

*ANNUAL FINANCIAL REPORT*

of the

**City of Sanger, Texas**

**For the Year Ended  
September 30, 2015**

(This page intentionally left blank.)

# City of Sanger, Texas

## TABLE OF CONTENTS

September 30, 2015

### FINANCIAL SECTION

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

### Basic Financial Statements

#### **Government-Wide Financial Statements**

Statement of Net Position	19
Statement of Activities	20

#### **Fund Financial Statements**

##### **Governmental Funds:**

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29

##### **Proprietary Funds:**

Statement of Net Position	30
Statement of Revenues, Expenses, and Changes in Fund Net Position	31
Statement of Cash Flows	32

<b>Notes to Financial Statements</b>	<b>35</b>
--------------------------------------	-----------

### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	69
Schedule of Changes in Net Pension Liability and Related Ratios	70
Schedule of Employer Contributions to Plan	71

### COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

Combining Balance Sheet - Nonmajor Governmental Funds	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	75
Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds - by Department	76

(This page intentionally left blank.)

*INDEPENDENT AUDITOR'S REPORT*

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sanger, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employee contributions to pension plan, and budgetary comparison information 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 and individual nonmajor fund financial statements and combining schedule by department for the proprietary fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*Brooks Cardiel, PLLC*

BrooksCardiel, PLLC  
Certified Public Accountants  
The Woodlands, Texas  
January 7, 2016

(This page intentionally left blank.)

*MANAGEMENT'S DISCUSSION  
AND ANALYSIS*

(This page intentionally left blank.)

# City of Sanger, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2015

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, 2015.

### Financial Highlights

- The City's total combined net position is \$28,948,124 at September 30, 2015. Of this, \$9,279,673 (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 \$5,572,814, an increase of \$1,482,617.
- As of the end of the year, the unassigned fund balance of the general fund was \$1,828,676 or 36% of total general fund expenditures.
- The City had an overall increase in net position of \$3,116,003, which is primarily due to strong general and utility revenues.

### Overview of the Financial Statements

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

### Government-Wide Statements

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

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

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

# City of Sanger, Texas

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

September 30, 2015

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

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

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

### FUND FINANCIAL STATEMENTS

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

#### Governmental Funds

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

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

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

# City of Sanger, Texas

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

September 30, 2015

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

The City of Sanger adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided to demonstrate compliance with 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 internal service funds to account for the maintenance and purchase of equipment.

### 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 \$28,948,124 as of September 30, 2015, in the primary government.

The largest portion of the City's net position, \$15,954,561, 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

**City of Sanger, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**

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, \$3,713,890, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,279,673 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current assets of governmental activities as of September 30, 2015 and September 30, 2014 were \$6,134,675 and \$4,717,408, respectively. The increase of \$1,417,267 was primarily attributable to transfers received from the Water, Sewer, and Electric fund.

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2015			2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 6,134,675	\$ 12,028,084	\$ 18,162,759	\$ 4,717,408	\$ 11,671,252	\$ 16,388,660
Capital assets, net	15,107,078	12,923,737	28,030,815	15,020,169	12,430,202	27,450,371
<b>Total Assets</b>	<b>21,241,753</b>	<b>24,951,821</b>	<b>46,193,574</b>	<b>19,737,577</b>	<b>24,101,454</b>	<b>43,839,031</b>
<b>Deferred Outflows of Resources</b>	<b>228,086</b>	<b>111,646</b>	<b>339,732</b>	<b>133,726</b>	<b>101,904</b>	<b>235,630</b>
Other liabilities	490,649	1,483,627	1,974,276	515,587	1,245,675	1,761,262
Long-term liabilities	7,718,319	7,892,587	15,610,906	7,847,871	8,633,407	16,481,278
<b>Total Liabilities</b>	<b>8,208,968</b>	<b>9,376,214</b>	<b>17,585,182</b>	<b>8,363,458</b>	<b>9,879,082</b>	<b>18,242,540</b>
Net Position:						
Net investment in capital assets	8,122,596	7,831,965	15,954,561	7,753,708	8,062,450	15,816,158
Restricted	3,713,890	-	3,713,890	2,959,225	-	2,959,225
Unrestricted	1,424,385	7,855,288	9,279,673	794,912	6,261,826	7,056,738
<b>Total Net Position</b>	<b>\$ 13,260,871</b>	<b>\$ 15,687,253</b>	<b>\$ 28,948,124</b>	<b>\$ 11,507,845</b>	<b>\$ 14,324,276</b>	<b>\$ 25,832,121</b>

**City of Sanger, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2015**

**Statement of Activities:**

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

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,570,157	\$ 11,569,275	\$ 13,139,432	\$ 1,572,344	\$ 10,565,602	\$ 12,137,946
Grants and contributions	271,386	-	271,386	364,763	260,250	625,013
General revenues:						
Property taxes	2,981,429	-	2,981,429	2,816,275	-	2,816,275
Sales taxes	1,600,961	-	1,600,961	1,361,774	-	1,361,774
Franchise and local taxes	231,380	-	231,380	229,018	-	229,018
Investment income	4,429	15,128	19,557	4,316	14,047	18,363
Other revenues	250,444	39,738	290,182	255,348	31,240	286,588
<b>Total Revenues</b>	<b>6,910,186</b>	<b>11,624,141</b>	<b>18,534,327</b>	<b>6,603,838</b>	<b>10,871,139</b>	<b>17,474,977</b>
<b>Expenses</b>						
General government	2,632,058	-	2,632,058	1,523,127	-	1,523,127
Public safety	2,187,268	-	2,187,268	2,396,415	-	2,396,415
Public works	1,073,312	-	1,073,312	1,235,621	-	1,235,621
Culture and recreation	712,298	-	712,298	714,581	-	714,581
Interest and fiscal charges	272,652	289,691	562,343	287,657	292,739	580,396
Water, sewer, & electric	-	8,251,045	8,251,045	-	9,029,773	9,029,773
<b>Total Expenses</b>	<b>6,877,588</b>	<b>8,540,736</b>	<b>15,418,324</b>	<b>6,157,401</b>	<b>9,322,512</b>	<b>15,479,913</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	<b>32,598</b>	<b>3,083,405</b>	<b>3,116,003</b>	<b>446,437</b>	<b>1,548,627</b>	<b>1,995,064</b>
Transfers	1,720,428	(1,720,428)	-	699,352	(699,352)	-
<b>Total</b>	<b>1,720,428</b>	<b>(1,720,428)</b>	<b>-</b>	<b>699,352</b>	<b>(699,352)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>1,753,026</b>	<b>1,362,977</b>	<b>3,116,003</b>	<b>1,145,789</b>	<b>849,275</b>	<b>1,995,064</b>
Beginning Net Position	11,507,845	14,324,276	25,832,121	10,362,056	13,475,001	23,837,057
<b>Ending Net Position</b>	<b>\$ 13,260,871</b>	<b>\$ 15,687,253</b>	<b>\$ 28,948,124</b>	<b>\$ 11,507,845</b>	<b>\$ 14,324,276</b>	<b>\$ 25,832,121</b>

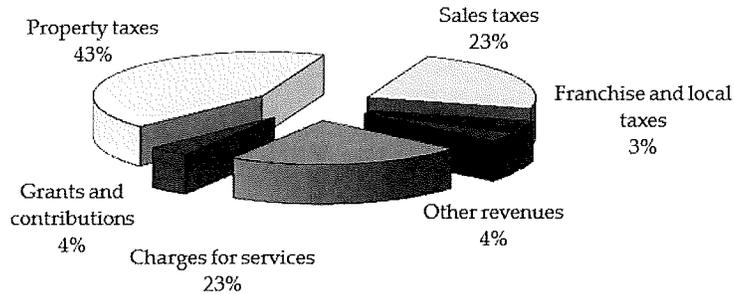
# City of Sanger, Texas

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

September 30, 2015

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

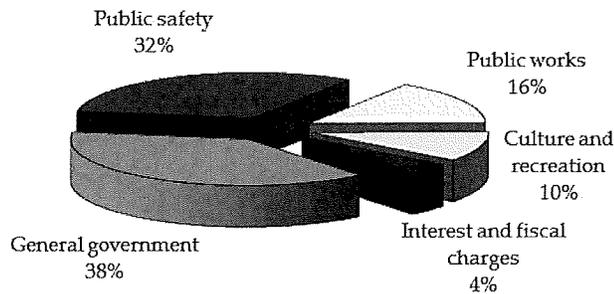
### Governmental Activities - Revenues



For the year ended September 30, 2015, revenues from governmental activities totaled \$6,910,186. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased by \$165,154 or 6% due to higher property values and an increase in the property tax rate. Sales tax increased \$239,187 or 18% due to an overall increase in the economy and spending within the City limits. Grants and contributions decreased by \$93,377 due to a decrease in revenue received from Denton County for the repair and construction of McReynolds road. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

### Governmental Activities - Expenses



# City of Sanger, Texas

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

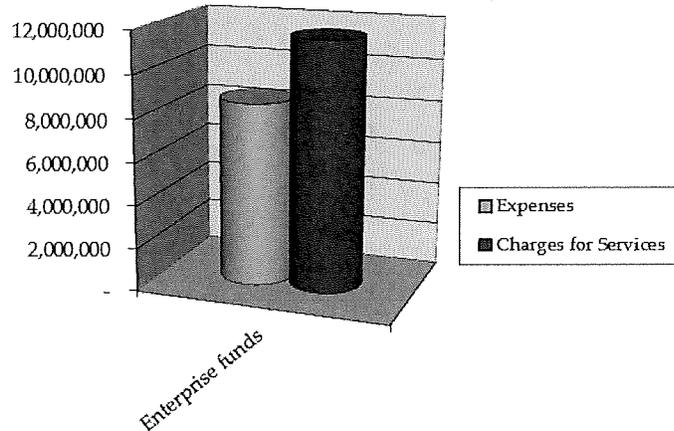
September 30, 2015

For the year ended September 30, 2015, expenses for governmental activities totaled \$6,877,588. This represents an increase of \$720,187 or 12% from the prior year. The City's largest functional expense is general government of \$2,632,058 which primarily includes contractual costs for garbage removal, salaries for finance and city administration, plus depreciation of related capital assets. General government expenditures increased by \$1,108,931 or 73% due to increases in salary expense within the internal service fund created in the current year. Prior to the inception of this fund, portions of these expenses were allocated within both governmental and business-type activities. 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, 2015, charges for services by business-type activities totaled \$11,569,275. This is an increase of \$1,003,673, or 9%, from the previous year. The increase was due to an increase in rates and consumption compared to prior year. Grants decreased by \$260,250 due to a CDBG grant project for sanitary sewer improvements expiring in the prior year.

### Business-Type Activities - Revenues and Expenses



Total expenses decreased \$781,776 due primarily to a decrease in administrative wages and benefits which were consolidated within governmental activities in the current year due to the new internal service fund.

### 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

# City of Sanger, Texas

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

September 30, 2015

the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of \$1,974,317. Of this, \$6,768 is restricted for municipal court, \$33,061 is restricted for tourism and \$75,564 is restricted for library improvements. Unassigned fund balance totaled \$1,828,676 as of year end.

There was an increase in governmental fund balance of \$1,482,617 over the prior year. The increase was primarily related to the increase in property and sales taxes previously discussed.

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 \$734,224 in the general fund. This is a combination of a positive a revenue variance of \$267,615, a negative expenditure variance of \$129,129, and a positive variance of \$595,738 in other financing sources and uses. Both the negative expenditure variance and the positive variance in other financing sources and uses were primarily due to the \$500,000 capital lease incurred during the year for emergency vehicles.

### CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$15,107,078 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$12,923,737 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Acquisition of public safety vehicles totaling \$596,290
- McReynolds road construction in the amount of \$164,146
- Donation of land received valued at \$138,626
- New water well for \$106,290
- Sewer plant expansion for \$447,012
- Water and sewer line relocations, expansions, and a new lift station totaling \$545,125

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

# City of Sanger, Texas

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

September 30, 2015

### **LONG-TERM DEBT**

At the end of the current year, the City had total bonds outstanding of \$12,750,000, notes payable of \$439,448 and capital leases of \$1,089,768. During the year, the City had principal payments on bonds, notes payable and capital leases of \$1,489,099. During the year, the City entered into a new capital lease agreement for \$500,000. More detailed information about the City's long-term liabilities is presented in note IV. D 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.

(This page intentionally left blank.)

*FINANCIAL STATEMENTS*

(This page intentionally left blank.)

**City of Sanger, Texas**  
**STATEMENT OF NET POSITION**  
September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 3,296,078	\$ 2,474,559	\$ 5,770,637
Investments	505,527	412,356	917,883
Restricted cash	1,384,065	6,771,010	8,155,075
Restricted investments	388,788	300,000	688,788
Receivables, net	560,217	1,595,825	2,156,042
Inventory	-	474,334	474,334
Capital assets:			
Non-depreciable	1,612,627	2,303,267	3,915,894
Net depreciable capital assets	13,494,451	10,620,470	24,114,921
	<u>15,107,078</u>	<u>12,923,737</u>	<u>28,030,815</u>
<b>Total Assets</b>	<u>21,241,753</u>	<u>24,951,821</u>	<u>46,193,574</u>
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charge on refunding	22,006	49,537	71,543
Pension contributions	126,926	38,253	165,179
Pension investment earnings	31,057	9,360	40,417
Pension (gains) losses	48,097	14,496	62,593
<b>Total Deferred Outflows of Resources</b>	<u>228,086</u>	<u>111,646</u>	<u>339,732</u>
<b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	439,839	1,037,357	1,477,196
Accrued interest payable	50,810	54,034	104,844
Customer deposits	-	392,236	392,236
Noncurrent liabilities:			
Due within one year	979,410	871,088	1,850,498
Due in more than one year	6,171,532	6,850,502	13,022,034
Net pension liability	567,377	170,997	738,374
	<u>7,718,319</u>	<u>7,892,587</u>	<u>15,610,906</u>
<b>Total Liabilities</b>	<u>8,208,968</u>	<u>9,376,214</u>	<u>17,585,182</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	8,122,596	7,831,965	15,954,561
Restricted for:			
Debt service	385,186	-	385,186
Capital projects	773,705	-	773,705
Economic development	2,439,606	-	2,439,606
Other purposes	115,393	-	115,393
Unrestricted	1,424,385	7,855,288	9,279,673
<b>Total Net Position</b>	<u>\$ 13,260,871</u>	<u>\$ 15,687,253</u>	<u>\$ 28,948,124</u>

See Notes to Financial Statements.

# City of Sanger, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

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	\$ 2,632,058	\$ 927,848	\$ 16,475	\$ 138,626
Public safety	2,187,268	642,309	49,031	67,254
Public works	1,073,312	-	-	-
Culture and recreation	712,298	-	-	-
Interest and fiscal charges	272,652	-	-	-
<b>Total Governmental Activities</b>	<b>6,877,588</b>	<b>1,570,157</b>	<b>65,506</b>	<b>205,880</b>
<b>Business-Type Activities</b>				
Water	1,035,760	1,697,167	-	-
Sewer	608,790	1,616,022	-	-
Electric	6,589,243	8,256,086	-	-
Fleet services	612	-	-	-
Utility administration	306,331	-	-	-
<b>Total Business-Type Activities</b>	<b>8,540,736</b>	<b>11,569,275</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 15,418,324</b>	<b>\$ 13,139,432</b>	<b>\$ 65,506</b>	<b>205,880</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**

<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,549,109)	\$ -	\$ (1,549,109)
(1,428,674)	-	(1,428,674)
(1,073,312)	-	(1,073,312)
(712,298)	-	(712,298)
(272,652)	-	(272,652)
<u>(5,036,045)</u>	<u>-</u>	<u>(5,036,045)</u>
-	661,407	661,407
-	1,007,232	1,007,232
-	1,666,843	1,666,843
-	(612)	(612)
-	(306,331)	(306,331)
-	3,028,539	3,028,539
<u>(5,036,045)</u>	<u>3,028,539</u>	<u>(2,007,506)</u>
2,981,429	-	2,981,429
1,600,961	-	1,600,961
231,380	-	231,380
4,429	15,128	19,557
175,233	39,738	214,971
60,798	-	60,798
14,413	-	14,413
1,720,428	(1,720,428)	-
<u>6,789,071</u>	<u>(1,665,562)</u>	<u>5,123,509</u>
1,753,026	1,362,977	3,116,003
11,507,845	14,324,276	25,832,121
<u>\$ 13,260,871</u>	<u>\$ 15,687,253</u>	<u>\$ 28,948,124</u>

# City of Sanger, Texas

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	4A Fund
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 1,422,690	\$ 328,327	\$ 414,206
Investments	411,516	-	94,011
Restricted cash	106,013	56,794	1,031,829
Restricted investments	113,205	-	-
Receivables, net	416,283	19,994	65,248
<b>Total Assets</b>	<b>\$ 2,469,707</b>	<b>\$ 405,115</b>	<b>\$ 1,605,294</b>
 <b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	\$ 360,370	\$ -	\$ 7,675
<b>Total Liabilities</b>	<b>360,370</b>	<b>-</b>	<b>7,675</b>
 <b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenue			
Property taxes	43,237	19,929	-
EMS revenue	91,783	-	-
<b>Total Deferred Inflows of Resources</b>	<b>135,020</b>	<b>19,929</b>	<b>-</b>
 <b><u>Fund Balances</u></b>			
Restricted for:			
Municipal court	6,768	-	-
Tourism	33,061	-	-
Library	75,564	-	-
Debt service	-	385,186	-
Capital projects	-	-	-
Economic development	-	-	1,597,619
Committed for:			
Employee benefits	30,248	-	-
Unassigned reported in:			
General fund	1,828,676	-	-
<b>Total Fund Balances</b>	<b>1,974,317</b>	<b>385,186</b>	<b>1,597,619</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,469,707</b>	<b>\$ 405,115</b>	<b>\$ 1,605,294</b>

See Notes to Financial Statements.

<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ 1,100,082	\$ 3,265,305
-	505,527
189,429	1,384,065
275,583	388,788
58,692	560,217
\$ 1,623,786	\$ 6,103,902

\$ 8,094	\$ 376,139
8,094	376,139

-	63,166
-	91,783
-	154,949

-	6,768
-	33,061
-	75,564
-	385,186
773,705	773,705
841,987	2,439,606
-	30,248
-	1,828,676
1,615,692	5,572,814
\$ 1,623,786	\$ 6,103,902

(Page intentionally left blank.)

# City of Sanger, Texas

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

September 30, 2015

Fund Balances - Total Governmental Funds		\$ 5,572,814
<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		1,612,627
Capital assets - net depreciable		13,494,451
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		91,783
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		22,006
Pension contributions		94,672
Pension investment earnings		23,165
Pension gains (losses)		35,875
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.		
Cash and cash equivalents		30,773
Deferred outflows - pension contributions		32,254
Deferred outflows - investment earnings		7,892
Deferred outflows - pension gains (losses)		12,222
Accounts payable and accrued liabilities		(63,700)
Non-current liabilities due in one year		(23,593)
Non-current liabilities due in more than one year		(2,621)
Net pension liability		(144,180)
Net position - governmental activities		(150,953)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(50,810)
Bond premium		(68,199)
Net pension liability		(423,197)
Non-current liabilities due in one year		(955,817)
Non-current liabilities due in more than one year		(6,100,712)
<b>Net Position of Governmental Activities</b>		<b>\$ 13,260,871</b>

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, 2015

	General	Debt Service	4A Fund
<b><u>Revenues</u></b>			
Property tax	\$ 2,203,590	\$ 796,750	\$ -
Sales tax	813,634	-	393,664
Franchise and local taxes	231,380	-	-
License and permits	122,509	-	-
Charges for services	805,339	-	-
Fire and rescue	512,202	-	-
Contributions and donations	1,400	-	-
Intergovernmental	49,031	-	15,075
Fines and forfeitures	128,839	-	1,268
Investment income	3,009	113	-
Other revenue	72,532	-	83,667
<b>Total Revenues</b>	4,943,465	796,863	493,674
<b><u>Expenditures</u></b>			
Current:			
General government	970,164	1,378	131,312
Police department	1,243,133	-	-
Municipal court	202,988	-	-
Fire and EMS	778,877	-	-
Parks and recreation	443,554	-	-
Public works	614,350	-	-
Debt service:			
Principal	143,004	595,300	39,762
Interest	15,527	241,925	21,505
Capital outlay	695,131	-	-
<b>Total Expenditures</b>	5,106,728	838,603	192,579
<b>Excess of Revenues Over (Under) Expenditures</b>	(163,263)	(41,740)	301,095
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	1,040,785	212,500	50,000
Transfers (out)	(714,494)	(158,535)	-
Capital lease	500,000	-	-
Proceeds from sale of capital assets	60,798	-	-
Insurance recoveries	14,413	-	-
<b>Total Other Financing Sources (Uses)</b>	901,502	53,965	50,000
<b>Net Change in Fund Balances</b>	738,239	12,225	351,095
Beginning fund balances	1,236,078	372,961	1,246,524
<b>Ending Fund Balances</b>	\$ 1,974,317	\$ 385,186	1,597,619

See Notes to Financial Statements.

<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 3,000,340
393,663	1,600,961
-	231,380
-	122,509
-	805,339
-	512,202
-	1,400
67,254	131,360
-	130,107
1,307	4,429
10,000	166,199
<u>472,224</u>	<u>6,706,226</u>
-	1,102,854
-	1,243,133
-	202,988
-	778,877
-	443,554
-	614,350
-	778,066
-	278,957
192,668	887,799
<u>192,668</u>	<u>6,330,578</u>
279,556	375,648
325,000	1,628,285
(223,498)	(1,096,527)
-	500,000
-	60,798
-	14,413
<u>101,502</u>	<u>1,106,969</u>
381,058	1,482,617
1,234,634	4,090,197
<u>\$ 1,615,692</u>	<u>\$ 5,572,814</u>

(This page intentionally left blank.)

# 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, 2015

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

Net changes in fund balances - total governmental funds	\$ 1,482,617
<p>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.</p>	
Capital outlay	933,037
Donated land	138,626
Depreciation expense	(984,754)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
EMS receivable	(18,911)
<p>Governmental funds recognize escalating rental income as received. However, in the statement of activities, the rent is deferred and recognized ratably over the term of the lease agreement.</p>	
	9,034
<p>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.</p>	
Compensated absences	(26,228)
Accrued interest	2,392
Pension expense	(1,153)
<p>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.</p>	
Amortization of deferred charges on refunding	(3,913)
Amortization of premium	7,826
Debt issued	(500,000)
Principal payments	778,066
<p>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.</p>	
	(63,613)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 1,753,026</b>

See Notes to Financial Statements.

**City of Sanger, Texas**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2015**

	Water, Sewer & Electric	Governmental Activities Internal Service
<b><u>Assets</u></b>		
<b><u>Current Assets</u></b>		
Cash and cash equivalents	\$ 2,474,559	\$ 30,773
Investments	412,356	-
Restricted cash	6,771,010	-
Restricted investments	300,000	-
Receivables, net	1,595,825	-
Inventory	474,334	-
<b>Total Current Assets</b>	<b>12,028,084</b>	<b>30,773</b>
<b><u>Noncurrent Assets</u></b>		
Capital assets:		
Non-depreciable	2,303,267	-
Net depreciable capital assets	10,620,470	-
<b>Total Noncurrent Assets</b>	<b>12,923,737</b>	<b>-</b>
<b>Total Assets</b>	<b>24,951,821</b>	<b>30,773</b>
<b><u>Deferred Outflows of Resources</u></b>		
Pension contributions	38,253	32,254
Pension investment earnings	9,360	7,892
Pension gains (losses)	14,496	12,222
Deferred charge on refunding	49,537	-
<b>Total Deferred Outflows of Resources</b>	<b>111,646</b>	<b>52,368</b>
<b><u>Liabilities</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts payable and accrued liabilities	1,037,357	63,700
Accrued interest	54,034	-
Customer deposits	392,236	-
Compensated absences-current	71,544	23,593
Bonds and capital leases payable-current	799,544	-
<b>Total Current Liabilities</b>	<b>2,354,715</b>	<b>87,293</b>
<b><u>Noncurrent Liabilities</u></b>		
Compensated absences	7,949	2,621
Net pension liability	170,997	144,180
Bonds and capital leases payable	6,842,553	-
<b>Total Liabilities</b>	<b>9,376,214</b>	<b>234,094</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	7,831,965	-
Unrestricted	7,855,288	(150,953)
<b>Total Net Position</b>	<b>\$ 15,687,253</b>	<b>\$ (150,953)</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, 2015

	Water, Sewer & Electric	Governmental Activities Internal Service
<b><u>Operating Revenues</u></b>		
Charges for services	\$ 11,019,545	\$ -
Connection fees	59,980	-
Tap fees	489,750	-
Other revenue	39,738	-
<b>Total Operating Revenues</b>	<b>11,609,013</b>	<b>-</b>
<b><u>Operating Expenses</u></b>		
Salaries and wages	970,124	946,588
Contracted services	36,820	184,113
Utilities	323,232	38,695
Materials and supplies	78,697	72,291
Water and electric purchases	5,646,204	-
Repairs and maintenance	362,470	10,596
Depreciation	833,498	-
<b>Total Operating Expenses</b>	<b>8,251,045</b>	<b>1,252,283</b>
<b>Operating Income (Loss)</b>	<b>3,357,968</b>	<b>(1,252,283)</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>		
Investment income	15,128	-
Interest expense	(289,691)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(274,563)</b>	<b>-</b>
<b>Income (Loss) Before Transfers</b>	<b>3,083,405</b>	<b>(1,252,283)</b>
Transfers in	10,998	1,101,330
Transfers (out)	(1,731,426)	-
<b>Change in Net Position</b>	<b>1,362,977</b>	<b>(150,953)</b>
Beginning net position	14,324,276	-
<b>Ending Net Position</b>	<b>\$ 15,687,253</b>	<b>\$ (150,953)</b>

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, 2015**

	<b>Water, Sewer &amp; Electric</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 11,604,403
Payments to suppliers	(6,295,216)
Payments to employees	(1,022,272)
<b>Net Cash Provided by Operating Activities</b>	<b>4,286,915</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Operating transfer in	10,998
Operating transfer out	(1,705,118)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>(1,694,120)</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Capital purchases	(1,327,033)
Principal paid on debt	(711,033)
Interest paid on debt	(303,380)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(2,341,446)</b>
<b><u>Cash Flows from Investing Activities</u></b>	
Proceeds from sales and maturities of investments	277,925
Interest on investments	15,128
<b>Net Cash Provided by Investing Activities</b>	<b>293,053</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>544,402</b>
Beginning cash and cash equivalents	<b>8,701,167</b>
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 9,245,569</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, 2015**

	<b>Water, Sewer &amp; Electric</b>
<b><u>Reconciliation of Operating Income</u></b>	
<b><u>to Net Cash Provided by Operating Activities</u></b>	
Operating Income	\$ 3,357,968
Adjustments to reconcile operating income to net cash provided:	
Depreciation	833,498
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	(45,352)
Inventory	(45,003)
Deferred outflows of resources - pension contributions	13,813
Deferred outflows of resources - pension investment earnings	(9,360)
Deferred outflows of resources - pension (gains) losses	(14,496)
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	197,210
Customer deposits	40,742
Net pension liability	(42,105)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 4,286,915</b>

See Notes to Financial Statements.

(This page intentionally left blank.)

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**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. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**Blended Component Units**

Sanger Industrial Development Corporation (4A)

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

Sanger Texas Development Corporation (4B)

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

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

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

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

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

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.

**Debt Service Fund**

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

**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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

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 preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

**D. Measurement Focus and Basis of Accounting**

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

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

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

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

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**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.

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

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

**2. Receivables and Interfund Transactions**

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

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

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**3. Property Taxes**

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

**4. Inventories and Prepaid Items**

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

**5. Capital Assets**

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

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

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

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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

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

### 6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

### 7. Net Position Flow Assumption

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**8. Fund Balance Flow Assumptions**

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

**9. Fund Balance Policies**

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

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

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

**10. Compensated Absences**

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

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

**11. Long-Term Obligations**

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

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

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

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

**12. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**13. 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.

**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.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

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

For the year ended September 30, 2015, expenditures exceeded appropriations at the legal level of control for the general fund by \$129,129.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2015, the primary government had the following investments:

Investment Type	Fair Value	Average Maturity (Years)
Certificates of deposit	\$ 1,606,671	0.44
Total fair value	\$ 1,606,671	
Portfolio weighted average maturity		0.44

*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, 2015, the market values of pledged securities and FDIC exceeded bank balances.

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

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

**B. Receivables**

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

	General	Debt Service	4A Fund	Nonmajor Governmental	Water, Sewer & Electric	Total
Property taxes	\$ 75,134	\$ 31,139	\$ -	\$ -	\$ -	\$ 106,273
Sales tax	139,817	-	58,692	58,692	-	257,201
Franchise & local taxes	33,327	-	-	-	-	33,327
EMS	262,383	-	-	-	-	262,383
Accounts	100,466	-	6,556	-	1,750,591	1,857,613
Other	18,113	-	-	-	2,950	21,063
Allowance	(212,957)	(11,145)	-	-	(157,716)	(381,818)
	<u>\$ 416,283</u>	<u>\$ 19,994</u>	<u>\$ 65,248</u>	<u>\$ 58,692</u>	<u>\$ 1,595,825</u>	<u>\$ 2,156,042</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

**C. Capital Assets**

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 906,307	\$ 138,626	\$ -	\$ 1,044,933
Construction in progress	417,115	192,668	(42,089)	567,694
Total capital assets not being depreciated	<u>1,323,422</u>	<u>331,294</u>	<u>(42,089)</u>	<u>1,612,627</u>
Capital assets, being depreciated:				
Infrastructure	11,814,273	38,938	-	11,853,211
Buildings and improvements	7,044,897	-	42,089	7,086,986
Machinery and equipment	2,814,977	701,431	(29,640)	3,486,768
Total capital assets being depreciated	<u>21,674,147</u>	<u>740,369</u>	<u>12,449</u>	<u>22,426,965</u>
Less accumulated depreciation				
Infrastructure	5,063,350	422,609	-	5,485,959
Buildings and improvements	1,300,079	317,744	-	1,617,823
Machinery and equipment	1,613,971	244,401	(29,640)	1,828,732
Total accumulated depreciation	<u>7,977,400</u>	<u>984,754</u>	<u>(29,640)</u>	<u>8,932,514</u>
Net capital assets being depreciated	13,696,747	(244,385)	42,089	13,494,451
<b>Total Capital Assets</b>	<u>\$ 15,020,169</u>	<u>\$ 86,909</u>	<u>\$ -</u>	<u>\$ 15,107,078</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 76,607
Public safety	89,177
Streets and sanitation	462,000
Fire and rescue	86,260
Culture and recreation	270,710
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 984,754</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 323,164	\$ -	\$ -	\$ 323,164
Construction in progress	812,601	1,167,502	-	1,980,103
Total capital assets not being depreciated	<u>1,135,765</u>	<u>1,167,502</u>	<u>-</u>	<u>2,303,267</u>
Capital assets, being depreciated:				
Infrastructure	22,544,671	72,784	-	22,617,455
Buildings and improvements	865,245	-	-	865,245
Machinery and equipment	1,688,486	86,747	(32,656)	1,742,577
Total capital assets being depreciated	<u>25,098,402</u>	<u>159,531</u>	<u>(32,656)</u>	<u>25,225,277</u>
Less accumulated depreciation				
Infrastructure	12,304,453	660,903	-	12,965,356
Buildings and improvements	315,858	51,855	-	367,713
Machinery and equipment	1,183,654	120,740	(32,656)	1,271,738
Total accumulated depreciation	<u>13,803,965</u>	<u>833,498</u>	<u>(32,656)</u>	<u>14,604,807</u>
Net capital assets being depreciated	11,294,437	(673,967)	-	10,620,470
<b>Total Capital Assets</b>	<u>\$ 12,430,202</u>	<u>\$ 493,535</u>	<u>\$ -</u>	<u>\$ 12,923,737</u>

Depreciation was charged to business-type activities as follows:

Water	\$ 282,414
Sewer	236,318
Electric	297,514
Other	17,252
<b>Total Business-type Activities Depreciation Expense</b>	<u>\$ 833,498</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
September 30, 2015

**D. Long-term Debt**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 1,155,000	\$ -	\$ (182,600)	\$ 972,400	\$ 184,800
Certificates of Obligation	5,008,800	-	(412,700)	4,596,100	428,600
Less deferred amounts:					
For issuance premiums	76,025	-	(7,826)	68,199	-
	<u>6,239,825</u>	<u>-</u>	<u>(603,126)</u>	<u>5,636,699</u>	<u>613,400</u>
Other liabilities:					
Notes payable	479,210	-	(39,762)	439,448	41,977
Capital leases payable	573,345	500,000	(143,004)	930,341	194,024
Compensated absences	114,242	130,728	(100,516)	144,454	130,009
<b>Total Governmental Activities</b>	<u>\$ 7,406,622</u>	<u>\$ 630,728</u>	<u>\$ (886,408)</u>	<u>\$ 7,150,942</u>	<u>\$ 979,410</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 6,171,532</u>	
<b>Business-Type Activities:</b>					
General Obligation Bonds	\$ 1,470,000	\$ -	\$ (232,400)	\$ 1,237,600	\$ 235,200
Certificates of Obligation	6,376,200	-	(432,300)	5,943,900	446,400
Less deferred amounts:					
For issuance premiums	323,666	-	(22,496)	301,170	-
	<u>8,169,866</u>	<u>-</u>	<u>(687,196)</u>	<u>7,482,670</u>	<u>681,600</u>
Other liabilities:					
Capital leases payable	205,760	-	(46,333)	159,427	117,944
Compensated absences	79,493	60,489	(60,489)	79,493	71,544
<b>Total Business-Type Activities</b>	<u>\$ 8,455,119</u>	<u>\$ 60,489</u>	<u>\$ (794,018)</u>	<u>\$ 7,721,590</u>	<u>\$ 871,088</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 6,850,502</u>	

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

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

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

	Governmental Activities	Business - Type Activities	Total
<b>General Obligation Bonds:</b>			
\$3,495,000 General Obligation Refunding Bond, Series 2012, due in installments through 2021, interest at 2% to 3%	\$ 972,400	\$ 1,237,600	\$ 2,210,000
<b>Total General Obligation Bonds</b>	<b>\$ 972,400</b>	<b>\$ 1,237,600</b>	<b>\$ 2,210,000</b>
<b>Certificates of Obligation:</b>			
\$6,500,000 Certificates of Obligation, Series 2006, due in annual installments through 2021, interest at 4% to 5%	\$ 1,414,500	\$ 1,660,500	\$ 3,075,000
\$1,750,000 Certificates of Obligation, Series 2007, due in annual installments through 2027, interest at 4.4%	418,200	811,800	1,230,000
\$3,200,000 Certificates of Obligation, Series 2009, due in annual installments through 2026, interest at 3% to 4.75%	2,290,000	-	2,290,000
\$4,260,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2% to 3.7%	473,400	3,471,600	3,945,000
<b>Total Certificates of Obligation</b>	<b>\$ 4,596,100</b>	<b>\$ 5,943,900</b>	<b>\$ 10,540,000</b>
<b>Less deferred amounts:</b>			
Issuance premium	\$ 68,199	\$ 301,170	\$ 369,369
<b>Total Deferred Amounts</b>	<b>\$ 68,199</b>	<b>\$ 301,170</b>	<b>\$ 369,369</b>
<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%	\$ 439,448	\$ -	\$ 439,448
<b>Total Notes Payable</b>	<b>\$ 439,448</b>	<b>\$ -</b>	<b>\$ 439,448</b>
<b>Capital Leases Payable:</b>			
\$807,573 Capital lease payable to financial institution, due in annual installments of \$104,454 through 2015, interest at 1.77%	\$ -	\$ 70,492	\$ 70,492
\$340,119 Capital lease payable to financial institution, due in annual installments of \$106,996 through 2016, interest at 3.3%	35,910	-	35,910
\$190,309 Capital lease payable to financial institution, due in annual installments of \$50,235 through 2017, interest at 2.89%	-	88,935	88,935
\$435,000 Capital lease payable to financial institution, due in annual installments of \$51,535 through 2024, interest at 3.346%	394,431	-	394,431
\$500,000 Capital lease payable to financial institution, due in annual installments of \$134,279 through 2019, interest at 2.947%	500,000	-	500,000
<b>Total Capital Leases Payable</b>	<b>\$ 930,341</b>	<b>\$ 159,427</b>	<b>\$ 1,089,768</b>
<b>Compensated Absences</b>	144,454	79,493	223,947
<b>Total Long-term Liabilities</b>	<b>\$ 7,150,942</b>	<b>\$ 7,721,590</b>	<b>\$ 14,872,532</b>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

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

General Obligation Bonds

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 184,800	\$ 27,962	\$ 235,200	\$ 35,588
2017	154,000	22,418	196,000	28,532
2018	156,200	17,798	198,800	22,652
2019	162,800	13,112	207,200	16,688
2020	169,400	8,228	215,600	10,472
2021	145,200	3,993	184,800	5,082
	<u>\$ 972,400</u>	<u>\$ 93,511</u>	<u>\$ 1,237,600</u>	<u>\$ 119,014</u>

Combination Tax and Revenue Certificates of Obligations

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 428,600	\$ 194,926	\$ 446,400	\$ 243,467
2017	447,400	176,803	467,600	225,820
2018	459,900	159,199	480,100	209,883
2019	480,800	140,888	494,200	192,630
2020	499,600	121,729	515,400	174,794
2021	521,100	101,706	533,900	155,364
2022	273,500	79,919	236,500	135,067
2023	286,400	68,258	248,600	127,002
2024	297,000	55,768	253,000	118,527
2025	309,300	42,686	260,700	109,019
2026	323,900	28,194	276,100	97,363
2027	71,800	13,024	288,200	85,021
2028	28,800	9,768	211,200	71,632
2029	30,600	8,400	224,400	61,600
2030	31,800	6,870	233,200	50,380
2031	33,600	5,280	246,400	38,720
2032	35,400	3,600	259,600	26,400
2033	36,600	1,830	268,400	13,420
	<u>\$ 4,596,100</u>	<u>\$ 1,218,847</u>	<u>\$ 5,943,900</u>	<u>\$ 2,136,108</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

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

Capital Leases

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 194,024	\$ 28,881	\$ 117,944	\$ 2,783
2017	162,680	23,135	41,483	1,411
2018	167,632	18,182	-	-
2019	172,736	13,079	-	-
2020	43,716	7,819	-	-
2021	45,179	6,357	-	-
2022	46,690	4,845	-	-
2023	48,252	3,283	-	-
2024	49,432	1,668	-	-
	<u>\$ 930,341</u>	<u>\$ 107,249</u>	<u>\$ 159,427</u>	<u>\$ 4,194</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 net of depreciation of approximately \$1,503,813 as of year end.

Note Payable

Year ending September 30,	Governmental Activities	
	Principal	Interest
2016	\$ 41,977	\$ 19,290
2017	43,949	17,318
2018	46,014	15,253
2019	48,176	13,091
2020	50,439	10,828
2021	52,809	8,458
2022	55,290	5,977
2023	57,887	3,380
2024	42,907	4,063
	<u>\$ 439,448</u>	<u>\$ 97,658</u>

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

**E. 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.

**F. Deferred Charge on Refunding**

A deferred charge resulting from the issuance of the 2012 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental and business-type activities totaled \$22,006 and \$49,537, respectively. Current year amortization expense for governmental and business-type activities totaled \$3,912 and \$8,807, respectively.

**G. Interfund Transactions**

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

Transfer out:	Transfer In					Total
	General	Debt Service	Nonmajor Governmental	Water, Sewer & Electric	Internal Service	
General	\$ -	\$ -	\$ 350,000	\$ -	\$ 277,154 <sup>1</sup>	\$ 627,154 <sup>1</sup>
Nonmajor Governmental	-	212,500	-	10,998	-	223,498
Debt Service	158,535	-	-	-	-	158,535
Water, Sewer & Electric	882,250	-	25,000	-	824,176	1,731,426
	<u>\$ 1,040,785</u>	<u>\$ 212,500</u>	<u>\$ 375,000</u>	<u>\$ 10,998</u>	<u>\$ 1,101,330</u>	<u>\$ 2,740,613</u>

1 - This value is after full conversion to the accrual method. For fund reporting purposes these balances are greater by \$87,341. This amount is only recognized at the government wide level for the general fund, and is due to the amount of transfer in received by the general fund from the internal service fund for a partial transfer of the net pension liability and deferred outflows of resources between the funds at the government wide level.

**H. Fund Equity**

The City records restricted net position on amounts with externally imposed restrictions (e.g., through debt covenants or by grantors) or restrictions imposed by law through constitutional provisions or enabling legislation. Total restricted net position for the primary government was \$3,713,890. Of which, \$39,829 is restricted by enabling legislation.

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**V. OTHER INFORMATION**

**A. Risk Management**

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

**B. Contingent Liabilities**

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

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

**City of Sanger, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2015**

**C. Construction commitments**

The government has active construction projects as of September 30, 2015. 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	\$ 20,308
McReynolds Road Reconstruction	HRM Land Acquisition	2,813
	<b>Project Total</b>	<u>23,121</u>
Server Consolidation	Austin Lane Technology	20,166
	<b>Project Total</b>	<u>20,166</u>
12" Water Line Chapman to Belz	Pacheco Koch, LLC	4,410
12" Water Line Chapman to Belz	Card Services	255
12" Water Line Chapman to Belz	Vessels Construction	144,922
Water Line Lois to View	Pacheco Koch, LLC	7,390
Water Well and Ground Storage	LNV Inc.	25,635
15" Line Chapman to Belz	Pacheco Koch, LLC	5,033
15" Line Chapman to Belz	Card Services	255
15" Line Chapman to Belz	Vessels Construction	288,774
18" Line South of Utility	Pacheco Koch LLC	50,500
15" Line Utility to Lois	Pacheco Koch LLC	47,839
12" Line Lois to View	Pacheco Koch LLC	27,106
Jones Willow Trunk Line	Teague Nail	1,224
New Sewer Line	Alan Plummer Associates	420,765
Cowling Road Lift Station	Alan Plummer Associates	2,755
	<b>Project Total</b>	<u>1,026,863</u>
	<b>Total</b>	<u><u>\$ 1,070,150</u></u>

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**D. Related Party Activity**

On March 1, 2012, the City entered into a non-cancelable lease agreement with a corporation of which a city council member is a principal member of management. The leased property is owned by the 4A Fund and has a cost \$1,083,797 with accumulated depreciation of \$214,785 as of September 30, 2015. The lease provides for a base rent and an adjustment each year related to excess operating expenses (if any) incurred annually.

During the year ended September 30, 2015, the City received \$78,667 in rental revenue from this lease. The lease was continued on a month to month basis beginning in July 2015. Subsequent to yearend, the City was negotiating the sale of this property for \$1,508,000 to the corporation that was formerly leasing the property.

**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 860 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 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.tmr.com](http://www.tmr.com).

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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
 September 30, 2015

**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 2014</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, 0/25	60/5, 0/25
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

**Employees covered by benefit terms**

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	20
Active employees	64
<b>Total</b>	<b>96</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

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

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 6.75% and 7.09% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$225,752, and were equal to the required contributions.

**4. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**Actuarial assumptions:**

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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 Table, 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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 inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

### Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.0%. 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, 2015

**Changes in the Net Pension Liability:**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balance at 12/31/13</b>	\$ 6,740,172	\$ 6,120,633	\$ 619,539
Changes for the year:			
Service Cost	340,004	-	340,004
Interest (on the Total Pension Liab.)	476,571	-	476,571
Difference between expected and actual experience	47,610	-	47,610
Contributions – employer	-	211,283	(211,283)
Contributions – employee	-	187,821	(187,821)
Net investment income	-	350,203	(350,203)
Benefit payments, including refunds of emp. contributions	(204,026)	(204,026)	-
Administrative expense	-	(3,656)	3,656
Other changes	-	(301)	301
Net changes	660,159	541,324	118,835
<b>Balance at 12/31/14</b>	<b>\$ 7,400,331</b>	<b>\$ 6,661,957</b>	<b>\$ 738,374</b>

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$ 2,029,228	\$ 738,374	\$ (303,658)

**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, 2015

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

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and investment earnings	\$ 40,417	\$ -
Differences between expected and actual economic experience	62,593	-
Contributions subsequent to the measurement date	165,179	-
<b>Total</b>	<u>\$ 268,189</u>	<u>\$ -</u>

The City reported \$268,189 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	
2015	\$ 22,840
2016	22,840
2017	22,840
2018	22,841
2019	7,192
Thereafter	4,457
	<u>\$ 103,010</u>

**Supplemental Death Benefits Plan**

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

# City of Sanger, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

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 2014, 2013 and 2012 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.01%	0.01%	100.0%
2014	0.01%	0.01%	100.0%
2015	0.01%	0.01%	100.0%

The City's contributions to the TMRS SDBF for the years ended 2015, 2014, and 2013 were \$322, \$306, and \$293, respectively, which equaled the required contributions each year.

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**G. Restatement**

Due to the implementation of GASB No. 68, the City restated its beginning net position within government activities and business-type activities to properly reflect the net pension liability and deferred outflows of resources as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government wide level for both governmental activities and business-type activities. The below tables summarize the changes to net position as a result of this change in accounting method.

	<b>Governmental Activities</b>
Prior year ending net position, as reported	\$ 11,841,287
Addition of net pension liability	(441,249)
Addition of deferred outflow of resources due to pension contributions	107,807
Restated beginning net position	\$ 11,507,845
	<b>Business-Type Activities</b>
Prior year ending net position, as reported	\$ 14,459,004
Addition of net pension liability	(178,288)
Addition of deferred outflow of resources due to pension contributions	43,560
Restated beginning net position	\$ 14,324,276
	<b>Water, Sewer &amp; Sanitation</b>
Prior year ending net position, as reported	\$ 14,459,004
Addition of net pension liability	(178,288)
Addition of deferred outflow of resources due to pension contributions	43,560
Restated beginning net position	\$ 14,324,276

**H. Subsequent Events**

In November of 2015, the City issued a Combination Tax and Revenue Certificate of Obligation bond for \$5,870,000. The bonds accrue interest at 2.6749% and mature between 2026 through 2035.

Subsequent to yearend, the City was negotiating the sale of a property for \$1,508,000 to a corporation of which a city council member is a principal member of management. This member of city council resigned from city council in November of 2015.

**City of Sanger, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2015

**I. New Accounting Pronouncements**

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 68, entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. As part of GASB 68 the City is required to record its net funded pension liability.

GASB also issued Statement No. 69, entitled *Government Combinations and Disposals of Government Operation*, and GASB Statement No. 70, entitled *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Both statements were adopted this fiscal year but had no effect on these accompanying financial statements.

The, GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 73, entitled, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*; GASB Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures, which will require adoption in the future, if applicable*. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

(This page intentionally left blank.)

***REQUIRED SUPPLEMENTARY INFORMATION***

(This page intentionally left blank.)

# City of Sanger, Texas

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

For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Property tax	\$ 2,147,500	\$ 2,147,500	\$ 2,203,590	\$ 56,090
Sales tax	663,000	663,000	813,634	150,634
Franchise and local taxes	219,200	219,200	231,380	12,180
License and permits	125,200	125,200	122,509	(2,691)
Charges for services	748,500	748,500	805,339	56,839
Fire and rescue	495,000	495,000	512,202	17,202
Contributions and donations	6,000	6,000	1,400	(4,600)
Intergovernmental	-	3,250	49,031	45,781
Fines and forfeitures	176,900	176,900	128,839	(48,061)
Investment income	2,500	2,500	3,009	509
Other revenue	88,800	88,800	72,532	(16,268)
<b>Total Revenues</b>	4,672,600	4,675,850	4,943,465	267,615
<b>Expenditures</b>				
Current:				
General government	908,372	906,877	970,164	(63,287)
Police department	1,332,875	1,353,375	1,243,133	110,242
Municipal court	233,107	233,107	202,988	30,119
Fire and EMS	856,506	859,756	778,877	80,879
Parks and recreation	530,527	530,527	443,554	86,973
Public works	685,502	685,502	614,350	71,152
Debt service:				
Principal	143,008	143,008	143,004	4
Interest	15,527	15,527	15,527	-
Capital outlay	268,925	249,920	695,131	(445,211)
<b>Total Expenditures</b>	4,974,349	4,977,599	5,106,728	(129,129) *
<b>Revenues Over (Under) Expenditures</b>	(301,749)	(301,749)	(163,263)	138,486
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,040,785	1,040,785	1,040,785	-
Transfers (out)	(785,021)	(785,021)	(714,494)	70,527
Capital lease	-	-	500,000	500,000
Sale of capital assets	25,000	25,000	60,798	35,798
Insurance recoveries	25,000	25,000	14,413	(10,587)
<b>Total Other Financing Sources</b>	305,764	305,764	901,502	595,738
<b>Net Change in Fund Balance</b>	\$ 4,015	\$ 4,015	738,239	\$ 734,224
Beginning fund balance			1,236,078	
<b>Ending Fund Balance</b>			\$ 1,974,317	

Notes to Required Supplementary Information

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

\* Expenditures exceeded appropriations at the legal level of control.

# City of Sanger, Texas

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

For The Year Ended December 31, 2014

	2014	1
Total pension liability		
Service cost	\$ 340,004	
Interest (on the Total Pension Liability)	476,571	
Changes in benefit terms	-	
Differences between expected and actual experience	47,610	
Changes of assumptions	-	
Benefit payments, including refunds of participant contributions	(204,026)	
<b>Net change in total pension liability</b>	<b>660,159</b>	
<b>Total pension liability - beginning</b>	<b>6,740,172</b>	
<b>Total pension liability - ending (a)</b>	<b>\$ 7,400,331</b>	
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 211,283	
Contributions - members	187,821	
Net investment income	350,203	
Benefit payments, including refunds of participant contributions	(204,026)	
Administrative expenses	(3,656)	
Other	(301)	
<b>Net change in plan fiduciary net position</b>	<b>541,324</b>	
<b>Plan fiduciary net position - beginning</b>	<b>6,120,633</b>	
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 6,661,957</b>	
<b>Fund's net pension liability - ending (a) - (b)</b>	<b>\$ 738,374</b>	
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	90.02%	
<b>Covered employee payroll</b>	\$ 3,130,346	
<b>Fund's net position as a percentage of covered employee payroll</b>	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.



(This page intentionally left blank.)

*OTHER SUPPLEMENTARY INFORMATION*

**City of Sanger, Texas**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2015

	Capital Projects	4B Fund	Total Nonmajor Governmental
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 781,799	\$ 318,283	\$ 1,100,082
Restricted cash	-	189,429	189,429
Restricted investments	-	275,583	275,583
Receivables, net	-	58,692	58,692
<b>Total Assets</b>	<b>\$ 781,799</b>	<b>\$ 841,987</b>	<b>\$ 1,623,786</b>
 <b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	\$ 8,094	\$ -	\$ 8,094
<b>Total Liabilities</b>	<b>8,094</b>	<b>-</b>	<b>8,094</b>
 <b><u>Fund Balances</u></b>			
Restricted for:			
Capital projects	773,705	-	773,705
Economic development	-	841,987	841,987
<b>Total Fund Balances</b>	<b>773,705</b>	<b>841,987</b>	<b>1,615,692</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 781,799</b>	<b>\$ 841,987</b>	<b>\$ 1,623,786</b>

# City of Sanger, Texas

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

### NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	Capital Projects	4B Fund	Total Nonmajor Governmental
<b>Revenues</b>			
Sales tax	\$ -	\$ 393,663	\$ 393,663
Fines and forfeitures	-	-	-
Intergovernmental	67,254	-	67,254
Investment income	-	1,307	1,307
Other revenue	10,000	-	10,000
<b>Total Revenues</b>	77,254	394,970	472,224
<b>Expenditures</b>			
Current:			
General government	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	192,668	-	192,668
<b>Total Expenditures</b>	192,668	-	192,668
<b>Excess of Revenues Over (Under) Expenditures</b>	(115,414)	394,970	279,556
<b>Other Financing Sources (Uses)</b>			
Transfers in	350,000	(25,000)	325,000
Transfers (out)	(10,998)	(212,500)	(223,498)
<b>Total Other Financing Sources (Uses)</b>	339,002	(237,500)	101,502
<b>Net Change in Fund Balances</b>	223,588	157,470	381,058
Beginning fund balances	550,117	684,517	1,234,634
<b>Ending Fund Balances</b>	\$ 773,705	\$ 841,987	\$ 1,615,692

# 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, 2015

	Water	Sewer	Electric	Fleet Services
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 1,484,167	\$ 1,339,272	\$ 8,196,106	\$ -
Connection fees	-	-	59,980	-
Tap fees	213,000	276,750	-	-
Other revenue	-	-	-	-
<b>Total Operating Revenues</b>	1,697,167	1,616,022	8,256,086	-
<b><u>Operating Expenses</u></b>				
Salaries and wages	299,032	149,194	521,898	-
Contracted services	4,352	-	32,468	-
Utilities	152,605	162,007	8,620	-
Materials and supplies	17,265	10,311	51,121	-
Water and electric purchases	61,185	-	5,585,019	-
Repairs and maintenance	218,907	50,960	92,603	-
Depreciation	282,414	236,318	297,514	612
<b>Total Operating Expenses</b>	1,035,760	608,790	6,589,243	612
<b>Operating Income (loss)</b>	661,407	1,007,232	1,666,843	(612)
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Investment income	-	-	-	-
Interest expense	-	-	-	-
<b>Nonoperating Revenues (Expenses)</b>	-	-	-	-
<b>Income Before Transfers</b>	661,407	1,007,232	1,666,843	(612)
Transfers in	-	10,998	-	-
Transfers (out)	-	-	(547,250)	-
<b>Change in Net Position</b>	\$ 661,407	\$ 1,018,230	\$ 1,119,593	\$ (612)

<u>Administration</u>	<u>Total</u>
\$ -	\$ 11,019,545
-	59,980
-	489,750
39,738	39,738
39,738	11,609,013
-	970,124
-	36,820
-	323,232
-	78,697
-	5,646,204
-	362,470
16,640	833,498
16,640	8,251,045
23,098	3,357,968
15,128	15,128
(289,691)	(289,691)
(274,563)	(274,563)
(251,465)	3,083,405
-	10,998
(1,184,176)	(1,731,426)
\$ (1,435,641)	\$ 1,362,977

(This page intentionally left blank.)