

ANNUAL FINANCIAL REPORT

of the

City of Sanger, Texas

**For the Year Ended
September 30, 2020**

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City of Sanger, Texas

TABLE OF CONTENTS

September 30, 2020

FINANCIAL SECTION

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

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	18
Statement of Activities	22

Fund Financial Statements

Governmental Funds:

Balance Sheet	24
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds	27
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31

Proprietary Funds:

Statement of Net Position	32
Statement of Revenues, Expenses, and Changes in Fund Net Position	34
Statement of Cash Flows	35

Notes to Financial Statements	37
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	76
Schedule of Changes in Net Pension Liability and Related Ratios	78
Schedule of Employer Contributions to Pension Plan	80
Schedule of Changes in OPEB Liability and Related Ratios	82

COMBINING AND INDIVIDUAL FUND FINANCIAL SCHEDULES

Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds – by Department	84
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sanger, Texas (the "City") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2020, 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 employer contributions to pension plan, schedule of changes in other postemployment benefits liability and related ratios, and general fund 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining schedule by department for the proprietary fund is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the

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

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

Brooks Watson & Co.
Certified Public Accountants, PLLC
Houston, Texas
January 13, 2021

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

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City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2020

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, 2020.

Financial Highlights

- The City's total combined net position is \$48,647,871 at September 30, 2020. Of this, \$20,451,882 (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 \$11,006,202, an increase of \$2,463,524.
- As of the end of the year, the unassigned fund balance of the general fund was \$7,341,262 or 108% of total general fund expenditures.
- The City had an overall increase in net position of \$4,259,084, which is due to revenues exceeding expenses for both governmental and business-type activities.

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, 2020

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Sanger Industrial Development Corporation ("4A") and the Sanger Texas Development Corporation ("4B"), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

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

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

Proprietary Funds

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

Component Units

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

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires is a budgetary comparison schedule for the general fund and schedules for the City's Defined Pension Plan. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Sanger, assets exceeded liabilities by \$48,647,871 as of September 30, 2020, in the primary government.

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2020

The largest portion of the City's net position, \$26,569,343, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$1,626,646, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20,451,884 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, 2020 and September 30, 2019 were \$12,106,859 and \$9,264,673, respectively. The increase of \$2,842,186 was primarily due to an increase in cash on hand as a result of revenues exceeding expenses in the current year.

Current assets of business-type activities as of September 30, 2020 and September 30, 2019 were \$13,631,238 and \$14,744,586, respectively. The decrease of \$1,113,348 was primarily attributable to funds being spent on capital asset improvements throughout the year and principal payments made on outstanding debt.

Capital assets of business-type activities as of September 30, 2020 and September 30, 2019 were \$30,002,614 and \$29,272,520, respectively. The increase of \$730,094 was a primarily a result of the continued sewer plant expansion.

Total long-term liabilities as of September 30, 2020 and September 30, 2019 were \$21,862,434 and \$24,097,027, respectively. The decrease of \$2,234,593 was primarily due to principal payments made during the year.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 12,106,859	\$ 13,167,174	\$ 25,274,033	\$ 9,264,673	\$ 14,744,586	\$ 24,009,259
Capital assets, net	19,063,124	30,002,614	49,065,738	18,949,169	29,272,520	48,221,689
Total Assets	31,169,983	43,169,788	74,339,771	28,213,842	44,017,106	72,230,948
Deferred Outflows of Resources	373,255	118,518	491,773	596,634	197,169	793,803
Other liabilities	1,745,717	2,715,443	4,461,160	1,348,191	3,182,639	4,530,830
Long-term liabilities	2,956,102	18,906,332	21,862,434	4,082,353	20,014,674	24,097,027
Total Liabilities	4,701,819	21,621,775	26,323,594	5,430,544	23,197,313	28,627,857
Deferred Inflows of Resources	249,483	74,660	324,143	6,237	1,870	8,107
Net Position:						
Net investment in capital assets	16,338,660	10,230,683	26,569,343	15,502,386	10,572,724	26,075,110
Restricted	1,626,646	-	1,626,646	2,894,827	-	2,894,827
Unrestricted	8,626,630	11,825,252	20,451,882	4,976,482	10,442,368	15,418,850
Total Net Position	\$ 26,591,936	\$ 22,055,935	\$ 48,647,871	\$ 23,373,695	\$ 21,015,092	\$ 44,388,787

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Activities:

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

	For the Year Ended September 30, 2020			For the Year Ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 2,180,918	\$ 12,400,421	\$ 14,581,339	\$ 2,035,376	\$ 12,594,574	\$ 14,629,950
Grants and contributions	703,800	-	703,800	770,917	-	770,917
General revenues:						
Property taxes	4,784,777	-	4,784,777	4,480,452	-	4,480,452
Sales taxes	1,104,525	-	1,104,525	914,748	-	914,748
Franchise and local taxes	291,554	-	291,554	283,573	-	283,573
Investment income	20,786	389,530	410,316	11,916	169,808	181,724
Other revenues	543,453	-	543,453	399,167	-	399,167
Total Revenues	9,629,813	12,789,951	22,419,764	8,896,149	12,764,382	21,660,531
Expenses						
General government	2,404,017	-	2,404,017	2,186,197	-	2,186,197
Public safety	2,764,359	-	2,764,359	2,759,901	-	2,759,901
Public works	1,549,551	-	1,549,551	1,070,180	-	1,070,180
Culture and recreation	746,573	-	746,573	719,658	-	719,658
Interest and fiscal charges	80,876	642,843	723,719	181,723	681,277	863,000
Water, sewer, & electric	-	9,972,461	9,972,461	-	9,898,650	9,898,650
Total Expenses	7,545,376	10,615,304	18,160,680	6,917,659	10,579,927	17,497,586
Change in Net Position						
Before Transfers	2,084,437	2,174,647	4,259,084	1,978,490	2,184,455	4,162,945
Transfers	1,133,804	(1,133,804)	-	681,175	(681,175)	-
Total	1,133,804	(1,133,804)	-	681,175	(681,175)	-
Change in Net Position	3,218,241	1,040,843	4,259,084	2,659,665	1,503,280	4,162,945
Beginning Net Position	23,373,695	21,015,092	44,388,787	20,714,030	19,511,812	40,225,842
Ending Net Position	\$ 26,591,936	\$ 22,055,935	\$ 48,647,871	\$ 23,373,695	\$ 21,015,092	\$ 44,388,787

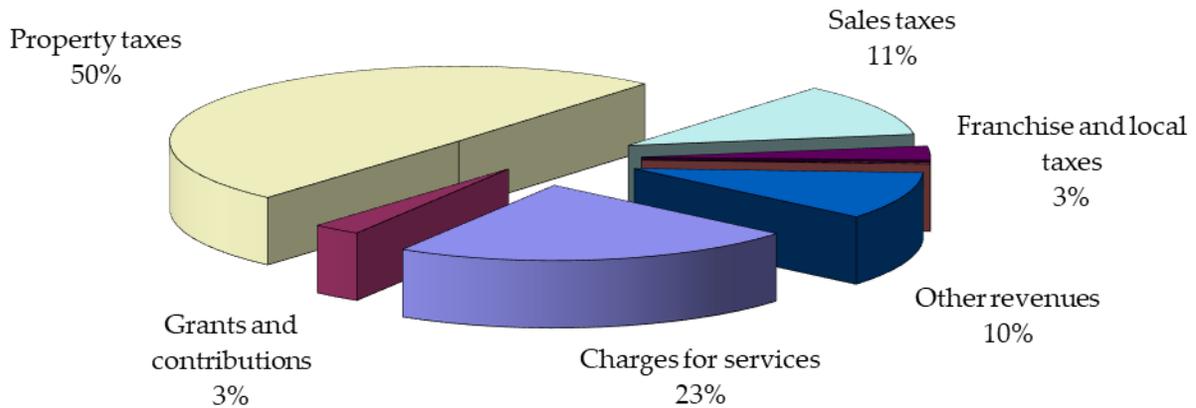
City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

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

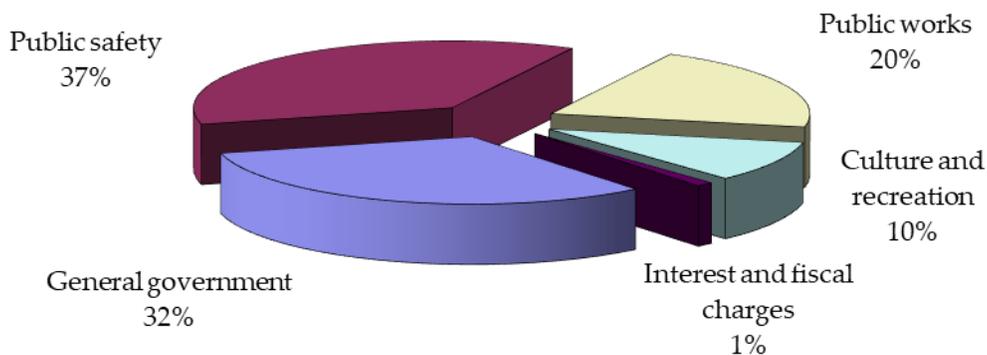
Governmental Activities - Revenues



For the year ended September 30, 2020, revenues from governmental activities totaled \$9,629,813. Property tax, charges for services, and sales taxes are the City's largest revenue sources. Property tax increased by \$304,325 or 7% due to rising property values. Sales taxes increased by \$189,777 or 21% due to growth in the local economy. Charges for services increased \$145,542 or 7% primarily due to increases in building permit revenue collected in the current year. Grants and contributions decreased by \$67,117 or 9% due to nonrecurring funds received from an interlocal agreement with Denton County for street construction in the prior year. Other revenues increased by \$144,286 primarily due to roadway impact fees received in the current year. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2020, expenses for governmental activities totaled \$7,545,376. This represents an increase of \$627,717 from the prior year. The City's largest functional expense is public

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

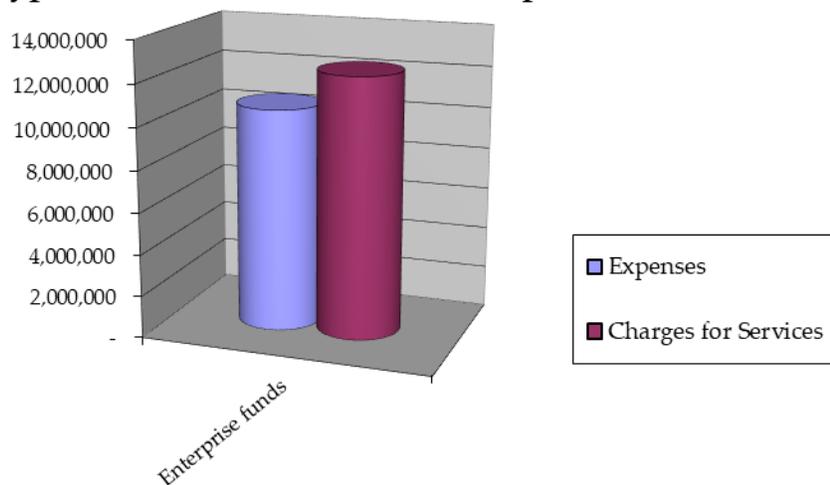
September 30, 2020

safety of \$2,764,359, which primarily includes costs for the police department, animal control, fire department, and EMS services. Public safety expenses remained consistent with the prior year. General government expenses increased by \$217,820 or 10% primarily due to increases in contract services and administrative expenses paid to the City's internal service fund. Public works expenses increased by \$479,371 or 45% primarily due to increased personnel costs and asset depreciation expenses. Interest and fiscal charges decreased by \$100,847 or 55% primarily due to nonrecurring bond issuance costs recognized in the prior year. All other expenditures remained relatively consistent with the previous year.

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

For the year ended September 30, 2020, charges for services by business-type activities totaled \$12,400,421. This is a decrease of \$194,153 or 2% from the previous year, which is considered minimal.

Business-Type Activities - Revenues and Expenses



Total expenses increased slightly by \$35,377 or < 1% compared to the prior year, which is considered consistent with the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

As of the end of the year the general fund reflected a total fund balance of \$8,532,848. Of this, \$11,469 is restricted for municipal court, \$59,175 is restricted for tourism, \$98,393 is restricted for library improvements, \$81,934 for public safety, \$11,087 is restricted for parks, and \$882,093 is restricted for roadway impact fees. In addition, \$41,226 is committed for employee benefits. Unassigned fund balance totaled \$7,341,262 as of yearend. The general fund increased by \$2,095,070 primarily as a result of planned expenditures exceeding current year actual expenditures and an overall increase in the anticipated net change in fund balance.

The capital projects fund reflected an ending balance of \$1,997,068, an increase of \$368,349. This increase is attributed to greater transfers in compared to capital outlay expenditures in the current year.

There was an increase in governmental fund balance of \$2,463,525 over the prior year. The increase was primarily due to revenues and other financing sources exceeding current year expenditures.

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 \$2,095,070 in the general fund. This is a combination of a positive revenue variance of \$1,178,038 a positive expenditure variance of \$832,179, and a positive variance of \$84,853 in other financing sources and uses. The most significant revenue variances were for sales taxes, franchise and local taxes, licenses and permits, and other revenues.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$19,063,124 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 \$30,002,614 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Investments in the 2019-2020 street rehabilitation program for \$702,720.
- Willow Street improvements for \$67,618.
- Wastewater pipeline improvements and utility line relocation totaling \$234,960.
- Well #6 rehabilitation investments totaling \$157,535.
- Investments in Bolivar Street wastewater rehabilitation project for \$392,236.
- Sewer plant expansion for \$705,037.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2020

- Purchase of two Chevy Tahoes for \$107,084.
- Purchase two new vehicles for the fire and EMS department totaling \$218,470.

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds (including premiums) and capital leases outstanding of \$22,184,167. The City made principal payments on bonds and capital leases of \$1,538,772. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Sanger and improving services provided to their public citizens. The City is considering the impact of the COVID-19 pandemic on anticipated tax revenues and expenditures for the year ending September 30, 2021.

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.

FINANCIAL STATEMENTS

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 10,933,418	\$ 8,032,637	\$ 18,966,055
Restricted cash	-	2,540,582	2,540,582
Investments	546,175	725,385	1,271,560
Receivables, net	565,088	1,322,782	1,887,870
Inventory	-	473,150	473,150
Due from component unit	134,816	-	134,816
Internal balances	(72,638)	72,638	-
Total Current Assets	12,106,859	13,167,174	25,274,033
Deposit for capital assets	-	464,064	464,064
Capital assets:			
Non-depreciable	1,044,933	14,675,601	15,720,534
Net depreciable capital assets	18,018,191	15,327,013	33,345,204
	19,063,124	30,466,678	49,529,802
Total Assets	31,169,983	43,633,852	74,803,835
Deferred Outflows of Resources			
Deferred charge on refunding	4,787	8,252	13,039
Pension outflows	353,421	105,772	459,193
OPEB outflows	15,047	4,494	19,541
Total Deferred Outflows of Resources	373,255	118,518	491,773

See Notes to Financial Statements.

Component Units

Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ 1,530,519	\$ 1,232,766
-	-
95,660	283,601
96,174	96,174
-	-
-	-
-	-
<u>1,722,353</u>	<u>1,612,541</u>
-	-
-	-
689,654	-
<u>689,654</u>	<u>-</u>
<u>2,412,007</u>	<u>1,612,541</u>
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 848,178	\$ 991,742	\$ 1,839,920
Accrued interest payable	15,663	234,956	250,619
Customer deposits	-	508,333	508,333
Due to primary government	-	-	-
Compensated absences - current	186,897	95,212	282,109
Long term debt due within one year	694,979	885,200	1,580,179
Total Current Liabilities	1,745,717	2,715,443	4,461,160
Noncurrent liabilities:			
Debt due in more than one year	1,990,844	18,613,144	20,603,988
Compensated absences - noncurrent	20,766	10,579	31,345
OPEB liability	101,790	30,406	132,196
Net pension liability	842,702	252,203	1,094,905
	<u>2,956,102</u>	<u>18,906,332</u>	<u>21,862,434</u>
Total Liabilities	4,701,819	21,621,775	26,323,594
Deferred Inflows of Resources			
OPEB inflows	7,822	2,336	10,158
Pension inflows	241,661	72,324	313,985
Total Deferred Inflows of Resources	249,483	74,660	324,143
Net Position			
Net investment in capital assets	16,338,660	10,230,683	26,569,343
Restricted for:			
Debt service	476,286	-	476,286
Parks	11,087	-	11,087
Economic development	-	-	-
Roadway impact fees	882,093	-	882,093
Other purposes	257,180	-	257,180
Unrestricted	8,626,630	11,825,252	20,451,882
Total Net Position	\$ 26,591,936	\$ 22,055,935	\$ 48,647,871

See Notes to Financial Statements.

Component Units

Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ 6,655	\$ 10,001
-	-
-	-
67,408	67,408
-	-
-	-
74,063	77,409
-	-
-	-
-	-
-	-
74,063	77,409
-	-
-	-
-	-
689,654	-
-	-
-	-
1,648,290	1,535,132
-	-
-	-
-	-
\$ 2,337,944	\$ 1,535,132

City of Sanger, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 2,404,017	\$ 1,460,219	\$ 443,906	\$ -
Public safety	2,764,359	720,699	40,052	-
Public works	1,549,551	-	-	7,292
Culture and recreation	746,573	-	50	-
Interest and fiscal charges	80,876	-	212,500	-
Total Governmental Activities	7,545,376	2,180,918	696,508	7,292
Business-Type Activities				
Water	1,626,068	2,399,719	-	-
Sewer	1,129,388	2,465,102	-	-
Electric	7,202,676	7,394,565	-	-
Fleet services	66	-	-	-
Utility administration	657,106	141,035	-	-
Total Business-Type Activities	10,615,304	12,400,421	-	-
Total Primary Government	\$ 18,160,680	\$ 14,581,339	\$ 696,508	7,292
Component Units				
Sanger Ind. Dev. Corp. (4A)	174,864	-	-	-
Sanger Texas Dev. Corp. (4B)	249,678	-	-	-
	\$ 424,542	\$ -	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues
- Insurance recoveries

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ (499,892)	\$ -	\$ (499,892)	\$ -	\$ -
(2,003,608)	-	(2,003,608)	-	-
(1,542,259)	-	(1,542,259)	-	-
(746,523)	-	(746,523)	-	-
131,624	-	131,624	-	-
<u>(4,660,658)</u>	<u>-</u>	<u>(4,660,658)</u>	<u>-</u>	<u>-</u>
-	773,651	773,651	-	-
-	1,335,714	1,335,714	-	-
-	191,889	191,889	-	-
-	(66)	(66)	-	-
-	(516,071)	(516,071)	-	-
-	1,785,117	1,785,117	-	-
<u>(4,660,658)</u>	<u>1,785,117</u>	<u>(2,875,541)</u>	<u>-</u>	<u>-</u>
			(174,864)	-
			-	(249,678)
			<u>(174,864)</u>	<u>(249,678)</u>
4,784,777	-	4,784,777	-	-
1,104,525	-	1,104,525	549,145	549,145
291,554	-	291,554	-	-
20,786	389,530	410,316	3,289	5,178
468,123	-	468,123	30,000	-
75,330	-	75,330	-	-
1,133,804	(1,133,804)	-	-	-
<u>7,878,899</u>	<u>(744,274)</u>	<u>7,134,625</u>	<u>582,434</u>	<u>554,323</u>
3,218,241	1,040,843	4,259,084	407,570	304,645
23,373,695	21,015,092	44,388,787	1,930,374	1,230,487
<u>\$ 26,591,936</u>	<u>\$ 22,055,935</u>	<u>\$ 48,647,871</u>	<u>\$ 2,337,944</u>	<u>\$ 1,535,132</u>

City of Sanger, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2020

	General	Capital Projects Fund	Nonmajor Debt Service
<u>Assets</u>			
Cash and cash equivalents	\$ 8,267,203	\$ 1,997,068	\$ 475,812
Investments	546,175	-	-
Receivables, net	551,479	-	13,609
Due from component unit	134,816	-	-
Total Assets	\$ 9,499,673	\$ 1,997,068	\$ 489,421
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 727,393	\$ -	\$ -
Due to other funds	72,638	-	-
Total Liabilities	800,031	-	-
 <u>Deferred Inflows of Resources</u>			
Unavailable revenue			
Property taxes	49,826	-	13,135
EMS revenue	116,968	-	-
Total Deferred Inflows of Resources	166,794	-	13,135
 <u>Fund Balances</u>			
Restricted for:			
Municipal court	11,469	-	-
Tourism	59,175	-	-
Library	104,602	-	-
Public safety	81,934	-	-
Debt service	-	-	476,286
Capital projects	-	-	-
Parks	11,087	-	-
Roadway impact fees	882,093	-	-
Committed for:			
Capital projects	-	1,997,068	-
Employee benefits	41,226	-	-
Unassigned reported in:			
General fund	7,341,262	-	-
Total Fund Balances	8,532,848	1,997,068	476,286
 Total Liabilities, Deferred Inflows, and Fund Balances	 \$ 9,499,673	 \$ 1,997,068	 \$ 489,421

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 10,740,083
546,175
565,088
134,816

\$ 11,986,162

\$ 727,393
72,638

800,031

62,961
116,968

179,929

11,469
59,175
104,602
81,934
476,286
-
11,087
882,093

1,997,068
41,226

7,341,262

11,006,202

\$ 11,986,162

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City of Sanger, Texas

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

September 30, 2020

Fund Balances - Total Governmental Funds	\$ 11,006,202
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	1,044,933
Capital assets - net depreciable	17,900,574
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	62,961
EMS receivable	116,968
Deferred outflows (inflows) of resources, represent a consumption (acquisition) of net position that applies to a future period(s) and is not recognized as an outflow (inflow) of resources (expense/ expenditure) (revenue) until then.	
Deferred charge on refunding	4,787
Pension contributions	146,798
OPEB contributions	357
Pension outflows	107,731
Pension inflows	(174,041)
OPEB outflows	10,391
OPEB inflows	(5,587)
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	
Net position - governmental activities	(74,254)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(15,663)
Compensated absences	(174,788)
Bond premium	(128,072)
Net pension liability	(606,903)
OPEB liability	(72,707)
Non-current liabilities due in one year	(694,979)
Non-current liabilities due in more than one year	(1,862,772)
Net Position of Governmental Activities	\$ 26,591,936

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, 2020

	General	Capital Projects Fund	Nonmajor Debt Service
Revenues			
Property tax	\$ 4,153,342	\$ -	\$ 614,820
Sales tax	1,104,525	-	-
Franchise and local taxes	291,554	-	-
License and permits	451,839	-	-
Charges for services	1,008,380	-	-
Fire and rescue	648,038	-	-
Contributions and donations	2,600	-	-
Intergovernmental	481,408	7,292	212,500
Fines and forfeitures	72,661	-	-
Investment income	19,798	-	988
Other revenue	458,600	-	-
Total Revenues	8,692,745	7,292	828,308
Expenditures			
Current:			
General government	2,154,048	-	1,250
Police department	1,424,522	-	-
Municipal court	174,044	-	-
Fire and EMS	1,332,950	-	-
Parks and recreation	468,306	-	-
Public works	999,827	-	-
Debt service:			
Principal	43,772	-	664,800
Interest	7,763	-	110,618
Capital outlay	163,953	737,625	-
Total Expenditures	6,769,185	737,625	776,668
Excess of Revenues Over (Under) Expenditures	1,923,560	(730,333)	51,640
Other Financing Sources (Uses)			
Transfers in	761,657	1,098,682	-
Transfers (out)	(675,000)	-	(51,535)
Proceeds from sale of capital assets	9,523	-	-
Insurance recoveries	75,330	-	-
Total Other Financing Sources (Uses)	171,510	1,098,682	(51,535)
Net Change in Fund Balances	2,095,070	368,349	105
Beginning fund balances	6,437,778	1,628,719	476,181
Ending Fund Balances	\$ 8,532,848	\$ 1,997,068	\$ 476,286

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 4,768,162
1,104,525
291,554
451,839
1,008,380
648,038
2,600
701,200
72,661
20,786
458,600

9,528,345

2,155,298
1,424,522
174,044
1,332,950
468,306
999,827

708,572
118,381
901,578

8,283,478

1,244,867

1,860,339
(726,535)
9,523
75,330

1,218,657

2,463,524
8,542,678

\$ 11,006,202

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City of Sanger, Texas

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

For the Year Ended September 30, 2020

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

Net changes in fund balances - total governmental funds	\$ 2,463,524
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,305,826
Depreciation expense	(1,263,448)

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

EMS receivable	16,615
----------------	--------

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

Compensated absences	4,286
Accrued interest	4,013
Pension expense	(29,446)
OPEB expense	(4,778)

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

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

Deferred charges on refunding	(7,250)
Principal payments	708,572
Amortization of bond premium	40,742

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.

(20,415)

Change in Net Position of Governmental Activities	\$ 3,218,241
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See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUND
September 30, 2020

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 8,032,637	\$ 193,335
Restricted cash	2,540,582	-
Investments	725,385	-
Receivables, net	1,322,782	-
Inventory	473,150	-
Due from other funds	72,638	-
Total Current Assets	13,167,174	193,335
<u>Noncurrent Assets</u>		
Deposit for capital assets	464,064	-
Capital assets:		
Non-depreciable	14,675,601	-
Net depreciable capital assets	15,327,013	117,617
Total Noncurrent Assets	30,466,678	117,617
Total Assets	43,633,852	310,952
<u>Deferred Outflows of Resources</u>		
Deferred charge on refunding	8,252	-
Pension outflows	105,772	98,892
OPEB outflows	4,494	4,299
Total Deferred Outflows of Resources	118,518	103,191

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUND
September 30, 2020

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts payable and accrued liabilities	991,742	120,785
Accrued interest	234,956	-
Customer deposits	508,333	-
Compensated absences - current	95,212	29,588
Bonds and capital leases payable - current	885,200	-
Total Current Liabilities	2,715,443	150,373
<u>Noncurrent Liabilities</u>		
Compensated absences - noncurrent	10,579	3,287
Net pension liability	252,203	235,799
OPEB liability	30,406	29,083
Bonds and capital leases payable - noncurrent	18,613,144	-
Total Liabilities	21,621,775	418,542
<u>Deferred Inflows of Resources</u>		
OPEB inflows	2,336	2,235
Pension inflows	72,324	67,620
Total Deferred Inflows of Resources	74,660	69,855
<u>Net Position</u>		
Net investment in capital assets	10,230,683	117,617
Unrestricted	11,825,252	(191,871)
Total Net Position	\$ 22,055,935	\$ (74,254)

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, 2020

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Operating Revenues</u>		
Charges for services	\$ 11,159,866	\$ 2,089,244
Connection fees	70,720	-
Tap fees	1,028,800	-
Other revenue	141,035	-
Total Operating Revenues	12,400,421	2,089,244
<u>Operating Expenses</u>		
Salaries and wages	2,143,514	1,306,439
Contracted services	563,298	494,537
Utilities	351,885	96,545
Materials and supplies	139,347	90,025
Water and electric purchases	5,208,867	-
Repairs and maintenance	538,674	111,044
Depreciation	1,026,876	10,290
Total Operating Expenses	9,972,461	2,108,880
Operating Income (Loss)	2,427,960	(19,636)
<u>Nonoperating Revenues (Expenses)</u>		
Investment income	389,530	-
Interest expense	(642,843)	(779)
Total Nonoperating Revenues (Expenses)	(253,313)	(779)
Income (Loss) Before Transfers	2,174,647	(20,415)
Transfers (out)	(1,133,804)	-
Change in Net Position	1,040,843	(20,415)
Beginning net position	21,015,092	(53,839)
Ending Net Position	\$ 22,055,935	\$ (74,254)

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, 2020

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	\$ 12,710,868	\$ -
Receipts from interfund charges for administrative services	-	2,089,244
Payments to suppliers	(7,377,183)	(767,900)
Payments to employees	(2,149,731)	(1,267,279)
Receipts from other funds	18,622	-
Net Cash Provided by (Used) by Operating Activities	3,202,576	54,065
<u>Cash Flows from Noncapital Financing Activities</u>		
Operating transfers (out)	(1,133,804)	-
Net Cash Provided by (Used) by Noncapital Financing Activities	(1,133,804)	-
<u>Cash Flows from Capital and Related Financing Activities</u>		
Capital purchases	(1,756,970)	(81,867)
Deposit payment for capital assets purchase	(464,064)	-
Principal paid on debt	(830,200)	-
Interest paid on debt	(744,658)	(779)
Net Cash (Used) by Capital and Related Financing Activities	(3,795,892)	(82,646)
<u>Cash Flows from Investing Activities</u>		
Purchases of investments, net	(2,859)	-
Interest on investments	389,530	-
Net Cash Provided by Investing Activities	386,671	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,340,449)	(28,581)
Beginning cash and cash equivalents	11,913,668	221,916
Ending Cash and Cash Equivalents	\$ 10,573,219	\$ 193,335

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, 2020

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Reconciliation of Operating Income</u>		
<u>to Net Cash Provided by Operating Activities</u>		
Operating Income / (Loss)	\$ 2,427,960	\$ (19,636)
Adjustments to reconcile operating income / (loss) to net cash provided / (used):		
Depreciation	1,026,876	10,290
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable	244,200	-
Inventory	(23,000)	-
Due from/to other funds	18,622	-
Deferred outflows of resources - pension contributions	56,739	47,841
Deferred outflows of resources - OPEB contributions	71	62
Other deferred outflows of resources - pensions	13,610	1,744
Deferred inflows of resources - pensions	72,324	67,620
Other deferred outflows of resources - OPEB	(4,494)	(4,299)
Deferred inflows of resources - OPEB	466	633
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(552,112)	24,251
Compensated absences	(27,086)	(1,050)
Customer deposits	66,247	-
Net pension liability	(124,723)	(82,015)
OPEB liability	6,876	8,624
Net Cash Provided (Used) by Operating Activities	\$ 3,202,576	\$ 54,065

See Notes to Financial Statements.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

Discretely Presented Component Units

Sanger Industrial Development Corporation (4A)

The Sanger Texas Industrial Development Corporation ("4A") is governed by a board of five directors, all of whom are appointed by the City Council of the City of Sanger and any of whom can be removed from office by the City Council at its will. The 4A fund was incorporated in the state of Texas as a non-profit industrial development corporation under Section 4A of the Development Corporation Act of 1979. The purpose of the 4A fund is to promote economic development within the City of Sanger. Discrete presentation is appropriate because the District's Board is not substantially the same as the City.

Sanger Texas Development Corporation (4B)

The Sanger Texas Development Corporation ("4B") is governed by a board of seven directors, all of whom are appointed by the City Council at its will. The 4B fund was incorporated in the state of Texas as a nonprofit industrial development corporation under Section 4B of the Development Corporation Act of 1979. The purpose of the 4B fund is to promote economic and community development within the City of Sanger. Discrete presentation is appropriate because the District's Board is not substantially the same as the City.

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The government reports the following major governmental funds:

Governmental Funds

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

General Fund

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

Capital Projects Fund

The capital projects fund is used to account for capital asset activities for governmental fund types.

The government reports the following nonmajor governmental fund:

Debt Service Fund

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Proprietary Fund Types

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

The government reports the following major enterprise fund:

Water, Sewer, & Electric Fund

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

Additionally, the government reports the following fund type:

Internal Service Fund

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

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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

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

D. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

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

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

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

2. Fair Value

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

3. Receivables and Interfund Transactions

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

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

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

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

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

6. Capital Assets

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

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

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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.

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

7. Deferred Outflows/Inflows of Resources

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

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

8. Net Position Flow Assumption

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2020

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

11. Compensated Absences

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

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

12. Long-Term Obligations

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

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

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

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Estimates

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

14. Pensions

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

15. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

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.

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

budgeted item without Council approval. Appropriations lapse at the end of the year. Budget amendments were only re-classes at the function level and below and there was no increase in budgeted revenues or expenses by function from amendments.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2020, the primary government had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 1,271,560	0.48
Total fair value	<u>\$ 1,271,560</u>	
Portfolio weighted average maturity		0.48

As of September 30, 2020, the 4A Component Unit had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 95,660	0.50
Total fair value	<u>\$ 95,660</u>	
Portfolio weighted average maturity		0.50

As of September 30, 2020, the 4B Component Unit had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 283,601	0.47
Total fair value	<u>\$ 283,601</u>	
Portfolio weighted average maturity		0.47

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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, 2020, the market values of pledged securities and FDIC exceeded bank balances.

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

B. Receivables

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

	General	Debt Service	Water, Sewer & Electric	Total
Property taxes	\$ 80,125	\$ 17,888	\$ -	\$ 98,013
Sales tax	192,348	-	-	192,348
Franchise & local taxes	44,065	-	-	44,065
EMS	380,079	-	-	380,079
Accounts	103,560	-	1,427,262	1,530,822
Other	3,923	-	-	3,923
Allowance	(252,621)	(4,279)	(104,480)	(361,380)
	\$ 551,479	\$ 13,609	\$ 1,322,782	\$ 1,887,870

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

	4A	4B	Total
Sales tax	\$ 96,174	\$ 96,174	\$ 192,348
	\$ 96,174	\$ 96,174	\$ 192,348

C. Inventory

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

Inventory type	Cost
Electric Department	\$ 407,370
Water Department	65,780
Total	\$ 473,150

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

D. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Disposals / Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,044,933	\$ -	\$ -	\$ 1,044,933
Construction in progress	6,795,480	31,853	(6,827,333)	-
Total capital assets not being depreciated	<u>7,840,413</u>	<u>31,853</u>	<u>(6,827,333)</u>	<u>1,044,933</u>
Capital assets, being depreciated:				
Infrastructure	12,424,210	820,200	6,799,971	20,044,381
Buildings and improvements	6,827,454	32,526	-	6,859,980
Machinery and equipment	4,159,126	503,114	(6,141)	4,656,099
Total capital assets being depreciated	<u>23,410,790</u>	<u>1,355,840</u>	<u>6,793,830</u>	<u>31,560,460</u>
Less accumulated depreciation				
Infrastructure	6,796,994	655,920	-	7,452,914
Buildings and improvements	2,567,852	294,224	-	2,862,076
Machinery and equipment	2,937,188	323,594	(33,503)	3,227,279
Total accumulated depreciation	<u>12,302,034</u>	<u>1,273,738</u>	<u>(33,503)</u>	<u>13,542,269</u>
Net capital assets being depreciated	<u>11,108,756</u>	<u>82,102</u>	<u>6,827,333</u>	<u>18,018,191</u>
Total Capital Assets	<u>\$ 18,949,169</u>	<u>\$ 113,955</u>	<u>\$ -</u>	<u>\$ 19,063,124</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 80,165
Public safety	112,094
Public works	692,573
Culture and recreation	284,841
Fire and rescue	93,775
Internal service	10,290
Total Governmental Activities Depreciation Expense	<u>\$ 1,273,738</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Disposals / Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 496,867	\$ -	\$ -	\$ 496,867
Construction in progress	13,377,210	939,997	(138,473)	14,178,734
Total capital assets not being depreciated	<u>13,874,077</u>	<u>939,997</u>	<u>(138,473)</u>	<u>14,675,601</u>
Capital assets, being depreciated:				
Infrastructure	30,279,289	808,910	138,473	31,226,672
Buildings and improvements	865,245	-	-	865,245
Machinery and equipment	2,318,516	8,063	(87,703)	2,238,876
Total capital assets being depreciated	<u>33,463,050</u>	<u>816,973</u>	<u>50,770</u>	<u>34,330,793</u>
Less accumulated depreciation				
Infrastructure	15,805,833	859,734	-	16,665,567
Buildings and improvements	575,015	51,855	-	626,870
Machinery and equipment	1,683,759	115,287	(87,703)	1,711,343
Total accumulated depreciation	<u>18,064,607</u>	<u>1,026,876</u>	<u>(87,703)</u>	<u>19,003,780</u>
Net capital assets being depreciated	15,398,443	(209,903)	138,473	15,327,013
Total Capital Assets	<u>\$ 29,272,520</u>	<u>\$ 730,094</u>	<u>\$ -</u>	<u>\$ 30,002,614</u>

Depreciation was charged to business-type activities as follows:

Water	\$ 377,795
Sewer	403,758
Electric	230,994
Other	14,329
Total Business-type Activities Depreciation Expense	<u>\$ 1,026,876</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,080,797	\$ -	\$ -	\$ 1,080,797
Furniture and fixtures	40,950	-	-	40,950
Total capital assets being depreciated	<u>1,121,747</u>	<u>-</u>	<u>-</u>	<u>1,121,747</u>
Less accumulated depreciation				
Buildings and improvements	368,096	37,973	-	406,069
Furniture and fixtures	21,661	4,363	-	26,024
Total accumulated depreciation	<u>389,757</u>	<u>42,336</u>	<u>-</u>	<u>432,093</u>
Net capital assets being depreciated	<u>731,990</u>	<u>(42,336)</u>	<u>-</u>	<u>689,654</u>
Total Capital Assets	<u><u>\$ 731,990</u></u>	<u><u>\$ (42,336)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 689,654</u></u>

The 4A Component Unit recognized depreciation expense of \$42,336 during the year ended September 30, 2020.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

E. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization/ Payments</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 804,500	\$ -	\$ (410,900)	\$ 393,600	\$ 393,600
Certificates of Obligation	2,228,800	-	(253,900)	1,974,900	256,200
Less deferred amounts:					
For issuance premiums	168,814	-	(40,742)	128,072	-
	<u>3,202,114</u>	<u>-</u>	<u>(705,542)</u>	<u>2,496,572</u>	<u>649,800</u>
Other liabilities:					
Capital leases payable	233,023	-	(43,772)	189,251	45,179
Total Governmental Activities	<u>\$ 3,435,137</u>	<u>\$ -</u>	<u>\$ (749,314)</u>	<u>\$ 2,685,823</u>	<u>\$ 694,979</u>
Long-term liabilities due in more than one year				<u>\$ 1,990,844</u>	
Business-Type Activities:					
General Obligation Bonds	\$ 975,500	\$ -	\$ (499,100)	\$ 476,400	\$ 476,400
Certificates of Obligation	18,236,200	-	(331,100)	17,905,100	408,800
Less deferred amounts:					
For issuance premiums	1,219,430	-	(102,586)	1,116,844	-
	<u>20,431,130</u>	<u>-</u>	<u>(932,786)</u>	<u>19,498,344</u>	<u>885,200</u>
Total Business-Type Activities	<u>\$ 20,431,130</u>	<u>\$ -</u>	<u>\$ (932,786)</u>	<u>\$ 19,498,344</u>	<u>\$ 885,200</u>
Long-term liabilities due in more than one year				<u>\$ 18,613,144</u>	

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
General Obligation Bonds:			
\$3,495,000 General Obligation Refunding Bond, Series 2012, due in installments through 2021, interest at 2% to 3%	\$ 145,200	\$ 184,800	\$ 330,000
\$2,535,000 General Obligation Refunding Bond, Series 2016, due in installments through 2021, interest at 2% to 4%	248,400	291,600	540,000
Total General Obligation Bonds	<u>\$ 393,600</u>	<u>\$ 476,400</u>	<u>\$ 870,000</u>
Certificates of Obligation:			
\$1,750,000 Certificates of Obligation, Series 2007, due in annual installments through 2027, interest at 4.4%	\$ 270,300	\$ 524,700	\$ 795,000
\$4,260,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2% to 3.7%	369,600	2,710,400	3,080,000
\$5,870,000 Certificates of Obligation, Series 2015, due in annual installments through 2035, interest at 3.4% to 5.5%	-	5,430,000	5,430,000
\$9,240,000 Certificates of Obligation, Series 2017, due in annual installments through 2035, interest at 3% to 4%	-	9,240,000	9,240,000
\$1,535,000 Certificates of Obligation, Series 2019, due in annual installments through 2026, interest at 3% to 4.75%	1,335,000	-	1,335,000
Total Certificates of Obligation	<u>\$ 1,974,900</u>	<u>\$ 17,905,100</u>	<u>\$ 19,880,000</u>
Plus deferred amounts:			
Issuance premium	\$ 128,072	\$ 1,116,844	\$ 1,244,916
Total Deferred Amounts	<u>\$ 128,072</u>	<u>\$ 1,116,844</u>	<u>\$ 1,244,916</u>
Capital Leases Payable:			
\$435,000 Capital lease payable to financial institution, due in annual installments of \$51,535 through 2024, interest at 3.346%	\$ 189,251	\$ -	\$ 189,251
Total Capital Leases Payable	<u>\$ 189,251</u>	<u>\$ -</u>	<u>\$ 189,251</u>
Total Long-term Liabilities	<u>\$ 2,685,823</u>	<u>\$ 19,498,344</u>	<u>\$ 22,184,167</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, 2020

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
2021	\$ 393,600	\$ 13,929	\$ 476,400	\$ 16,746
	\$ 393,600	\$ 13,929	\$ 476,400	\$ 16,746

Combination Tax and Revenue Certificates of Obligations

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 256,200	\$ 76,725	\$ 408,800	\$ 694,655
2022	268,500	66,563	616,500	679,742
2023	281,400	55,908	633,600	660,427
2024	287,000	44,743	658,000	640,327
2025	299,300	33,236	675,700	618,519
2026	313,900	20,982	701,100	593,113
2027	71,800	13,024	998,200	566,321
2028	28,800	9,768	1,086,200	526,357
2029	30,600	8,400	1,124,400	482,800
2030	31,800	6,870	1,173,200	436,574
2031	33,600	5,280	1,221,400	387,920
2032	35,400	3,600	1,269,600	337,338
2033	36,600	1,830	1,323,400	284,626
2034	-	-	1,420,000	229,713
2035	-	-	1,475,000	173,656
2036	-	-	1,535,000	115,344
2037	-	-	1,585,000	63,400
	\$ 1,974,900	\$ 346,929	\$ 17,905,100	\$ 7,490,831

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Capital Leases

Year ending September 30,	Governmental Activities	
	Principal	Interest
2021	\$ 45,179	\$ 6,357
2022	46,690	4,845
2023	48,252	3,283
2024	49,130	1,668
	\$ 189,251	\$ 16,153

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total carrying value as of yearend for governmental activities of \$316,165. This property serves as collateral for the leases. In the event the City were to default on the agreements the lessor has the right to take possession of the property.

F. Other Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 179,074	\$ -	\$ (4,286)	\$ 174,788	\$ 157,309
Compensated Absences in internal service funds	33,925	-	(1,050)	32,875	29,588
Total Governmental Activities	\$ 212,999	\$ -	\$ (5,336)	\$ 207,663	\$ 186,897
Long-term Liabilities Due in More than One Year				\$ 20,766	
Business-Type Activities:					
Compensated Absences	\$ 132,877	\$ -	\$ (27,086)	\$ 105,791	\$ 95,212
Total Business-Type Activities	\$ 132,877	\$ -	\$ (27,086)	\$ 105,791	\$ 95,212
Long-term Liabilities Due in More than One Year				\$ 10,579	

G. 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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

promote their cause. The final maturities on notes payable range from March 2019 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.

H. Deferred Charge on Refunding

Deferred charges resulting from the issuance of the 2012 and 2016 general obligation refunding bonds have been recorded as a deferred outflow of resources and are being amortized to interest expense over the terms of the respective refunded debts. Current year balances for governmental and business-type activities totaled \$4,787 and \$8,252, respectively. Current year amortization expense for governmental and business-type activities totaled \$7,250 and \$12,725, respectively.

I. Interfund Transactions

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

	Transfer In		
Transfer out:	General	Capital Projects	Total
General	\$ -	\$ 675,000	\$ 675,000
Debt Service	51,535	-	51,535
Water, sewer, & electric	710,122	423,682	1,133,804
	\$ 761,657	\$ 1,098,682	\$ 1,860,339

The internal service fund provides administrative services to the general and water, sewer, & electric funds. Below is a summary of the amounts paid from these funds to the internal service fund for the year ended September 30, 2020:

	Received by:
Paid by:	Internal Service
General	\$ 626,773
Enterprise	1,462,471
	\$ 2,089,244

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The compositions of interfund due to/from balances as of the year ended September 30, 2020 were as follows:

<u>Payable fund:</u>	<u>Receivable fund:</u>
	Enterprise
General	\$ 72,638
	<u>\$ 72,638</u>

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

J. Fund Equity

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

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

	<u>Restricted</u>	<u>Committed</u>
Municipal court	\$ 11,469 *	\$ -
Tourism	59,175 *	-
Library	104,602 **	-
Public safety	81,934 *	-
Debt service	476,286	-
Capital projects	-	1,997,068
Parks	11,087	-
Streets	882,093	-
Employee benefits	-	41,226
	<u>\$ 1,626,646</u>	<u>\$ 2,038,294</u>

* Restricted by enabling legislation

** Restricted by donor

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,800 other entities in the Texas Municipal League's 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.

The State of Texas' environmental agency (TCEQ) is pursuing an enforcement action against the City of Sanger to address wastewater compliance issues related to the City of Sanger's discharge permit. Sanger has provided TCEQ with counterproposal language that seeks credit for the City's proactive response to previous wastewater compliance issues, and TCEQ is expected to respond in the coming months to bring the enforcement matter to a close. The City anticipates resolution of the enforcement action without significant burden in light of the City's ongoing commitment to compliance efforts and its substantial investments to date to improve and maintain the City's wastewater infrastructure. The estimated range of potential liability to the City for related TCEQ penalties is between \$0 to \$64,500.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

C. Construction commitments

The government has active construction projects as of September 30, 2020. 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	\$ 4,675
McReynolds Road Reconstruction	HRM Land Acquisition	397
	Project Total	5,072
Server Consolidation	Austin Lane Technology	4,750
2019-2020 Street Rehabilitation	Reynolds Asphalt	126,156
2019-2020 Street Rehabilitation	Martinez Brothers	21,917
	Project Total	148,073
FM 455 Relocation of Utilities	Dannenbaum Engineering	9,927
Acker GST Rehabilitation	Maguire Iron	84,397
Cowling GST Rehabilitation	Maguire Iron	69,668
New Sewer Plant	Alan Plummer Associates	28,145
New Sewer Plant	Felix Construction	218,239
New Sewer Plant	Anixter Inc.	285
	Project Total	246,669
Sewer 455/Lois	D&S Engineering	4,630
Sewer 455/Lois	Dickerson Construction	4,100
	Project Total	8,730
Railroad Lift Station	Perkins Engineering	9,332
Railroad Lift Station	Alan Plummer Associates	135,850
	Project Total	145,182
	Total	\$ 722,468

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

D. 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.

E. Defined Benefit Pension Plans

1. Plan Description

The City of Sanger, Texas participates as one of 888 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.tmrs.com.

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

2. Benefits Provided

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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 2019</u>	<u>Plan Year 2018</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	27
Active employees	66
Total	115

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Sanger were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Sanger were 7.91% and 8.16% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$341,109, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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.

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/18	\$ 10,447,793	\$ 8,820,203	\$ 1,627,590
Changes for the year:			
Service Cost	498,768	-	498,768
Interest (on the Total Pension Liab.)	709,455	-	709,455
Difference between expected and actual experience	89,057	-	89,057
Changes of assumptions	92,583	-	92,583
Contributions – employer	-	321,275	(321,275)
Contributions – employee	-	243,698	(243,698)
Net investment income	-	1,365,511	(1,365,511)
Benefit payments, including refunds of emp. contributions	(373,476)	(373,476)	-
Administrative expense	-	(7,705)	7,705
Other changes	-	(231)	231
Net changes	1,016,387	1,549,072	(532,685)
Balance at 12/31/19	\$ 11,464,180	\$ 10,369,275	\$ 1,094,905

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 2,842,849	\$ 1,094,905	\$ (338,960)

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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.

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

For the year ended September 30, 2020, the City recognized pension expense of \$423,988.

At September 30, 2020, the City reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ -	\$ (313,985)
Changes in actuarial assumptions	85,742	-
Differences between expected and actual economic experience	108,615	-
Contributions subsequent to the measurement date	264,836	-
Total	\$ 459,193	\$ (313,985)

The City reported \$264,836 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, 2021.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2020	\$	(47,142)
2021		(46,477)
2022		67,892
2023		(111,578)
2024		17,677
Thereafter		-
	\$	(119,628)

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

F. Postemployment Benefits Other Than Pensions

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

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

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

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	7
Active employees	66
Total	86

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The City's retiree contribution rates to the TMRS SDBF for the years ended 2020, 2019 and 2018 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2018	0.01%	0.01%	100.0%
2019	0.01%	0.01%	100.0%
2020	0.02%	0.02%	100.0%

The City's contributions to the TMRS SDBF for the years ended 2020, 2019, and 2018 were \$746, \$406 and \$371, respectively, which equaled the required contributions each year.

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2019, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	2.75%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2020

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

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.75%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

1% Decrease (1.75%)	Current Single Rate Assumption 2.75%	1% Increase (3.75%)
<u>\$ 161,706</u>	<u>\$ 132,196</u>	<u>\$ 108,958</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/18	\$ 102,299
Changes for the year:	
Service Cost	8,529
Interest	3,938
Change in benefit terms	-
Difference between expected and actual experience	(3,932)
Changes of assumptions	22,174
Benefit payments	(812)
Net changes	29,897
Balance at 12/31/19	\$ 132,196

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of \$13,843.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	(10,158)
Changes in assumptions	18,893	-
Contributions subsequent to measurement date	648	-
Total	\$ 19,541	\$ (10,158)

The City reported \$648 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 OPEB liability for the year ending September 30, 2021.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year ended December 31:	
2020	\$ 1,376
2021	1,376
2022	1,376
2023	1,376
2024	590
Thereafter	2,641
	<u>\$ 8,735</u>

G. Subsequent Events

There were no material subsequent events through January 13, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Sanger, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL- GENERAL FUND (Page 1 of 2)

For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues</u>				
Property tax	\$ 4,065,250	\$ 4,065,250	\$ 4,153,342	\$ 88,092
Sales tax	905,800	905,800	1,104,525	198,725
Franchise and local taxes	253,100	253,100	291,554	38,454
License and permits	343,070	343,070	451,839	108,769
Charges for services	1,046,132	1,046,132	1,008,380	(37,752)
Fire and rescue	724,329	724,329	648,038	(76,291)
Contributions and donations	-	-	2,600	2,600
Intergovernmental	-	-	481,408	481,408
Fines and forfeitures	95,526	95,526	72,661	(22,865)
Investment income	4,000	4,000	19,798	15,798
Other revenue	77,500	77,500	458,600	381,100
Total Revenues	7,514,707	7,514,707	8,692,745	1,178,038
<u>Expenditures</u>				
Current:				
General government	2,009,667	2,009,667	2,154,048	(144,381)
Police department	1,622,005	1,618,145	1,424,522	193,623
Municipal court	197,494	197,494	174,044	23,450
Fire and EMS	1,574,356	1,574,356	1,332,950	241,406
Parks and recreation	519,192	519,192	468,306	50,886
Public works	1,082,115	1,085,975	999,827	86,148
Debt service:				
Principal	43,716	43,716	43,772	(56)
Interest	7,819	7,819	7,763	56
Capital outlay	545,000	545,000	163,953	381,047
Total Expenditures	7,601,364	7,601,364	6,769,185	832,179
Revenues Over (Under) Expenditures	\$ (86,657)	\$ (86,657)	\$ 1,923,560	\$ 2,010,217

City of Sanger, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL- GENERAL FUND (Page 2 of 2)

For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 761,657	\$ 761,657	\$ 761,657	\$ -
Transfers (out)	(675,000)	(675,000)	(675,000)	-
Proceeds from sale of capital assets	-	-	9,523	9,523
Insurance recoveries	-	-	75,330	75,330
Total Other Financing Sources (Uses)	<u>86,657</u>	<u>86,657</u>	<u>171,510</u>	<u>84,853</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	2,095,070	<u>\$ 2,095,070</u>
Beginning fund balance			6,437,778	
Ending Fund Balance			<u>\$ 8,532,848</u>	

Notes to Required Supplementary Information

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

City of Sanger, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years ended December 31,

	2019	2018	2017	2016
Total pension liability				
Service cost	\$ 498,768	\$ 462,521	\$ 438,324	\$ 408,943
Interest (on the Total Pension Liability)	709,455	648,013	590,632	545,333
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	89,057	93,857	38,794	(78,516)
Changes of assumptions	92,583	-	-	-
Benefit payments, including refunds of participant contributions	(373,476)	(251,071)	(208,451)	(230,245)
Net change in total pension liability	1,016,387	953,320	859,299	645,515
Total pension liability - beginning	10,447,793	9,494,473	8,635,174	7,989,659
Total pension liability - ending (a)	\$ 11,464,180	\$ 10,447,793	\$ 9,494,473	\$ 8,635,174
Plan fiduciary net position				
Contributions - employer	\$ 321,275	\$ 294,606	\$ 276,169	\$ 240,177
Contributions - members	243,698	226,912	217,171	202,113
Net investment income	1,365,511	(264,466)	1,040,205	461,955
Benefit payments, including refunds of participant contributions	(373,476)	(251,071)	(208,451)	(230,245)
Administrative expenses	(7,705)	(5,106)	(5,387)	(5,214)
Other	(231)	(267)	(273)	(281)
Net change in plan fiduciary net position	1,549,072	608	1,319,434	668,505
Plan fiduciary net position - beginning	8,820,203	8,819,595	7,500,161	6,831,656
Plan fiduciary net position - ending (b)	\$ 10,369,275	\$ 8,820,203	\$ 8,819,595	\$ 7,500,161
Fund's net pension liability - ending (a) - (b)	\$ 1,094,905	\$ 1,627,590	\$ 674,878	\$ 1,135,013
Plan fiduciary net position as a percentage of the total pension liability	90.45%	84.42%	92.89%	86.86%
Covered payroll	\$ 4,061,633	\$ 3,781,589	\$ 3,619,524	\$ 3,368,554
Fund's net position as a percentage of covered payroll	26.96%	43.04%	18.65%	33.69%

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.

<u>2015</u>	<u>2014</u>	¹
\$ 369,950	\$ 340,004	
521,853	476,571	
-	-	
(89,808)	47,610	
47,847	-	
(260,514)	(204,026)	
589,328	660,159	
7,400,331	6,740,172	
\$ 7,989,659	\$ 7,400,331	
\$ 231,097	\$ 211,283	
195,568	187,821	
9,831	350,203	
(260,514)	(204,026)	
(5,988)	(3,656)	
(296)	(301)	
169,698	541,324	
6,661,957	6,120,633	
\$ 6,831,655	\$ 6,661,957	
\$ 1,158,004	\$ 738,374	
85.51%	90.02%	
\$ 3,259,471	\$ 3,130,346	
35.53%	23.59%	

City of Sanger, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	9/30/2020	9/30/2019	9/30/2018	9/30/2017
Actuarially determined employer contributions	\$ 341,109	\$ 320,019	\$ 287,348	\$ 266,753
Contributions in relation to the actuarially determined contribution	\$ 341,109	\$ 320,019	\$ 287,348	\$ 266,753
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 4,209,793	\$ 4,060,365	\$ 3,706,912	\$ 3,549,724
Employer contributions as a percentage of covered payroll	8.10%	7.88%	7.75%	7.51%

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

<u>9/30/2016</u>	<u>9/30/2015</u> ¹
\$ 247,432	\$ 225,111
<u>\$ 247,432</u>	<u>\$ 225,111</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 3,475,512	\$ 3,130,346
7.12%	7.19%

City of Sanger, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

Years ended December 31,

	2019	2018	2017
Total OPEB liability			¹
Service cost	\$ 8,529	\$ 9,076	\$ 7,601
Interest (on the Total OPEB Liability)	3,938	3,691	3,432
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(3,932)	(9,264)	-
Changes of assumptions	22,174	(7,993)	9,310
Benefit payments, including refunds of participant contributions	(812)	(377)	(363)
Net changes	29,897	(4,867)	19,980
Total OPEB liability - beginning	102,299	107,166	87,186
Total OPEB liability - ending	\$ 132,196	\$ 102,299	\$ 107,166
Covered payroll	\$ 4,061,633	\$ 3,781,859	\$ 3,619,524
Total OPEB Liability as a percentage of covered	3.25%	2.70%	2.96%

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.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

OTHER SUPPLEMENTARY INFORMATION

City of Sanger, Texas

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

PROPRIETARY FUNDS - BY DEPARTMENT

For the Year Ended September 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Fleet Services</u>
<u>Operating Revenues</u>				
Charges for services	\$ 1,962,169	\$ 1,873,852	\$ 7,323,845	\$ -
Connection fees	-	-	70,720	-
Tap fees	437,550	591,250	-	-
Other revenue	-	-	-	-
Total Operating Revenues	2,399,719	2,465,102	7,394,565	-
<u>Operating Expenses</u>				
Salaries and wages	703,183	297,376	1,142,955	-
Contracted services	52,617	40,129	470,552	-
Utilities	154,678	194,263	2,944	-
Materials and supplies	30,338	45,286	63,723	-
Water and electric purchases	103,882	-	5,104,985	-
Repairs and maintenance	203,575	148,576	186,523	-
Depreciation	377,795	403,758	230,994	66
Total Operating Expenses	1,626,068	1,129,388	7,202,676	66
Operating Income (Loss)	773,651	1,335,714	191,889	(66)
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	-	-	-	-
Interest expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Transfers	773,651	1,335,714	191,889	(66)
Transfers (out)	-	-	1,651	-
Change in Net Position	\$ 773,651	\$ 1,335,714	\$ 193,540	\$ (66)

<u>Administration</u>	<u>Total</u>
\$ -	\$ 11,159,866
-	70,720
-	1,028,800
141,035	141,035
<u>141,035</u>	<u>12,400,421</u>
-	2,143,514
-	563,298
-	351,885
-	139,347
-	5,208,867
-	538,674
14,263	1,026,876
<u>14,263</u>	<u>9,972,461</u>
<u>126,772</u>	<u>2,427,960</u>
389,530	389,530
<u>(642,843)</u>	<u>(642,843)</u>
<u>(253,313)</u>	<u>(253,313)</u>
(126,541)	2,174,647
<u>(1,135,455)</u>	<u>(1,133,804)</u>
<u>\$ (1,261,996)</u>	<u>\$ 1,040,843</u>

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