

CITY OF SANGER, TEXAS

FINANCIAL REPORT

SEPTEMBER 30, 2011

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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, 2011, 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, 2011, 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.

As discussed in Note 1 to the basic financial statements, the City implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis, the schedule of funding progress and budgetary comparison schedule on pages 3 through 11 and 47 through 48, 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

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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. The supplementary information on pages 49 through 51 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
March 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

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 46 of this report.

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$20,831,016 at September 30, 2011.
- The General Fund reported a fund balance of \$800,223 at September 30, 2011.
- The City's combined governmental funds reported a fund balance of \$2,746,300 at September 30, 2011.

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.

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 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. 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).

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 net assets 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 City'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 46 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of September 30, 2011, the City's combined net assets were \$20,831,016, of which \$9,342,536 can be attributed to governmental activities and \$11,488,480 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, 2010, were \$19,141,779, representing an increase of \$1,689,237 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, 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	
	2011	2010	2011	2010	2011	2010
Assets						
Cash and cash equivalents ⁽¹⁾	\$ 477,062	\$ 692,005	\$ 1,053,839	\$ 1,292,304	\$ 1,530,901	\$ 1,984,309
Certificates of deposit	405,436	-	419,966	-	825,402	-
Accounts receivable, net	344,678	311,885	1,178,950	1,142,592	1,523,628	1,454,477
Inventories	-	-	300,607	276,825	300,607	276,825
Prepaid expense	-	11,910	-	-	-	11,910
Internal balances	-	-	-	-	-	-
Restricted cash and cash equivalents ⁽¹⁾	2,424,955	5,075,797	2,312,309	2,171,109	4,737,264	7,246,906
Bond issuance costs, net	295,168	316,292	102,643	123,161	397,811	439,453
Capital assets, net of accumulated depreciation	14,146,175	10,752,346	13,165,213	13,593,285	27,311,388	24,345,631
Total assets	\$ 18,093,474	\$ 17,160,235	\$ 18,533,527	\$ 18,599,276	\$ 36,627,001	\$ 35,759,511
Liabilities						
Accounts payable	\$ 695,541	\$ 198,142	\$ 498,353	\$ 565,806	\$ 1,193,894	\$ 763,948
Customer deposits	-	-	297,609	280,721	297,609	280,721
Other liabilities	99,009	97,238	166,171	125,929	265,180	223,167
Current portion long-term debt	578,015	575,710	534,466	746,494	1,112,481	1,322,204
Compensated absences	77,947	53,598	54,220	56,333	132,167	109,931
Long-term debt	7,311,051	7,889,067	5,494,228	6,028,694	12,805,279	13,917,761
Total liabilities	\$ 8,761,563	\$ 8,813,755	\$ 7,045,047	\$ 7,803,977	\$ 15,806,610	\$ 16,617,732
Net assets						
Invested in capital assets	\$ 6,274,498	\$ 6,213,125	\$ 7,150,229	\$ 6,831,720	\$ 13,424,727	\$ 13,044,845
Restricted for specific purpose	524,980	540,435	2,014,700	1,890,388	2,539,680	2,430,823
Unrestricted	2,543,058	1,592,920	2,323,551	2,073,191	4,866,609	3,666,111
Net assets	\$ 9,342,536	\$ 8,346,480	\$ 11,488,480	\$ 10,795,299	\$ 20,831,016	\$ 19,141,779

⁽¹⁾ Approximately 57% of the City's cash equivalent balances at September 30, 2010 were comprised of bank certificates of deposit which were treated as cash for financial statement presentation purposes.

Changes in Net Assets

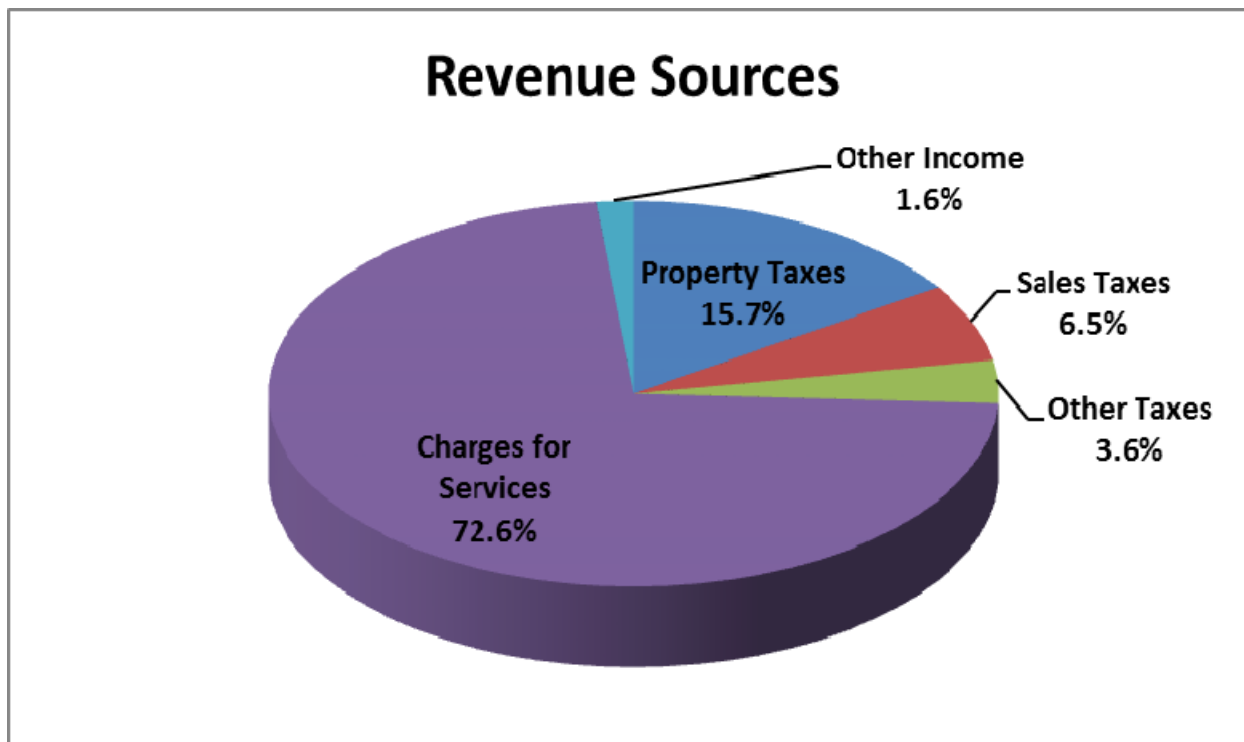
Governmental activities increased the City's net assets by \$1,032,637 and business-type activities increased the City's net assets by \$693,181. The key elements of these changes are contained in Table 2.

Table 2 – Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for services	\$ 1,424,884	\$ 1,127,202	\$ 10,189,544	\$ 9,458,927	\$ 11,614,428	\$ 10,586,129
Grants and donations	195,102	-	-	-	195,102	-
General Revenues:						
Taxes	4,046,632	3,759,621	-	-	4,046,632	3,759,621
Licenses and permits	44,827	44,635	-	-	44,827	44,635
Investment earnings	34,292	75,402	30,882	37,360	65,174	112,762
Transfers	307,241	(231,245)	(307,241)	231,245	-	-
Miscellaneous	150,708	102,288	-	-	150,708	102,288
Gain (loss) on sale of assets	7,436	(33,255)	-	11,814	7,436	(21,441)
Total revenues	6,211,122	4,844,648	9,913,185	9,739,346	16,124,307	14,583,994
Expenses						
General government	705,012	725,355	-	-	705,012	725,355
Public safety	1,436,505	1,276,750	-	-	1,436,505	1,276,750
Streets and sanitation	1,349,968	1,260,016	-	-	1,349,968	1,260,016
Fire and rescue	692,184	655,874	-	-	692,184	655,874
Court	228,030	194,526	-	-	228,030	194,526
Culture and recreation	425,674	465,034	-	-	425,674	465,034
Interest on long-term debt	377,693	378,755	317,323	403,065	695,016	781,820
Proprietary expenses	-	-	8,902,681	8,494,299	8,902,681	8,494,299
Total expenses	5,215,066	4,956,310	9,220,004	8,897,364	14,435,070	13,853,674
Change in net assets	996,056	(111,662)	693,181	841,982	1,689,237	730,320
Beginning net assets	8,346,480	8,458,142	10,795,299	9,953,317	19,141,779	18,411,459
Ending net assets	\$ 9,342,536	\$ 8,346,480	\$ 11,488,480	\$ 10,795,299	\$ 20,831,016	\$ 19,141,779

The City's total revenues for the year ended September 30, 2011, was \$16,124,307 with a significant portion, 72.6%, of the City's total revenue coming from charges for services, 15.7% from property taxes, 6.5% from sales taxes, while 5.2% 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 \$6,211,122 for the year ended September 30, 2011, of which \$4,046,632 (65%) is attributed to taxes. Significant general governmental expenses include public safety (including fire and rescue, police, and animal control), which incurred expenses of \$2,128,689, and streets and sanitation, which incurred expenses of \$1,349,968.

Business-type activities increased the City's net assets by \$693,181 and governmental activities increased the City's net assets by \$996,056, accounting for positive growth in the government-wide net assets in fiscal year ended September 30, 2011. Business-type operating revenues increased by \$173,839 to \$9,913,185 for the year ended September 30, 2011, as a result of minimal increases in water and sewer rates and increased electricity consumption due to an excessively hot summer. Business-type expenses also increased in fiscal year ending September 30, 2011 due to increases in water, sewer, and electric expenses, resulting in total business-type activity expenses of \$9,220,004.

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, 2011, the City's governmental funds reported a combined ending fund balance of \$2,746,300, a reduction of \$2,979,934 from the previous fiscal year's balance of \$5,726,234. The decline in fund balance is primarily due to expenditures for infrastructure improvements and park additions. Of this fund balance, \$800,223 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 either purchase or construct capital assets (\$749,978), pay debt service (\$236,535), or enhance economic development (\$959,564).

General Fund. The General Fund is the chief operating fund of the City. At September 30, 2011, the unassigned fund balance of the General Fund was \$800,223, an increase of \$61,213 over the prior year. The increase is primarily due to reductions in spending and continued vacancies in nonessential personnel positions. The City has continued a very conservative approach to purchasing and employment during 2011 as a result of the depressed economic conditions.

Capital Projects Fund. The entire balance of the capital projects fund is restricted for capital construction and acquisition. At September 30, 2011, the capital projects fund has a fund balance of \$749,978, a decrease of \$3,160,046 from 2010. At the end of 2011, the City had invested \$27,311,388 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	
	2011	2010	2011	2010	2011	2010
Land	\$ 862,307	\$ 600,351	\$ 323,164	\$ 323,164	\$ 1,185,471	\$ 923,515
Construction in progress	3,239,639	3,039,158	-	-	3,239,639	3,039,158
Infrastructure	9,800,941	6,131,964	22,072,504	21,653,018	31,873,445	27,784,982
Buildings and equipment	5,667,489	5,588,158	2,282,128	2,265,559	7,949,617	7,853,717
Total historical cost	19,570,376	15,359,631	24,677,796	24,241,741	44,248,172	39,601,372
Total accumulated depreciation	(5,424,201)	(4,607,285)	(11,512,583)	(10,648,456)	(16,936,784)	(15,255,741)
Net capital assets	\$ 14,146,175	\$ 10,752,346	\$ 13,165,213	\$ 13,593,285	\$ 27,311,388	\$ 24,345,631

Debt Service Fund. The debt service fund has a total fund balance of \$236,535 at September 30, 2011, an increase of \$129,989 over 2010. As of September 30, 2011, the City had \$13,917,760 in long-term debt (see Table 4).

Table 4 – Long-term Debt

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Notes payable	\$ 596,104	\$ 646,881	\$ -	\$ -	\$ 596,104	\$ 646,881
Capital leases	70,162	148,196	376,494	494,888	446,656	643,084
Bonds payable	7,222,800	7,669,700	5,652,200	6,280,300	12,875,000	13,950,000
Total long-term debt	\$ 7,889,066	\$ 8,464,777	\$ 6,028,694	\$ 6,775,188	\$ 13,917,760	\$ 15,239,965

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, 2011 was \$9,220,004. The amount for charges for services that the City's tax payers paid for these activities was \$10,189,544. 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
	2011	2010		2011	2010	
Water	\$ 1,166,704	\$ 998,059	16.90%	\$ 113,337	\$ 127,849	-11.35%
Sewer	785,829	714,895	9.92%	306,110	215,085	42.32%
Electric	6,249,768	6,202,332	0.76%	1,498,344	1,155,642	29.65%
Other	700,380	982,078	-28.68%	(630,928)	(937,013)	-32.67%
Total	\$ 8,902,681	\$ 8,897,364	0.06%	\$ 1,286,863	\$ 561,563	129.16%

ECONOMIC FACTORS AND FISCAL YEAR BUDGET AND RATES

Certified appraised values used for the fiscal year 2012 budget preparation are consistent with the amounts budgeted in the 2011 fiscal year.

If revenues projected in the 2012 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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 477,062	\$ 1,053,839	\$ 1,530,901
Certificates of deposit	405,436	419,966	825,402
Accounts receivable, net			
Property taxes net of allowance of \$57,642	82,802	-	82,802
Sales taxes	161,388	-	161,388
Emergency medical services, net of allowance of \$1,550,718	70,667	-	70,667
Utility accounts, net of allowance of \$24,326	-	1,167,921	1,167,921
Other	29,821	11,029	40,850
Inventories	-	300,607	300,607
Restricted cash	1,953,258	623,398	2,576,656
Restricted certificates of deposit	471,697	1,688,911	2,160,608
Bond issue costs, net	295,168	102,643	397,811
Capital assets			
Capital assets not being depreciated	4,101,946	323,164	4,425,110
Capital assets being depreciated, net	10,044,229	12,842,049	22,886,278
TOTAL ASSETS	\$ 18,093,474	\$ 18,533,527	\$ 36,627,001
LIABILITIES			
Accounts payable and accrued liabilities	\$ 684,916	\$ 498,353	\$ 1,183,269
Customer deposits	-	297,609	297,609
Accrued interest payable	31,563	52,707	84,270
Compensated absences, due within one year	36,581	21,215	57,796
Bonds payable, due within one year	463,800	446,200	910,000
Notes payable, due within one year	44,053	-	44,053
Capital leases, due within one year	70,162	88,266	158,428
Other	67,446	113,464	180,910
Noncurrent liabilities			
Compensated absences, due in more than one year	41,366	33,005	74,371
Bonds payable, due in more than one year	6,759,000	5,206,000	11,965,000
Notes payable, due in more than one year	552,051	-	552,051
Capital leases, due in more than one year	-	288,228	288,228
TOTAL LIABILITIES	8,750,938	7,045,047	15,795,985
NET ASSETS			
Invested in capital assets, net of related debt	6,274,498	7,150,229	13,424,727
Restricted			
Debt service	524,980	671,943	1,196,923
Capital improvements	-	1,342,757	1,342,757
Unrestricted	2,543,058	2,323,551	4,866,609
TOTAL NET ASSETS	\$ 9,342,536	\$ 11,488,480	\$ 20,831,016

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, 2011**

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
Governmental activities						
General government	\$ 705,012	\$ 745,389	\$ -	\$ 40,377	\$ -	\$ 40,377
Public safety	1,436,505	-	-	(1,436,505)	-	(1,436,505)
Streets and sanitation	1,349,968	-	195,102	(1,154,866)	-	(1,154,866)
Fire and rescue	692,184	474,149	-	(218,035)	-	(218,035)
Court	228,030	205,346	-	(22,684)	-	(22,684)
Culture and recreation	425,674	-	-	(425,674)	-	(425,674)
Interest on long term debt	377,693	-	-	(377,693)	-	(377,693)
Total governmental activities	5,215,066	1,424,884	195,102	(3,595,080)	-	(3,595,080)
Business-type activities						
Water	1,166,704	1,280,041	-	-	113,337	113,337
Sewer	785,829	1,091,939	-	-	306,110	306,110
Electric	6,249,768	7,748,112	-	-	1,498,344	1,498,344
Interest on long-term debt	317,323	-	-	-	(317,323)	(317,323)
Other	700,380	69,452	-	-	(630,928)	(630,928)
Total business-type activities	9,220,004	10,189,544	-	-	969,540	969,540
Total primary government	\$ 14,435,070	\$ 11,614,428	\$ 195,102	\$ (3,595,080)	\$ 969,540	\$ (2,625,540)
		General revenues				
		Taxes				
		Ad valorem		\$ 2,363,574	\$ -	\$ 2,363,574
		Sales		1,126,705	-	1,126,705
		Franchise taxes		556,353	-	556,353
		Licenses and permits		44,827	-	44,827
		Interest income		34,292	30,882	65,174
		Gain on sale of assets		7,436	-	7,436
		Miscellaneous revenues		150,708	-	150,708
		Transfers		307,241	(307,241)	-
		Total general revenues and transfers		4,591,136	(276,359)	4,314,777
		Change in net assets		996,056	693,181	1,689,237
		NET ASSETS, beginning of year		8,346,480	10,795,299	19,141,779
		NET ASSETS, end of year		\$ 9,342,536	\$ 11,488,480	\$ 20,831,016

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

**CITY OF SANGER, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS			
Cash and equivalents	\$ 258,607	\$ 25,471	\$ 167,298
Certificates of deposit	405,436	-	-
Accounts receivable, net			
Property taxes, net of allowance of \$57,642	57,962	24,840	-
Sales taxes	80,694	-	-
Emergency medical services, net of allowance of \$1,550,718	70,667	-	-
Other	28,146	-	-
Due from other funds	-	-	-
Restricted cash	89,099	211,064	1,192,649
Restricted certificates of deposit	110,402	-	-
	<u>110,402</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,101,013</u>	<u>\$ 261,375</u>	<u>\$ 1,359,947</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 74,947	\$ -	\$ 609,969
Due to other funds	29,768	-	-
Deferred revenue	128,629	24,840	-
Other liabilities	67,446	-	-
	<u>67,446</u>	<u>-</u>	<u>-</u>
Total liabilities	300,790	24,840	609,969
Fund balances			
Restricted			
Debt service	-	236,535	-
Capital projects	-	-	749,978
Economic development	-	-	-
Unassigned	800,223	-	-
	<u>800,223</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>800,223</u>	<u>236,535</u>	<u>749,978</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,101,013</u>	<u>\$ 261,375</u>	<u>\$ 1,359,947</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>
\$ 25,686	\$ -	\$ 477,062
-	-	405,436
-	-	82,802
40,347	40,347	161,388
-	-	70,667
277	1,398	29,821
14,884	14,884	29,768
400,707	59,739	1,953,258
92,746	268,549	471,697
<u>\$ 574,647</u>	<u>\$ 384,917</u>	<u>\$ 3,681,899</u>
\$ -	\$ -	\$ 684,916
-	-	29,768
-	-	153,469
-	-	67,446
-	-	935,599
-	-	236,535
-	-	749,978
574,647	384,917	959,564
-	-	800,223
<u>574,647</u>	<u>384,917</u>	<u>2,746,300</u>
<u>\$ 574,647</u>	<u>\$ 384,917</u>	<u>\$ 3,681,899</u>

**CITY OF SANGER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

Total fund balances - governmental funds	\$ 2,746,300
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.	14,146,175
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.	295,168
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.	(31,563)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	153,469
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>(7,967,013)</u>
 Net assets of governmental activities	 <u><u>\$ 9,342,536</u></u>

CITY OF SANGER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Property taxes	\$ 1,631,129	\$ 718,822	\$ -
Sales taxes	565,055		
Licenses and permits	44,827	-	-
Charges for services	745,389	-	-
Fire and rescue	439,910	-	-
Court	205,346	-	-
Franchise taxes	556,353	-	-
Intergovernmental revenues	-	-	195,102
Interest	8,477	2,103	17,065
Miscellaneous	114,397	-	-
Total revenues	4,310,883	720,925	212,167
EXPENDITURES			
Current			
General government	601,955	-	-
Public safety	1,350,096	-	-
Streets and sanitation	842,491	-	-
Fire and rescue	615,283	-	-
Court	227,645	-	-
Culture and recreation	358,638	-	-
Capital outlay	152,859	-	3,719,454
Debt service			
Principal retirement	95,380	446,900	-
Interest charges	8,759	324,036	-
Total expenditures	4,253,106	770,936	3,719,454
Excess (deficiency) of revenues over expenditures	57,777	(50,011)	(3,507,287)
Other financing sources (uses)			
Proceeds on sale of assets	7,436	-	-
Transfers in	36,000	180,000	347,241
Transfers out	(40,000)	-	-
Total other financing sources (uses)	3,436	180,000	347,241
Net change in fund balances	61,213	129,989	(3,160,046)
FUND BALANCES, beginning of year	739,010	106,546	3,910,024
FUND BALANCES, end of year	\$ 800,223	\$ 236,535	\$ 749,978

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

4A Fund	4B Fund	Total Governmental Funds
\$ -	\$ -	\$ 2,349,951
280,825	280,825	1,126,705
-	-	44,827
-	-	745,389
-	-	439,910
-	-	205,346
-	-	556,353
-	-	195,102
1,851	4,796	34,292
36,311	-	150,708
<u>318,987</u>	<u>285,621</u>	<u>5,848,583</u>
-	-	601,955
-	-	1,350,096
-	-	842,491
-	-	615,283
-	-	227,645
-	-	358,638
30,000	308,432	4,210,745
33,431	-	575,711
27,835	-	360,630
<u>91,266</u>	<u>308,432</u>	<u>9,143,194</u>
227,721	(22,811)	(3,294,611)
-	-	7,436
-	-	563,241
<u>(18,000)</u>	<u>(198,000)</u>	<u>(256,000)</u>
<u>(18,000)</u>	<u>(198,000)</u>	<u>314,677</u>
209,721	(220,811)	(2,979,934)
364,926	605,728	5,726,234
<u>\$ 574,647</u>	<u>\$ 384,917</u>	<u>\$ 2,746,300</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, 2011

Net change in fund balances - total governmental funds \$ (2,979,934)

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. 4,210,745

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. (816,916)

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 \$575,711 plus amortization of debt issuance costs of \$21,124 plus a change in long-term compensated absences payable of \$24,349, which is the net effect of these differences in the treatment of long-term debt and related items. 530,238

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. 4,061

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. 47,862

Change in net assets of governmental activities \$ 996,056

**CITY OF SANGER, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
SEPTEMBER 30, 2011**

		<u>Water, Sewer, and Electric Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	\$	1,053,839
Certificates of deposit		419,966
Receivables		
Utility accounts receivable, net of allowance of \$24,326		1,167,921
Other		11,029
Inventories		300,607
Total current assets		<u>2,953,362</u>
NONCURRENT ASSETS		
Capital assets, at cost		
Land and land improvements		323,164
Buildings and equipment		2,282,128
Infrastructure		22,072,504
Accumulated depreciation		<u>(11,512,583)</u>
Total capital assets, net of accumulated depreciation		13,165,213
Bond issue costs, net		102,643
Restricted cash		623,398
Restricted certificates of deposit		1,688,911
Total noncurrent assets		<u>15,580,165</u>
TOTAL ASSETS	\$	<u>18,533,527</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$	498,353
Accrued interest payable		52,707
Compensated absences, due within one year		21,215
Bonds payable, due within one year		446,200
Capital lease obligation, due within one year		88,266
Other		113,464
Total current liabilities		<u>1,220,205</u>
NONCURRENT LIABILITIES		
Compensated absences, due in more than one year		33,005
Bonds payable, due in more than one year		5,206,000
Capital lease obligation, due in more than one year		288,228
Customer deposits		297,609
Total liabilities		<u>7,045,047</u>
NET ASSETS		
Invested in capital assets, net of related debt		7,150,229
Restricted		
Revenue bond retirement		671,943
Capital improvements		1,342,757
Unrestricted		2,323,551
TOTAL NET ASSETS	\$	<u>11,488,480</u>

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, 2011**

	Water, Sewer, and Electric Fund
	Fund
OPERATING REVENUES	
Charges for services	\$ 10,027,784
Connection fees	62,678
Tap fees	31,500
Miscellaneous	67,582
	10,189,544
OPERATING EXPENSES	
Salaries, wages and benefits	1,383,790
Purchased professional and technical services	124,565
Utilities	322,549
Materials and supplies	124,632
Water and electric purchases	5,031,243
Franchise fees	379,342
Depreciation	864,127
Repairs and maintenance	615,510
Bad debt expense	56,923
	8,902,681
Operating income	1,286,863
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	30,882
Interest and amortization expense	(317,323)
	(286,441)
Income before transfers	1,000,422
Transfers out	(307,241)
	(307,241)
Change in net assets	693,181
NET ASSETS, beginning of year	10,795,299
NET ASSETS, end of year	\$ 11,488,480

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, 2011
(CONTINUED)**

	<u>Water, Sewer, and Electric Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 10,170,074
Cash paid to employees	(1,420,895)
Cash paid to suppliers	<u>(6,662,284)</u>
Net cash provided by operating activities	2,086,895
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(500,000)
Transfers from other funds	<u>192,759</u>
Net cash used in noncapital financing activities	(307,241)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(746,494)
Capital expenditures	(436,055)
Interest paid on long-term debt	<u>(305,286)</u>
Net cash used in capital and related financing activities	(1,487,835)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(313,359)
Interest on investments	<u>30,882</u>
Net cash used in investing activities	<u>(282,477)</u>
Net change in cash	9,342
CASH AND CASH EQUIVALENTS, beginning of the year	<u>1,667,895</u>
CASH AND CASH EQUIVALENTS, end of the year	<u><u>\$ 1,677,237</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, 2011
(CONTINUED)**

	<u>Water, Sewer, and Electric Fund</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET ASSETS	
Cash and investments	\$ 1,053,839
Restricted cash and cash equivalents	<u>623,398</u>
Cash and cash equivalents - ending	<u><u>\$ 1,677,237</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,286,863
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	864,127
Increase in accounts receivable	(36,358)
Increase in inventory	(23,782)
Decrease in accounts payable and accrued expenses	(67,453)
Increase in other liabilities	46,610
Increase in customer deposits	<u>16,888</u>
Net cash provided by operating activities	<u><u>\$ 2,086,895</u></u>

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 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. 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 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

The City has 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 effective with its financial statements for the year ended September 30, 2011, and thereafter, 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 that 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.

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 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.

- b. 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.
- c. 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.

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, 2011 consist of the following:

Deposits with financial institutions	\$ 4,107,557
Certificates of deposit	<u>2,986,010</u>
	<u>\$ 7,093,567</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, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Certificates of deposit	\$ 2,986,010	272 days

As of September 30, 2011 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, 2011</u>
Certificates of deposit	\$ 2,986,010	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, 2011, 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, 2011, the carrying amount of the City’s cash on hand and deposits was \$4,107,557 and the bank balance was \$4,604,220. 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	\$ 671,943
Capital improvements	1,342,757
Refundable utility deposits	<u>297,609</u>
	<u>\$ 2,312,309</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	\$ 211,064
Capital improvements	1,342,640
Economic and community development	<u>871,251</u>
	<u>\$ 2,424,955</u>

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

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance October 1, 2010	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2011
Governmental activities				
Capital assets not being depreciated				
Land	\$ 600,351	\$ 261,956	\$ -	\$ 862,307
Construction in progress	3,039,158	200,481	-	3,239,639
Total capital assets not being depreciated	3,639,509	462,437	-	4,101,946
Capital assets being depreciated				
Infrastructure	6,131,964	3,668,977	-	9,800,941
Buildings and improvements	2,938,259	629,724	-	3,567,983
Machinery and equipment	2,649,899	49,333	(599,726)	2,099,506
Total capital assets being depreciated	11,720,122	4,348,034	(599,726)	15,468,430
Less accumulated depreciation				
Infrastructure	2,828,867	476,692		3,305,559
Buildings and improvements	654,361	133,461		787,822
Machinery and equipment	1,124,057	206,763		1,330,820
Total accumulated depreciation	4,607,285	816,916	-	5,424,201
Total capital assets being depreciated, net	7,112,837	3,531,118	(599,726)	10,044,229
Net governmental activities capital assets	<u>\$ 10,752,346</u>	<u>\$ 3,993,555</u>	<u>\$ (599,726)</u>	<u>\$ 14,146,175</u>

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

NOTE 4. CAPITAL ASSETS – CONTINUED

	Balance October 1, 2010	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2011
Business-type activities				
Capital assets not being depreciated				
Land	\$ 323,164	\$ -	\$ -	\$ 323,164
Total capital assets not being depreciated	323,164	-	-	323,164
Capital assets being depreciated				
Infrastructure	21,653,018	419,486		22,072,504
Buildings and improvements	860,132	-		860,132
Machinery and equipment	1,405,427	16,569		1,421,996
Total capital assets being depreciated	23,918,577	436,055	-	24,354,632
Less accumulated depreciation				
Infrastructure	9,522,024	713,107		10,235,131
Buildings and improvements	112,326	52,239		164,565
Machinery and equipment	1,014,106	98,781		1,112,887
Total accumulated depreciation	10,648,456	864,127	-	11,512,583
Total capital assets being depreciated, net	13,270,121	(428,072)	-	12,842,049
Net business-type activities capital assets	<u>\$ 13,593,285</u>	<u>\$ (428,072)</u>	<u>\$ -</u>	<u>\$ 13,165,213</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	\$ 78,708
Public safety	86,409
Streets and sanitation	507,477
Fire and rescue	76,901
Court	385
Culture and recreation	<u>67,036</u>
Total governmental activities	<u><u>\$ 816,916</u></u>
Business-type activities	
Water	\$ 281,443
Sewer	221,354
Electric	360,675
Other	<u>655</u>
Total business-type activities	<u><u>\$ 864,127</u></u>

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

NOTE 5. LONG-TERM DEBT

At September 30, 2011, 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	\$ -	\$ 380,000
\$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%.	-	1,710,000
\$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%.	1,605,000	-
\$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%.	2,182,700	2,562,300
Revenue Certificates of Obligation, dated December 18, 2007, due in annual installments through 2027, bearing interest at 4.4%.	515,100	999,900
\$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%.	2,920,000	-
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.	9,051	-
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.	587,053	-
	<u>\$ 7,818,904</u>	<u>\$ 5,652,200</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, 2011:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due within One Year
Governmental activities					
Compensated absences	\$ 53,598	\$ 101,811	\$ (77,462)	\$ 77,947	\$ 36,581
Notes payable	646,881	-	(50,777)	596,104	44,053
Certificates of obligation	7,669,700	-	(446,900)	7,222,800	463,800
Capital leases	148,196	-	(78,034)	70,162	70,162
Total governmental activities	8,518,375	101,811	(653,173)	7,967,013	614,596
Business-type activities					
Compensated absences	56,333	46,757	(48,870)	54,220	21,215
Revenue bonds	6,280,300	-	(628,100)	5,652,200	446,200
Capital leases	494,888	-	(118,394)	376,494	88,266
Total business-type activities	6,831,521	46,757	(795,364)	6,082,914	555,681
Total primary government	\$ 15,349,896	\$ 148,568	\$ (1,448,537)	\$ 14,049,927	\$ 1,170,277

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.

**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, 2011, are as follows:

Revenue Bonds Due Fiscal Year Ending September 30	Business-Type Activities		Total
	Principal	Interest	
2012	\$ 446,200	\$ 255,758	\$ 701,958
2013	462,600	236,442	699,042
2014	484,000	216,264	700,264
2015	507,100	195,010	702,110
2016	531,200	172,528	703,728
2017-2021	2,567,400	512,747	3,080,147
2022-2026	567,900	79,936	647,836
2027-2031	85,800	3,775	89,575
	<u>\$ 5,652,200</u>	<u>\$ 1,672,460</u>	<u>\$ 7,324,660</u>

Certificates of Obligation Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
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	543,800	230,582	774,382
2017-2021	3,102,600	781,594	3,884,194
2022-2026	1,552,100	213,497	1,765,597
2027-2031	44,200	1,945	46,145
	<u>\$ 7,222,800</u>	<u>\$ 2,349,881</u>	<u>\$ 9,572,681</u>

Notes Payable Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2012	\$ 44,053	\$ 26,466	\$ 70,519
2013	36,647	24,620	61,267
2014	38,368	22,898	61,266
2015	40,171	21,094	61,265
2016	42,058	19,209	61,267
2017-2021	241,854	64,481	306,335
2022-2026	152,953	9,809	162,762
	<u>\$ 596,104</u>	<u>\$ 188,577</u>	<u>\$ 784,681</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 \$976,970 and an amortized value of approximately \$736,046 at September 30, 2011. Amortization expense has been included in depreciation expense for the year ended September 30, 2011.

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, 2011:

2011	\$	174,362
2012		104,455
2013		104,455
2014		104,453
		487,725
Less amount representing interest		41,069
Present value of net minimum lease payments	\$	446,656

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.

**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, 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 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, 2010 valuation is effective for rates beginning January 2012). The annual pension cost is \$217,754 for the year ended September 30, 2011, and there is no net pension obligation as of September 30, 2011.

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
2009	\$ 193,722	100%	\$ 193,722	\$ -
2010	187,668	100%	187,668	-
2011	217,754	100%	217,754	-

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	12/31/08	12/31/09	12/31/2010 - prior to restructuring	12/31/2010 - restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	24 years; closed period	23 years; closed period	22.4 years; closed period	22.7 years; closed period
Amortization Period For New Gains/Losses	25 years	25 years	25 years	25 years
Asset Valuation Method	Amortized Cost	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	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%	3.0% 0.0%

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

NOTE 7. PENSION PLAN – CONTINUED

Contributions – Continued

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, 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
12/31/10 (1)	\$ 3,555,107	\$ 4,166,603	85.3%	\$ 611,496	\$ 2,454,429	24.9%
12/31/10 (2)	\$ 4,202,344	\$ 4,663,669	90.1%	\$ 461,325	\$ 2,454,429	18.8%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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.

**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 \$23,022 as of September 30, 2011.

At September 30, 2011, the City was committed to several long-term construction contracts. The Capital Projects Fund was contractually committed to \$688,236 under these contracts.

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

The general fund owes each the 4A and 4B Fund \$14,884 for a total due of \$29,768 at September 30, 2011. Interfund balances are related to the in-house sales tax earned by the City allocated to the funds, and are to be repaid or collected in the normal course of business, within one year of the fiscal year-end.

NOTE 10. INTERFUND TRANSFERS

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

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General fund	4A fund	\$ 18,000
General fund	4B fund	18,000
Capital projects fund	General fund	40,000
Capital projects fund	Enterprise fund	307,241
Debt service fund	4B fund	<u>180,000</u>
		<u>\$ 563,241</u>

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.
- The enterprise fund to the capital projects fund for reimbursement of projects.
- 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 \$39,823,091 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 \$38,825,913 as of September 30, 2011. 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 \$9,995,000 in utility revenue bonds. The total amount of outstanding principal as of September 30, 2011 was \$5,652,600. 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 2027. The total principal and interest remaining to be paid on the bonds is \$7,324,660. Principal and interest paid for the current year and net utility system revenues were \$910,913 and \$1,286,863, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SANGER, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR
PARTICIPATION IN TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2011**

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
12/31/08	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%
12/31/10 (1)	3,555,107	4,166,603	85.3%	611,496	2,454,429	24.9%
12/31/10 (2)	4,202,344	4,663,669	90.1%	461,325	2,454,429	18.8%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

CITY OF SANGER, TEXAS
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amount	Variance with Final Budget Over / (Under)
	Original	Final		
Revenues				
Property taxes	\$ 1,543,668	\$ 1,543,688	\$ 1,631,129	\$ 87,441
Sales taxes	425,000	425,000	565,055	140,055
Licenses and permits	67,500	67,500	44,827	(22,673)
Charges for services	656,000	656,700	745,389	88,689
Fire and rescue	575,000	580,000	439,910	(140,090)
Court	185,000	185,000	205,346	20,346
Franchise taxes	525,000	525,000	556,353	31,353
Interest	15,000	15,000	8,477	(6,523)
Miscellaneous revenues	88,500	104,450	114,397	9,947
Total revenues	4,080,668	4,102,338	4,310,883	208,545
Expenditures				
Current				
General government	659,234	659,034	601,955	(57,079)
Public safety	1,166,568	1,180,768	1,350,096	169,328
Streets and sanitation	1,074,267	1,073,767	842,491	(231,276)
Fire and rescue	781,229	781,229	615,283	(165,946)
Court	219,004	220,754	227,645	6,891
Culture and recreation	624,777	624,777	358,638	(266,139)
Principal	-	-	95,380	95,380
Interest and other	-	-	8,759	8,759
Capital outlay	-	-	152,859	152,859
Total expenditures	4,525,079	4,540,329	4,253,106	(287,223)
Excess (deficiency) of revenues over expenditures	(444,411)	(437,991)	57,777	495,768
Other financing sources (uses)				
Proceeds on sale of assets	-	-	7,436	7,436
Operating transfers in	465,115	465,115	36,000	(429,115)
Operating transfers out	-	-	(40,000)	(40,000)
Total other financing sources (uses)	465,115	465,115	3,436	(461,679)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	20,704	27,124	61,213	34,089
FUND BALANCE, beginning of year	739,010	739,010	739,010	-
FUND BALANCE, end of year	\$ 759,714	\$ 766,134	\$ 800,223	\$ 34,089

SUPPLEMENTARY INFORMATION

**CITY OF SANGER, TEXAS
 COMBINING SCHEDULE OF REVENUES AND EXPENSES
 PROPRIETARY FUND BY DEPARTMENT
 YEAR ENDED SEPTEMBER 30, 2011**

	<u>Water</u>	<u>Sewer</u>
OPERATING REVENUES		
Charges for services	\$ 1,264,041	\$ 1,076,439
Connection fees	-	-
Tap fees	16,000	15,500
Miscellaneous	-	-
	<u>1,280,041</u>	<u>1,091,939</u>
OPERATING EXPENSES		
Salaries and wages	262,149	151,127
Purchased professional and technical services	3,290	2,128
Utilities	132,700	164,287
Materials and supplies	15,981	14,513
Water and electric purchases	256,947	-
Franchise fees	-	-
Depreciation	282,098	221,354
Repairs and maintenance	206,616	226,050
Bad debt expense	6,923	6,370
	<u>1,166,704</u>	<u>785,829</u>
Operating income (loss)	113,337	306,110
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income	-	-
Interest and amortization expense	<u>(132,379)</u>	<u>(76,020)</u>
	<u>(132,379)</u>	<u>(76,020)</u>
Income (loss) before transfers	(19,042)	230,090
Transfers out	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	<u><u>\$ (19,042)</u></u>	<u><u>\$ 230,090</u></u>

<u>Electric</u>	<u>Fleet Services</u>	<u>Administration</u>	<u>Data Processing</u>	<u>Total</u>
\$ 7,685,434	\$ -	\$ 1,870	\$ -	\$ 10,027,784
62,678	-	-	-	62,678
-	-	-	-	31,500
-	-	67,582	-	67,582
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
7,748,112	-	69,452	-	10,189,544
485,617	41,745	239,582	203,570	1,383,790
14,996	56	66,544	37,551	124,565
9,999	4,462	5,737	5,364	322,549
42,778	3,195	30,695	17,470	124,632
4,774,296	-	-	-	5,031,243
379,342	-	-	-	379,342
360,675	-	-	-	864,127
138,435	5,419	29,782	9,208	615,510
43,630	-	-	-	56,923
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6,249,768	54,877	372,340	273,163	8,902,681
1,498,344	(54,877)	(302,888)	(273,163)	1,286,863
-	-	30,882	-	30,882
(108,924)	-	-	-	(317,323)
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(108,924)	-	30,882	-	(286,441)
1,389,420	(54,877)	(272,006)	(273,163)	1,000,422
(307,241)	-	-	-	(307,241)
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<u>\$ 1,082,179</u>	<u>\$ (54,877)</u>	<u>\$ (272,006)</u>	<u>\$ (273,163)</u>	<u>\$ 693,181</u>

**CITY OF SANGER, TEXAS
ANALYSIS OF PROPERTY TAXES RECEIVABLE
YEAR ENDED SEPTEMBER 30, 2011
WITH COMPARATIVE TOTALS FOR
FOUR YEARS PRIOR**

	Fiscal Year				
	2011	2010	2009	2008	2007
Adjusted tax roll	\$ 2,330,034	\$ 2,256,987	\$ 2,308,903	\$ 2,118,117	\$ 2,014,381
Less collections	<u>2,276,461</u>	<u>2,216,114</u>	<u>2,256,275</u>	<u>2,078,588</u>	<u>1,961,241</u>
Current year property taxes receivable	53,573	40,873	52,628	39,529	53,140
Prior year property taxes receivable	<u>86,871</u>	<u>79,796</u>	<u>74,407</u>	<u>71,283</u>	<u>66,629</u>
Total property taxes receivable, gross (1)	<u>\$ 140,444</u>	<u>\$ 120,669</u>	<u>\$ 127,035</u>	<u>\$ 110,812</u>	<u>\$ 119,769</u>
Total assessed property value	\$ 359,484,787	\$ 364,030,183	\$ 341,028,251	\$ 336,831,151	\$ 341,154,524
Tax rate per \$100	\$ 0.63305	\$ 0.62000	\$ 0.62000	\$ 0.59960	\$ 0.59046
Percent of current taxes collected to billed	97.70%	98.19%	97.72%	98.13%	97.36%

(1) before deducting allowance for doubtful accounts