivables	
Utility accounts receivable, net of allowance of \$12,187	1,128,152
Other	14,440
Inventories	276,825
Restricted cash and cash equivalents	2,171,109
<b>Total current assets</b>	<b>4,882,830</b>
<b>NONCURRENT ASSETS</b>	
Capital assets, at cost	
Land and land improvements	323,164
Buildings and equipment	2,265,559
Infrastructure	21,653,018
Accumulated depreciation	(10,648,456)
Total capital assets, net of accumulated depreciation	13,593,285
Bond issue costs	123,161
<b>Total noncurrent assets</b>	<b>13,716,446</b>
<b>TOTAL ASSETS</b>	<b>\$ 18,599,276</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 565,806
Accrued interest payable	61,188
Bonds payable, due within one year	628,100
Capital lease obligation, due within one year	118,394
Other	64,741
<b>Total current liabilities</b>	<b>1,438,229</b>
<b>NONCURRENT LIABILITIES</b>	
Compensated absences	56,333
Bonds payable, due in more than one year	5,652,200
Capital lease obligation, due in more than one year	376,494
Customer deposits	280,721
<b>Total liabilities</b>	<b>7,803,977</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,831,720
Restricted	
Revenue bond retirement	566,042
Capital improvements	1,324,346
Unrestricted	2,073,191
<b>TOTAL NET ASSETS</b>	<b>\$ 10,795,299</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, 2010**

	<b>Water, Sewer, and Electric Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 9,301,619
Connection fees	62,532
Tap fees	52,500
Miscellaneous	42,276
<b>Total operating revenue</b>	9,458,927
<b>OPERATING EXPENSES</b>	
Salaries and wages	1,282,370
Purchased professional and technical services	108,606
Utilities	340,594
Materials and supplies	106,931
Water and electric purchases	4,953,579
Franchise fees	354,842
Depreciation	814,083
Repairs and maintenance	377,401
Bad debt expense	155,893
<b>Total operating expenses</b>	8,494,299
Operating income	964,628
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment income	37,360
Interest and amortization expense	(403,065)
Gain on sale of asset	11,814
<b>Total nonoperating expenses</b>	(353,891)
Income before transfers	610,737
Transfers in	231,245
<b>Change in net assets</b>	841,982
<b>NET ASSETS, beginning of year</b>	9,953,317
<b>NET ASSETS, end of year</b>	\$ 10,795,299

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, 2010**

	<u><b>Water, Sewer, and Electric Fund</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 9,434,771
Cash paid to employees	(1,303,626)
Cash paid to suppliers	<u>(6,452,708)</u>
<b>Net cash provided by operating activities</b>	<b>1,678,437</b>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	<u>231,245</u>
<b>Net cash provided by noncapital financing activities</b>	<b>231,245</b>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Principal paid on long-term debt	(686,107)
Capital expenditures	(320,639)
Interest paid on long-term debt	(390,698)
Proceeds from sale of assets	<u>29,897</u>
<b>Net cash used in capital and related financing activities</b>	<b>(1,367,547)</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>37,360</u>
<b>Net cash provided by investing activities</b>	<b>37,360</b>
<b>Net change in cash</b>	<b>579,495</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b>	<u>2,883,918</u>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<u><u>\$ 3,463,413</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, 2010  
(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	\$ 1,292,304
Restricted cash and cash equivalents	<u>2,171,109</u>
<b>Cash and cash equivalents - ending</b>	<b><u><u>\$ 3,463,413</u></u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 964,628
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	814,083
Amortization of bond issue costs	23,586
Increase in accounts receivable	(63,191)
Decrease in internal balances	4,780
Decrease in prepaid expenses	6,653
Increase in accounts payable and accrued expenses	108,234
Decrease in other liabilities	(219,371)
Increase in customer deposits	<u>39,035</u>
<b>Net cash provided by operating activities</b>	<b><u><u>\$ 1,678,437</u></u></b>

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. Complete financial statements for the individual component units may be obtained at the City's office.

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 reserved 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 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 personal 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 and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered 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 contain 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 person 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**

Reservations of fund balances of the governmental funds indicate the portion of fund equity that is not available for appropriation for expenditure or is legally restricted by outside parties for use for a specific purpose. Designations of fund balance are the representations of management for utilization of resources in future periods.

**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.

**Reclassifications**

Certain beginning balances have been reclassified to conform with the presentation in the current-year financial statements.

**NOTE 2. CASH AND INVESTMENTS**

Cash and investments as of September 30, 2010 consist of the following:

Deposits with financial institutions	\$ 3,962,744
Investments	<u>5,268,471</u>
	<u><u>\$ 9,231,215</u></u>



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

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

**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.

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Certificate of deposit	\$ 5,268,471	95 days

As of September 30, 2010 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, 2010</u>
Certificate of deposit	\$ 5,268,471	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, 2010, other than certificates of deposit, the City did not have 5% or more of its investments with one issuer.

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

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

**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.

At September 30, 2010, the carrying amount of the City’s cash on hand and deposits were \$3,962,744 and the bank balance was \$4,169,438. Of the bank balance, \$250,000 was covered by federal depository insurance while the remaining \$3,919,438 was secured with securities held by the pledging financial institution’s trust department or agent 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 Enterprise Fund as follows:

Debt service - interest and sinking fund	\$ 566,042
Capital improvements	1,324,346
Refundable utility deposits	<u>280,721</u>
	<u><u>\$ 2,171,109</u></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	\$ 82,975
Capital improvements	4,036,988
Economic and community development	<u>955,834</u>
	<u><u>\$ 5,075,797</u></u>

**NOTE 4. CAPITAL ASSETS**

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

Capital asset activity for the year ended September 30, 2010, was as follows:

	Balance October 1, 2009	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2010
Governmental activities				
Capital assets not being depreciated				
Land	\$ 600,351	\$ -	\$ -	\$ 600,351
Construction in progress	3,975,123	229,518	(1,165,483)	3,039,158
Total capital assets not being depreciated	4,575,474	229,518	(1,165,483)	3,639,509
Capital assets being depreciated				
Infrastructure	6,433,265	601,493	(902,794)	6,131,964
Buildings and improvements	2,093,513	859,319	(14,573)	2,938,259
Machinery and equipment	3,148,218	174,218	(672,537)	2,649,899
Total capital assets being depreciated	11,674,996	1,635,030	(1,589,904)	11,720,122
Less accumulated depreciation				
Infrastructure	3,294,227	437,434	(902,794)	2,828,867
Buildings and improvements	515,795	138,566	-	654,361
Machinery and equipment	1,536,767	223,830	(636,540)	1,124,057
Total accumulated depreciation	5,346,789	799,830	(1,539,334)	4,607,285
Total capital assets being depreciated, net	6,328,207	835,200	(50,570)	7,112,837
Net governmental activities capital assets	\$ 10,903,681	\$ 1,064,718	\$ (1,216,053)	\$ 10,752,346

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

**NOTE 4. CAPITAL ASSETS – CONTINUED**

	Balance October 1, 2009	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2010
Business-type activities				
Capital assets not being depreciated				
Land	\$ 312,164	\$ 11,000	\$ -	\$ 323,164
Construction in progress	2,028,744	151,014	(2,179,758)	-
Total capital assets not being depreciated	2,340,908	162,014	(2,179,758)	323,164
Capital assets being depreciated				
Infrastructure	20,039,369	1,748,296	(134,647)	21,653,018
Buildings and improvements	371,856	528,204	(39,928)	860,132
Machinery and equipment	1,915,594	61,883	(572,050)	1,405,427
Total capital assets being depreciated	22,326,819	2,338,383	(746,625)	23,918,577
Less accumulated depreciation				
Infrastructure	8,982,950	680,524	(141,450)	9,522,024
Buildings and improvements	140,399	11,960	(40,033)	112,326
Machinery and equipment	1,439,566	121,599	(547,059)	1,014,106
Total accumulated depreciation	10,562,915	814,083	(728,542)	10,648,456
Total capital assets being depreciated, net	11,763,904	1,524,300	(18,083)	13,270,121
Net business-type activities capital assets	<u>\$ 14,104,812</u>	<u>\$ 1,686,314</u>	<u>\$ (2,197,841)</u>	<u>\$ 13,593,285</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	\$ 58,007
Public safety	70,019
Streets and sanitation	497,401
Fire and rescue	96,530
Court	649
Culture and recreation	<u>77,224</u>
Total governmental activities	<u>\$ 799,830</u>
Business-type activities	
Water	\$ 203,188
Sewer	237,065
Electric	356,182
Other	<u>17,648</u>
Total business-type activities	<u>\$ 814,083</u>

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

**NOTE 5. LONG-TERM DEBT**

At September 30, 2010, the City's bonds and notes payable consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
\$1,060,000 Series 1996, Utility System Revenue Bonds, dated May 15, 1996, due in annual installments through 2016, bearing interest rates of 2.85% to 4.75%.	\$ -	\$ 445,000
\$1,735,000 Series 1999, Utility System Revenue Refunding Bonds, dated May 15, 1999, due in annual installments through 2016, bearing interest rates of 4.25% to 4.4%.	-	205,000
\$2,540,000 Series 2002, Utility System Revenue Bonds, dated June 1, 2002, due in annual installments through 2019, bearing interest rates of 4.5% to 6.0%.	-	1,820,000
\$2,360,000 Series 2002, Combination Tax and Revenue Certificates of Obligation, dated June 1, 2002, due in annual installments through 2020, bearing interest rates of 4.2% to 5.7%.	1,710,000	-
\$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%.	2,357,500	2,767,500
\$1,750,000 Series 2007, Combination Tax and Revenue Certificates of Obligation, dated December 18, 2007, due in annual installments through 2027, bearing interest at 4.4%.	537,200	1,042,800
\$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%.	3,065,000	-
Note payable to a financial institution in monthly installments of \$1,542 including interest at 6.25%, due January 15, 2012, secured by property financed.	26,396	-
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.	620,485	-
	<u>\$ 8,316,581</u>	<u>\$ 6,280,300</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, 2010:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due within One Year
<b>Governmental activities</b>					
Compensated absences	\$ 79,584	\$ 142,608	\$ (168,594)	\$ 53,598	\$ -
Notes payable	695,108	-	(48,227)	646,881	50,775
Certificates of obligation	8,108,082	-	(438,382)	7,669,700	446,900
Capital leases	222,777	-	(74,581)	148,196	78,035
<b>Total governmental activities</b>	<b>9,105,551</b>	<b>142,608</b>	<b>(729,784)</b>	<b>8,518,375</b>	<b>575,710</b>
<b>Business-type activities</b>					
Compensated absences	62,056	100,250	(105,973)	56,333	-
Notes payable	6,654	-	(6,654)	-	-
Revenue bonds	6,861,918	-	(581,618)	6,280,300	628,100
Capital leases	592,723	-	(97,835)	494,888	118,394
<b>Total business-type activities</b>	<b>7,523,351</b>	<b>100,250</b>	<b>(792,080)</b>	<b>6,831,521</b>	<b>746,494</b>
<b>Total primary government</b>	<b>\$ 16,628,902</b>	<b>\$ 242,858</b>	<b>\$ (1,521,864)</b>	<b>\$ 15,349,896</b>	<b>\$ 1,322,204</b>

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

In prior years, the City issued \$1,735,000 in Revenue Refunding Bonds to defease \$1,580,000 in Revenue Bonds. Of the \$1,580,000 originally defeased, \$205,000 remains outstanding at September 30, 2010.

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 liquated by the General Fund. Revenue bonds and notes payable issued for business-type activities are repaid from those activities.

**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, 2010, are as follows:

Revenue Bonds Due Fiscal Year Ending September 30	Business-Type Activities		Total
	Principal	Interest	
2011	\$ 628,100	\$ 282,813	\$ 910,913
2012	446,200	255,757	701,957
2013	462,600	236,442	699,042
2014	484,000	216,264	700,264
2015	507,100	195,010	702,110
2016-2020	2,537,500	628,947	3,166,447
2021-2025	1,046,500	128,916	1,175,416
2026-2030	168,300	11,180	179,480
	<u>\$ 6,280,300</u>	<u>\$ 1,955,329</u>	<u>\$ 8,235,629</u>

Certificates of Obligation Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2011	\$ 446,900	\$ 325,083	\$ 771,983
2012	463,800	308,358	772,158
2013	487,400	290,888	778,288
2014	506,000	271,592	777,592
2015	522,900	251,425	774,325
2016-2020	2,972,500	908,832	3,881,332
2021-2025	1,928,500	300,945	2,229,445
2026-2030	341,700	17,872	359,572
	<u>\$ 7,669,700</u>	<u>\$ 2,674,995</u>	<u>\$ 10,344,695</u>

Notes Payable Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2011	\$ 50,775	\$ 28,996	\$ 79,771
2012	44,053	26,466	70,519
2013	36,647	24,620	61,267
2014	38,368	22,898	61,266
2015	40,171	21,096	61,267
2016-2020	231,001	75,332	306,333
2021-2025	205,866	18,164	224,030
	<u>\$ 646,881</u>	<u>\$ 217,572</u>	<u>\$ 864,453</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 \$1,248,652 and an amortized value of approximately \$878,539 at September 30, 2010. Amortization expense has been included in depreciation expense for the year ended September 30, 2010.

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, 2010:

2011	\$	221,712
2012		178,156
2013		104,455
2014		104,455
2015		<u>104,453</u>
		713,231
Less amount representing interest		<u>70,147</u>
Present value of net minimum lease payments	\$	<u><u>643,084</u></u>

**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), one of 833 administered by 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.

**Benefits**

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and City-financed monetary credits, 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

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

**NOTE 7. PENSION PLAN – CONTINUED**

**Benefits – Continued**

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.

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

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.

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, 2009 valuation is effective for rates beginning January 2011). The annual pension cost is \$187,668 for the year ended September 30, 2010, and there is no net pension obligation as of September 30, 2010.

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

**NOTE 7. PENSION PLAN – CONTINUED**

**Contributions – Continued**

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	12/31/07	12/31/08	12/31/09
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
Remaining Amortization Period	25 years; closed period	24 years; closed period	23 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	10-Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at Cost of Living Adjustments	3.0% 0.0%	3.0% 0.0%	3.0% 0.0%

The funded status as of December 31, 2009, 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	UAAL as a percentage of Covered Payroll
12/31/09	\$ 3,419,092	\$ 3,973,365	86.1%	\$ 554,273	\$ 2,503,067	22.1%

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.

The City is one of 833 municipalities having the benefit plan administered by TMRS. Each of the 833 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2009 valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

**NOTE 8. COMMITMENTS**

The City entered into a three (3) year contract in 2009 with the AEP Energy Partners, Inc. for the delivery of electricity. Payments under this contract are based on meter readings charged per month.

The City had outstanding encumbrances totaling \$40,887 as of September 30, 2010.

In January 2011, the City entered into a contract totaling \$2,958,566 for the construction of a sports complex.

**NOTE 9. INTERFUND TRANSFERS**

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	\$ 20,000
General fund	4B fund	20,000
General fund	Capital projects fund	14,680
General fund	Debt service fund	104,115
Debt service fund	4B fund	180,000
Enterprise fund	Capital projects fund	231,245
		<u>\$ 570,040</u>

Transfers are primarily used to move funds from:

- The 4A and 4B funds to the general fund for payment of administrative costs.
- The capital projects fund to the general fund for security cameras purchased through the general fund.
- The debt service fund to the general fund to pay the debt paid for from the general fund.
- 4B fund to the debt service fund to service the debt related to the 4B fund.
- Capital projects fund to the enterprise fund for completed assets transferred to the enterprise fund.

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

**NOTE 10. 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 11. CONDUIT DEBT**

The City issued notes payable totaling \$34,626,407 for the purpose of assisting with financing needed by not-for-profit organizations to promote their cause. Final maturities on the notes payable range from March 2017 through July 2040. The notes are secured by various assets of the borrower.

The total amount outstanding on all of the notes payable is \$34,151,507 as of September 30, 2010. 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 12. PLEDGED REVENUES**

The City has pledged revenues derived from the operation of the utility system, net of operating and maintenance expenses, to repay \$9,995,000 in utility revenue bonds. The total amount of outstanding principal as of September 30, 2010 was \$6,280,300. Proceeds from the bonds provided financing for improvements to the utility system, as well as refunding a \$1,735,000 bond. The bonds are payable solely from the net earnings of the utility system and are payable through 2022. The total principal and interest remaining to be paid on the bonds is \$8,235,630. Principal and interest paid for the current year and net utility system revenues were \$906,739 and \$964,628, respectively.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SANGER, TEXAS  
 SCHEDULE OF FUNDING PROGRESS FOR  
 PARTICIPATION IN TEXAS MUNICIPAL RETIREMENT SYSTEM  
 YEAR ENDED SEPTEMBER 30, 2010**

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
12/31/07	\$ 2,594,197	\$ 3,268,266	79.4%	\$ 674,069	\$ 2,420,270	27.9%
12/31/08	2,981,655	3,457,019	86.2%	475,364	2,495,573	19.0%
12/31/09	3,419,092	3,973,365	86.1%	554,273	2,503,067	22.1%

**CITY OF SANGER, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Over / (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property taxes	\$ 1,501,390	\$ 1,501,390	\$ 1,587,954	\$ 86,564
Sales taxes	500,000	500,000	472,352	(27,648)
Licenses and permits	88,525	88,525	44,635	(43,890)
Charges for services	652,377	652,377	723,374	70,997
Fire and rescue	775,000	775,000	451,346	(323,654)
Court	215,925	215,925	210,965	(4,960)
Franchise taxes	559,500	559,500	527,872	(31,628)
Interest	40,000	40,000	17,982	(22,018)
Miscellaneous revenues	108,600	108,600	99,955	(8,645)
<b>Total revenues</b>	<b>4,441,317</b>	<b>4,441,317</b>	<b>4,136,435</b>	<b>(304,882)</b>
<b>Expenditures</b>				
Current				
General government	751,145	751,145	555,668	(195,477)
Public safety	1,159,319	1,194,319	1,206,731	12,412
Streets and sanitation	1,013,147	1,013,147	762,615	(250,532)
Fire and rescue	890,114	890,114	559,344	(330,770)
Court	244,311	244,311	193,877	(50,434)
Culture and recreation	776,909	776,909	387,810	(389,099)
Principal	-	-	90,877	90,877
Interest and other	-	-	13,238	13,238
Capital outlay	-	-	349,030	349,030
<b>Total expenditures</b>	<b>4,834,945</b>	<b>4,869,945</b>	<b>4,119,190</b>	<b>(750,755)</b>
Excess (deficiency) of revenues over expenditures	(393,628)	(428,628)	17,245	445,873
<b>Other financing sources (uses)</b>				
Proceeds on sale of assets	-	-	17,315	17,315
Operating transfers in	225,000	369,115	158,795	(210,320)
<b>Total other financing sources (uses)</b>	<b>225,000</b>	<b>369,115</b>	<b>176,110</b>	<b>(193,005)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(168,628)	(59,513)	193,355	252,868
<b>FUND BALANCE, beginning of year</b>	<b>545,655</b>	<b>545,655</b>	<b>545,655</b>	<b>-</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 377,027</b>	<b>\$ 486,142</b>	<b>\$ 739,010</b>	<b>\$ 252,868</b>



## **SUPPLEMENTARY INFORMATION**

**CITY OF SANGER, TEXAS  
COMBINING SCHEDULE OF REVENUES AND EXPENSES  
PROPRIETARY FUND BY DEPARTMENT  
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,095,408	\$ 907,980	\$ 7,295,442
Connection fees	-	-	62,532
Tap fees	30,500	22,000	-
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total operating revenue</b>	1,125,908	929,980	7,357,974
<b>OPERATING EXPENSES</b>			
Salaries and wages	249,302	148,454	475,068
Purchased professional and technical services	2,682	5,001	4,231
Utilities	141,572	171,921	11,894
Materials and supplies	15,068	12,314	37,095
Water and electric purchases	230,080	-	4,723,499
Franchise fees	-	-	354,842
Depreciation	220,836	237,065	356,182
Repairs and maintenance	102,665	131,177	128,445
Bad debt expense	35,854	8,963	111,076
	<hr/>	<hr/>	<hr/>
<b>Total operating expenses</b>	998,059	714,895	6,202,332
Operating income (loss)	127,849	215,085	1,155,642
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest and investment income	-	-	-
Interest and amortization expense	(168,148)	(96,561)	(138,356)
Gain/loss on sale of asset	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total nonoperating revenues (expenses)</b>	(168,148)	(96,561)	(138,356)
Income (loss) before transfers	(40,299)	118,524	1,017,286
Transfers in	-	-	231,245
	<hr/>	<hr/>	<hr/>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (40,299)</u>	<u>\$ 118,524</u>	<u>\$ 1,248,531</u>

<u>Fleet Services</u>	<u>Administration</u>	<u>Data Processing</u>	<u>Total</u>
\$ -	\$ 2,789	\$ -	\$ 9,301,619
-	-	-	62,532
-	-	-	52,500
-	42,276	-	42,276
-	45,065	-	9,458,927
30,442	220,217	158,887	1,282,370
12	65,409	31,271	108,606
4,469	6,006	4,732	340,594
6,767	22,198	13,489	106,931
-	-	-	4,953,579
-	-	-	354,842
-	-	-	814,083
3,442	4,066	7,606	377,401
-	-	-	155,893
45,132	317,896	215,985	8,494,299
(45,132)	(272,831)	(215,985)	964,628
-	37,360	-	37,360
-	-	-	(403,065)
-	11,814	-	11,814
-	49,174	-	(353,891)
(45,132)	(223,657)	(215,985)	610,737
-	-	-	231,245
<u>\$ (45,132)</u>	<u>\$ (223,657)</u>	<u>\$ (215,985)</u>	<u>\$ 841,982</u>

**CITY OF SANGER, TEXAS  
ANALYSIS OF PROPERTY TAXES RECEIVABLE  
YEAR ENDED SEPTEMBER 30, 2010  
WITH COMPARATIVE TOTALS FOR  
FOUR YEARS PRIOR**

	Fiscal Year				
	2010	2009	2008	2007	2006
Adjusted tax roll	\$ 2,256,987	\$ 2,308,903	\$ 2,118,117	\$ 2,014,381	\$ 1,785,686
Less collections	<u>2,216,114</u>	<u>2,256,275</u>	<u>2,078,588</u>	<u>1,961,241</u>	<u>1,752,921</u>
Current year property taxes receivable	40,873	52,628	39,529	53,140	32,765
Prior year property taxes receivable	<u>79,796</u>	<u>74,407</u>	<u>71,283</u>	<u>66,629</u>	<u>61,995</u>
Total property taxes receivable, gross (1)	<u>\$ 120,669</u>	<u>\$ 127,035</u>	<u>\$ 110,812</u>	<u>\$ 119,769</u>	<u>\$ 94,760</u>
Total assessed property value	\$ 364,030,183	\$ 341,028,251	\$ 336,831,151	\$ 341,154,524	\$ 312,822,804
Tax rate per \$100	\$ 0.62000	\$ 0.62000	\$ 0.59960	\$ 0.59046	\$ 0.59083
Percent of current taxes collected to billed	98.19%	97.72%	98.13%	97.36%	98.17%

(1) before deducting allowance for doubtful accounts