

ANNUAL FINANCIAL REPORT

of the

City of Sanger, Texas

**For the Year Ended
September 30, 2014**

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City of Sanger, Texas

TABLE OF CONTENTS

September 30, 2014

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	19
Statement of Activities	20

Fund Financial Statements

Governmental Funds:

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25

Proprietary Funds:

Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Fund Net Position	27
Statement of Cash Flows	28

Notes to Financial Statements	31
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	59
Schedule of Funding Progress-Texas Municipal Retirement System	61

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

Combining Balance Sheet - Nonmajor Governmental Funds	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	63
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds – by Department	64

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other

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

Brooks Cardiel, PLLC

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
February 26, 2015

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2014

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

Financial Highlights

- The City's total combined net position is \$26,300,291 at September 30, 2014. Of this, \$7,524,908 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$4,090,197, an increase of \$139,442.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,100,802 or 20% of total general fund expenditures.
- The City had an overall increase in net position of \$1,995,064, which is primarily due to strong general and utility revenues.

Overview of the Financial Statements

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

Government-Wide Statements

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

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Sanger Industrial Development Corporation ("4A fund") and the Sanger Texas Development Corporation ("4B fund"), for which the City is financially accountable. Both corporations, although legally separate, function for all practical purposes as a department of the City and therefore have been included as an integral part of the primary government.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Sanger. They are usually segregated for specific activities or objectives. The City of Sanger uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

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

The City of Sanger maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues,

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

expenditures, and changes in fund balances for the general and capital projects funds which are considered to be major funds.

The City of Sanger adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided to demonstrate compliance with general fund budget.

Proprietary Funds

The City maintains one type of proprietary fund which is considered an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, water and wastewater construction operations and electric services. The proprietary fund financial statements provide separate information for the water distribution, wastewater collection/treatment fund, and electric funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund and schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Sanger, assets exceed liabilities by \$26,300,291 as of September 30, 2014, in the primary government.

The largest portion of the City's net position, \$15,816,158, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are 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 assets themselves cannot be used to liquidate these liabilities.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2014

An additional portion of the City's net position, \$2,959,225, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,524,908 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 4,717,408	\$ 11,671,252	\$ 16,388,660	\$ 4,584,966	\$ 11,606,584	\$ 16,191,550
Capital assets, net	15,020,169	12,430,202	27,450,371	14,290,588	12,214,647	26,505,235
Total Assets	19,737,577	24,101,454	43,839,031	18,875,554	23,821,231	42,696,785
Deferred Outflows of Resources	25,919	58,344	84,263	29,831	67,151	96,982
Other liabilities	515,587	1,245,675	1,761,262	537,988	1,214,889	1,752,877
Long-term liabilities	7,406,622	8,455,119	15,861,741	7,671,899	9,063,764	16,735,663
Total Liabilities	7,922,209	9,700,794	17,623,003	8,209,887	10,278,653	18,488,540
Net Position:						
Net investment in capital assets	7,753,708	8,062,450	15,816,158	7,296,541	7,230,125	14,526,666
Restricted	2,959,225	-	2,959,225	2,875,890	-	2,875,890
Unrestricted	1,128,354	6,396,554	7,524,908	523,067	6,379,604	6,902,671
Total Net Position	\$ 11,841,287	\$ 14,459,004	\$ 26,300,291	\$ 10,695,498	\$ 13,609,729	\$ 24,305,227

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2014

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,572,344	\$ 10,565,602	\$ 12,137,946	\$ 1,564,364	\$ 10,553,808	\$ 12,118,172
Grants and contributions	364,763	260,250	625,013	219,727	-	219,727
General revenues:						
Property taxes	2,816,275	-	2,816,275	2,495,024	-	2,495,024
Sales taxes	1,361,774	-	1,361,774	1,265,031	-	1,265,031
Franchise and local taxes	229,018	-	229,018	167,494	-	167,494
Investment income	4,316	14,047	18,363	4,013	15,630	19,643
Other revenues	255,348	31,240	286,588	168,618	-	168,618
Total Revenues	6,603,838	10,871,139	17,474,977	5,884,271	10,569,438	16,453,709
Expenses						
General government	1,523,127	-	1,523,127	1,483,872	-	1,483,872
Public safety	2,396,415	-	2,396,415	2,260,904	-	2,260,904
Public works	1,235,621	-	1,235,621	1,351,685	-	1,351,685
Culture and recreation	714,581	-	714,581	681,730	-	681,730
Interest and fiscal charges	287,657	341,421	629,078	308,171	177,384	485,555
Water, sewer, & electric	-	8,981,091	8,981,091	-	8,933,392	8,933,392
Total Expenses	6,157,401	9,322,512	15,479,913	6,086,362	9,110,776	15,197,138
Change in Net Position						
Before Transfers	446,437	1,548,627	1,995,064	(202,091)	1,458,662	1,256,571
Transfers	699,352	(699,352)	-	911,278	(911,278)	-
Total	699,352	(699,352)	-	911,278	(911,278)	-
Change in Net Position	1,145,789	849,275	1,995,064	709,187	547,384	1,256,571
Beginning Net Position	10,695,498	13,609,729	24,305,227	9,986,311	13,062,345	23,048,656
Ending Net Position	\$ 11,841,287	\$ 14,459,004	\$ 26,300,291	\$ 10,695,498	\$ 13,609,729	\$ 24,305,227

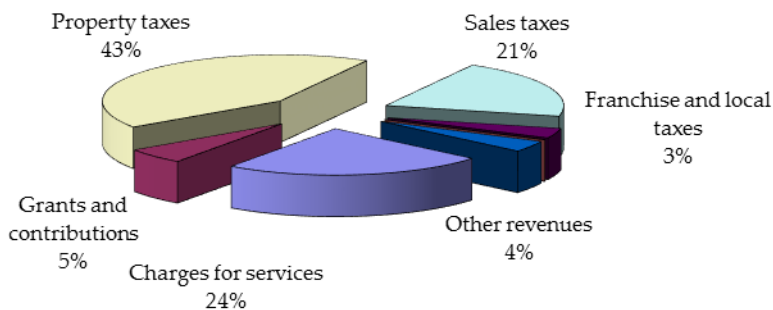
City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

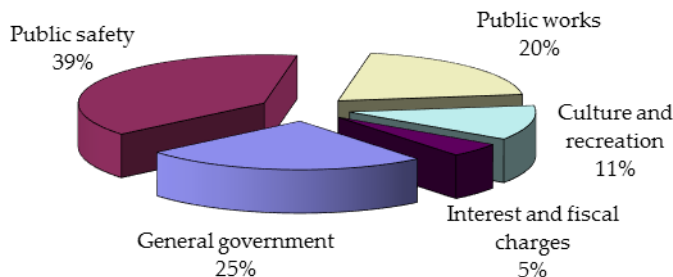
Governmental Activities - Revenues



For the year ended September 30, 2014, revenues from governmental activities totaled \$6,603,838. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased by \$321,251 or 13% due to higher property values and an increase in the property tax rate. Sales tax increased \$96,743 or 8% due to an overall increase in the economy and spending within the City limits. Grants and contributions increased by \$145,036 due to grant revenue received from Denton County for the repair and construction of McReynolds road. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

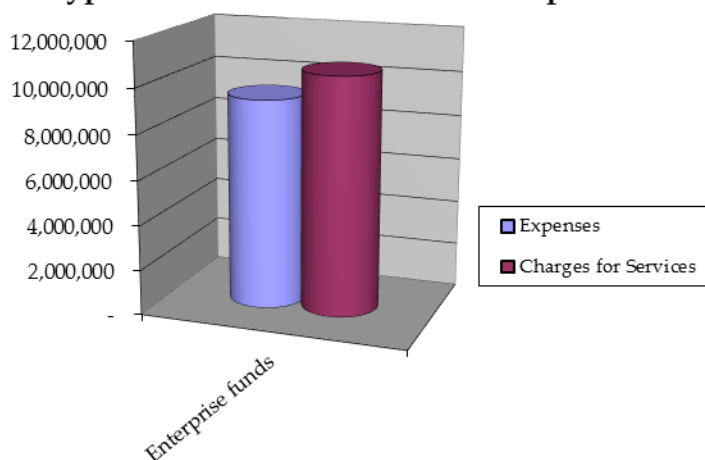
September 30, 2014

For the year ended September 30, 2014, expenses for governmental activities totaled \$6,157,401. This represents an increase of \$71,039 or 1% from the prior year. The City's largest functional expense is public safety of \$2,396,415 which includes police, fire and EMS services plus depreciation of related capital assets. All expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

For the year ended September 30, 2014, charges for services by business-type activities totaled \$10,565,602. This is an increase of \$11,794, or less than 1%, from the previous year. Grants increased by \$260,250 due to a CDBG grant project for sanitary sewer improvements.

Business-Type Activities - Revenues and Expenses



Total expenses increased \$211,736 due primarily to an increase in interest expense on bonds and long-term debt. All other expenses remained relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$1,236,078. Of this, \$7,513 is restricted for municipal court, \$24,648 is restricted for tourism and \$72,945 is restricted for library improvements. Unassigned fund balance totaled \$1,100,802 as of year end.

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

There was an increase in governmental fund balance of \$139,442 over the prior year. The increase was primarily related to the increase in property and sales tax previously discussed. The City also had a combination of higher than budgeted revenues and an overall positive budget variance for the year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$148,320 in the general fund. This is a combination of a positive a revenue variance of \$93,985, a positive expenditure variance of \$91,025, and a negative variance of \$36,690 in other financing sources and uses.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$15,020,169 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$12,430,202 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Construction additions to a splash park totaling of \$538,973
- McReynolds road construction in the amount of \$310,300
- Freese sidewalk repair and improvements of \$230,479
- Machinery and equipment additions for the streets department \$530,573
- Jones & Willow Trunk Line construction of \$496,063
- International Digger Truck addition for the electric department of \$190,309

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$14,010,000, notes payable of \$479,210 and capital leases of \$779,105. During the year, the City had principal payments on bonds, notes payable and capital leases of \$1,503,041. During the year, the City entered into new capital lease agreements totaling \$625,309. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Sanger and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Sanger's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Manager at the City of Sanger City Hall at 502 Elm Street, Sanger, Texas 76266.

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FINANCIAL STATEMENTS

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City of Sanger, Texas
STATEMENT OF NET POSITION
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 1,379,603	\$ 1,657,137	\$ 3,036,740
Investments	410,369	410,852	821,221
Restricted cash	1,676,914	7,044,030	8,720,944
Restricted investments	480,916	579,429	1,060,345
Receivables, net	769,606	1,550,473	2,320,079
Inventory	-	429,331	429,331
Capital assets:			
Non-depreciable	1,323,422	1,135,765	2,459,187
Net depreciable capital assets	13,696,747	11,294,437	24,991,184
	<u>15,020,169</u>	<u>12,430,202</u>	<u>27,450,371</u>
Total Assets	<u>19,737,577</u>	<u>24,101,454</u>	<u>43,839,031</u>
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	25,919	58,344	84,263
Total Deferred Outflows of Resources	<u>25,919</u>	<u>58,344</u>	<u>84,263</u>
<u>Liabilities</u>			
Accounts payable and accrued liabilities	418,431	840,147	1,258,578
Unearned revenue	34,920	-	34,920
Deferred rental revenue	9,034	-	9,034
Accrued interest payable	53,202	54,034	107,236
Customer deposits	-	351,494	351,494
Noncurrent liabilities:			
Due within one year	880,780	852,856	1,733,636
Due in more than one year	6,525,842	7,602,263	14,128,105
	<u>7,406,622</u>	<u>8,455,119</u>	<u>15,861,741</u>
Total Liabilities	<u>7,922,209</u>	<u>9,700,794</u>	<u>17,623,003</u>
<u>Net Position</u>			
Net investment in capital assets	7,753,708	8,062,450	15,816,158
Restricted for:			
Debt service	372,961	-	372,961
Capital projects	550,117	-	550,117
Economic development	1,931,041	-	1,931,041
Other purposes	105,106	-	105,106
Unrestricted	1,128,354	6,396,554	7,524,908
Total Net Position	<u>\$ 11,841,287</u>	<u>\$ 14,459,004</u>	<u>\$ 26,300,291</u>

See Notes to Financial Statements.

City of Sanger, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,523,127	\$ 856,457	\$ 6,634	\$ -
Public safety	2,396,415	715,887	76,338	281,791
Public works	1,235,621	-	-	-
Culture and recreation	714,581	-	-	-
Interest and fiscal charges	287,657	-	-	-
Total Governmental Activities	6,157,401	1,572,344	82,972	281,791
Business-Type Activities				
Water	927,386	1,374,672	-	-
Sewer	669,601	1,253,143	-	260,250
Electric	6,581,113	7,937,787	-	-
Fleet services	101,102	-	-	-
Utility administration	1,043,310	-	-	-
Total Business-Type Activities	9,322,512	10,565,602	-	260,250
Total Primary Government	\$ 15,479,913	\$ 12,137,946	\$ 82,972	542,041

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Gain on sale of assets

Insurance recoveries

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (660,036)	\$ -	\$ (660,036)
(1,322,399)	-	(1,322,399)
(1,235,621)	-	(1,235,621)
(714,581)	-	(714,581)
(287,657)	-	(287,657)
<u>(4,220,294)</u>	<u>-</u>	<u>(4,220,294)</u>
-	447,286	447,286
-	843,792	843,792
-	1,356,674	1,356,674
-	(101,102)	(101,102)
-	<u>(1,043,310)</u>	<u>(1,043,310)</u>
-	1,503,340	1,503,340
<u>(4,220,294)</u>	<u>1,503,340</u>	<u>(2,716,954)</u>
2,816,275	-	2,816,275
1,361,774	-	1,361,774
229,018	-	229,018
4,316	14,047	18,363
114,695	31,240	145,935
21,862	-	21,862
118,791	-	118,791
699,352	(699,352)	-
<u>5,366,083</u>	<u>(654,065)</u>	<u>4,712,018</u>
1,145,789	849,275	1,995,064
10,695,498	13,609,729	24,305,227
<u>\$ 11,841,287</u>	<u>\$ 14,459,004</u>	<u>\$ 26,300,291</u>

City of Sanger, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2014

	General	Capital Projects	Nonmajor Governmental	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 789,668	\$ 419,901	\$ 170,034	\$ 1,379,603
Investments	410,369	-	-	410,369
Restricted cash	35,071	-	1,641,843	1,676,914
Restricted investments	112,731	-	368,185	480,916
Receivables, net	459,377	166,342	143,887	769,606
Due from other funds	-	-	212,500	212,500
Total Assets	\$ 1,807,216	\$ 586,243	\$ 2,536,449	\$ 4,929,908
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 382,287	\$ 36,126	\$ 18	\$ 418,431
Due to other funds	-	-	212,500	212,500
Unearned revenue	34,920	-	-	34,920
Total Liabilities	417,207	36,126	212,518	665,851
<u>Deferred Inflows of Resources</u>				
Unavailable revenue				
Property taxes	43,237	-	19,929	63,166
EMS revenue	110,694	-	-	110,694
Total Deferred Inflows of Resources	153,931	-	19,929	173,860
<u>Fund Balances</u>				
Restricted for:				
Municipal court	7,513	-	-	7,513
Tourism	24,648	-	-	24,648
Library	72,945	-	-	72,945
Debt service	-	-	372,961	372,961
Capital projects	-	550,117	-	550,117
Economic development	-	-	1,931,041	1,931,041
Committed for:				
Employee benefits	30,170	-	-	30,170
Unassigned reported in:				
General fund	1,100,802	-	-	1,100,802
Total Fund Balances	1,236,078	550,117	2,304,002	4,090,197
Total Liabilities and Fund Balances	\$ 1,763,979	\$ 586,243	\$ 2,516,520	\$ 4,692,882

See Notes to Financial Statements.

City of Sanger, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2014

Fund Balances - Total Governmental Funds	\$ 4,090,197
 Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	1,323,422
Capital assets - net depreciable	13,696,747
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	63,166
EMS receivable	110,694
 Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.	
Deferred charge on refunding	25,919
 Escalating payments for rent income are recorded when received as current financial resources in the fund financial statements whereas they are deferred and recorded ratably over the life of the lease in the government-wide financial statements.	
	(9,034)
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(53,202)
Bond premium	(76,025)
Non-current liabilities due in one year	(880,780)
Non-current liabilities due in more than one year	(6,449,817)
Net Position of Governmental Activities	\$ 11,841,287

See Notes to Financial Statements.

City of Sanger, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	General	Capital Projects	Nonmajor Governmental	Total Governmental Funds
Revenues				
Property tax	\$ 2,072,522	\$ -	\$ 745,007	\$ 2,817,529
Sales tax	682,502	-	679,272	1,361,774
Franchise and local taxes	229,018	-	-	229,018
License and permits	85,887	-	-	85,887
Charges for services	770,570	-	-	770,570
Fire and rescue	535,916	-	-	535,916
Contributions and donations	6,634	-	-	6,634
Intergovernmental	76,338	281,791	-	358,129
Fines and forfeitures	178,884	-	1,087	179,971
Investment income	2,681	250	1,385	4,316
Other revenue	5,528	-	93,680	99,208
Total Revenues	4,646,480	282,041	1,520,431	6,448,952
Expenditures				
Current:				
General government	1,219,171	-	1,153	1,220,324
Police department	1,370,481	-	-	1,370,481
Municipal court	224,283	-	-	224,283
Fire and EMS	802,456	-	-	802,456
Parks and recreation	444,774	-	-	444,774
Public works	627,055	-	-	627,055
Debt service:				
Principal	99,019	-	612,606	711,625
Interest	7,977	-	284,762	292,739
Capital outlay	675,757	1,225,392	-	1,901,149
Total Expenditures	5,470,973	1,225,392	898,521	7,594,886
Excess of Revenues Over (Under)				
Expenditures	(824,493)	(943,351)	621,910	(1,145,934)
Other Financing Sources (Uses)				
Transfers in	836,752	437,100	212,500	1,486,352
Transfers (out)	(437,100)	-	(349,900)	(787,000)
Capital lease	435,000	-	-	435,000
Proceeds from sale of capital assets	21,862	-	-	21,862
Insurance recoveries	129,162	-	-	129,162
Total Other Financing Sources (Uses)	985,676	437,100	(137,400)	1,285,376
Net Change in Fund Balances	161,183	(506,251)	484,510	139,442
Beginning fund balances	1,074,895	1,056,368	1,819,492	3,950,755
Ending Fund Balances	\$ 1,236,078	\$ 550,117	\$ 2,304,002	\$ 4,090,197

See Notes to Financial Statements.

City of Sanger, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

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

Net changes in fund balances - total governmental funds	\$	139,442
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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.

Capital outlay		1,901,757
Capital disposals, net		(10,371)
Depreciation expense		(1,161,805)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property tax receivable		(20,427)
EMS receivable		19,173

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

15,487

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(19,174)
Accrued interest		1,168

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of deferred charges on refunding		(3,912)
Amortization of premium		7,826
Debt issued		(435,000)
Principal payments		711,625

Change in Net Position of Governmental Activities	\$	1,145,789
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See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2014

	Water, Sewer & Electric
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 1,657,137
Investments	410,852
Restricted cash	7,044,030
Restricted investments	579,429
Receivables, net	1,550,473
Inventory	429,331
Total Current Assets	11,671,252
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	1,135,765
Net depreciable capital assets	11,294,437
Total Noncurrent Assets	12,430,202
Total Assets	24,101,454
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	58,344
Total Deferred Outflows of Resources	58,344
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	840,147
Accrued interest	54,034
Customer deposits	351,494
Compensated absences-current	71,544
Bonds and capital leases payable-current	781,312
Total Current Liabilities	2,098,531
<u>Noncurrent Liabilities</u>	
Compensated absences	7,949
Bonds and capital leases payable	7,594,314
Total Liabilities	9,700,794
<u>Net Position</u>	
Net investment in capital assets	8,062,450
Unrestricted	6,396,554
Total Net Position	\$ 14,459,004

See Notes to Financial Statements.

City of Sanger, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2014

	Water, Sewer & Electric
<u>Operating Revenues</u>	
Charges for services	\$ 10,336,161
Connection fees	50,491
Tap fees	178,950
Other revenue	31,240
Total Operating Revenues	10,596,842
 <u>Operating Expenses</u>	
Salaries and wages	1,577,363
Contracted services	197,793
Utilities	317,835
Materials and supplies	105,904
Water and electric purchases	5,500,970
Repairs and maintenance	406,955
Depreciation	874,271
Total Operating Expenses	8,981,091
Operating Income	1,615,751
 <u>Nonoperating Revenues (Expenses)</u>	
Intergovernmental	260,250
Investment income	14,047
Interest expense	(341,421)
Total Nonoperating Revenues (Expenses)	(67,124)
Income Before Transfers	1,548,627
Transfers (out)	(699,352)
Change in Net Position	849,275
Beginning net position	13,609,729
Ending Net Position	\$ 14,459,004

See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 1 of 2)
For the Year Ended September 30, 2014

	Water, Sewer & Electric
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 10,531,006
Payments to suppliers and employees	(6,535,623)
Payments to employees	(1,548,514)
Net Cash Provided by Operating Activities	2,446,869
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(899,517)
Capital grant	260,250
Principal paid on debt	(791,416)
Interest paid on debt	(332,049)
Net Cash (Used) by Capital and Related Financing Activities	(1,762,732)
<u>Cash Flows from Investing Activities</u>	
Proceeds from sales and maturities of investments	584,938
Interest on investments	14,047
Net Cash Provided by Investing Activities	598,985
Net Increase (Decrease) in Cash and Cash Equivalents	583,770
Beginning cash and cash equivalents	8,117,397
Ending Cash and Cash Equivalents	\$ 8,701,167

See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 2 of 2)
For the Year Ended September 30, 2014

	Water, Sewer & Electric
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 1,615,751
Adjustments to reconcile operating income to net cash provided:	
Depreciation	874,271
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(83,474)
Inventory	17,638
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(6,166)
Customer deposits	13,891
Compensated absences	14,958
Net Cash Provided by Operating Activities	\$ 2,446,869
 <u>Schedule of Non-Cash Capital and Related Financing Activities</u>	
Capital lease	\$ 190,309

See Notes to Financial Statements.

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City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Sanger, Texas (the "City") was incorporated 1886 and operates under a Council-Manager form of government. The City provides: general government, public safety, public works, culture and recreation, water and sewer operations and electricity operations.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Sanger Industrial Development Corporation ("4A fund") and the Sanger Texas Development Corporation ("4B fund"), although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to 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.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Blended Component Units

Sanger Industrial Development Corporation (4A)

The Sanger Texas Industrial Development Corporation (“4A fund”) 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 4A fund was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4A of the Development Corporation Act of 1979. The purpose of the 4A fund is to promote economic development within the City of Sanger.

Sanger Texas Development Corporation (4B)

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

C. Basis of Presentation Government-Wide and Fund Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government’s water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government’s funds, including its blended component units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The government reports the following major governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, parks and recreation and public works.

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.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The government reports the following major enterprise fund:

Water, Sewer, & Electric Fund

This fund is used to account for the provision of water, sewer and electric services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and electric services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

D. Measurement Focus and Basis of Accounting

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

3. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5-10 years
Furniture and equipment	5 to 10 years
Infrastructure	10-30 years
Water and sewer system	10-30 years
Buildings and improvements	5-40 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

7. Net Position Flow Assumption

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

8. Fund Balance Flow Assumptions

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

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the City Manager to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred in accordance with GASB statement no. 65.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

12. Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental and enterprise funds.

The appropriated budget is prepared by fund, function, and department. The legal level of control is the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2014, the primary government had the following investments:

Investment Type	Fair Value	Average Maturity (Years)
Certificates of deposit	\$ 1,881,566	0.41
Total fair value	\$ 1,881,566	
Portfolio weighted average maturity		0.41

Interest rate risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

Credit risk – The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2014, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Capital Projects	Nonmajor Governmental	Water, Sewer & Electric	Total
Property taxes	\$ 76,788	\$ -	\$ 31,831	\$ -	\$ 108,619
Sales tax	103,535	-	123,201	-	226,736
Franchise & local taxes	35,780	-	-	-	35,780
EMS	316,269	-	-	-	316,269
Accounts	97,366	-	-	1,500,809	1,598,175
Other	74,826	166,342	-	156,759	397,927
Allowance	(245,187)	-	(11,145)	(107,095)	(363,427)
	<u>\$ 459,377</u>	<u>\$ 166,342</u>	<u>\$ 143,887</u>	<u>\$ 1,550,473</u>	<u>\$ 2,320,079</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 906,307	\$ -	\$ -	\$ 906,307
Construction in progress	42,771	1,225,392	(851,048)	417,115
Total capital assets not being depreciated	<u>949,078</u>	<u>1,225,392</u>	<u>(851,048)</u>	<u>1,323,422</u>
Capital assets, being depreciated:				
Infrastructure	10,919,425	43,800	851,048	11,814,273
Buildings and improvements	7,074,483	37,598	(67,184)	7,044,897
Machinery and equipment	2,510,199	594,967	(290,189)	2,814,977
Total capital assets being depreciated	<u>20,504,107</u>	<u>676,365</u>	<u>493,675</u>	<u>21,674,147</u>
Less accumulated depreciation				
Infrastructure	4,509,453	553,897	-	5,063,350
Buildings and improvements	1,040,663	317,800	(58,384)	1,300,079
Machinery and equipment	1,612,481	290,108	(288,618)	1,613,971
Total accumulated depreciation	<u>7,162,597</u>	<u>1,161,805</u>	<u>(347,002)</u>	<u>7,977,400</u>
Net capital assets being depreciated	13,341,510	(485,440)	840,677	13,696,747
Total Capital Assets	<u>\$ 14,290,588</u>	<u>\$ 739,952</u>	<u>\$ (10,371)</u>	<u>\$ 15,020,169</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 74,818
Public safety	95,050
Streets and sanitation	603,318
Fire and rescue	116,452
Culture and recreation	272,167
Total Governmental Activities Depreciation Expense	<u>\$ 1,161,805</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 323,164	\$ -	\$ -	\$ 323,164
Construction in progress	132,305	763,214	(82,918)	812,601
Total capital assets not being depreciated	<u>455,469</u>	<u>763,214</u>	<u>(82,918)</u>	<u>1,135,765</u>
Capital assets, being depreciated:				
Infrastructure	22,458,123	58,100	28,448	22,544,671
Buildings and improvements	860,133	13,524	(8,412)	865,245
Machinery and equipment	1,664,835	254,988	(231,337)	1,688,486
Total capital assets being depreciated	<u>24,983,091</u>	<u>326,612</u>	<u>(211,301)</u>	<u>25,098,402</u>
Less accumulated depreciation				
Infrastructure	11,663,158	695,765	(54,470)	12,304,453
Buildings and improvements	269,043	55,227	(8,412)	315,858
Machinery and equipment	1,291,712	123,279	(231,337)	1,183,654
Total accumulated depreciation	<u>13,223,913</u>	<u>874,271</u>	<u>(294,219)</u>	<u>13,803,965</u>
Net capital assets being depreciated	11,759,178	(547,659)	82,918	11,294,437
Total Capital Assets	<u>\$ 12,214,647</u>	<u>\$ 215,555</u>	<u>\$ -</u>	<u>\$ 12,430,202</u>

Depreciation was charged to business-type activities as follows:

Water	\$ 280,161
Sewer	237,716
Electric	338,542
Other	17,852
Total Business-type Activities Depreciation Expense	<u>\$ 874,271</u>

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate governmental long-term liabilities.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 1,331,000	\$ -	\$ (176,000)	\$ 1,155,000	\$ 182,600
Certificates of Obligation	5,407,800	-	(399,000)	5,008,800	412,700
Less deferred amounts:					
For issuance premiums	83,851	-	(7,826)	76,025	-
	<u>6,822,651</u>	<u>-</u>	<u>(582,826)</u>	<u>6,239,825</u>	<u>595,300</u>
Other liabilities:					
Notes payable	516,816	-	(37,606)	479,210	40,093
Capital leases payable	237,364	435,000	(99,019)	573,345	142,569
Compensated absences	95,068	103,202	(84,028)	114,242	102,818
Total Governmental Activities	<u>\$ 7,671,899</u>	<u>\$ 538,202</u>	<u>\$ (803,479)</u>	<u>\$ 7,406,622</u>	<u>\$ 880,780</u>
Long-term liabilities due in more than one year				<u>\$ 6,525,842</u>	
Business-Type Activities:					
General Obligation Bonds	\$ 1,694,000	\$ -	\$ (224,000)	\$ 1,470,000	\$ 232,400
Certificates of Obligation	6,787,200	-	(411,000)	6,376,200	432,300
Less deferred amounts:					
For issuance premiums	346,162	-	(22,496)	323,666	-
	<u>8,827,362</u>	<u>-</u>	<u>(657,496)</u>	<u>8,169,866</u>	<u>664,700</u>
Other liabilities:					
Capital leases payable	171,867	190,309	(156,416)	205,760	116,612
Compensated absences	64,535	76,134	(61,176)	79,493	71,544
Total Business-Type Activities	<u>\$ 9,063,764</u>	<u>\$ 266,443</u>	<u>\$ (875,088)</u>	<u>\$ 8,455,119</u>	<u>\$ 852,856</u>
Long-term liabilities due in more than one year				<u>\$ 7,602,263</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
General Obligation Bonds:			
\$3,495,000 General Obligation Refunding Bond, Series 2012, due in installments through 2021, interest at 2% to 3%	\$ 1,155,000	\$ 1,470,000	\$ 2,625,000
Total General Obligation Bonds	\$ 1,155,000	\$ 1,470,000	\$ 2,625,000
Certificates of Obligation:			
\$6,500,000 Certificates of Obligation, Series 2006, due in annual installments through 2021, interest at 4% to 5%	\$ 1,616,900	\$ 1,898,100	\$ 3,515,000
\$1,750,000 Certificates of Obligation, Series 2007, due in annual installments through 2027, interest at 4.4%	443,700	861,300	1,305,000
\$3,200,000 Certificates of Obligation, Series 2009, due in annual installments through 2026, interest at 3% to 4.75%	2,455,000	-	2,455,000
\$4,260,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2% to 3.7%	493,200	3,616,800	4,110,000
Total Certificates of Obligation	\$ 5,008,800	\$ 6,376,200	\$ 11,385,000
Less deferred amounts:			
Issuance premium	\$ 76,025	\$ 323,666	\$ 399,691
Total Deferred Amounts	\$ 76,025	\$ 323,666	\$ 399,691
Notes Payable:			
\$660,000 Notes payable to a financial institution, due in monthly installments of \$5,106 through June 2024, including interest at 4.6%	\$ 479,210	\$ -	\$ 479,210
Total Notes Payable	\$ 479,210	\$ -	\$ 479,210
Capital Leases Payable:			
\$807,573 Capital lease payable to financial institution, due in annual installments of \$104,454 through 2015, interest at 1.77%	\$ -	\$ 70,492	\$ 70,492
\$340,119 Capital lease payable to financial institution, due in annual installments of \$106,996 through 2016, interest at 3.3%	138,345	-	138,345
\$190,309 Capital lease payable to financial institution, due in annual installments of \$50,235 through 2017, interest at 2.89%	-	135,268	135,268
\$435,000 Capital lease payable to financial institution, due in annual installments of \$51,535 through 2024, interest at 3.346%	435,000	-	435,000
Total Capital Leases Payable	\$ 573,345	\$ 205,760	\$ 779,105
Compensated Absences	114,242	79,493	193,735
Total Long-term Liabilities	\$ 7,406,622	\$ 8,455,119	\$ 15,861,741

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The annual requirements to amortize governmental and business-type activities debt issues outstanding at year ending were as follows:

General Obligation Bonds

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 182,600	\$ 31,614	\$ 232,400	\$ 40,236
2016	184,800	27,962	235,200	35,588
2017	154,000	22,418	196,000	28,532
2018	156,200	17,798	198,800	22,652
2019	162,800	13,112	207,200	16,688
2020	169,400	8,228	215,600	10,472
2021	145,200	3,993	184,800	5,082
	<u>\$ 1,155,000</u>	<u>\$ 125,125</u>	<u>\$ 1,470,000</u>	<u>\$ 159,250</u>

Combination Tax and Revenue Certificates of Obligations

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 412,700	\$ 210,315	\$ 432,300	\$ 258,053
2016	428,600	194,926	446,400	243,467
2017	447,400	176,803	467,600	225,820
2018	459,900	159,199	480,100	209,883
2019	480,800	140,888	494,200	192,630
2020	499,600	121,729	515,400	174,794
2021	521,100	101,706	533,900	155,364
2022	273,500	79,919	236,500	135,067
2023	286,400	68,258	248,600	127,002
2024	297,000	55,768	253,000	118,527
2025	309,300	42,686	260,700	109,019
2026	323,900	28,194	276,100	97,363
2027	71,800	13,024	288,200	85,021
2028	28,800	9,768	211,200	71,632
2029	30,600	8,400	224,400	61,600
2030	31,800	6,870	233,200	50,380
2031	33,600	5,280	246,400	38,720
2032	35,400	3,600	259,600	26,400
2033	36,600	1,830	268,400	13,420
	<u>\$ 5,008,800</u>	<u>\$ 1,429,162</u>	<u>\$ 6,376,200</u>	<u>\$ 2,394,161</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

Capital Lease

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 142,569	\$ 15,962	\$ 116,612	\$ 9,088
2016	74,090	14,392	47,452	2,783
2017	39,606	11,930	41,696	1,411
2018	40,931	10,604	-	-
2019	42,301	9,235	-	-
2020	43,716	7,819	-	-
2021	45,179	6,357	-	-
2022	46,690	4,845	-	-
2023	48,252	3,283	-	-
2024	50,011	1,668	-	-
	<u>\$ 573,345</u>	<u>\$ 86,095</u>	<u>\$ 205,760</u>	<u>\$ 13,282</u>

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total capitalized cost of approximately \$1,773,001 as of year end.

Note Payable

Year ending September 30,	Governmental Activities	
	Principal	Interest
2015	\$ 40,093	\$ 21,174
2016	41,977	19,290
2017	43,949	17,318
2018	46,014	15,253
2019	48,176	13,091
2020	50,439	10,828
2021	52,809	8,458
2022	55,290	5,977
2023	57,887	3,380
2024	42,576	4,063
	<u>\$ 479,210</u>	<u>\$ 118,832</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

E. Conduit Debt

The City issued notes payable totaling \$230,461,407 for the purpose of assisting with financing needed by not-for-profit organizations to promote their cause. Final maturities on notes payable range from March 2017 through December 2041. The notes are secured by various assets of the borrower.

The 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.

F. Deferred Charge on Refunding

A deferred charge resulting from the issuance of the 2012 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental and business-type activities totaled \$25,919 and \$58,344, respectively. Current year amortization expense for governmental and business-type activities totaled \$3,912 and \$8,807, respectively.

G. Interfund Transactions

The compositions of interfund balances as of year end were as follows:

Funds	Due from	Due to
Debt Service:		
4B Fund	\$ 212,500	\$ -
4B Fund		
Debt Service	-	212,500
	\$ 212,500	\$ 212,500

Amounts recorded as "due to/from" are considered to be temporary loans and will be repaid during the following year.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

<u>Transfer out:</u>	<u>Transfer In</u>			<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	
General	\$ -	\$ 437,100	\$ -	\$ 437,100
Nonmajor Governmental	137,400	-	212,500	349,900
Water, Sewer & Electric	699,352	-	-	699,352
	<u>\$ 836,752</u>	<u>\$ 437,100</u>	<u>\$ 212,500</u>	<u>\$ 1,486,352</u>

Amounts transferred between funds relate to amounts collected, various capital expenditures, annual funding, and debt payments.

H. Fund Equity

The City records restricted net position on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted net position for the primary government was \$2,959,225. Of which, \$32,161 is restricted by enabling legislation.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

C. Construction commitments

The government has active construction projects as of September 30, 2014. The projects include street construction and improvements, sewer plant and the construction of additional water lines and repairs. At year end the government's commitments with contractors are as follows:

Project	Vendor	Remaining Commitment
Sewer Line 15" Chapman to Belz	Pacheco Koch	\$ 16,642
West Side I35 WL Ext-Chapman to Belz	Pacheco Koch	1,694
Sewer Line 18" South of Utility	Pacheco Koch	34,668
Sewer Line 15" Utility to Lois	Pacheco Koch	32,278
Sewer Line 12" Lois to View	Pacheco Koch	19,780
WL Lois to View	Pacheco Koch	23,416
	Total Water/WW Lines	<u>128,478</u>
McReynolds Road	Pacheco Koch	127,619
New Sewer Plant	Alan Plummer	867,777
Server Consolidation	Austin Lane	26,063
Jones & Willow Truck Line - CDBG	Teague Nall & Perkins	9,637
Jones & Willow Truck Line - CDBG	Grantworks	2,950
	Total CDBG	<u>1,034,046</u>
	Total	<u><u>\$ 1,162,523</u></u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

D. Rental Income

On March 1, 2012, the City entered into a non-cancelable lease agreement with a corporation of which a city council member is a principal member of management. The leased property is owned by the 4A Fund and has a cost \$1,083,797 with accumulated depreciation of \$176,425 as of September 30, 2014. The lease provides for a base rent and an adjustment each year related to excess operating expenses (if any) incurred annually.

During the year ended September 30, 2014, the City received \$78,667 in rental revenue. Minimum future rentals on non-cancelable tenant operating leases at September 30, 2014 are \$45,889. This represents the total rentals for the 2015 fiscal year, which is the final year of the lease agreement.

E. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

F. Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the 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 that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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. The annual pension cost and net pension obligation/ (asset) are as follows:

Three-Year Contribution Information

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Pension Cost (ARC)	\$ 210,201	\$ 196,672	\$ 191,163
Actual Contributions Made	\$ 210,201	\$ 196,672	\$ 191,163
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation/Asset	-	-	-
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

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

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	21.8 years; closed period	21.1 years; closed period	30 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00% 0.0%	3.00% 0.0%	3.00% 0.0%

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

Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 5,783,587
Actuarial Accrued Liability	\$ 6,740,172
Percentage Funded	85.8%
Annual Covered Payroll	\$ 2,928,323
Unfunded Actuarial Accrued Liability	\$ (956,585)
(UAAL) % of Covered Payroll	(32.7)%

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the 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.

Supplemental Death Benefits Plan

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

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

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

The City's retiree contribution rates to the TMRS SDBF for the years ended 2013, 2012 and 2011 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.01%	0.01%	100.0%
2013	0.01%	0.01%	100.0%
2014	0.01%	0.01%	100.0%

The City's contributions to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$306, \$293 and \$263, respectively, which equaled the required contributions each year.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

G. Restatement

The City has restated beginning net position within governmental activities, business-type activities, and water/sewer/electric funds due to a change in the amortization of bond discounts and premiums. The restatement of beginning net position is as follows:

	Governmental Activities		Business-Type Activities	Water, Sewer & Electric
Prior year ending net position as reported	\$ 10,725,976		\$ 13,641,820	\$ 13,641,820
Change in bond discount and premium amortization	(30,478)		(32,091)	(32,091)
Restated beginning net position	\$ 10,695,498		\$ 13,609,729	\$ 13,609,729

H. Subsequent Events

There were no material subsequent events through February 26, 2015, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Sanger, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL- GENERAL FUND

For the Year Ended September 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 2,085,500	\$ 2,085,500	\$ 2,072,522	\$ (12,978)
Sales tax	653,000	653,000	682,502	29,502
Franchise and local taxes	184,600	184,600	229,018	44,418
License and permits	107,900	107,900	85,887	(22,013)
Charges for services	808,000	808,000	770,570	(37,430)
Fire and rescue	460,000	460,000	535,916	75,916
Contributions and donations	-	-	6,634	6,634
Intergovernmental	36,000	85,995	76,338	(9,657)
Fines and forfeitures	165,000	165,000	178,884	13,884
Investment income	2,500	2,500	2,681	181
Other revenue	-	-	5,528	5,528
Total Revenues	4,502,500	4,552,495	4,646,480	93,985
<u>Expenditures</u>				
Current:				
General government	1,236,719	1,223,948	1,219,171	4,777
Police department	1,307,651	1,375,173	1,370,481	4,692
Municipal court	213,384	224,693	224,283	410
Fire and EMS	841,652	814,810	802,456	12,354
Parks and recreation	575,383	493,974	444,774	49,200
Public works	912,421	631,766	627,055	4,711
Debt service:				
Principal	99,020	99,020	99,019	1
Interest	7,980	7,980	7,977	3
Capital outlay	161,650	690,634	675,757	14,877
Total Expenditures	5,355,860	5,561,998	5,470,973	91,025
Revenues Over (Under)				
Expenditures	(853,360)	(1,009,503)	(824,493)	185,010
<u>Other Financing Sources (Uses)</u>				
Transfers in	873,400	873,400	836,752	(36,648)
Transfers (out)	-	(387,100)	(437,100)	(50,000)
Capital lease	-	435,000	435,000	-
Proceeds from sale of capital assets	-	-	21,862	21,862
Insurance recoveries	-	101,066	129,162	28,096
Total Other Financing Sources	873,400	1,022,366	985,676	(36,690)
Net Change in Fund Balance	\$ 20,040	\$ 12,863	161,183	\$ 148,320
Beginning fund balance			1,074,895	
Ending Fund Balance			\$ 1,236,078	

Notes to Required Supplementary Information

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

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City of Sanger, Texas
SCHEDULE OF FUNDING PROGRESS-
TEXAS MUNICIPAL RETIREMENT SYSTEM

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Actuarial Valuation Date	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Value of Assets	\$ 5,783,587	\$ 5,179,812	\$ 4,691,607
Actuarial Accrued Liability	\$ 6,740,172	\$ 5,465,145	\$ 5,122,534
Percentage Funded	85.8%	94.8%	91.6%
Unfunded Actuarial			
Accrued Liability	\$ 956,585	\$ 285,333	\$ 430,927
Annual Covered Payroll	\$ 2,928,323	\$ 2,626,335	\$ 2,662,684
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	32.7%	10.9%	16.2%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	\$ 210,201	\$ 196,672	\$ 191,163
Contributions Made	\$ 210,201	\$ 196,672	\$ 191,163
NPO at the End of Period	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Sanger, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2014

	<u>Debt Service</u>	<u>4A Fund</u>	<u>4B Fund</u>	<u>Total Nonmajor Governmental</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 103,024	\$ 52,367	\$ 14,643	\$ 170,034
Restricted cash	56,680	1,028,976	556,187	1,641,843
Restricted investments	-	93,765	274,420	368,185
Receivables, net	20,686	71,434	51,767	143,887
Due from other funds	212,500	-	-	212,500
Total Assets	\$ 392,890	\$ 1,246,542	\$ 897,017	\$ 2,536,449
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ -	\$ 18	\$ -	\$ 18
Due to other funds	-	-	212,500	212,500
Total Liabilities	-	18	212,500	212,518
<u>Deferred Inflows of Resources</u>				
Unavailable revenue				
Property taxes	19,929	-	-	19,929
Total Deferred Inflows of Resources	19,929	-	-	19,929
<u>Fund Balances</u>				
Restricted for:				
Debt service	372,961	-	-	372,961
Economic development	-	1,246,524	684,517	1,931,041
Total Fund Balances	372,961	1,246,524	684,517	2,304,002
Total Liabilities and Fund Balances	\$ 392,890	\$ 1,246,542	\$ 897,017	\$ 2,536,449

City of Sanger, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	Debt Service	4A Fund	4B Fund	Total Nonmajor Governmental
Revenues				
Property tax	\$ 745,007	\$ -	\$ -	\$ 745,007
Sales tax	-	339,636	339,636	679,272
Fines and forfeitures	-	1,087	-	1,087
Investment income	113	-	1,272	1,385
Other revenue	13	88,667	5,000	93,680
Total Revenues	745,133	429,390	345,908	1,520,431
Expenditures				
Current:				
General government	1,135	18	-	1,153
Debt service:				
Principal	575,000	37,606	-	612,606
Interest	261,101	23,661	-	284,762
Total Expenditures	837,236	61,285		898,521
Excess of Revenues Over (Under)				
Expenditures	(92,103)	368,105	345,908	621,910
Other Financing Sources (Uses)				
Transfers in	212,500	-	-	212,500
Transfers (out)	(107,000)	(15,200)	(227,700)	(349,900)
Total Other Financing Sources	105,500	(15,200)	(227,700)	(137,400)
(Uses)				
Net Change in Fund Balances	13,397	352,905	118,208	484,510
Beginning fund balances	359,564	893,619	566,309	1,819,492
Ending Fund Balances	\$ 372,961	\$ 1,246,524	\$ 684,517	\$ 2,304,002

City of Sanger, Texas

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS - BY DEPARTMENT

For the Year Ended September 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Fleet Services</u>
<u>Operating Revenues</u>				
Charges for services	\$ 1,294,722	\$ 1,154,143	\$ 7,887,296	\$ -
Connection fees	-	-	50,491	-
Tap fees	79,950	99,000	-	-
Other revenue	-	-	-	-
Total Operating Revenues	1,374,672	1,253,143	7,937,787	-
<u>Operating Expenses</u>				
Salaries and wages	286,529	145,542	529,171	74,420
Contracted services	12,669	28,739	43,178	4,121
Utilities	126,025	163,590	9,386	7,796
Materials and supplies	22,705	15,254	40,892	6,930
Water and electric purchases	53,243	-	5,447,727	-
Repairs and maintenance	146,054	78,760	172,217	6,623
Depreciation	280,161	237,716	338,542	1,212
Total Operating Expenses	927,386	669,601	6,581,113	101,102
Operating Income	447,286	583,542	1,356,674	(101,102)
<u>Nonoperating Revenues (Expenses)</u>				
Intergovernmental	-	260,250	-	-
Investment income	-	-	-	-
Interest expense	-	-	-	-
Nonoperating Revenues (Expenses)	-	260,250	-	-
Income Before Transfers	447,286	843,792	1,356,674	(101,102)
Transfers (out)	-	-	(393,352)	-
Change in Net Position	\$ 447,286	\$ 843,792	\$ 963,322	\$ (101,102)

<u>Administration</u>	<u>Total</u>
\$ -	\$ 10,336,161
-	50,491
-	178,950
31,240	31,240
<u>31,240</u>	<u>10,596,842</u>
541,701	1,577,363
109,086	197,793
11,038	317,835
20,123	105,904
-	5,500,970
3,301	406,955
16,640	874,271
<u>701,889</u>	<u>8,981,091</u>
<u>(670,649)</u>	<u>1,615,751</u>
-	260,250
14,047	14,047
<u>(341,421)</u>	<u>(341,421)</u>
<u>(327,374)</u>	<u>(67,124)</u>
(998,023)	1,548,627
<u>(306,000)</u>	<u>(699,352)</u>
<u>\$ (1,304,023)</u>	<u>\$ 849,275</u>

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