

ANNUAL FINANCIAL REPORT

of the

City of Sanger, Texas

**For the Year Ended
September 30, 2016**

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City of Sanger, Texas

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September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sanger, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
January 27, 2017

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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, 2016

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, 2016.

Financial Highlights

- The City's total combined net position is \$31,097,598 at September 30, 2016. Of this, \$10,903,640 (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 \$6,609,647, an increase of \$1,036,833.
- As of the end of the year, the unassigned fund balance of the general fund was \$2,397,437 or 47% of total general fund expenditures.
- The City had an overall increase in net position of \$2,149,474, which is primarily due to strong general and utility revenues.

Overview of the Financial Statements

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

Government-Wide Statements

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

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

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

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2016

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

expenditures, and changes in fund balances for the general, debt service, 4A, 4B, and capital projects funds which are considered to be major funds.

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

Proprietary Funds

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Sanger, assets exceeded liabilities by \$31,097,598 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$16,012,082, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

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, \$4,181,876, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,903,640 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current and other assets of business-type activities as of September 30, 2016 and September 30, 2015 were \$16,009,888 and \$12,028,084, respectively. The increase of \$3,981,804 was primarily attributable to unspent bond proceeds from a new bond issuance during the year.

Long term liabilities of business-type activities as of September 30, 2016 and September 30, 2015 were \$12,579,894 and \$7,892,587, respectively. The increase of \$4,687,307 was due to the aforementioned bond issuance during the year.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2016			2015		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 7,117,640	\$ 16,009,888	\$ 23,127,528	\$ 6,134,675	\$ 12,028,084	\$ 18,162,759
Capital assets, net	14,773,440	15,045,344	29,818,784	15,107,078	12,923,737	28,030,815
Total Assets	21,891,080	31,055,232	52,946,312	21,241,753	24,951,821	46,193,574
Deferred Outflows of Resources	489,156	196,393	685,549	228,086	111,646	339,732
Other liabilities	1,295,696	2,364,581	3,660,277	490,649	1,483,627	1,974,276
Long-term liabilities	6,294,092	12,579,894	18,873,986	7,718,319	7,892,587	15,610,906
Total Liabilities	7,589,788	14,944,475	22,534,263	8,208,968	9,376,214	17,585,182
Net Position:						
Net investment in capital assets	8,615,983	7,396,099	16,012,082	8,122,596	7,831,965	15,954,561
Restricted	4,181,876	-	4,181,876	3,713,890	-	3,713,890
Unrestricted	1,992,589	8,911,051	10,903,640	1,424,385	7,855,288	9,279,673
Total Net Position	\$ 14,790,448	\$ 16,307,150	\$ 31,097,598	\$ 13,260,871	\$ 15,687,253	\$ 28,948,124

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Statement of Activities:

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

	For the Year Ended September 30, 2016			For the Year Ended September 30, 2015		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,663,963	\$ 11,236,562	\$ 12,900,525	\$ 1,570,157	\$ 11,569,275	\$ 13,139,432
Grants and contributions	185,385	-	185,385	271,386	-	271,386
General revenues:						
Property taxes	3,329,733	-	3,329,733	2,981,429	-	2,981,429
Sales taxes	1,605,187	-	1,605,187	1,600,961	-	1,600,961
Franchise and local taxes	240,206	-	240,206	231,380	-	231,380
Investment income	9,206	21,429	30,635	4,429	15,128	19,557
Other revenues	212,026	-	212,026	250,444	39,738	290,182
Total Revenues	7,245,706	11,257,991	18,503,697	6,910,186	11,624,141	18,534,327
Expenses						
General government	2,753,293	-	2,753,293	2,632,058	-	2,632,058
Public safety	2,506,460	-	2,506,460	2,187,268	-	2,187,268
Public works	998,940	-	998,940	1,073,312	-	1,073,312
Culture and recreation	751,747	-	751,747	712,298	-	712,298
Interest and fiscal charges	277,536	395,154	672,690	272,652	289,691	562,343
Water, sewer, & electric	-	8,541,016	8,541,016	-	8,251,045	8,251,045
Total Expenses	7,287,976	8,936,170	16,224,146	6,877,588	8,540,736	15,418,324
Change in Net Position						
Before Transfers	(42,270)	2,321,821	2,279,551	32,598	3,083,405	3,116,003
Transfers	1,701,924	(1,701,924)	-	1,720,428	(1,720,428)	-
Total	1,701,924	(1,701,924)	-	1,720,428	(1,720,428)	-
Change in Net Position	1,659,654	619,897	2,279,551	1,753,026	1,362,977	3,116,003
Beginning Net Position	13,260,871	15,687,253	28,948,124	11,507,845	14,324,276	25,832,121
Ending Net Position	\$ 14,920,525	\$ 16,307,150	\$ 31,227,675	\$ 13,260,871	\$ 15,687,253	\$ 28,948,124

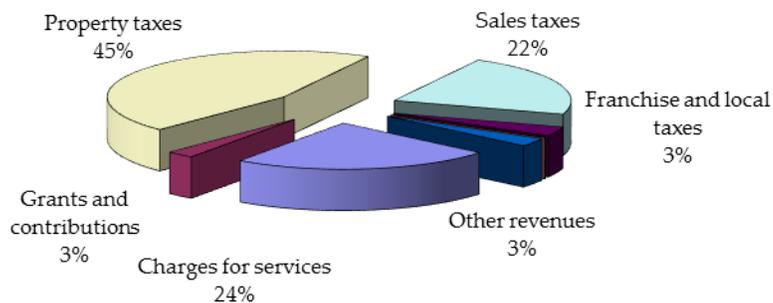
City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

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

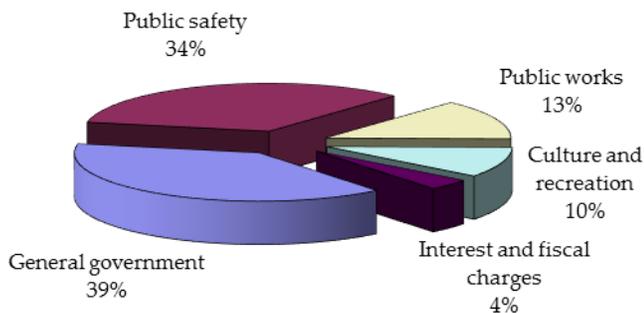
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$7,245,706. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased by \$348,304 or 12% due to higher property values and new growth. Charges for services increased \$93,806 or 6% primarily due to increases in EMS service collections and sanitation fees. Grants and contributions decreased by \$86,001 due to a land donation in prior year that was a one time donation. 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, 2016, expenses for governmental activities totaled \$7,287,976. This represents an increase of \$410,388 or 8% from the prior year. The City's largest functional expense is general government of \$2,753,293 which primarily includes contractual costs for garbage removal, salaries for finance and city administration, plus depreciation of related capital assets. General government expenditures increased by \$121,235 or 15% primarily due to increases in salaries and legal

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

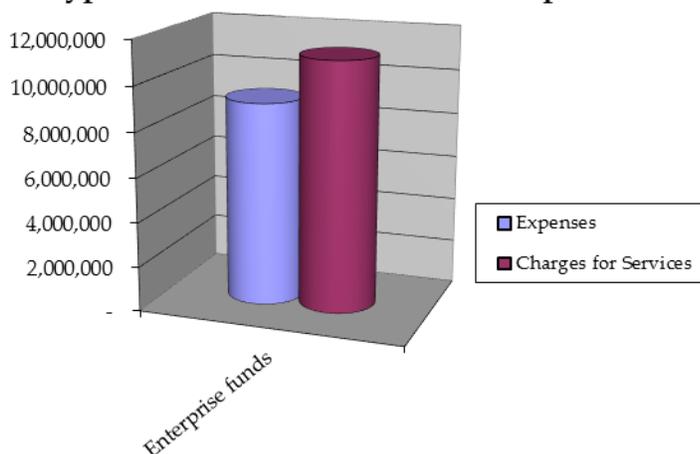
September 30, 2016

fees. Public safety expenditures increased by \$319,192 or 5% primarily due to increases in depreciation on capital asset equipment purchased and increases in salaries expense for EMS and fire for additional personnel. 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, 2016, charges for services by business-type activities totaled \$11,236,562. This is a decrease of \$332,713, or 3%, from the previous year. The decrease was due to a decrease in consumption compared to prior year.

Business-Type Activities - Revenues and Expenses



Total expenses increased \$395,434 primarily due to increases in bond issuance and interest fees, and increases in repairs and maintenance expense.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$2,548,000. Of this, \$7,971 is restricted for municipal court, \$9,480 is restricted for tourism, \$79,393 is restricted for library improvements, and \$23,385 for public safety. Unassigned fund balance totaled \$2,397,437 as of year end.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2016

There was an increase in governmental fund balance of \$1,036,833 over the prior year. The increase was primarily due to revenues exceeding budgeted expectations.

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 \$562,082 in the general fund. This is a combination of a positive revenue variance of \$443,056, a positive expenditure variance of \$209,627, and a negative variance of \$90,601 in other financing sources and uses. The most significant variances were for property taxes, sales taxes, charges for services, and the police department, which all had positive variances for the City.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$14,773,440 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 \$15,045,344 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Renovation work on a church building for \$416,681
- McReynolds road construction in the amount of \$69,900
- Purchase of police department vehicles and radio system totaling \$193,057
- Street improvements to Smith, Sims, Kirkland, Jones & Lois for \$75,126
- New water well for \$1,604,235
- Sewer plant expansion for \$224,687
- Water and sewer line relocations, expansions, and a new lift station totaling \$590,021
- Acquisition of land for water department for \$173,693
- Purchase of vehicles for water department for \$122,709

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

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$17,230,000, notes payable of \$396,451 and capital leases of \$777,536. During the year, the City had principal payments on bonds, notes payable and capital leases of \$1,665,229. During the year, the City refunded a bond with a principal balance outstanding of \$2,615,000 for a refunding bond with a principal balance of \$2,535,000. During the year, the City had a \$5,870,000 bond issuance for the water, sewer, and electric fund. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 5,528,666	\$ 7,430,681	\$ 12,959,347
Investments	900,618	415,330	1,315,948
Receivables, net	688,356	1,716,811	2,405,167
Inventory	-	494,626	494,626
Total Current Assets	7,117,640	10,057,448	17,175,088
Restricted cash	-	5,652,440	5,652,440
Restricted investments	-	300,000	300,000
Capital assets:			
Non-depreciable	2,017,458	3,946,813	5,964,271
Net depreciable capital assets	12,755,982	11,098,531	23,854,513
	14,773,440	20,997,784	35,771,224
Total Assets	21,891,080	31,055,232	52,946,312
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	33,787	59,153	92,940
Pension contributions	139,479	42,036	181,515
Pension investment earnings	299,661	90,312	389,973
Pension (gains) losses	16,229	4,892	21,121
Total Deferred Outflows of Resources	489,156	196,393	685,549

See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 300,948	\$ 975,928	\$ 1,276,876
Accrued interest payable	43,267	117,591	160,858
Customer deposits	-	397,567	397,567
Long term debt due within one year	951,481	873,495	1,824,976
Total Current Liabilities	1,295,696	2,364,581	3,660,277
Noncurrent liabilities:			
Debt due in more than one year	5,404,265	12,311,717	17,715,982
Net pension liability	889,827	268,177	1,158,004
	6,294,092	12,579,894	18,873,986
Total Liabilities	7,589,788	14,944,475	22,534,263
<u>Net Position</u>			
Net investment in capital assets	8,615,983	7,396,099	16,012,082
Restricted for:			
Debt service	404,096	-	404,096
Capital projects	1,030,871	-	1,030,871
Economic development	2,626,680	-	2,626,680
Other purposes	120,229	-	120,229
Unrestricted	1,992,589	8,911,051	10,903,640
Total Net Position	\$ 14,790,448	\$ 16,307,150	\$ 31,097,598

See Notes to Financial Statements.

City of Sanger, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 2,753,293	\$ 940,697	\$ 107,541	\$ -
Economic development	130,077	-	-	-
Public safety	2,506,460	723,266	77,844	-
Public works	998,940	-	-	-
Culture and recreation	751,747	-	-	-
Interest and fiscal charges	277,536	-	-	-
Total Governmental Activities	7,418,053	1,663,963	185,385	-
Business-Type Activities				
Water	1,101,705	1,641,413	-	-
Sewer	684,295	1,642,998	-	-
Electric	6,527,241	7,893,277	-	-
Fleet services	1,562	-	-	-
Utility administration	621,367	58,874	-	-
Total Business-Type Activities	8,936,170	11,236,562	-	-
Total Primary Government	\$ 16,354,223	\$ 12,900,525	\$ 185,385	-

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues
- Gain on sale of assets
- Insurance recoveries

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,705,055)	\$ -	\$ (1,705,055)
(130,077)	-	(130,077)
(1,705,350)	-	(1,705,350)
(998,940)	-	(998,940)
(751,747)	-	(751,747)
(277,536)	-	(277,536)
<u>(5,568,705)</u>	<u>-</u>	<u>(5,568,705)</u>
-	539,708	539,708
-	958,703	958,703
-	1,366,036	1,366,036
-	(1,562)	(1,562)
-	(562,493)	(562,493)
<u>-</u>	<u>2,300,392</u>	<u>2,300,392</u>
<u>(5,568,705)</u>	<u>2,300,392</u>	<u>(3,268,313)</u>
3,329,733	-	3,329,733
1,605,187	-	1,605,187
240,206	-	240,206
9,206	21,429	30,635
179,476	-	179,476
30,618	-	30,618
1,932	-	1,932
1,701,924	(1,701,924)	-
<u>7,098,282</u>	<u>(1,680,495)</u>	<u>5,417,787</u>
1,529,577	619,897	2,149,474
13,260,871	15,687,253	28,948,124
<u>\$ 14,790,448</u>	<u>\$ 16,307,150</u>	<u>\$ 31,097,598</u>

City of Sanger, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	General	Debt Service	4A Fund
<u>Assets</u>			
Cash and cash equivalents	\$ 1,937,682	\$ 403,823	\$ 1,579,165
Investments	529,524	-	94,266
Receivables, net	517,072	20,202	88,652
Total Assets	\$ 2,984,278	\$ 424,025	\$ 1,762,083
 <u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 212,561	\$ -	\$ 5,864
Total Liabilities	212,561	-	5,864
 <u>Deferred Inflows of Resources</u>			
Unavailable revenue			
Property taxes	43,237	19,929	-
EMS revenue	180,480	-	-
Total Deferred Inflows of Resources	223,717	19,929	-
 <u>Fund Balances</u>			
Restricted for:			
Municipal court	7,971	-	-
Tourism	9,480	-	-
Library	79,393	-	-
Public safety	23,385	-	-
Debt service	-	404,096	-
Capital projects	-	-	-
Economic development	-	-	1,756,219
Committed for:			
Employee benefits	30,334	-	-
Unassigned reported in:			
General fund	2,397,437	-	-
Total Fund Balances	2,548,000	404,096	1,756,219
Total Liabilities and Fund Balances	\$ 2,984,278	\$ 424,025	\$ 1,762,083

See Notes to Financial Statements.

<u>4B Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ 531,203	\$ 1,076,793	\$ 5,528,666
276,828	-	900,618
62,430	-	688,356
<u>\$ 870,461</u>	<u>\$ 1,076,793</u>	<u>\$ 7,117,640</u>
\$ -	\$ 45,922	\$ 264,347
-	45,922	264,347
-	-	63,166
-	-	180,480
-	-	243,646
-	-	7,971
-	-	9,480
-	-	79,393
-	-	23,385
-	-	404,096
-	1,030,871	1,030,871
870,461	-	2,626,680
-	-	30,334
-	-	2,397,437
870,461	1,030,871	6,609,647
<u>\$ 870,461</u>	<u>\$ 1,076,793</u>	<u>\$ 7,117,640</u>

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City of Sanger, Texas

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

September 30, 2016

Fund Balances - Total Governmental Funds	\$ 6,609,647
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	2,017,458
Capital assets - net depreciable	12,722,179
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	63,166
EMS receivable	180,480
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.	
Deferred charge on refunding	33,787
Pension contributions	104,035
Pension investment earnings	223,512
Pension gains (losses)	12,105
Internal service funds are used by management to charge the cost of internal services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Capital assets	33,803
Deferred outflows - pension contributions	35,444
Deferred outflows - investment earnings	76,149
Deferred outflows - pension gains (losses)	4,124
Accounts payable and accrued liabilities	(36,601)
Non-current liabilities due in one year	(24,243)
Non-current liabilities due in more than one year	(2,694)
Net pension liability	(226,120)
Net position - governmental activities	(140,138)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(43,267)
Compensated absences	(137,565)
Bond premium	(147,108)
Net pension liability	(663,707)
Non-current liabilities due in one year	(803,429)
Non-current liabilities due in more than one year	(5,240,707)
Net Position of Governmental Activities	\$ 14,790,448

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, 2016

	General	Debt Service	4A Fund
<u>Revenues</u>			
Property tax	\$ 2,447,998	\$ 793,038	\$ -
Sales tax	815,547	-	394,820
Franchise and local taxes	240,206	-	-
License and permits	111,189	-	-
Charges for services	829,508	-	-
Fire and rescue	586,833	-	-
Contributions and donations	325	-	-
Intergovernmental	77,844	-	-
Fines and forfeitures	136,433	-	-
Investment income	6,296	114	1,457
Other revenue	96,817	3,992	78,667
Total Revenues	5,348,996	797,144	474,944
<u>Expenditures</u>			
Current:			
General government	951,828	1,110	-
Economic development	-	-	130,077
Police department	1,262,092	-	-
Municipal court	195,182	-	-
Fire and EMS	940,549	-	-
Parks and recreation	463,483	-	-
Public works	616,616	-	-
Debt service:			
Principal	194,056	620,300	42,997
Interest	28,835	207,646	18,270
Bond issuance costs	37,964	-	-
Capital outlay	365,269	-	-
Total Expenditures	5,055,874	829,056	191,344
Excess of Revenues Over (Under) Expenditures	293,122	(31,912)	283,600
<u>Other Financing Sources (Uses)</u>			
Transfers in	1,152,539	217,358	50,000
Transfers (out)	(942,492)	(166,536)	(175,000)
Bond issuance	1,166,100	-	-
Premium	98,406	-	-
Payment to refunding bond escrow agent	(1,226,542)	-	-
Proceeds from sale of capital assets	30,618	-	-
Insurance recoveries	1,932	-	-
Total Other Financing Sources (Uses)	280,561	50,822	(125,000)
Net Change in Fund Balances	573,683	18,910	158,600
Beginning fund balances	1,974,317	385,186	1,597,619
Ending Fund Balances	\$ 2,548,000	\$ 404,096	\$ 1,756,219

See Notes to Financial Statements.

<u>4B Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 3,241,036
394,820	-	1,605,187
-	-	240,206
-	-	111,189
-	-	829,508
-	-	586,833
-	107,216	107,541
-	-	77,844
-	-	136,433
1,339	-	9,206
-	-	179,476
396,159	107,216	7,124,459
-	-	952,938
-	-	130,077
-	-	1,262,092
-	-	195,182
-	-	940,549
20,185	-	483,668
-	-	616,616
-	-	857,353
-	-	254,751
-	-	37,964
-	525,050	890,319
20,185	525,050	6,621,509
375,974	(417,834)	502,950
-	675,000	2,094,897
(347,500)	-	(1,631,528)
-	-	1,166,100
-	-	98,406
-	-	(1,226,542)
-	-	30,618
-	-	1,932
(347,500)	675,000	533,883
28,474	257,166	1,036,833
841,987	773,705	5,572,814
\$ 870,461	\$ 1,030,871	\$ 6,609,647

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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, 2016

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

Net changes in fund balances - total governmental funds	\$	1,036,833
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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		886,579
Capital assets transferred to business-type activities		(210,245)
Depreciation expense		(1,043,775)

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

EMS receivable		88,697
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(19,325)
Accrued interest		7,543
Pension expense		(54,570)

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 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		11,781
Premium on debt		(78,909)
Debt issued		43,752
Principal payments		850,401

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.

10,815

Change in Net Position of Governmental Activities	\$	1,529,577
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See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2016

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 7,430,681	\$ -
Investments	415,330	-
Receivables, net	1,716,811	-
Inventory	494,626	-
Total Current Assets	10,057,448	-
<u>Noncurrent Assets</u>		
Restricted cash	5,652,440	-
Restricted investments	300,000	-
Capital assets:		
Non-depreciable	3,946,813	-
Net depreciable capital assets	11,098,531	33,803
Total Noncurrent Assets	20,997,784	33,803
Total Assets	31,055,232	33,803
<u>Deferred Outflows of Resources</u>		
Pension contributions	42,036	35,444
Pension investment earnings	90,312	76,149
Pension gains (losses)	4,892	4,124
Deferred charge on refunding	59,153	-
Total Deferred Outflows of Resources	196,393	115,717
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts payable and accrued liabilities	975,928	36,601
Accrued interest	117,591	-
Customer deposits	397,567	-
Compensated absences-current	74,043	24,243
Bonds and capital leases payable-current	799,452	-
Total Current Liabilities	2,364,581	60,844
<u>Noncurrent Liabilities</u>		
Compensated absences	8,226	2,694
Net pension liability	268,177	226,120
Bonds and capital leases payable	12,303,491	-
Total Liabilities	14,944,475	289,658
<u>Net Position</u>		
Net investment in capital assets	7,396,099	-
Unrestricted	8,911,051	(140,138)
Total Net Position	\$ 16,307,150	\$ (140,138)

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, 2016

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Operating Revenues</u>		
Charges for services	\$ 10,829,058	\$ -
Connection fees	61,130	-
Tap fees	287,500	-
Other revenue	58,874	-
Total Operating Revenues	11,236,562	-
<u>Operating Expenses</u>		
Salaries and wages	1,069,751	1,032,753
Contracted services	49,896	254,902
Utilities	308,370	32,822
Materials and supplies	81,437	73,809
Water and electric purchases	5,504,359	-
Repairs and maintenance	507,210	42,200
Depreciation	811,063	1,499
Total Operating Expenses	8,332,086	1,437,985
Operating Income (Loss)	2,904,476	(1,437,985)
<u>Nonoperating Revenues (Expenses)</u>		
Investment income	21,429	-
Bond issuance costs	(208,930)	-
Interest expense	(395,154)	-
Total Nonoperating Revenues (Expenses)	(582,655)	-
Income (Loss) Before Transfers	2,321,821	(1,437,985)
Transfers in	230,937	1,448,800
Transfers (out)	(1,932,861)	-
Change in Net Position	619,897	10,815
Beginning net position	15,687,253	(150,953)
Ending Net Position	\$ 16,307,150	\$ (140,138)

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, 2016

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	\$ 11,120,907	\$ -
Payments to suppliers	(6,532,993)	(430,832)
Payments to employees	(1,044,926)	(1,013,439)
Net Cash Provided by Operating Activities	3,542,988	(1,444,271)
<u>Cash Flows from Noncapital Financing Activities</u>		
Operating transfers in	20,692	1,448,800
Operating transfers out	(1,932,861)	-
Net Cash Provided by Noncapital Financing Activities	(1,912,169)	1,448,800
<u>Cash Flows from Capital and Related Financing Activities</u>		
Capital asset purchases	(2,722,425)	(35,302)
Proceeds from bond issuance	6,084,857	-
Principal paid on debt	(807,874)	-
Interest paid on debt	(366,280)	-
Net Cash (Used) by Capital and Related Financing Activities	2,188,278	(35,302)
<u>Cash Flows from Investing Activities</u>		
Purchases of investments, net	(2,974)	-
Interest on investments	21,429	-
Net Cash Provided by Investing Activities	18,455	-
Net Increase (Decrease) in Cash and Cash Equivalents	3,837,552	(30,773)
Beginning cash and cash equivalents	9,245,569	30,773
Ending Cash and Cash Equivalents	\$ 13,083,121	\$ -

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, 2016

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Reconciliation of Operating Income</u>		
<u>to Net Cash Provided by Operating Activities</u>		
Operating Income	\$ 2,904,476	\$ (1,437,985)
Adjustments to reconcile operating income to net cash provided:		
Depreciation	811,063	1,499
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable	(120,986)	-
Inventory	(20,292)	-
Deferred outflows of resources - pension contributions	(3,783)	(3,190)
Deferred outflows of resources - pension investment earnings	(80,952)	(68,257)
Deferred outflows of resources - pension (gains) losses	9,604	8,098
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(61,429)	(27,099)
Compensated absences	2,776	723
Customer deposits	5,331	-
Net pension liability	97,180	81,940
Net Cash Provided by Operating Activities	\$ 3,542,988	\$ (1,444,271)
<u>Schedule of Non-Cash Capital and Related Financing Activities</u>		
Capital assets transferred from governmental activities	\$ 210,245	\$ -
Debt refunding	\$ 1,484,420	\$ -

See Notes to Financial Statements.

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City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

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, 2016

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.

Blended Component Units

Sanger Industrial Development Corporation (4A)

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

Sanger Texas Development Corporation (4B)

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The government reports the following major governmental funds:

Governmental Funds

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

General Fund

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

Debt Service Fund

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

4A Fund

The purpose of the 4A fund is to promote economic development within the City of Sanger.

4B Fund

The purpose of the 4B fund is to promote economic and community development within the City of Sanger.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Capital Projects Fund

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

Proprietary Fund Types

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

The government reports the following major enterprise fund:

Water, Sewer, & Electric Fund

This fund is used to account for the provision of water, sewer and electric services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and electric services. The fund also accounts for the accumulation of 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.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

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

D. Measurement Focus and Basis of Accounting

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

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

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

2. Fair Value

As of September 30, 2016, 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.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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– net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

13. Estimates

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

14. Pensions

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

The appropriated budget is prepared by fund, function, and department. The legal level of control is the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Budget amendments were only re-classes at the function level and below and there was no increase in budgeted revenues or expenses by function from amendments.

A. Deficit Fund Equity

The internal service fund had a deficit balance of \$140,138 as of September 30, 2016 due to the net pension liability balance exceeding total assets.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the primary government had the following investments:

Investment Type	Fair Value	Average Maturity (Years)
Certificates of deposit	\$ 1,615,948	0.48
Total fair value	\$ 1,615,948	
Portfolio weighted average maturity		0.48

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

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

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2016, 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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

B. Receivables

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

	General	Debt Service	4A Fund	4B Fund	Water, Sewer & Electric	Total
Property taxes	\$ 75,799	\$ 31,347	\$ -	\$ -	\$ -	\$ 107,146
Sales tax	145,729	-	62,430	62,430	-	270,589
Franchise & local taxes	33,799	-	-	-	-	33,799
EMS	449,032	-	-	-	-	449,032
Accounts	123,705	-	26,222	-	1,906,200	2,056,127
Other	62	-	-	-	-	62
Allowance	(311,054)	(11,145)	-	-	(189,389)	(511,588)
	<u>\$ 517,072</u>	<u>\$ 20,202</u>	<u>\$ 88,652</u>	<u>\$ 62,430</u>	<u>\$ 1,716,811</u>	<u>\$ 2,405,167</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,044,933	\$ -	\$ -	\$ 1,044,933
Construction in progress	567,694	486,581	(81,750)	972,525
Total capital assets not being depreciated	<u>1,612,627</u>	<u>486,581</u>	<u>(81,750)</u>	<u>2,017,458</u>
Capital assets, being depreciated:				
Infrastructure	11,853,211	103,314	1,863	11,958,388
Buildings and improvements	7,086,986	30,837	-	7,117,823
Machinery and equipment	3,486,768	301,149	(130,358)	3,657,559
Total capital assets being depreciated	<u>22,426,965</u>	<u>435,300</u>	<u>(128,495)</u>	<u>22,733,770</u>
Less accumulated depreciation				
Infrastructure	5,485,959	330,942	-	5,816,901
Buildings and improvements	1,617,823	318,109	-	1,935,932
Machinery and equipment	1,828,732	396,223	-	2,224,955
Total accumulated depreciation	<u>8,932,514</u>	<u>1,045,274</u>	<u>-</u>	<u>9,977,788</u>
Net capital assets being depreciated	<u>13,494,451</u>	<u>(609,974)</u>	<u>(128,495)</u>	<u>12,755,982</u>
Total Capital Assets	<u>\$ 15,107,078</u>	<u>\$ (123,393)</u>	<u>\$ (210,245)</u>	<u>\$ 14,773,440</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 91,479
Public safety	301,930
Public works	370,115
Culture and recreation	280,251
Internal service fund	1,499
Total Governmental Activities Depreciation Expense	<u>\$ 1,045,274</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

	Beginning Balances	Increases	Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 323,164	\$ 173,693	\$ -	\$ 496,857
Construction in progress	1,980,103	2,418,943	(949,090)	3,449,956
Total capital assets not being depreciated	<u>2,303,267</u>	<u>2,592,636</u>	<u>(949,090)</u>	<u>3,946,813</u>
Capital assets, being depreciated:				
Infrastructure	22,617,455	-	949,090	23,566,545
Buildings and improvements	865,245	-	-	865,245
Machinery and equipment	1,742,577	129,789	210,245	2,082,611
Total capital assets being depreciated	<u>25,225,277</u>	<u>129,789</u>	<u>1,159,335</u>	<u>26,514,401</u>
Less accumulated depreciation				
Infrastructure	12,965,356	651,802	-	13,617,158
Buildings and improvements	367,713	51,855	-	419,568
Machinery and equipment	1,271,738	107,406	-	1,379,144
Total accumulated depreciation	<u>14,604,807</u>	<u>811,063</u>	<u>-</u>	<u>15,415,870</u>
Net capital assets being depreciated	10,620,470	(681,274)	1,159,335	11,098,531
Total Capital Assets	<u>\$ 12,923,737</u>	<u>\$ 1,911,362</u>	<u>\$ 210,245</u>	<u>\$ 15,045,344</u>

Depreciation was charged to business-type activities as follows:

Water	\$ 282,736
Sewer	232,995
Electric	276,487
Other	18,845
Total Business-type Activities Depreciation Expense	<u>\$ 811,063</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

D. 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>Refunded</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:						
Bonds, notes and other payables:						
General Obligation Bonds	\$ 972,400	\$ 1,166,100	\$ (191,700)	\$ -	\$ 1,946,800	\$ 372,500
Certificates of Obligation	4,596,100	-	(428,600)	(1,202,900)	2,964,600	224,300
Less deferred amounts:						
For issuance premiums	68,199	98,406	(12,545)	(6,952)	147,108	-
	<u>5,636,699</u>	<u>1,264,506</u>	<u>(632,845)</u>	<u>(1,209,852)</u>	<u>5,058,508</u>	<u>596,800</u>
Other liabilities:						
Notes payable	439,448	-	(42,997)	-	396,451	43,949
Capital leases payable	930,341	-	(194,056)	-	736,285	162,680
Compensated absences	144,454	135,950	(115,902)	-	164,502	148,052
Total Governmental Activities	<u>\$ 7,150,942</u>	<u>\$ 1,400,456</u>	<u>\$ (985,800)</u>	<u>\$ (1,209,852)</u>	<u>\$ 6,355,746</u>	<u>\$ 951,481</u>
Long-term liabilities due in more than one year					<u>\$ 5,404,265</u>	
Business-Type Activities:						
General Obligation Bonds	\$ 1,237,600	\$ 1,368,900	\$ (243,300)	\$ -	\$ 2,363,200	\$ 452,500
Certificates of Obligation	5,943,900	5,870,000	(446,400)	(1,412,100)	9,955,400	305,700
Less deferred amounts:						
For issuance premiums	301,170	494,741	(44,659)	(8,161)	743,091	-
	<u>7,482,670</u>	<u>7,733,641</u>	<u>(734,359)</u>	<u>(1,420,261)</u>	<u>13,061,691</u>	<u>758,200</u>
Other liabilities:						
Capital leases payable	159,427	-	(118,176)	-	41,251	41,251
Compensated absences	79,493	67,990	(65,213)	-	82,270	74,044
Total Business-Type Activities	<u>\$ 7,721,590</u>	<u>\$ 7,801,631</u>	<u>\$ (917,748)</u>	<u>\$ -</u>	<u>\$ 13,185,212</u>	<u>\$ 873,495</u>
Long-term liabilities due in more than one year					<u>\$ 12,311,717</u>	

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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, 2016

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

	Governmental Activities	Business - Type Activities	Total
General Obligation Bonds:			
\$3,495,000 General Obligation Refunding Bond, Series 2012, due in installments through 2021, interest at 2% to 3%	\$ 787,600	\$ 1,002,400	\$ 1,790,000
\$2,535,000 General Obligation Refunding Bond, Series 2016, due in installments through 2021, interest at 2% to 4%	1,159,200	1,360,800	2,520,000
Total General Obligation Bonds	\$ 1,946,800	\$ 2,363,200	\$ 4,310,000
Certificates of Obligation:			
\$1,750,000 Certificates of Obligation, Series 2007, due in annual installments through 2027, interest at 4.4%	\$ 391,000	\$ 759,000	\$ 1,150,000
\$3,200,000 Certificates of Obligation, Series 2009, due in annual installments through 2026, interest at 3% to 4.75%	2,120,000	-	2,120,000
\$4,260,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2% to 3.7%	453,600	3,326,400	3,780,000
\$5,870,000 Certificates of Obligation, Series 2015, due in annual installments through 2035, interest at 3.4% to 5.5%	-	5,870,000	5,870,000
Total Certificates of Obligation	\$ 2,964,600	\$ 9,955,400	\$ 12,920,000
Less deferred amounts:			
Issuance premium	\$ 147,108	\$ 743,091	\$ 890,199
Total Deferred Amounts	\$ 147,108	\$ 743,091	\$ 890,199
Notes Payable:			
\$660,000 Notes payable to a financial institution, due in monthly installments of \$5,106 through June 2024, including interest at 4.6%	\$ 396,451	\$ -	\$ 396,451
Total Notes Payable	\$ 396,451	\$ -	\$ 396,451
Capital Leases Payable:			
\$190,309 Capital lease payable to financial institution, due in annual installments of \$50,235 through 2017, interest at 2.89%	\$ -	\$ 41,251	\$ 41,251
\$435,000 Capital lease payable to financial institution, due in annual installments of \$51,535 through 2024, interest at 3.346%	356,075	-	356,075
\$500,000 Capital lease payable to financial institution, due in annual installments of \$134,279 through 2019, interest at 2.947%	380,210	-	380,210
Total Capital Leases Payable	\$ 736,285	\$ 41,251	\$ 777,536
Compensated Absences	164,502	82,270	246,772
Total Long-term Liabilities	\$ 6,355,746	\$ 13,185,212	\$ 19,540,958

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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
2017	\$ 372,500	\$ 64,416	\$ 452,500	\$ 77,834
2018	377,000	55,426	458,000	66,824
2019	392,800	41,908	477,200	50,492
2020	410,900	27,824	499,100	33,476
2021	393,600	13,929	476,400	16,746
	<u>\$ 1,946,800</u>	<u>\$ 203,503</u>	<u>\$ 2,363,200</u>	<u>\$ 245,372</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Combination Tax and Revenue Certificates of Obligations

<u>Year ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 224,300	\$ 128,067	\$ 305,700	\$ 365,408
2018	229,900	119,387	325,100	357,798
2019	241,600	110,391	328,400	349,179
2020	248,900	100,919	331,100	339,916
2021	261,200	91,050	408,800	328,055
2022	273,500	79,919	531,500	313,142
2023	286,400	68,258	533,600	296,377
2024	297,000	55,768	543,000	279,277
2025	309,300	42,686	560,700	260,919
2026	323,900	28,194	586,100	240,113
2027	71,800	13,024	608,200	217,921
2028	28,800	9,768	541,200	193,557
2029	30,600	8,400	564,400	171,800
2030	31,800	6,870	588,200	147,974
2031	33,600	5,280	616,400	122,720
2032	35,400	3,600	639,600	96,338
2033	36,600	1,830	663,400	68,826
2034	-	-	410,000	40,313
2035	-	-	425,000	24,656
2036	-	-	445,000	8,344
	<u>\$ 2,964,600</u>	<u>\$ 873,412</u>	<u>\$ 9,955,400</u>	<u>\$ 4,222,631</u>

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Capital Leases

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 162,680	\$ 23,135	\$ 41,251	\$ 1,411
2018	167,632	18,182	-	-
2019	172,736	13,079	-	-
2020	43,716	7,819	-	-
2021	45,179	6,357	-	-
2022	46,690	4,845	-	-
2023	48,252	3,283	-	-
2024	49,400	1,668	-	-
	<u>\$ 736,285</u>	<u>\$ 78,368</u>	<u>\$ 41,251</u>	<u>\$ 1,411</u>

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total carrying value net of depreciation of approximately \$956,406 as of year end.

Note Payable

Year ending September 30,	Governmental Activities	
	Principal	Interest
2017	\$ 43,949	\$ 17,318
2018	46,014	15,253
2019	48,176	13,091
2020	50,439	10,828
2021	52,809	8,458
2022	55,290	5,977
2023	57,887	3,380
2024	41,887	4,063
	<u>\$ 396,451</u>	<u>\$ 78,368</u>

E. Conduit Debt

From time to time, the City has issued notes payable for the purpose of assisting with financing needed by not-for-profit organizations to promote their cause. The notes are secured by the property financed and are payable solely from payments received on the underlying loans. Upon repayment of the notes, ownership of the acquired facilities transfers to the not-for-profit entity served by the note issuance.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The City has no liability for the notes payable in the event of default by the borrowers. Accordingly, the bonds are not reported as liabilities in the City's financial statements.

F. Deferred Charge on Refunding

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 \$33,787 and \$59,153, respectively. Current year amortization expense for governmental and business-type activities totaled \$4,909 and \$9,977, respectively.

G. Advance Refunding

On June 13, 2016, the City issued \$2,535,000 in general obligation refunding bonds with an interest rate of 2 - 4%. The proceeds were used to advance refund \$2,615,000 of outstanding 2006 combination tax and revenue certificates of obligation which had an interest rate ranging from 4% to 5%. The net proceeds of \$2,666,396 (after payment of \$82,530 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the obligations are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$36,283. This amount is being amortized over the remaining life of the refunding debt. This advance refunding reduced its total debt service payments by \$140,422 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$135,810.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

H. Interfund Transactions

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

Transfer out:	Transfer In						Total
	General	Debt Service	4A	Capital Projects	Enterprise	Internal Service	
General	\$ -	\$ -	\$ -	\$ 390,000	\$ 230,937 ¹	\$ 531,800	\$ 1,152,737
4A	-	-	-	175,000	-	-	175,000
4B	-	212,500	25,000	110,000	-	-	347,500
Debt Service	166,536	-	-	-	-	-	166,536
Enterprise	986,003	4,858	25,000	-	-	917,000	1,932,861
	<u>\$ 1,152,539</u>	<u>\$ 217,358</u>	<u>\$ 50,000</u>	<u>\$ 675,000</u>	<u>\$ 230,937</u>	<u>\$ 1,448,800</u>	<u>\$ 3,774,634</u>

1 - This value is after full conversion to the accrual method. For the general fund, this balance is greater than the amount reported within the governmental funds statement of revenues, expenditures, and changes in fund balance by \$210,245. This amount is only recognized at the government wide level for the general fund, and is due to the amount of capital assets transferred from the general fund to the water, sewer, and electric fund.

I. Fund Equity

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

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

	Restricted	Committed
Municipal court	\$ 7,971	\$ -
Tourism	9,480	-
Library	79,393	-
Public safety	23,385	-
Debt service	404,096	-
Capital projects	1,030,871	-
Economic development	2,626,680	-
Employee benefits	-	30,334
	<u>\$ 4,181,876</u>	<u>\$ 30,334</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Construction commitments

The government has active construction projects as of September 30, 2016. 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	\$ 17,473
McReynolds Road Reconstruction	HRM Land Acquisition	397
	Project Total	17,870
Server Consolidation	Austin Lane Technology	20,166
	Project Total	20,166
Church building restoration	Eikon Consultant	10,159
	Cima	7,996
	Mabak Directional	10,000
	Project Total	28,155
Capital improvement plan	Perkins Engineering	30,633
12" Water Line Chapman to Belz	Pacheco Koch, LLC	3,092
12" Water Line Chapman to Belz	Card Services	255
Water Line Lois to View	Pacheco Koch, LLC	7,390
Water Well and Ground Storage	Cory Miller Drilling	39,729
Water Well and Ground Storage	Perkins Engineering	64,830
Water Well and Ground Storage	Vessels Construction	622,714
15" Line Chapman to Belz	Pacheco Koch, LLC	3,715
15" Line Chapman to Belz	Card Services	255
WWL FM455 to Lois	Pacheco Koch LLC	91,097
WWL FM455 to Lois	HRM Land Acquisition	14,858
12" Line Lois to View	Pacheco Koch LLC	25,709
New Sewer Plant	Alan Plummer Associates	8,067
	Project Total	912,344
	Total	\$ 978,535

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

D. Related Party Activity

On March 1, 2012, the City entered into a non-cancelable lease agreement with a corporation of which a former city council member is a principal member of management. The leased property is owned by the 4A Fund and has a cost \$1,083,797 with accumulated depreciation of \$253,145 as of September 30, 2016. The lease provides for a base rent and an adjustment each year related to excess operating expenses (if any) incurred annually. The lease was continued on a month to month basis beginning in July 2015. On January 6, 2017, the City terminated the lease agreement.

During the year ended September 30, 2016, the City recognized \$78,667 in rental revenue from this lease. As of September 30, 2016 the City had a receivable from this company for \$26,222.

E. Arbitrage

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

F. Defined Benefit Pension Plans

1. Plan Description

The City of Sanger, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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.

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 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	22
Active employees	65
Total	99

3. Contributions

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

Employees for the City of Sanger were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Sanger were 7.09% and 7.13% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$247,432, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table 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 16 rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

investments from 7% to 6.75%. 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate:

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/14	\$ 7,400,331	\$ 6,661,957	\$ 738,374
Changes for the year:			
Service Cost	369,950	-	369,950
Interest (on the Total Pension Liab.)	521,853	-	521,853
Difference between expected and actual experience	(89,808)	-	(89,808)
Contributions – employer	-	231,097	(231,097)
Contributions – employee	-	195,568	(195,568)
Net investment income	-	9,831	(9,831)
Benefit payments, including refunds of emp. contributions	(260,514)	(260,514)	-
Administrative expense	-	(5,988)	5,988
Other changes	47,847	(296)	48,143
Net changes	589,328	169,698	419,630
Balance at 12/31/15	\$ 7,989,659	\$ 6,831,655	\$ 1,158,004

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%
\$ 2,491,376	\$ 1,158,004	\$ 73,544

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.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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

At September 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between projected and investment earnings	\$ 389,973
Differences between expected and actual economic experience	21,121
Contributions subsequent to the measurement date	181,515
Total	\$ 592,609

The City reported \$181,515 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2016	\$ 107,439
2017	107,439
2018	103,937
2019	92,279
2020	-
Thereafter	-
	\$ 411,094

Supplemental Death Benefits Plan

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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

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

The City's retiree contribution rates to the TMRS SDBF for the years ended 2016, 2015 and 2014 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.01%	0.01%	100.0%
2015	0.01%	0.01%	100.0%
2016	0.01%	0.01%	100.0%

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$348, \$322, and \$306, respectively, which equaled the required contributions each year.

G. Subsequent Events

In November of 2016, the City was awarded a purchase contract on land to be acquired for expansion of the City's wastewater treatment plant. The \$273,000 contract was the result of an eminent domain claim made by the City to purchase the land.

On January 6, 2017, the City terminated their lease agreement for a building owned by the 4A fund. The lease generated \$78,667 in rental income on an annual basis. The City plans to sell the related building, which had a carrying value of \$830,652 as of September 30, 2016.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Subsequent events were evaluated through January 27, 2017, the date the financial statements were available to be issued.

H. New Accounting Pronouncements

The GASB issued Statement No. 72, entitled *Fair Value Measurement and Application*; The provisions of GASB Statement No. 72 are effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The City has adopted this statement during the current fiscal year, but it had no material effect on these accompanying financial statements.

The GASB issued Statement No. 74 titled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, titled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 77; titled, *Tax Abatement Disclosures*; GASB Statement No. 78, titled, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which will require adoption in the future, if applicable. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

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, 2016

	Original & Final Budget	Actual	Variance with Final Budget
<u>Revenues</u>			
Property tax	\$ 2,340,000	\$ 2,447,998	\$ 107,998
Sales tax	730,000	815,547	85,547
Franchise and local taxes	212,700	240,206	27,506
License and permits	125,750	111,189	(14,561)
Charges for services	735,000	829,508	94,508
Fire and rescue	495,000	586,833	91,833
Contributions and donations	-	325	325
Intergovernmental	-	77,844	77,844
Fines and forfeitures	140,000	136,433	(3,567)
Investment income	2,500	6,296	3,796
Other revenue	124,990	96,817	(28,173)
Total Revenues	4,905,940	5,348,996	443,056
<u>Expenditures</u>			
Current:			
General government	972,240	951,828	20,412
Police department	1,445,739	1,262,092	183,647
Municipal court	240,718	195,182	45,536
Fire and EMS	928,550	940,549	(11,999)
Parks and recreation	513,090	463,483	49,607
Public works	657,928	616,616	41,312
Debt service:			
Principal	153,324	194,056	(40,732)
Interest	13,212	28,835	(15,623)
Bond issuance costs	-	37,964	(37,964)
Capital outlay	340,700	365,269	(24,569)
Total Expenditures	5,265,501	5,055,874	209,627
Revenues Over (Under) Expenditures	\$ (359,561)	\$ 293,122	\$ 652,683

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, 2016

	Original & Final Budget	Actual	Variance with Final Budget
<u>Other Financing Sources (Uses)</u>			
Transfers in	\$ 1,140,031	\$ 1,152,539	\$ 12,508
Transfers (out)	(806,869)	(942,492)	(135,623)
Bond issuance	-	1,166,100	1,166,100
Premium	-	98,406	98,406
Payment to refunding bond escrow agent	-	(1,226,542)	(1,226,542)
Sale of capital assets	25,000	30,618	5,618
Insurance recoveries	13,000	1,932	(11,068)
Total Other Financing Sources	371,162	280,561	(90,601)
Net Change in Fund Balance	\$ 11,601	573,683	\$ 562,082
Beginning fund balance		1,974,317	
Ending Fund Balance		\$ 2,548,000	

Notes to Required Supplementary Information

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

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City of Sanger, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

For The Years Ended December 31, 2015 and 2014

	2015	2014
Total pension liability		
Service cost	\$ 369,950	\$ 340,004
Interest (on the Total Pension Liability)	521,853	476,571
Changes in benefit terms	-	-
Differences between expected and actual experience	(89,808)	47,610
Changes of assumptions	47,847	-
Benefit payments, including refunds of participant contributions	(260,514)	(204,026)
Net change in total pension liability	589,328	660,159
Total pension liability - beginning	7,400,331	6,740,172
Total pension liability - ending (a)	\$ 7,989,659	\$ 7,400,331
Plan fiduciary net position		
Contributions - employer	\$ 231,097	\$ 211,283
Contributions - members	195,568	187,821
Net investment income	9,831	350,203
Benefit payments, including refunds of participant contributions	(260,514)	(204,026)
Administrative expenses	(5,988)	(3,656)
Other	(296)	(301)
Net change in plan fiduciary net position	169,698	541,324
Plan fiduciary net position - beginning	6,661,957	6,120,633
Plan fiduciary net position - ending (b)	\$ 6,831,655	\$ 6,661,957
Fund's net pension liability - ending (a) - (b)	\$ 1,158,004	\$ 738,374
 Plan fiduciary net position as a percentage of the total pension	 85.51%	 90.02%
Covered employee payroll	\$ 3,259,471	\$ 3,130,346
Fund's net position as a percentage of covered employee payroll	35.53%	23.59%

Notes to schedule:

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

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City of Sanger, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

For The Years Ended September 30, 2016 and 2015

	2016	2015 ¹
Actuarially determined employer contributions	\$ 247,432	\$ 225,111
Contributions in relation to the actuarially determined contribution	\$ 247,432	\$ 225,111
Contribution deficiency (excess)	\$ -	\$ -
Annual covered employee payroll	\$ 3,475,512	\$ 3,130,346
Employer contributions as a percentage of covered employee payroll	7.12%	7.19%

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.0% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

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OTHER SUPPLEMENTARY INFORMATION

City of Sanger, Texas

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

PROPRIETARY FUNDS - BY DEPARTMENT

For the Year Ended September 30, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Fleet Services</u>
<u>Operating Revenues</u>				
Charges for services	\$ 1,519,913	\$ 1,476,998	\$ 7,832,147	\$ -
Connection fees	-	-	61,130	-
Tap fees	121,500	166,000	-	-
Other revenue	-	-	-	-
Total Operating Revenues	1,641,413	1,642,998	7,893,277	-
<u>Operating Expenses</u>				
Salaries and wages	334,757	160,690	574,304	-
Contracted services	5,306	147	44,443	-
Utilities	150,319	149,671	8,380	-
Materials and supplies	37,923	7,307	36,207	-
Water and electric purchases	64,044	-	5,440,315	-
Repairs and maintenance	226,620	133,485	147,105	-
Depreciation	282,736	232,995	276,487	1,562
Total Operating Expenses	1,101,705	684,295	6,527,241	1,562
Operating Income (loss)	539,708	958,703	1,366,036	(1,562)
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	-	-	-	-
Bond issuance costs	-	-	-	-
Interest expense	-	-	-	-
Nonoperating Revenues (Expenses)	-	-	-	-
Income Before Transfers	539,708	958,703	1,366,036	(1,562)
Transfers in	-	230,937	-	-
Transfers (out)	-	-	(678,495)	-
Change in Net Position	\$ 539,708	\$ 1,189,640	\$ 687,541	\$ (1,562)

<u>Administration</u>	<u>Total</u>
\$ -	\$ 10,829,058
-	61,130
-	287,500
58,874	58,874
<u>58,874</u>	<u>11,236,562</u>
-	1,069,751
-	49,896
-	308,370
-	81,437
-	5,504,359
-	507,210
17,283	811,063
<u>17,283</u>	<u>8,332,086</u>
41,591	2,904,476
21,429	21,429
(208,930)	(208,930)
(395,154)	(395,154)
<u>(582,655)</u>	<u>(582,655)</u>
(541,064)	2,321,821
-	230,937
<u>(1,254,366)</u>	<u>(1,932,861)</u>
<u>\$ (1,795,430)</u>	<u>\$ 619,897</u>