

# ANNUAL FINANCIAL REPORT

For Fiscal Year Ended September 30, 2017



The City of Sanger  
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*ANNUAL FINANCIAL REPORT*

of the

**City of Sanger, Texas**

**For the Year Ended  
September 30, 2017**

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# City of Sanger, Texas

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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, the discretely presented component units, 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, 2017, 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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, 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.

### *Emphasis of Matter*

As discussed in Note V.G. to the financial statements, the City restated the beginning net position of governmental activities and business-type activities, and the beginning fund balance of the general fund due to accounting errors occurring in the prior year and the change in the presentation of the City's component units. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employee contributions to pension plan, and budgetary comparison information for the general fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 schedule by department for the proprietary fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule by department for the proprietary fund is the responsibility of management and was 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 financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly stylized font.

Brooks Watson & Co.  
Certified Public Accountants  
Houston, Texas  
February 13, 2018

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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, 2017

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, 2017.

### **Financial Highlights**

- The City's total combined net position is \$32,788,027 at September 30, 2017. Of this, \$16,701,249 (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 \$4,077,155, an increase of \$138,149.
- As of the end of the year, the unassigned fund balance of the general fund was \$3,190,939 or 57% of total general fund expenditures.
- The City had an overall increase in net position of \$4,654,389, which is primarily due to strong general and utility revenues and increased investment in capital assets compared to the prior year.

### **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, 2017

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") and the Sanger Texas Development Corporation ("4B"), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

### 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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of

# City of Sanger, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2017

revenues, expenditures, and changes in fund balances for the general, debt service, and capital projects funds. The general and capital projects funds 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 the general fund budget.

### **Proprietary Funds**

The City maintains two different types of proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses a proprietary fund to account for its public utilities. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for administrative support services to other funds of the City.

### **Component Units**

The City maintains the accounting and financial statements for two component units. The 4A and the 4B are both discretely presented component units displayed on the government-wide financial statements.

### **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 is a budgetary comparison schedule for the general fund and schedules for the City's Defined Pension Plan. 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 exceeded liabilities by \$32,788,027 as of September 30, 2017, in the primary government.

**City of Sanger, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2017**

The largest portion of the City's net position, \$15,230,983, 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.

An additional portion of the City's net position, \$855,795, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$16,701,249 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current assets of business-type activities as of September 30, 2017 and September 30, 2016 were \$23,313,512 and \$16,093,043, respectively. The increase of \$7,220,469 was primarily attributable to unspent bond proceeds from a new bond issuance during the year.

Long term liabilities of business-type activities as of September 30, 2017 and September 30, 2016 were \$21,767,087 and \$12,739,769, respectively. The increase of \$9,027,318 was due to the aforementioned bond issuance during the year.

**City of Sanger, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2017**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 5,153,316	\$ 23,313,512	\$ 28,466,828	\$ 4,401,941	\$ 16,093,043	\$ 20,494,984
Capital assets, net	16,264,468	18,881,652	35,146,120	14,036,819	15,045,344	29,082,163
<b>Total Assets</b>	<b>21,417,784</b>	<b>42,195,164</b>	<b>63,612,948</b>	<b>18,438,760</b>	<b>31,138,387</b>	<b>49,577,147</b>
<b>Deferred Outflows of Resources</b>	<b>465,724</b>	<b>178,790</b>	<b>644,514</b>	<b>489,156</b>	<b>196,393</b>	<b>685,549</b>
Other liabilities	1,716,929	2,788,037	4,504,966	1,288,848	2,365,563	3,654,411
Long-term liabilities	5,069,886	21,767,087	26,836,973	5,734,878	12,739,769	18,474,647
<b>Total Liabilities</b>	<b>6,786,815</b>	<b>24,555,124</b>	<b>31,341,939</b>	<b>7,023,726</b>	<b>15,105,332</b>	<b>22,129,058</b>
<b>Deferred Inflows of Resources</b>	<b>97,970</b>	<b>29,526</b>	<b>127,496</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Position:						
Net investment						
in capital assets	10,968,978	4,262,005	15,230,983	8,436,670	7,235,242	15,671,912
Restricted	855,795	-	855,795	1,555,196	-	1,555,196
Unrestricted	3,173,950	13,527,299	16,701,249	1,912,324	8,994,206	10,906,530
<b>Total Net Position</b>	<b>\$ 14,998,723</b>	<b>\$ 17,789,304</b>	<b>\$ 32,788,027</b>	<b>\$ 11,904,190</b>	<b>\$ 16,229,448</b>	<b>\$ 28,133,638</b>

**City of Sanger, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2017**

**Statement of Activities:**

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

	For the Year Ended September 30, 2017			For the Year Ended September 30, 2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,810,697	\$ 12,180,291	\$ 13,990,988	\$ 1,663,963	\$ 11,236,562	\$ 12,900,525
Grants and contributions	1,718,787	725,000	2,443,787	185,385	472,500	657,885
General revenues:						
Property taxes	3,584,390	-	3,584,390	3,329,733	-	3,329,733
Sales taxes	883,562	-	883,562	815,547	-	815,547
Franchise and local taxes	236,082	-	236,082	240,206	-	240,206
Investment income	4,372	21,875	26,247	6,410	21,429	27,839
Other revenues	210,949	-	210,949	133,359	-	133,359
<b>Total Revenues</b>	<b>8,448,839</b>	<b>12,927,166</b>	<b>21,376,005</b>	<b>6,374,603</b>	<b>11,730,491</b>	<b>18,105,094</b>
<b>Expenses</b>						
General government	1,797,001	-	1,797,001	1,797,824	-	1,797,824
Public safety	2,369,510	-	2,369,510	2,421,517	-	2,421,517
Public works	1,074,157	-	1,074,157	998,940	-	998,940
Culture and recreation	792,090	-	792,090	731,562	-	731,562
Interest and fiscal charges	186,772	741,243	928,015	253,181	401,239	654,420
Water, sewer, & electric	-	9,760,843	9,760,843	-	9,458,017	9,458,017
<b>Total Expenses</b>	<b>6,219,530</b>	<b>10,502,086</b>	<b>16,721,616</b>	<b>6,203,024</b>	<b>9,859,256</b>	<b>16,062,280</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	2,229,309	2,425,080	4,654,389	171,579	1,871,235	2,042,814
Transfers	865,224	(865,224)	-	1,257,423	(1,257,423)	-
<b>Total</b>	<b>865,224</b>	<b>(865,224)</b>	<b>-</b>	<b>1,257,423</b>	<b>(1,257,423)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>3,094,533</b>	<b>1,559,856</b>	<b>4,654,389</b>	<b>1,429,002</b>	<b>613,812</b>	<b>2,042,814</b>
Beginning Net Position	11,904,190	16,229,448	28,133,638	10,475,188	15,615,636	26,090,824
<b>Ending Net Position</b>	<b>\$ 14,998,723</b>	<b>\$ 17,789,304</b>	<b>\$ 32,788,027</b>	<b>\$ 11,904,190</b>	<b>\$ 16,229,448</b>	<b>\$ 28,133,638</b>

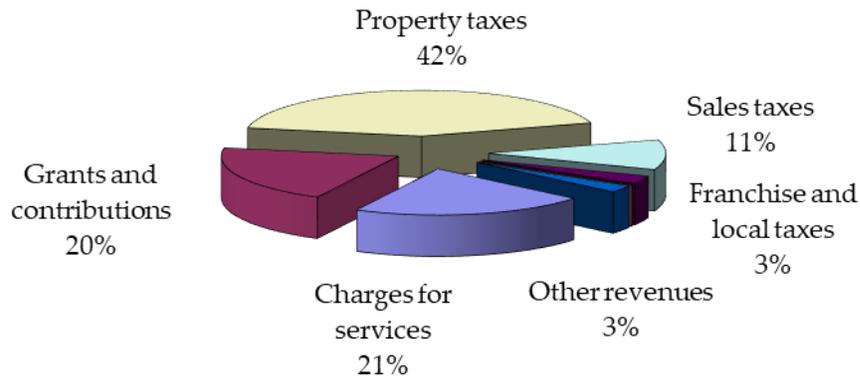
# City of Sanger, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

### September 30, 2017

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

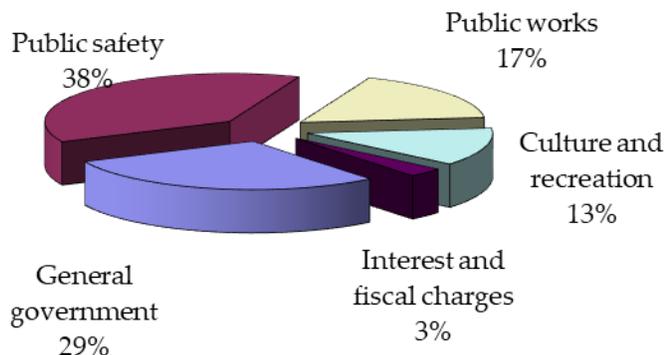
### Governmental Activities - Revenues



For the year ended September 30, 2017, revenues from governmental activities totaled \$8,448,839. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased by \$254,657 or 8% due to higher property values. Sales taxes increased \$68,015 or 8% due to economic growth within the city limits. Charges for services increased \$146,734 or 9% primarily due to increases in EMS services and building permit revenue. Grants and contributions increased by \$1,533,402 funds received from an interlocal agreement with Denton County for street construction. 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



For the year ended September 30, 2017, expenses for governmental activities totaled \$6,219,530. This represents an increase of \$16,506 or < 1% from the prior year. The City's largest functional expense is general government of \$1,797,001, which primarily includes contractual costs for garbage removal, salaries for finance and city administration, plus depreciation of related capital assets. Interest and

# City of Sanger, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

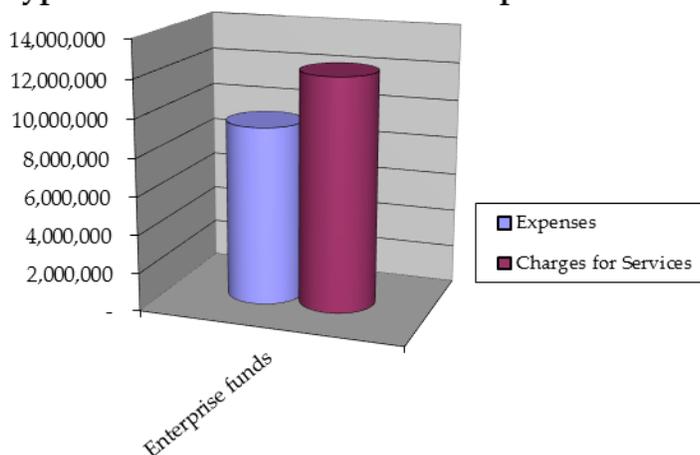
September 30, 2017

fiscal charges decreased \$66,409 or 26% due to the recognition of bond issuance costs in the prior year. All other 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, 2017, charges for services by business-type activities totaled \$12,180,291. This is an increase of \$943,729, or 8%, from the previous year. The increase was due to the increase in water and sewer billing rates and consumption in the current year.

### Business-Type Activities - Revenues and Expenses



Total expenses increased \$642,830 primarily due to increases in interest and amortization expenses, and increases in repairs and maintenance expense.

### 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 \$3,376,924. Of this, \$8,131 is restricted for municipal court, \$21,744 is restricted for tourism, \$88,436 is restricted for library improvements, \$29,191 for public safety, and \$8,062 is restricted for parks. In addition, \$30,421 is committed for employee benefits. Unassigned fund balance totaled \$3,190,939 as of yearend.

**City of Sanger, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2017**

The capital projects fund reflected an ending balance of \$240,936, a decrease of \$789,935. This decrease is attributed to greater capital outlay expenditures compared to intergovernmental funds received.

There was an increase in governmental fund balance of \$138,149 over the prior year. The increase was primarily due to transfers received from the proprietary fund.

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 \$812,045 in the general fund. This is a combination of a positive revenue variance of \$421,097, a positive expenditure variance of \$453,992, and a negative variance of \$63,044 in other financing sources and uses. The most significant variances were for property taxes, sales taxes, licenses and permits, charges for services, capital outlay, and the police department, which all had positive variances for the City.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$16,264,468 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 \$18,881,652 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- McReynolds road construction in the amount of \$2,789,579
- Waste water line improvements to Smith, Sims, Kirkland, Jones & Lois for \$1,828,315
- New water well for \$381,307
- Sewer plant expansion for \$1,816,933
- Waste water treatment plant pipeline and a new lift station totaling \$384,619
- Acquisition of machinery and equipment for water department for \$140,074
- Purchase of public safety vehicles for \$153,905

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

# City of Sanger, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2017

### LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$25,115,000 and capital leases of \$573,438. During the year, the City had principal payments on bonds and capital leases of \$1,559,098. During the year, the City had a \$9,240,000 bond issuance for the water, sewer, and electric fund. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

### 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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**City of Sanger, Texas**  
**STATEMENT OF NET POSITION (Page 1 of 2)**  
**September 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 3,609,746	\$ 12,227,941	\$ 15,837,687
Restricted cash	-	8,255,967	8,255,967
Investments	532,221	417,201	949,422
Restricted investments	-	300,000	300,000
Receivables, net	1,114,924	1,622,297	2,737,221
Inventory	-	386,531	386,531
Internal balances	(103,575)	103,575	-
<b>Total Current Assets</b>	<b>5,153,316</b>	<b>23,313,512</b>	<b>28,466,828</b>
Capital assets:			
Non-depreciable	4,378,857	8,391,661	12,770,518
Net depreciable capital assets	11,885,611	10,489,991	22,375,602
	<b>16,264,468</b>	<b>18,881,652</b>	<b>35,146,120</b>
<b>Total Assets</b>	<b>21,417,784</b>	<b>42,195,164</b>	<b>63,612,948</b>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	26,537	46,428	72,965
Pension contributions	160,147	48,265	208,412
Pension investment earnings	234,017	70,528	304,545
Pension assumption changes	45,023	13,569	58,592
<b>Total Deferred Outflows of Resources</b>	<b>465,724</b>	<b>178,790</b>	<b>644,514</b>

See Notes to Financial Statements.

**Component Units**

<b>Sanger Industrial Dev. Corp. (4A)</b>	<b>Sanger Texas Dev. Corp. (4B)</b>
\$ 1,154,579	\$ 724,225
94,483	278,079
-	-
71,503	71,503
-	-
-	-
1,320,565	1,073,807
-	-
817,307	-
817,307	-
2,137,872	1,073,807
-	-
-	-
-	-
-	-
-	-

**City of Sanger, Texas**  
**STATEMENT OF NET POSITION (Page 2 of 2)**  
**September 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 793,485	\$ 1,185,534	\$ 1,979,019
Accrued interest payable	37,433	233,321	270,754
Customer deposits	-	438,426	438,426
Long term debt due within one year	886,011	930,756	1,816,767
<b>Total Current Liabilities</b>	<b>1,716,929</b>	<b>2,788,037</b>	<b>4,504,966</b>
Noncurrent liabilities:			
Debt due in more than one year	4,197,725	21,504,235	25,701,960
Net pension liability	872,161	262,852	1,135,013
	<b>5,069,886</b>	<b>21,767,087</b>	<b>26,836,973</b>
<b>Total Liabilities</b>	<b>6,786,815</b>	<b>24,555,124</b>	<b>31,341,939</b>
<b><u>Deferred Inflows of Resources</u></b>			
Pension (gains) losses	97,970	29,526	127,496
<b><u>Net Position</u></b>			
Net investment in capital assets	10,968,978	4,262,005	15,230,983
Restricted for:			
Debt service	459,295	-	459,295
Capital projects	240,936	-	240,936
Parks	8,062	-	8,062
Economic development	-	-	-
Other purposes	147,502	-	147,502
Unrestricted	3,173,950	13,527,299	16,701,249
<b>Total Net Position</b>	<b>\$ 14,998,723</b>	<b>\$ 17,789,304</b>	<b>\$ 32,788,027</b>

See Notes to Financial Statements.

**Component Units**

<b>Sanger Industrial</b>	<b>Sanger Texas</b>
<b>Dev. Corp. (4A)</b>	<b>Dev. Corp. (4B)</b>
\$ 3,216	\$ -
-	-
-	-
50,699	-
53,915	-
307,321	-
-	-
307,321	-
361,236	-
-	-
464,493	-
-	-
-	-
-	-
1,312,143	1,073,807
-	-
-	-
\$ 1,776,636	\$ 1,073,807

# City of Sanger, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 1,797,001	\$ 1,119,153	\$ 300	\$ -
Public safety	2,369,510	691,544	53,743	-
Public works	1,074,157	-	-	1,452,244
Culture and recreation	792,090	-	-	-
Interest and fiscal charges	186,772	-	212,500	-
<b>Total Governmental Activities</b>	<b>6,219,530</b>	<b>1,810,697</b>	<b>266,543</b>	<b>1,452,244</b>
<b>Business-Type Activities</b>				
Water	1,474,412	2,133,938	-	725,000
Sewer	1,015,563	2,204,011	-	-
Electric	7,256,080	7,788,610	-	-
Fleet services	525	-	-	-
Utility administration	755,506	53,732	-	-
<b>Total Business-Type Activities</b>	<b>10,502,086</b>	<b>12,180,291</b>	<b>-</b>	<b>725,000</b>
<b>Total Primary Government</b>	<b>\$ 16,721,616</b>	<b>\$ 13,990,988</b>	<b>\$ 266,543</b>	<b>\$ 2,177,244</b>
<b>Component Units</b>				
4A	918,183	-	-	30,000
4B	237,500	-	-	-
	<b>\$ 1,155,683</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,000</b>

**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			Component Units	
Governmental Activities	Business-Type Activities	Total	Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ (677,548)	\$ -	\$ (677,548)	\$ -	\$ -
(1,624,223)	-	(1,624,223)	-	-
378,087	-	378,087	-	-
(792,090)	-	(792,090)	-	-
25,728	-	25,728	-	-
<u>(2,690,046)</u>	<u>-</u>	<u>(2,690,046)</u>	<u>-</u>	<u>-</u>
-	1,384,526	1,384,526	-	-
-	1,188,448	1,188,448	-	-
-	532,530	532,530	-	-
-	(525)	(525)	-	-
-	(701,774)	(701,774)	-	-
-	2,403,205	2,403,205	-	-
<u>(2,690,046)</u>	<u>2,403,205</u>	<u>(286,841)</u>	<u>-</u>	<u>-</u>
			(888,183)	-
			-	(237,500)
			<u>(888,183)</u>	<u>(237,500)</u>
3,584,390	-	3,584,390	-	-
883,562	-	883,562	439,500	439,500
236,082	-	236,082	-	-
4,372	21,875	26,247	-	1,346
85,990	-	85,990	8,409	-
10,834	-	10,834	-	-
114,125	-	114,125	-	-
865,224	(865,224)	-	-	-
<u>5,784,579</u>	<u>(843,349)</u>	<u>4,941,230</u>	<u>447,909</u>	<u>440,846</u>
3,094,533	1,559,856	4,654,389	(440,274)	203,346
11,904,190	16,229,448	28,133,638	2,216,910	870,461
<u>\$ 14,998,723</u>	<u>\$ 17,789,304</u>	<u>\$ 32,788,027</u>	<u>\$ 1,776,636</u>	<u>\$ 1,073,807</u>

# City of Sanger, Texas

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2017

	General	Capital Projects Fund	Nonmajor Debt Service
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 2,916,475	\$ 60,156	\$ 459,191
Investments	532,221	-	-
Receivables, net	485,660	609,231	20,033
<b>Total Assets</b>	<b>\$ 3,934,356</b>	<b>\$ 669,387</b>	<b>\$ 479,224</b>
<b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	\$ 320,093	\$ 428,451	\$ -
Due to other funds	103,575	-	-
<b>Total Liabilities</b>	<b>423,668</b>	<b>428,451</b>	<b>-</b>
<b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenue			
Property taxes	43,237	-	19,929
EMS revenue	90,527	-	-
<b>Total Deferred Inflows of Resources</b>	<b>133,764</b>	<b>-</b>	<b>19,929</b>
<b><u>Fund Balances</u></b>			
Restricted for:			
Municipal court	8,131	-	-
Tourism	21,744	-	-
Library	88,436	-	-
Public safety	29,191	-	-
Debt service	-	-	459,295
Capital projects	-	240,936	-
Parks	8,062	-	-
Committed for:			
Employee benefits	30,421	-	-
Unassigned reported in:			
General fund	3,190,939	-	-
<b>Total Fund Balances</b>	<b>3,376,924</b>	<b>240,936</b>	<b>459,295</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 3,934,356</b>	<b>\$ 669,387</b>	<b>\$ 479,224</b>

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

---

\$ 3,435,822  
532,221  
1,114,924  

---

\$ 5,082,967  

---

---

\$ 748,544  
103,575  

---

852,119  

---

63,166  
90,527  

---

153,693  

---

8,131  
21,744  
88,436  
29,191  
459,295  
240,936  
8,062  
  
30,421  
  
3,190,939  

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4,077,155  

---

  
\$ 5,082,967  

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# City of Sanger, Texas

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

September 30, 2017

<b>Fund Balances - Total Governmental Funds</b>	\$ 4,077,155
<b>Adjustments for the Statement of Net Position:</b>	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	4,378,857
Capital assets - net depreciable	11,845,875
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	90,527
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	26,537
Pension contributions	119,451
Pension investment earnings	174,549
Pension gains (losses)	(73,074)
Pension assumption changes	33,582
Internal service funds are used by management to charge the cost of internal services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Net position - governmental activities	(4,913)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(37,433)
Compensated absences	(144,352)
Bond premium	(120,759)
Net pension liability	(650,530)
Non-current liabilities due in one year	(721,255)
Non-current liabilities due in more than one year	(4,058,660)
	<u>\$ 14,998,723</u>

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, 2017

	General	Capital Projects Fund	Nonmajor Debt Service
<b>Revenues</b>			
Property tax	\$ 2,950,887	\$ -	\$ 684,262
Sales tax	883,562	-	-
Franchise and local taxes	236,082	-	-
License and permits	289,775	-	-
Charges for services	829,378	-	-
Fire and rescue	588,124	-	-
Contributions and donations	300	-	-
Intergovernmental	53,743	1,452,244	212,500
Fines and forfeitures	103,420	-	-
Investment income	4,258	-	114
Other revenue	85,990	-	-
<b>Total Revenues</b>	6,025,519	1,452,244	896,876
<b>Expenditures</b>			
Current:			
General government	1,502,906	-	875
Police department	1,339,076	-	-
Municipal court	184,528	-	-
Fire and EMS	991,227	-	-
Parks and recreation	597,346	-	-
Public works	730,096	-	-
Debt service:			
Principal	111,095	-	596,800
Interest	18,257	-	192,466
Capital outlay	169,822	2,792,179	-
<b>Total Expenditures</b>	5,644,353	2,792,179	790,141
<b>Excess of Revenues Over (Under) Expenditures</b>	381,166	(1,339,935)	106,735
<b>Other Financing Sources (Uses)</b>			
Transfers in	916,760	550,000	-
Transfers (out)	(550,000)	-	(51,536)
Proceeds from sale of capital assets	10,834	-	-
Insurance recoveries	114,125	-	-
<b>Total Other Financing Sources (Uses)</b>	491,719	550,000	(51,536)
<b>Net Change in Fund Balances</b>	872,885	(789,935)	55,199
Beginning fund balances	2,504,039	1,030,871	404,096
<b>Ending Fund Balances</b>	\$ 3,376,924	\$ 240,936	\$ 459,295

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

---

\$	3,635,149	
	883,562	
	236,082	
	289,775	
	829,378	
	588,124	
	300	
	1,718,487	
	103,420	
	4,372	
	85,990	
	<hr/> 8,374,639 <hr/>	
		1,503,781
		1,339,076
		184,528
		991,227
		597,346
		730,096
		707,895
		210,723
		2,962,001
		<hr/> 9,226,673 <hr/>
		(852,034)
		1,466,760
		(601,536)
		10,834
		114,125
		<hr/> 990,183 <hr/>
		138,149
		3,939,006
		<hr/> \$ 4,077,155 <hr/> <hr/>

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# 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, 2017**

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

Net changes in fund balances - total governmental funds	\$	138,149
---------------------------------------------------------	----	---------

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		3,163,870
Depreciation expense		(942,156)

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

EMS receivable		(50,759)
----------------	--	----------

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		(9,675)
Accrued interest		4,852
Pension expense		(71,967)

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.

Deferred charges on refunding		(7,250)
Premium on debt		26,349
Principal payments		707,895

Internal service funds are used by management to charge the cost of internal services to individual funds. The City reports the net gain (loss) of internal service funds within governmental activities.

135,225

<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>3,094,533</b>
----------------------------------------------------------	-----------	------------------

See Notes to Financial Statements.

**City of Sanger, Texas**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
September 30, 2017

	Water, Sewer & Electric	Governmental Activities Internal Service
<b><u>Assets</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	\$ 12,227,941	\$ 173,924
Restricted cash	8,255,967	-
Investments	417,201	-
Restricted investments	300,000	-
Receivables, net	1,622,297	-
Inventory	386,531	-
Due from other funds	103,575	-
<b>Total Current Assets</b>	<b>23,313,512</b>	<b>173,924</b>
<b><u>Noncurrent Assets</u></b>		
Capital assets:		
Non-depreciable	8,391,661	-
Net depreciable capital assets	10,489,991	39,736
<b>Total Noncurrent Assets</b>	<b>18,881,652</b>	<b>39,736</b>
<b>Total Assets</b>	<b>42,195,164</b>	<b>213,660</b>
<b><u>Deferred Outflows of Resources</u></b>		
Pension contributions	48,265	40,696
Pension investment earnings	70,528	59,468
Pension assumption changes	13,569	11,441
Deferred charge on refunding	46,428	-
<b>Total Deferred Outflows of Resources</b>	<b>178,790</b>	<b>111,605</b>
<b><u>Liabilities</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts payable and accrued liabilities	1,185,534	44,941
Accrued interest	233,321	-
Customer deposits	438,426	-
Compensated absences - current	94,379	34,839
Bonds and capital leases payable-current	836,377	-
<b>Total Current Liabilities</b>	<b>2,788,037</b>	<b>79,780</b>
<b><u>Noncurrent Liabilities</u></b>		
Compensated absences	10,487	3,871
Net pension liability	262,852	221,631
Bonds and capital leases payable	21,493,748	-
<b>Total Liabilities</b>	<b>24,555,124</b>	<b>305,282</b>
<b><u>Deferred Inflows of Resources</u></b>		
Pension (gains) losses	29,526	24,896
<b><u>Net Position</u></b>		
Net investment in capital assets	4,370,129	39,736
Unrestricted	13,419,175	(44,649)
<b>Total Net Position</b>	<b>\$ 17,789,304</b>	<b>\$ (4,913)</b>

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, 2017

	Water, Sewer & Electric	Governmental Activities Internal Service
<b><u>Operating Revenues</u></b>		
Charges for services	\$ 11,144,839	\$ 1,676,148
Connection fees	57,720	-
Tap fees	924,000	-
Other revenue	53,732	-
<b>Total Operating Revenues</b>	12,180,291	1,676,148
<b><u>Operating Expenses</u></b>		
Salaries and wages	1,935,540	1,057,951
Contracted services	324,471	293,394
Utilities	315,524	34,476
Materials and supplies	200,241	129,942
Water and electric purchases	5,483,292	-
Repairs and maintenance	685,346	17,801
Depreciation	816,429	7,359
<b>Total Operating Expenses</b>	9,760,843	1,540,923
<b>Operating Income (Loss)</b>	2,419,448	135,225
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Investment income	21,875	-
Intergovernmental	725,000	-
Interest expense	(741,243)	-
<b>Total Nonoperating Revenues (Expenses)</b>	5,632	-
<b>Income (Loss) Before Transfers</b>	2,425,080	135,225
Transfers (out)	(865,224)	-
<b>Change in Net Position</b>	1,559,856	135,225
Beginning net position	16,229,448	(140,138)
<b>Ending Net Position</b>	\$ 17,789,304	\$ (4,913)

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, 2017**

	<b>Water, Sewer &amp; Electric</b>	<b>Governmental Activities Internal Service</b>
<b><u>Cash Flows from Operating Activities</u></b>		
Receipts from customers	\$ 12,315,664	\$ 1,676,148
Payments to suppliers	(6,691,173)	(467,273)
Payments to employees	(1,883,865)	(1,021,659)
Payments/receipts for other	(20,420)	-
<b>Net Cash Provided by Operating Activities</b>	<b>3,720,206</b>	<b>187,216</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>		
Operating transfers out	(865,224)	-
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>(865,224)</b>	<b>-</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Capital purchases	(4,652,737)	(13,292)
Capital contributions	725,000	-
Proceeds from bond issuance	9,997,697	-
Principal paid on debt	(851,203)	-
Interest paid on debt	(692,956)	-
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>4,525,801</b>	<b>(13,292)</b>
<b><u>Cash Flows from Investing Activities</u></b>		
Purchases of investments, net	(1,871)	-
Interest on investments	21,875	-
<b>Net Cash Provided by Investing Activities</b>	<b>20,004</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>7,400,787</b>	<b>173,924</b>
Beginning cash and cash equivalents	13,083,121	-
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 20,483,908</b>	<b>\$ 173,924</b>

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, 2017**

	Water, Sewer & Electric	Governmental Activities Internal Service
<b><u>Reconciliation of Operating Income</u></b>		
<b><u>to Net Cash Provided by Operating Activities</u></b>		
Operating Income	\$ 2,419,448	\$ 135,225
Adjustments to reconcile operating income to net cash provided:		
Depreciation	816,429	7,359
<b>Changes in Operating Assets and Liabilities:</b>		
<b>(Increase) Decrease in:</b>		
Accounts receivable	94,514	-
Inventory	108,095	-
Due from/to other funds	(20,420)	-
Deferred outflows of resources - pension contributions	(6,229)	(5,252)
Deferred outflows of resources - pension investment earnings	24,920	16,681
Deferred inflows of resources - pension (gains) losses	12,050	24,896
Deferred outflows of resources - pension assumption changes	3,663	(7,317)
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued liabilities	209,606	8,340
Compensated absences	22,596	11,773
Customer deposits	40,859	-
Net pension liability	(5,325)	(4,489)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 3,720,206</b>	<b>\$ 187,216</b>

See Notes to Financial Statements.

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**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017**

**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 in 1886 and operates under a Council-Manager form of government. The City provides: general government, public safety, public works, culture and recreation, water, sewer, 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.

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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.

### **Discretely Presented Component Units**

#### Sanger Industrial Development Corporation (4A)

The Sanger Texas Industrial Development Corporation ("4A") 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. Discrete presentation is appropriate because the District's Board is not substantially the same as the City.

#### Sanger Texas Development Corporation (4B)

The Sanger Texas Development Corporation ("4B") 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. Discrete presentation is appropriate because the District's Board is not substantially the same as the City.

### **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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
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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. 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.

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 capital asset activities for governmental fund types.

The government reports the following nonmajor governmental fund:

**Debt Service Fund**

The debt service fund is used to account for debt service activities for governmental fund types.

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**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.

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.

Additionally, the government reports the following fund type:

**Internal Service Fund**

Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City's internal service fund was set up to provide administrative support services to other funds of the City.

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

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

### September 30, 2017

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. 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

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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 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.

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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. Fair Value**

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

**3. 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.

**4. 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.

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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.

### **5. 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 average cost method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

### **6. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the 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.

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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.

<b>Asset Description</b>	<b>Estimated Useful Life</b>
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

### 7. 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 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.

### 8. 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

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, *Continued***  
**September 30, 2017**

flow assumption must be made about the order in which the resources are considered to be applied.

**9. 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.

**10. 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).

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.

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2017

**11. 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.

**12. 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 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

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September 30, 2017

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.

**13. 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.

**14. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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, 2017

### 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. Budget amendments were only re-classes at the function level and below and there was no increase in budgeted revenues or expenses by function from amendments.

### IV. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of September 30, 2017, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 1,249,422	0.51
Total fair value	<u>\$ 1,249,422</u>	
Portfolio weighted average maturity		0.51

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
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As of September 30, 2017, the 4A Component Unit had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 94,483	0.01
Total fair value	<u>\$ 94,483</u>	
Portfolio weighted average maturity		0.01

As of September 30, 2017, the 4B Component Unit had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 278,079	0.46
Total fair value	<u>\$ 278,079</u>	
Portfolio weighted average maturity		0.46

*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.

*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, 2017, the market values of pledged securities and FDIC exceeded bank balances.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

*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:

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Water, Sewer &amp; Electric</b>	<b>Total</b>
Property taxes	\$ 75,400	\$ 31,177	\$ -	\$ -	\$ 106,577
Sales tax	143,005	-	-	-	143,005
Franchise & local taxes	35,236	-	-	-	35,236
Intergovernmental	-	-	609,231	-	609,231
EMS	292,017	-	-	-	292,017
Accounts	118,785	-	-	1,738,586	1,857,371
Other	38,930	-	-	-	38,930
Allowance	(217,713)	(11,144)	-	(116,289)	(345,146)
	<u>\$ 485,660</u>	<u>\$ 20,033</u>	<u>\$ 609,231</u>	<u>\$ 1,622,297</u>	<u>\$ 2,737,221</u>

The following comprise receivable balances of the component units at year end:

	<b>4A</b>	<b>4B</b>	<b>Total</b>
Sales tax	\$ 71,503	\$ 71,503	\$ 143,006
	<u>\$ 71,503</u>	<u>\$ 71,503</u>	<u>\$ 143,006</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

**C. Inventory**

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

Inventory type	Cost
Electric Department	\$ 334,969
Water Department	51,562
Total	\$ 386,531

**D. Capital Assets**

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

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 1,044,933	\$ -	\$ -	\$ 1,044,933
Construction in progress	1,010,993	2,798,410	(475,479)	3,333,924
Total capital assets not being depreciated	2,055,926	2,798,410	(475,479)	4,378,857
Capital assets, being depreciated:				
Infrastructure	11,958,388	17,800	11,500	11,987,688
Buildings and improvements	6,037,026	67,904	463,979	6,568,909
Machinery and equipment	3,616,608	293,049	(69,322)	3,840,335
Total capital assets being depreciated	21,612,022	378,753	406,157	22,396,932
Less accumulated depreciation				
Infrastructure	5,816,900	320,717	-	6,137,617
Buildings and improvements	1,682,788	295,941	-	1,978,729
Machinery and equipment	2,131,440	332,857	(69,322)	2,394,975
Total accumulated depreciation	9,631,128	949,515	(69,322)	10,511,321
Net capital assets being depreciated	11,980,894	(570,762)	475,479	11,885,611
<b>Total Capital Assets</b>	\$ 14,036,820	\$ 2,227,648	\$ -	\$ 16,264,468

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**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

Depreciation was charged to governmental functions as follows:

General government	\$	106,752
Public safety		117,555
Public works		359,369
Culture and recreation		240,696
Fire and rescue		117,784
Internal service		7,359
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$</b>	<b>949,515</b>

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>Disposals / Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 496,857	\$ -	\$ -	\$ 496,857
Construction in progress	3,449,956	4,444,848	-	7,894,804
Total capital assets not being depreciated	<u>3,946,813</u>	<u>4,444,848</u>	<u>-</u>	<u>8,391,661</u>
Capital assets, being depreciated:				
Infrastructure	23,566,545	89,185	-	23,655,730
Buildings and improvements	865,245	-	-	865,245
Machinery and equipment	2,082,611	118,704	(24,700)	2,176,615
Total capital assets being depreciated	<u>26,514,401</u>	<u>207,889</u>	<u>(24,700)</u>	<u>26,697,590</u>
Less accumulated depreciation				
Infrastructure	13,617,158	634,126	-	14,251,284
Buildings and improvements	419,568	51,855	-	471,423
Machinery and equipment	1,379,144	130,448	(24,700)	1,484,892
Total accumulated depreciation	<u>15,415,870</u>	<u>816,429</u>	<u>(24,700)</u>	<u>16,207,599</u>
Net capital assets being depreciated	11,098,531	(608,540)	-	10,489,991
<b>Total Capital Assets</b>	<b>\$ 15,045,344</b>	<b>\$ 3,836,308</b>	<b>\$ -</b>	<b>\$ 18,881,652</b>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

Depreciation was charged to business-type activities as follows:

Water	\$	292,183
Sewer		272,292
Electric		237,166
Other		14,788
<b>Total Business-type Activities Depreciation Expense</b>	<b>\$</b>	<b>816,429</b>

A summary of changes in component unit (4A Component Unit) capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,080,797	\$ -	\$ -	\$ 1,080,797
Furniture and fixtures	40,950	-	-	40,950
Total capital assets being depreciated	<u>1,121,747</u>	<u>-</u>	<u>-</u>	<u>1,121,747</u>
Less accumulated depreciation				
Buildings and improvements	253,145	38,360	-	291,505
Furniture and fixtures	8,572	4,363	-	12,935
Total accumulated depreciation	<u>261,717</u>	<u>42,723</u>	<u>-</u>	<u>304,440</u>
Net capital assets being depreciated	<u>860,030</u>	<u>(42,723)</u>	<u>-</u>	<u>817,307</u>
<b>Total Capital Assets</b>	<b><u>\$ 860,030</u></b>	<b><u>\$ (42,723)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 817,307</u></b>

The 4A Component Unit recognized depreciation expense of \$42,723 during the year ended September 30, 2017.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

**E. Long-term Debt**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization/ Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 1,946,800	\$ -	\$ (372,500)	\$ 1,574,300	\$ 377,000
Certificates of Obligation	2,964,600	-	(224,300)	2,740,300	229,900
Less deferred amounts:					
For issuance premiums	147,108	-	(26,349)	120,759	-
	<u>5,058,508</u>	<u>-</u>	<u>(623,149)</u>	<u>4,435,359</u>	<u>606,900</u>
Other liabilities:					
Capital leases payable	576,410	-	(111,095)	465,315	114,355
Compensated absences	161,614	135,798	(114,350)	183,062	164,756
<b>Total Governmental</b>					
<b>Activities</b>	<u>\$ 5,796,532</u>	<u>\$ 135,798</u>	<u>\$ (848,594)</u>	<u>\$ 5,083,736</u>	<u>\$ 886,011</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 4,197,725</u>	
<b>Business-Type Activities:</b>					
General Obligation Bonds	\$ 2,363,200	\$ -	\$ (452,500)	\$ 1,910,700	\$ 458,000
Certificates of Obligation	9,955,400	9,240,000	(305,700)	18,889,700	325,100
Less deferred amounts:					
For issuance premiums	743,091	757,697	(79,186)	1,421,602	-
	<u>13,061,691</u>	<u>9,997,697</u>	<u>(837,386)</u>	<u>22,222,002</u>	<u>783,100</u>
Other liabilities:					
Capital leases payable	201,126	-	(93,003)	108,123	53,277
Compensated absences	79,493	78,226	(52,853)	104,866	94,379
<b>Total Business-Type</b>					
<b>Activities</b>	<u>\$ 13,342,310</u>	<u>\$ 10,075,923</u>	<u>\$ (983,242)</u>	<u>\$ 22,434,991</u>	<u>\$ 930,756</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 21,504,235</u>	
<b>Component Units (4A Fund)</b>					
Notes payable	\$ 396,451	\$ -	\$ (43,637)	\$ 352,814	\$ 46,014
Compensated absences	2,888	3,860	(1,542)	5,206	4,685
	<u>\$ 399,339</u>	<u>\$ 3,860</u>	<u>\$ (45,179)</u>	<u>\$ 358,020</u>	<u>\$ 50,699</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 307,321</u>	

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

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

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Component Unit 4A Fund</u>	<u>Total</u>
<b>General Obligation Bonds:</b>				
\$3,495,000 General Obligation Refunding Bond, Series 2012, due in installments through 2021, interest at 2% to 3%	\$ 633,600	\$ 806,400	\$ -	\$ 1,440,000
\$2,535,000 General Obligation Refunding Bond, Series 2016, due in installments through 2021, interest at 2% to 4%	940,700	1,104,300	-	2,045,000
<b>Total General Obligation Bonds</b>	<u>\$ 1,574,300</u>	<u>\$ 1,910,700</u>	<u>\$ -</u>	<u>\$ 3,485,000</u>
<b>Certificates of Obligation:</b>				
\$1,750,000 Certificates of Obligation, Series 2007, due in annual installments through 2027, interest at 4.4%	\$ 362,100	\$ 702,900	\$ -	\$ 1,065,000
\$3,200,000 Certificates of Obligation, Series 2009, due in annual installments through 2026, interest at 3% to 4.75%	1,945,000	-	-	1,945,000
\$4,260,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2% to 3.7%	433,200	3,176,800	-	3,610,000
\$5,870,000 Certificates of Obligation, Series 2015, due in annual installments through 2035, interest at 3.4% to 5.5%	-	5,770,000	-	5,770,000
\$9,240,000 Certificates of Obligation, Series 2017, due in annual installments through 2035, interest at 3% to 4%	-	9,240,000	-	9,240,000
<b>Total Certificates of Obligation</b>	<u>\$ 2,740,300</u>	<u>\$ 18,889,700</u>	<u>\$ -</u>	<u>\$ 21,630,000</u>
<b>Less deferred amounts:</b>				
Issuance premium	\$ 120,759	\$ 1,421,602	\$ -	\$ 1,542,361
<b>Total Deferred Amounts</b>	<u>\$ 120,759</u>	<u>\$ 1,421,602</u>	<u>\$ -</u>	<u>\$ 1,542,361</u>
<b>Notes Payable:</b>				
\$660,000 Notes payable to a financial institution, due in monthly installments of \$5,106 through June 2024, including interest at 4.6%	\$ -	\$ -	\$ 352,814	\$ 352,814
<b>Total Notes Payable</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 352,814</u>	<u>\$ 352,814</u>
<b>Capital Leases Payable:</b>				
\$435,000 Capital lease payable to financial institution, due in annual installments of \$51,535 through 2024, interest at 3.346%	\$ 316,303	\$ -	\$ -	\$ 316,303
\$500,000 Capital lease payable to financial institution, due in annual installments of \$134,279 through 2019, interest at 2.947%	149,012	108,123	-	257,135
<b>Total Capital Leases Payable</b>	<u>\$ 465,315</u>	<u>\$ 108,123</u>	<u>\$ -</u>	<u>\$ 573,438</u>
<b>Compensated Absences</b>	183,062	104,866	5,206	293,134
<b>Total Long-term Liabilities</b>	<u>\$ 5,083,736</u>	<u>\$ 22,434,991</u>	<u>\$ 358,020</u>	<u>\$ 27,876,747</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

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.

The City issued \$9,240,000 of Series 2017 Certificates of Obligation in the current year. The City received proceeds of \$9,997,697 from this issuance resulting in premium recorded of \$757,697. The City also recognized debt issuance costs to interest expense of \$242,289 from this issuance. Principal payments are due annually in May, beginning May 2022. The bonds bear an interest rate ranging from 3% to 4%. Interest payments are due semi-annually on November 15th and May 15<sup>th</sup> through 2037.

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

General Obligation Bonds

<b>Year ending September 30,</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2018	\$ 377,000	\$ 55,426	\$ 458,000	\$ 66,824
2019	392,800	41,908	477,200	50,492
2020	410,900	27,824	499,100	33,476
2021	393,600	13,929	476,400	16,746
	<u>\$ 1,574,300</u>	<u>\$ 139,087</u>	<u>\$ 1,910,700</u>	<u>\$ 167,538</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

Combination Tax and Revenue Certificates of Obligations

<u>Year ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 229,900	\$ 119,387	\$ 325,100	\$ 721,343
2019	241,600	110,391	328,400	715,779
2020	248,900	100,919	331,100	706,516
2021	261,200	91,050	408,800	694,655
2022	273,500	79,919	616,500	679,742
2023	286,400	68,258	633,600	660,427
2024	297,000	55,768	658,000	640,327
2025	309,300	42,686	675,700	618,519
2026	323,900	28,194	701,100	593,113
2027	71,800	13,024	998,200	566,321
2028	28,800	9,768	1,086,200	526,357
2029	30,600	8,400	1,124,400	482,800
2030	31,800	6,870	1,173,200	436,574
2031	33,600	5,280	1,221,400	387,920
2032	35,400	3,600	1,269,600	337,338
2033	36,600	1,830	1,323,400	284,626
2034	-	-	1,420,000	229,713
2035	-	-	1,475,000	173,656
2036	-	-	1,535,000	115,344
2037	-	-	1,585,000	63,400
	<u>\$ 2,740,300</u>	<u>\$ 745,345</u>	<u>\$ 18,889,700</u>	<u>\$ 9,634,468</u>

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.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

Capital Leases

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 114,355	\$ 14,995	\$ 53,277	\$ 3,186
2019	117,889	11,463	54,846	1,616
2020	43,716	7,819	-	-
2021	45,179	6,357	-	-
2022	46,690	4,845	-	-
2023	48,252	3,283	-	-
2024	49,234	1,668	-	-
	<u>\$ 465,315</u>	<u>\$ 50,430</u>	<u>\$ 108,123</u>	<u>\$ 4,802</u>

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total carrying value as of yearend for governmental activities and business type activities of \$506,762 and \$178,737, respectively.

Note Payable for Component Unit – 4A

Year ending September 30,	Component Unit - 4A Fund	
	Principal	Interest
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	42,199	3,063
	<u>\$ 352,814</u>	<u>\$ 60,050</u>

**F. Conduit Debt**

Before the current year, 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. The 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.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

**G. Deferred Charge on Refunding**

Deferred charges resulting from the issuance of the 2012 and 2016 general obligation refunding bonds have been recorded as a deferred outflow of resources and are being amortized to interest expense over the terms of the respective refunded debts. Current year balances for governmental and business-type activities totaled \$26,537 and \$46,428, respectively. Current year amortization expense for governmental and business-type activities totaled \$7,250 and \$12,725, respectively.

**H. Interfund Transactions**

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

Transfer out:	Transfer In		
	General	Capital Projects	Total
General	\$ -	\$ 550,000	\$ 550,000
Debt Service	51,536	-	51,536
Enterprise	865,224	-	865,224
	\$ 916,760	\$ 550,000	\$ 1,466,760

The internal service fund provides administrative services to the general and water, sewer, & electric funds. Below is a summary of the amounts paid from these funds to the internal service fund for the year ended September 30, 2017:

Paid by:	Received by:
	Internal Service
General	\$ 502,845
Enterprise	1,173,303
	\$ 1,676,148

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

The compositions of interfund due to/from balances as of the year ended September 30, 2017 were as follows:

	<b>Receivable Fund</b>	
	<b>Water, Sewer, &amp;</b>	
<b>Payable Fund</b>	<b>Electric</b>	<b>Total</b>
General	\$ 103,575	\$ 103,575
<b>Total</b>	<b>\$ 103,575</b>	<b>\$ 103,575</b>

Interfund balances resulted from the timing difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be paid in the subsequent year.

**I. Fund Equity**

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances restricted/committed by the City:

	<b>Restricted</b>	<b>Committed</b>
Municipal court	\$ 8,131	\$ -
Tourism	21,744	-
Library	88,436	-
Public safety	29,191	-
Debt service	459,295	-
Capital projects	240,936	-
Parks	8,062	-
Employee benefits	-	30,421
	<b>\$ 855,795</b>	<b>\$ 30,421</b>

**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 2,800 other entities in the Texas Municipal League's

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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, 2017**

**C. Construction commitments**

The government has active construction projects as of September 30, 2017. 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
McReynolds Road Reconstruction	Pacheco Koch, LLC	\$ 9,027
McReynolds Road Reconstruction	HRM Land Acquisition	397
McReynolds Road Reconstruction	Pavecon	3,889,379
McReynolds Road Reconstruction	D&S Engineering	38,141
	<b>Project Total</b>	<b>3,936,944</b>
Server Consolidation	Austin Lane Technology	20,166
15" Water Line Chapman to Belz	Pacheco Koch	3,833
Water Line Lois to View	Pacheco Koch	19,542
Water Well and Ground Storage	Perkins Engineering	54,327
Water Well and Ground Storage	Cory Miller Drilling	32,052
	<b>Project Total</b>	<b>86,379</b>
12" Line Chapman to Belz	Pacheco Koch	18,794
E35 WWL to Lois	Pacheco Koch LLC	35,490
E35 WWL to Lois	Dickerson Construction	202,498
E35 WWL to Lois	HRM Land Acquisition	5,835
	<b>Project Total</b>	<b>243,823</b>
12" Line Lois to View	Pacheco Koch	21,333
New Sewer Line	Alan Plummer Associates	82,550
New Sewer Plant	Perkins Engineering	9,749,495
	<b>Project Total</b>	<b>9,832,045</b>
	<b>Total</b>	<b>\$ 14,182,859</b>

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2017

**D. Related Party Activity**

On March 1, 2012, the City entered into a non-cancelable lease agreement with a corporation of which a former city council member is a principal member of management. The leased property is owned by the 4A Component Unit and has a cost of \$1,080,797 with accumulated depreciation of \$291,505 as of September 30, 2017. The lease provides for a base rent and an adjustment each year related to excess operating expenses (if any) incurred annually. The lease was continued on a month to month basis beginning in July 2015. On January 6, 2017, the City terminated the lease agreement.

During the year ended September 30, 2017, the City recognized \$6,556 in rental revenue and collected \$32,777 from this lease. As of September 30, 2017, the City had no receivables from this lease.

**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. Defined Benefit Pension Plans**

**1. Plan Description**

The City of Sanger, Texas participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the city are required to participate in TMRS.

### **2. Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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 2016</u>	<u>Plan Year 2015</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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
 September 30, 2017

**Employees covered by benefit terms**

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	26
Active employees	64
<b>Total</b>	<b>103</b>

**3. Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Sanger were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Sanger were 7.13% and 7.63% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$266,753, and were equal to the required contributions.

**4. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2017

**Actuarial assumptions:**

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

### **Discount Rate:**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

**Changes in the Net Pension Liability:**

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
<b>Balance at 12/31/15</b>	\$ 7,989,659	\$ 6,831,656	\$ 1,158,003
Changes for the year:			
Service Cost	408,943	-	408,943
Interest (on the Total Pension Liab.)	545,333	-	545,333
Difference between expected and actual experience	(78,516)	-	(78,516)
Contributions – employer	-	240,177	(240,177)
Contributions – employee	-	202,113	(202,113)
Net investment income	-	461,955	(461,955)
Benefit payments, including refunds of emp. contributions	(230,245)	(230,245)	-
Administrative expense	-	(5,214)	5,214
Other changes	-	(281)	281
Net changes	645,515	668,505	(22,990)
<b>Balance at 12/31/16</b>	<u>\$ 8,635,174</u>	<u>\$ 7,500,161</u>	<u>\$ 1,135,013</u>

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 2,559,316	\$ 1,135,013	\$ (23,988)

**Pension Plan Fiduciary Net Position:**

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at [www.tmr.com](http://www.tmr.com).

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

**5. Pension Expense and Deferred Outflows of Resources Related to Pensions**

For the year ended September 30, 2017, the City recognized pension expense of \$391,339.

At September 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows (Inflows) of Resources</b>	
Difference between projected and investment earnings	\$	304,545
Changes in actuarial assumptions		58,592
Differences between expected and actual economic experience		(127,496)
Contributions subsequent to the measurement date		208,412
<b>Total</b>	\$	444,053

The City reported \$208,412 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended December 31:**

2017	\$	95,140
2018		95,140
2019		79,491
2020		(14,547)
2021		(13,878)
Thereafter		(5,705)
	\$	235,641

**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

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2017

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 2017, 2016 and 2015 are as follows:

<b>Plan/ Calendar Year</b>	<b>Annual Required Contribution (Rate)</b>	<b>Actual Contribution Made (Rate)</b>	<b>Percentage of ARC Contributed</b>
2015	0.01%	0.01%	100.0%
2016	0.01%	0.01%	100.0%
2017	0.01%	0.01%	100.0%

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$355, \$348, and \$322, respectively, which equaled the required contributions each year.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2017**

**G. Restatement**

The City restated the beginning net position of governmental activities and business-type activities, and the beginning fund balance of the general fund due to accounting errors related to capital assets, interfund borrowings, reallocation of debt between governmental and business-type activities, and the change in the presentation of the City's component units (4A & 4B) to be discretely presented rather than blended with governmental activities. The City has restated net position and fund balance as follows:

	<u>Proprietary Fund</u>	<u>Governmental Funds</u>		
	<u>Water, Sewer &amp; Electric</u>	<u>General Fund</u>	<u>4A</u>	<u>4B</u>
Prior year ending net position/ fund balance as reported	\$ 16,307,150	\$ 2,548,000	\$ 1,756,219	\$ 870,461
Correction for interfund borrowing	83,155	(83,155)	-	-
Correction to prior year EMS deferred inflow	-	39,194	-	-
Reallocation of debt to business-type activities	(160,857)	-	-	-
Discrete presentation of component units	-	-	(1,756,219)	(870,461)
Restated beginning net position/fund balance	<u>\$ 16,229,448</u>	<u>\$ 2,504,039</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Component Units</u>	
			<u>4A</u>	<u>4B</u>
Prior year ending net position	\$ 16,307,150	\$ 14,790,448	\$ -	\$ -
Correction for interfund borrowing	83,155	(83,155)	-	-
Correction to capital assets	-	123,411	-	-
Reallocation of debt to business-type activities	(160,857)	160,857	-	-
Discrete presentation of component units	-	(3,087,371)	2,216,910	870,461
Restated beginning net position	<u>\$ 16,229,448</u>	<u>\$ 11,904,190</u>	<u>\$ 2,216,910</u>	<u>\$ 870,461</u>

**H. Subsequent Events**

There were no material subsequent events through February 13, 2018, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

# City of Sanger, Texas

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL- GENERAL FUND (Page 1 of 2)  
For the Year Ended September 30, 2017**

	<u>Original &amp; Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b><u>Revenues</u></b>			
Property tax	\$ 2,844,518	\$ 2,950,887	\$ 106,369
Sales tax	805,000	883,562	78,562
Franchise and local taxes	218,600	236,082	17,482
License and permits	130,100	289,775	159,675
Charges for services	748,500	829,378	80,878
Fire and rescue	585,000	588,124	3,124
Contributions and donations	-	300	300
Intergovernmental	-	53,743	53,743
Fines and forfeitures	140,000	103,420	(36,580)
Investment income	4,000	4,258	258
Other revenue	128,704	85,990	(42,714)
<b>Total Revenues</b>	<u>5,604,422</u>	<u>6,025,519</u>	<u>421,097</u>
<b><u>Expenditures</u></b>			
Current:			
General government	1,475,294	1,502,906	(27,612)
Police department	1,506,743	1,339,076	167,667
Municipal court	241,728	184,528	57,200
Fire and EMS	1,064,065	991,227	72,838
Parks and recreation	608,376	597,346	11,030
Public works	759,018	730,096	28,922
Debt service:			
Principal	91,358	111,095	(19,737)
Interest	16,642	18,257	(1,615)
Capital outlay	335,121	169,822	165,299
<b>Total Expenditures</b>	<u>6,098,345</u>	<u>5,644,353</u>	<u>453,992</u>
<b>Revenues Over (Under) Expenditures</b>	<u>\$ (493,923)</u>	<u>\$ 381,166</u>	<u>\$ 875,089</u>

# City of Sanger, Texas

*SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL- GENERAL FUND (Page 2 of 2)  
For the Year Ended September 30, 2017*

	<b>Original &amp; Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	\$ 1,025,964	\$ 916,760	\$ (109,204)
Transfers (out)	(509,201)	(550,000)	(40,799)
Sale of capital assets	25,000	10,834	(14,166)
Insurance recoveries	13,000	114,125	101,125
<b>Total Other Financing Sources (Uses)</b>	554,763	491,719	(63,044)
<b>Net Change in Fund Balance</b>	\$ 60,840	872,885	\$ 812,045
Beginning fund balance		2,504,039	
<b>Ending Fund Balance</b>		<b>\$ 3,376,924</b>	

Notes to Required Supplementary Information

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

# City of Sanger, Texas

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years ended December 31,

	2016	2015	2014 <sup>1</sup>
Total pension liability			
Service cost	\$ 408,943	\$ 369,950	\$ 340,004
Interest (on the Total Pension Liability)	545,333	521,853	476,571
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(78,516)	(89,808)	47,610
Changes of assumptions	-	47,847	-
Benefit payments, including refunds of participant contributions	(230,245)	(260,514)	(204,026)
<b>Net change in total pension liability</b>	<b>645,515</b>	<b>589,328</b>	<b>660,159</b>
<b>Total pension liability - beginning</b>	<b>7,989,659</b>	<b>7,400,331</b>	<b>6,740,172</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 8,635,174</b>	<b>\$ 7,989,659</b>	<b>\$ 7,400,331</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 240,177	\$ 231,097	\$ 211,283
Contributions - members	202,113	195,568	187,821
Net investment income	461,955	9,831	350,203
Benefit payments, including refunds of participant contributions	(230,245)	(260,514)	(204,026)
Administrative expenses	(5,214)	(5,988)	(3,656)
Other	(281)	(296)	(301)
<b>Net change in plan fiduciary net position</b>	<b>668,505</b>	<b>169,698</b>	<b>541,324</b>
<b>Plan fiduciary net position - beginning</b>	<b>6,831,656</b>	<b>6,661,957</b>	<b>6,120,633</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 7,500,161</b>	<b>\$ 6,831,655</b>	<b>\$ 6,661,957</b>
<b>Fund's net pension liability - ending (a) - (b)</b>	<b>\$ 1,135,013</b>	<b>\$ 1,158,004</b>	<b>\$ 738,374</b>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	 86.86%	 85.51%	 90.02%
<b>Covered employee payroll</b>	\$ 3,368,554	\$ 3,259,471	\$ 3,130,346
<b>Fund's net position as a percentage of covered employee payroll</b>	33.69%	35.53%	23.59%

**Notes to schedule:**

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

# City of Sanger, Texas

## SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	9/30/2017	9/30/2016	9/30/2015 <sup>1</sup>
Actuarially determined employer contributions	\$ 266,753	\$ 247,432	\$ 225,111
Contributions in relation to the actuarially determined contribution	\$ 266,753	\$ 247,432	\$ 225,111
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered employee payroll	\$ 3,549,724	\$ 3,475,512	\$ 3,130,346
Employer contributions as a percentage of covered employee payroll	7.51%	7.12%	7.19%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

### NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

**Valuation Date:**

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.0% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year.

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***OTHER SUPPLEMENTARY INFORMATION***

# 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, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Fleet Services</u>
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 1,737,938	\$ 1,676,011	\$ 7,730,890	\$ -
Connection fees	-	-	57,720	-
Tap fees	396,000	528,000	-	-
Other revenue	-	-	-	-
<b>Total Operating Revenues</b>	<b><u>2,133,938</u></b>	<b><u>2,204,011</u></b>	<b><u>7,788,610</u></b>	<b><u>-</u></b>
<b><u>Operating Expenses</u></b>				
Salaries and wages	626,294	283,104	1,026,142	-
Contracted services	44,203	36,240	244,028	-
Utilities	120,226	185,720	9,578	-
Materials and supplies	29,860	78,676	91,705	-
Water and electric purchases	87,128	-	5,396,164	-
Repairs and maintenance	274,518	159,531	251,297	-
Depreciation	292,183	272,292	237,166	525
<b>Total Operating Expenses</b>	<b><u>1,474,412</u></b>	<b><u>1,015,563</u></b>	<b><u>7,256,080</u></b>	<b><u>525</u></b>
<b>Operating Income (loss)</b>	<b><u>659,526</u></b>	<b><u>1,188,448</u></b>	<b><u>532,530</u></b>	<b><u>(525)</u></b>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Investment income	-	-	-	-
Intergovernmental	725,000	-	-	-
Interest expense	-	-	-	-
<b>Nonoperating Revenues (Expenses)</b>	<b><u>725,000</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Income Before Transfers</b>	<b>1,384,526</b>	<b>1,188,448</b>	<b>532,530</b>	<b>(525)</b>
Transfers (out)	-	-	(76,074)	-
<b>Change in Net Position</b>	<b><u>\$ 1,384,526</u></b>	<b><u>\$ 1,188,448</u></b>	<b><u>\$ 456,456</u></b>	<b><u>\$ (525)</u></b>

<u>Administration</u>	<u>Total</u>
\$ -	\$ 11,144,839
-	57,720
-	924,000
53,732	53,732
<u>53,732</u>	<u>12,180,291</u>
-	1,935,540
-	324,471
-	315,524
-	200,241
-	5,483,292
-	685,346
14,263	816,429
<u>14,263</u>	<u>9,760,843</u>
<u>39,469</u>	<u>2,419,448</u>
21,875	21,875
-	725,000
(741,243)	(741,243)
<u>(719,368)</u>	<u>5,632</u>
(679,899)	2,425,080
<u>(789,150)</u>	<u>(865,224)</u>
<u>\$ (1,469,049)</u>	<u>\$ 1,559,856</u>

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