

CITY OF SANGER, TEXAS

FINANCIAL REPORT

SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

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, 2013, 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

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, 2013, 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.

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

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress, and budgetary comparison schedule on pages 3 through 12 and 48 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole.

The Combining Schedule of Revenues and Expenses – Proprietary Fund by Department and Analysis of Property Taxes Receivable on pages 50 through 52 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, TX
March 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

The management of the City of Sanger offers readers of the financial statements this narrative overview and analysis of the financial activities of the City of Sanger for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with the City's financial statements and accompanying footnotes of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Sanger exceeded its liabilities at the close of the most recent fiscal year by \$24,367,796 (net position). Of this amount, \$5,518,330 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total capital assets decreased by \$1,257,421. Capital additions were \$799,058 and depreciation expense was \$2,056,479.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$3,950,755.
- The fund balance of the General Fund increased by \$301,498 (39%) to \$1,074,895 at September 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the City of Sanger's basic financial statements. This annual report consists of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report contains other supplementary information in addition to 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 private-sector business. The statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Position includes all of the government's assets and liabilities, with the difference between the two being reported as net position. Over time, increases or decreases in net position are an indicator as to whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, additional non-financial factors (such as the City's tax base) will need to be considered.

The Statement of Activities presents information on how the City's net position changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but not used vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

Both the Statement of Net Position and Statement of Activities are prepared using the accrual basis of accounting as opposed to the modified accrual basis of accounting.

In its Statement of Net Position and Statement of Activities, the City of Sanger is divided between two kinds of activities:

- **Governmental activities.** Most of the City's basic services are included here, such as general government, public safety, streets, sanitation, and culture and recreation. Property taxes, sales taxes, franchise fees, and charges for services finance most of these activities.
- **Business-type activities.** A fee is charged to customers by the City to cover the cost of services it provides. The City's utility systems (electric, water, and wastewater) activities are reported here.

Fund Financial Statements. The fund financial statements provide more detailed information about the City's most significant funds and not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are restricted by State law and by bond covenants.
- The City Council establishes guidelines to control and manage money for particular purposes or to show that it is properly using certain revenue resources.

The City has two categories of funds: governmental funds and proprietary funds.

- **Governmental funds.** The City's basic services are included in governmental funds, which focus on cash and other financial assets that can readily be converted to cash flow, as well as the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the subsequent pages, explaining the relationship (or differences) between them. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.
- **Proprietary funds (business-type funds).** Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like government-wide statements, provide both short and long-term financial information. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)**

Major Features of the City of Sanger's Government-wide and Fund Financial Statements

	Government-wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private business: electric, water, and wastewater utilities	Instances in which the City is the trustee or agent for someone else's resources
Required Financial Statements	Statement of net position	Balance Sheet	Statement of net position	Statement of fiduciary net position
	Statement of activities	Statement of revenues, expenditures and changes in fund balances	Statement of revenues, expenses and changes in fund net position Statement of cash flows	Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of September 30, 2013, the City's combined net position was \$24,367,796, of which \$10,725,976 can be attributed to governmental activities and \$13,641,820 attributed to business-type activities. This analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Net position

Net position at September 30, 2013, was \$24,367,796, representing an increase of \$1,256,571 in total net position of governmental and business-type activities. The largest portion of the City's net position reflects its investment in capital assets (e.g., land, building, machinery, equipment, and infrastructure – streets, drainage, water, wastewater, and electric) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Changes in Net position

- Governmental activities increased the City's net position by \$709,187 and business-type activities increased the City's net position by \$547,384, accounting for positive growth in the government-wide net position in fiscal year ended September 30, 2013. The key elements of these changes are contained in Table 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

Table 1 – Net position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Cash and cash equivalents	\$ 1,417,793	\$ 415,126	\$ 1,709,541	\$ 2,293,053	\$ 3,127,334	\$ 2,708,179
Certificates of deposit	409,243	408,004	316,202	335,825	725,445	743,829
Accounts receivable, net	541,799	411,622	1,466,999	1,537,373	2,008,798	1,948,995
Inventories			446,969	433,508	446,969	433,508
Due from other funds		263,811			-	263,811
Restricted cash and cash equivalents	2,216,131	1,735,949	7,666,873	2,623,570	9,883,004	4,359,519
Bond issuance costs, net		281,317		73,087	-	354,404
Capital assets, net of accumulated depreciation	14,290,588	14,973,623	12,214,647	12,789,033	26,505,235	27,762,656
Total assets	\$18,875,554	\$18,489,452	\$23,821,231	\$20,085,449	\$42,696,785	\$38,574,901
Deferred Outflows of Resources						
Deferred refunding loss	\$ 29,831	\$ 33,743	\$ 67,151	\$ 75,958	\$ 96,982	\$ 109,701
Liabilities						
Accounts payable	\$ 329,263	\$ 272,746	\$ 808,238	\$ 581,313	\$ 1,137,501	\$ 854,059
Customer deposits			337,603	315,761	337,603	315,761
Other liabilities	208,725	163,986	69,047	147,008	277,772	310,994
Due from other funds				263,811	-	263,811
Current portion long-term debt	716,472	725,695	748,233	700,908	1,464,705	1,426,603
Compensated absences	95,068	65,240	64,535	33,865	159,603	99,105
Long-term debt	6,829,881	6,981,779	8,218,906	4,924,811	15,048,787	11,906,590
Total liabilities	\$ 8,179,409	\$ 8,209,446	\$10,246,562	\$ 6,967,477	\$ 18,425,971	\$15,176,923
Net position						
Invested in capital assets	\$ 7,875,265	\$ 7,371,097	\$ 7,262,215	\$ 7,287,190	\$ 15,137,480	\$14,658,287
Restricted for specific purpose	330,272	610,227	3,381,714	2,307,809	3,711,986	2,918,036
Unrestricted	2,520,439	2,332,425	2,997,891	3,598,941	5,518,330	5,931,366
Net position	\$10,725,976	\$10,313,749	\$13,641,820	\$13,193,940	\$24,367,796	\$23,507,689

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

Table 2 – Changes in Net position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for services	\$ 1,469,430	\$ 1,511,279	\$ 10,553,808	\$ 10,740,154	\$ 12,023,238	\$ 12,251,433
Grants and donations	219,727	500,000			219,727	500,000
General Revenues:						
Taxes	4,314,837	4,108,822			4,314,837	4,108,822
Licenses and permits	94,934	130,869			94,934	130,869
Investment earnings	4,013	16,826	15,630	32,902	19,643	49,728
Transfers	523,990	-	(523,990)	-	-	-
Miscellaneous	137,590	211,956			137,590	211,956
Gain (loss) on sale of assets	31,028				31,028	-
Total revenues	6,795,549	6,479,752	10,045,448	10,773,056	16,840,997	17,252,808
Expenses						
General government	752,757	750,649			752,757	750,649
Police and animal control	1,578,347	1,503,327			1,578,347	1,503,327
Streets and sanitation	1,631,355	1,445,542			1,631,355	1,445,542
Fire and rescue	931,675	766,011			931,675	766,011
Court	202,327	209,333			202,327	209,333
Culture and recreation	681,730	493,541			681,730	493,541
Interest on long-term debt	308,171	340,136		217,588	308,171	557,724
Proprietary expenses			9,498,064	8,850,008	9,498,064	8,850,008
Total expenses	6,086,362	5,508,539	9,498,064	9,067,596	15,584,426	14,576,135
Change in net assets	709,187	971,213	547,384	1,705,460	1,256,571	2,676,673
Adjustments	(296,960)		(99,504)		(396,464)	-
Beginning net assets	10,313,749	9,342,536	13,193,940	11,488,480	23,507,689	20,831,016
Ending net assets	\$ 10,725,976	\$ 10,313,749	\$ 13,641,820	\$ 13,193,940	\$ 24,367,796	\$ 23,507,689

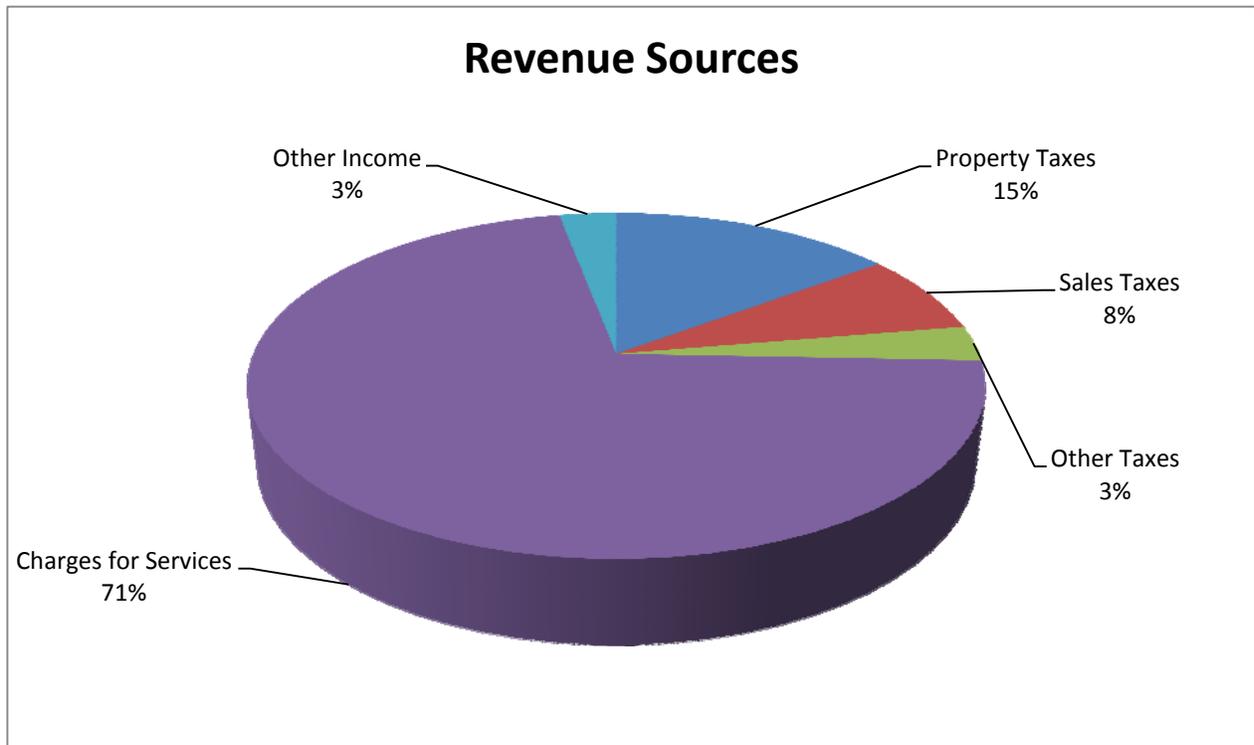
**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)**

The City's total revenues for the year ended September 30, 2013, were \$16,840,997 with a significant portion, 71%, of the City's total revenue coming from charges for services, 15% from property taxes, 8% from sales taxes, while 6% is obtained from the remaining revenue sources (see Figure 1). Because Sanger owns an electric utility, revenues from charges for services are a large percentage of overall revenues. Without the ownership of its electricity utility, the City's property tax rate would be approximately ten cents higher per \$100 valuation than its current rate in order to generate the same amount of operating revenue.

Governmental activities revenues total \$6,795,549 for the year ended September 30, 2013, of which \$4,314,837 (63%) is attributed to taxes. Significant expenses for governmental activities include police and animal control (\$1,578,347), streets and sanitation (\$1,631,355) and fire and rescue (\$931,675).

Business-type operating revenues decreased by \$186,346 to \$10,553,808 for the year ended September 30, 2013, primarily due to a milder summer than the previous year fiscal year. Business-type expenses increased by \$430,468 to \$9,498,064 in fiscal year ended September 30, 2013 mainly due to increased water and electric system maintenance, new groundwater permit fees and increased cost of transmission service fees.

Figure 1



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources available to spend. This information is useful in assessing the financial requirements of the City.

As of September 30, 2013, the City's governmental funds reported a combined ending fund balance of \$3,950,755, an increase of \$1,257,001 from the previous fiscal year's balance of \$2,693,754. The increase in fund balance is primarily due to funding received for capital improvements projects prior to incurring the related expenses. Of this fund balance, \$1,074,895 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed to pay debt service (\$359,564), complete capital projects (\$1,056,367), or enhance economic development (\$1,459,929).

General Fund. The General Fund is the chief operating fund of the City. At September 30, 2013, the unassigned fund balance of the General Fund was \$1,074,895, an increase of \$301,498 from the prior year. The increase is primarily due to transfers from the Enterprise Fund of \$200,000 (general budget transfer) and \$180,000 (for purchase of the building from Denton County).

Capital Projects Fund. The entire balance of the capital projects fund is restricted for capital construction and acquisition. At September 30, 2013, the capital projects fund had a fund balance of \$1,056,367, an increase of \$832,270 from 2012. The increase is primarily due to the issuance of bonds for the Splash Park project and the transfer of bond reserve funds released after the 2012 Refunding.

Debt Service Fund. The debt service fund has a total fund balance of \$359,564 at September 30, 2013, an increase of \$8,669 over 2012.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)**

Proprietary Funds

The focus of proprietary funds is to provide information on both near-term and long-term inflows, outflows, and balances of resources. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Table 3 represents the cost of each of the City's business-type activities as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The cost of business-type activities for fiscal year ended September 30, 2013 was \$9,237,150. The amount of charges for services that the City's tax payers paid for these activities was \$10,553,808. Excess funds are used by the City to help support the general fund, keeping the property tax rate from increasing. Excess funds are also used to fund capital improvements.

Table 3 – Proprietary Fund Activities

	<u>Total Operating Expenses</u>		<u>% Change</u>	<u>Total Operating Income</u>		<u>% Change</u>
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
Water	\$ 1,318,162	\$ 1,064,019	23.89%	\$ 109,826	\$ 438,488	-74.95%
Sewer	708,870	824,434	-14.02%	608,338	519,495	17.10%
Electric	6,467,866	6,307,713	2.54%	1,280,635	1,527,218	-16.15%
Other	742,252	653,842	13.52%	(682,141)	(595,055)	14.63%
Total	\$ 9,237,150	\$ 8,850,008	4.37%	\$ 1,316,658	\$ 1,890,146	-30.34%

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounted to \$26,505,235 (net of accumulated depreciation). This investment in capital assets includes land, equipment, buildings, vehicles, streets, drainage, water, wastewater, and electrical systems (see Table 4).

Table 4 – Capital Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 906,307	\$ 862,307	\$ 323,164	\$ 323,164	\$ 1,229,471	\$ 1,185,471
Construction in progress	42,771	272,385	132,305	291,414	175,076	563,799
Infrastructure	10,919,425	10,550,634	22,411,107	22,112,636	33,330,532	32,663,270
Buildings and equipment	9,584,682	9,614,364	2,571,984	2,459,441	12,156,666	12,073,805
Total historical cost	21,453,185	21,299,690	25,438,560	25,186,655	46,891,745	46,486,345
Total accumulated depreciation	(7,162,597)	(6,326,067)	(13,223,913)	(12,397,622)	(20,386,510)	(18,723,689)
Net capital assets	\$ 14,290,588	\$ 14,973,623	\$ 12,214,647	\$ 12,789,033	\$ 26,505,235	\$ 27,762,656

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

Major capital asset events during the current fiscal year included the following assets purchased from the departmental operating budgets.

Governmental Activities

- Purchase Land and Building to house the Police Department with a value of \$181,477
- Improvements to the Community Center and Rail Road Ball Fields at a cost of \$29,750
- Purchase of three vehicles for the Police Department and Animal Control for \$93,258
- Street Department equipment costing \$20,854
- Park Department capital additions include a vehicle and herbicide sprayer for \$28,696

Business-Type Activities

- Upgrades to the SCADA System for \$18,400
- Purchase of a vehicle and trailer mounted pump for the Water Department \$39,891
- Purchase of a mobile collector for meter reading \$10,980
- Purchase of a Vermeer Compact Loader and Primary and Alternate Switches for Wal-Mart at a cost of \$71,386

Capital Improvement Projects are funded from various sources including long-term debt, interlocal agreements, grants, and transfers from operating budgets. Because construction of these assets crosses fiscal years, they are recorded as construction in progress until completed. Upon completion, they are considered fixed assets and depreciated over their useful life.

Projects listed below were completed in the current fiscal year and include costs incurred in prior fiscal years.

- Completed Bolivar, 1st, and 3rd Street Drainage and Street Improvements \$374,598
- Completed Drainage at 4th and Sims, Downtown, and Eastside \$244,852
- Completed Keaton & 5th Sidewalk \$57,506

Costs for projects listed below were incurred in the current fiscal year.

- Begin reconstruction of road and sewer improvements on Freese Road \$120,839
- Begin reconstruction of the Jones and Willow Trunk Line with CDBG funds \$14,750
- Begin design of East and West side I35 Water and Sewer Extensions and Upgrades \$132,305

Additional information on the City of Sanger's capital assets can be found in Note 4 to the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)**

Long-term debt

As of September 30, 2013, the City had \$16,673,095 in total long-term debt, an increase of \$3.2 million to be used for extension of water and wastewater lines in the City. Of the total amount of long term debt, \$6,738,800 is tax supported debt in the form of certificates of obligation and the remainder represents bonds secured solely by utility revenue sources.

Table 5 – Long-term Debt

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Other	\$ 148,441	\$ 126,047	\$ 378,607	\$ 94,390	\$ 527,048	\$ 220,437
Capital leases	237,364	340,119	171,867	370,401	409,231	710,520
Notes payable	516,816	553,391		-	516,816	553,391
Certificates of Obligation	6,738,800	6,768,800			6,738,800	6,768,800
Revenue Bonds			8,481,200	5,221,200	8,481,200	5,221,200
Total long-term debt	\$ 7,641,421	\$ 7,788,357	\$ 9,031,674	\$ 5,685,991	\$ 16,673,095	\$ 13,474,348

At the end of the current fiscal year, the City of Sanger had total long-term debt, including notes payable and capital leases payable, of \$16,673,095. Of this amount, \$6,738,800 are certificates of obligation secured by ad valorem taxes and surplus revenues of the utility fund and \$8,481,200 represents bonds secured solely by electric, water, and sewer revenues. The capital leases payable of \$409,231 is for equipment and meters financed through a lease/purchase agreement. The notes payable is the amount borrowed by the 4A Economic Development Corporation, a blended component unit, to purchase a warehouse.

During the year, the City issued the \$4,260,000 Combination Tax and Revenue Certificates of Obligation, Series 2013 to construct a Splash Park and improve the City's water and wastewater system, including costs related to the issuance of the bonds. Moody's Investors Service reviewed and assigned a rate of A2 to the Certificates.

Additional information on the City of Sanger's long-term debt can be found in Notes 5 and 6 of the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City revised the general fund original appropriations approved by the City Council to increase the Police budget by \$180,000 for the purchase of the County building. This change resulted in an overall increase in expenditures from the original budget of 4%.

General fund actual expenditures were \$184,061 less than budgeted. Major variances from budget included the following:

- Sanitation revenues (Charges for Services) and Sanitation expenditures (Streets and sanitation) were both over budget.
- Culture and recreation expenditures were under budget by \$38,464 because the Park Director position was vacant for three months.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013
(CONTINUED)

- General government expenditures were significantly under budget due to lower than expected legal services (\$8,000), economic development (\$32,000), and non-departmental expenses (\$68,000). Generally accepted accounting principles require the city to allocate non-departmental expenses to the various departments. Departmental operating budgets were generally under budget enough to absorb the allocation of non-departmental expense without exceeding their budgets. Both Public safety and Fire and rescue slightly exceeded their expenditure budget due to this allocation.

ECONOMIC FACTORS AND FISCAL YEAR BUDGET AND RATES

The fiscal year 2013-2014 budget incorporates a 3 cent increase in the property tax rate to be used to fund street maintenance. The new rate is \$.665 per \$100 valuation and the certified appraised values used for the fiscal year 2013-2014 budget are \$26 million higher than the amounts budgeted in the 2012-2013 fiscal year, thus increasing the budgeted property tax revenue. The General Fund budgeted increase in fund balance for fiscal year 2012-2013 is \$20,040.

The 2013-2014 budget includes an 8% increase in water rates and a 10% increase in wastewater rates to be used for debt service incurred to expand water and wastewater lines. The Enterprise Fund budgeted increase in fund balance is \$127,173.

If revenues and expenditures projected in the 2014 budget are realized, the City will be able to continue operations, absorb inflationary costs, repair streets, expand the water and wastewater systems, and increase its total fund balance by \$147,213 for the City as a whole.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or would like additional information, please contact 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
SEPTEMBER 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,417,793	\$ 1,709,541	\$ 3,127,334
Certificates of deposit	409,243	316,202	725,445
Accounts receivable, net			
Property taxes net of allowance of \$41,367	83,593	-	83,593
Sales taxes	186,444	-	186,444
Emergency medical services, net of allowance of \$1,571,532	91,521	-	91,521
Utility accounts, net of allowance of \$100,227	-	1,466,999	1,466,999
Grants	117,355	-	117,355
Other, net of allowance of \$6,899	62,886	-	62,886
Inventories	-	446,969	446,969
Internal balances	-	-	-
Restricted cash	1,736,878	6,407,856	8,144,734
Restricted certificates of deposit	479,253	1,259,017	1,738,270
Capital assets			
Capital assets not being depreciated	949,078	455,469	1,404,547
Capital assets being depreciated, net	13,341,510	11,759,178	25,100,688
TOTAL ASSETS	18,875,554	23,821,231	42,696,785
DEFERRED OUTFLOWS OF RESOURCES			
Deferred refunding loss	29,831	67,151	96,982
LIABILITIES			
Accounts payable and accrued liabilities	329,263	808,238	1,137,501
Customer deposits	-	337,603	337,603
Accrued interest payable	54,370	30,973	85,343
Unearned rent	24,521	-	24,521
Compensated absences, due within one year	48,593	39,014	87,607
Bonds payable, due within one year	579,015	653,485	1,232,500
Notes payable, due within one year	38,294	-	38,294
Capital leases, due within one year	99,163	94,748	193,911
Other	129,834	38,074	167,908
Noncurrent liabilities			
Compensated absences, due in more than one year	46,475	25,521	71,996
Bonds payable, due in more than one year	6,213,158	8,141,787	14,354,945
Notes payable, due in more than one year	478,522	-	478,522
Capital leases, due in more than one year	138,201	77,119	215,320
TOTAL LIABILITIES	8,179,409	10,246,562	18,425,971
NET POSITION			
Net investment in capital assets	7,875,265	7,262,215	15,137,480
Restricted			
Debt service	330,272	1,222,245	1,552,517
Capital improvements	-	2,159,469	2,159,469
Unrestricted	2,520,439	2,997,891	5,518,330
TOTAL NET POSITION	\$ 10,725,976	\$ 13,641,820	\$ 24,367,796

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF SANGER, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

Program Activities	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 752,757	\$ 785,922	\$ -	\$ 33,165	\$ -	\$ 33,165
Police and animal control	1,578,347	-	-	(1,578,347)	-	(1,578,347)
Streets and sanitation	1,631,355	-	219,727	(1,411,628)	-	(1,411,628)
Fire and EMS	931,675	514,842	-	(416,833)	-	(416,833)
Court	202,327	168,666	-	(33,661)	-	(33,661)
Culture and recreation	681,730	-	-	(681,730)	-	(681,730)
Fiscal agent fees and debt issue costs	12,980	-	-	(12,980)	-	(12,980)
Interest on long-term debt	295,191	-	-	(295,191)	-	(295,191)
Total governmental activities	6,086,362	1,469,430	219,727	(4,397,205)	-	(4,397,205)
Business-type activities						
Water	1,318,162	1,427,988	-	-	109,826	109,826
Sewer	708,870	1,317,208	-	-	608,338	608,338
Electric	6,467,866	7,748,501	-	-	1,280,635	1,280,635
Fiscal agent fees and debt issue costs	83,530	-	-	-	(83,530)	(83,530)
Interest on long-term debt	177,384	-	-	-	(177,384)	(177,384)
Other	742,252	60,111	-	-	(682,141)	(682,141)
Total business-type activities	9,498,064	10,553,808	-	-	1,055,744	1,055,744
Total primary government	\$ 15,584,426	\$ 12,023,238	\$ 219,727	\$ (4,397,205)	\$ 1,055,744	\$ (3,341,461)
General revenues						
Taxes						
Ad valorem				\$ 2,495,024	\$ -	\$ 2,495,024
Sales				1,265,031	-	1,265,031
Franchise taxes				554,782	-	554,782
Licenses and permits				94,934	-	94,934
Interest income				4,013	15,630	19,643
Gain on disposal of assets				31,028	-	31,028
Miscellaneous revenues				137,590	-	137,590
Transfers				523,990	(523,990)	-
Total general revenues and transfers				5,106,392	(508,360)	4,598,032
Change in net position				709,187	547,384	1,256,571
NET POSITION, beginning of year, as previously stated				10,313,749	13,193,940	23,507,689
Adjustments				(296,960)	(99,504)	(396,464)
NET POSITION, beginning of year, as restated				10,016,789	13,094,436	23,111,225
NET POSITION, end of year				\$ 10,725,976	\$ 13,641,820	\$ 24,367,796

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS			
Cash and equivalents	\$ 560,295	\$ 303,497	\$ 548,243
Certificates of deposit	409,243	-	-
Accounts receivable, net			
Property taxes, net of allowance of \$41,367	58,515	25,078	-
Sales taxes	93,222	-	-
Emergency medical services, net of allowance of \$1,571,532	91,521	-	-
Other, net allowance of \$6,899	62,886	-	-
Grants	117,355	-	-
Due from other funds	20,518	-	-
Restricted cash	100,109	56,567	552,956
Restricted certificates of deposit	112,302	-	-
	<u>\$ 1,625,966</u>	<u>\$ 385,142</u>	<u>\$ 1,101,199</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 271,201	\$ 500	\$ 44,832
Due to other funds	-	-	-
Other liabilities	129,834	-	-
	<u>401,035</u>	<u>500</u>	<u>44,832</u>
Deferred inflows of resources			
Unavailable revenue - property taxes	150,036	25,078	-
Fund balances			
Restricted			
Debt service	-	359,564	-
Capital projects	-	-	1,056,367
Economic development	-	-	-
Unassigned	1,074,895	-	-
	<u>1,074,895</u>	<u>359,564</u>	<u>1,056,367</u>
Total fund balances	<u>\$ 1,625,966</u>	<u>\$ 385,142</u>	<u>\$ 1,101,199</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 1,625,966</u>	<u>\$ 385,142</u>	<u>\$ 1,101,199</u>

The Notes to Basic Financial Statements are an integral part of this statement.

<u>4A Fund</u>	<u>4B Fund</u>	<u>Total Governmental Funds</u>
\$ 5,000	\$ 758	\$ 1,417,793
-	-	409,243
-	-	83,593
46,611	46,611	186,444
-	-	91,521
-	-	62,886
-	-	117,355
-	-	20,518
768,917	258,329	1,736,878
93,609	273,342	479,253
<u>\$ 914,137</u>	<u>\$ 579,040</u>	<u>\$ 4,605,484</u>
\$ -	\$ 12,730	\$ 329,263
20,518	-	20,518
-	-	129,834
20,518	12,730	479,615
-	-	175,114
-	-	359,564
-	-	1,056,367
893,619	566,310	1,459,929
-	-	1,074,895
<u>893,619</u>	<u>566,310</u>	<u>3,950,755</u>
<u>\$ 914,137</u>	<u>\$ 579,040</u>	<u>\$ 4,605,484</u>

**CITY OF SANGER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Total fund balances - governmental funds	\$ 3,950,755
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	14,290,588
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(54,370)
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	175,114
Escalating payments for rent income are recorded when received as current financial resources in the fund financial statements whereas they are deferred and recorded ratably over the life of the lease in the government-wide financial statements.	(24,521)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(7,611,590)</u>
Net assets of governmental activities	<u><u>\$ 10,725,976</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF SANGER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Property taxes	\$ 1,755,838	\$ 738,395	\$ -
Sales taxes	631,812		
Licenses and permits	94,934	-	-
Charges for services	785,922	-	-
Fire and rescue	530,810	-	-
Court	168,666	-	-
Franchise taxes	554,782	-	-
Intergovernmental revenues	133,427	-	86,300
Interest	1,200	679	360
Miscellaneous	23,435	-	-
Total revenues	4,680,826	739,074	86,660
EXPENDITURES			
Current			
General government	658,870	610	-
Police and animal control	1,478,058	-	-
Streets and sanitation	899,067	-	86,300
Fire and EMS	816,965	-	-
Court	201,942	-	-
Culture and recreation	434,364	-	-
Capital outlay	357,095	-	144,891
Debt service			
Principal retirement	102,755	541,200	-
Interest charges	4,240	258,250	-
Fiscal agent's fees and debt issue costs	-	345	12,635
Total expenditures	4,953,356	800,405	243,826
Excess (deficiency) of revenues over expenditures	(272,530)	(61,331)	(157,166)
Other financing sources (uses)			
Proceeds on sale of assets	31,028	-	-
Proceeds from bond issuance	-	-	511,200
Premium on bond issuance	-	-	41,746
Transfers in	543,000	180,000	642,997
Transfers out	-	(110,000)	(206,507)
Total other financing sources (uses)	574,028	70,000	989,436
Net change in fund balances	301,498	8,669	832,270
FUND BALANCES, beginning of year	773,397	350,895	224,097
FUND BALANCES, end of year	\$ 1,074,895	\$ 359,564	\$ 1,056,367

The Notes to Basic Financial Statements are an integral part of this statement.

<u>4A Fund</u>	<u>4B Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,494,233
316,721	316,498	1,265,031
-	-	94,934
-	-	785,922
-	-	530,810
-	-	168,666
-	-	554,782
-	-	219,727
992	782	4,013
98,668	-	122,103
<u>416,381</u>	<u>317,280</u>	<u>6,240,221</u>
-	32,330	691,810
-	-	1,478,058
-	-	985,367
-	-	816,965
-	-	201,942
-	-	434,364
-	-	501,986
36,575	-	680,530
24,692	-	287,182
-	-	12,980
<u>61,267</u>	<u>32,330</u>	<u>6,091,184</u>
355,114	284,950	149,037
-	-	31,028
-	-	511,200
-	-	41,746
-	-	1,365,997
<u>(320,500)</u>	<u>(205,000)</u>	<u>(842,007)</u>
<u>(320,500)</u>	<u>(205,000)</u>	<u>1,107,964</u>
34,614	79,950	1,257,001
859,005	486,360	2,693,754
<u>\$ 893,619</u>	<u>\$ 566,310</u>	<u>\$ 3,950,755</u>

CITY OF SANGER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances - total governmental funds \$ 1,257,001

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

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. This is the amount of capital assets recorded in the current period. 501,986

Depreciation expense on capital assets is reported in the statement of activities and does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (1,185,021)

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. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount consists of repayments of \$680,530 less proceeds of \$511,200, premiums of \$41,746, plus amortization of premiums, discounts, and deferred loss on refundings of \$104 and a change in long-term compensated absences payable of \$15,336, which is the net effect of these differences in the treatment of long-term debt and related items. 143,024

Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (8,113)

Governmental funds recognize escalating rental income as received. However, in the statement of activities, the rent is deferred and recognized ratably over the term of the lease agreement. 15,487

Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. (15,177)

Change in net position of governmental activities \$ 709,187

CITY OF SANGER, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Water, Sewer, and Electric Fund
ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 1,709,541
Certificates of deposit	316,202
Receivables	
Utility accounts receivable, net of allowance of \$100,227	1,466,999
Inventories	446,969
	3,939,711
NONCURRENT ASSETS	
Capital assets, at cost	
Land and land improvements	323,164
Buildings and equipment	2,571,984
Infrastructure	22,411,107
Construction in progress	132,305
Accumulated depreciation	(13,223,913)
	12,214,647
Total capital assets, net of accumulated depreciation	12,214,647
Restricted cash and cash equivalents	6,407,856
Restricted certificates of deposit	1,259,017
	19,881,520
TOTAL ASSETS	\$ 23,821,231
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	67,151
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 808,238
Accrued interest payable	30,973
Compensated absences, due within one year	39,014
Bonds payable, due within one year	653,485
Capital lease obligation, due within one year	94,748
Other	38,074
	1,664,532
NONCURRENT LIABILITIES	
Compensated absences, due in more than one year	25,521
Bonds payable, due in more than one year	8,141,787
Capital lease obligation, due in more than one year	77,119
Customer deposits	337,603
	10,246,562
NET POSITION	
Net investment in capital assets	7,262,215
Restricted	
Revenue bond retirement	1,222,245
Capital improvements	2,159,469
Unrestricted	2,997,891
	7,262,215
TOTAL NET POSITION	\$ 13,641,820

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET POSITION – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Water, Sewer, and Electric Fund</u>
OPERATING REVENUES	
Charges for services	\$ 10,035,815
Connection fees	62,527
Tap fees	396,300
Miscellaneous	<u>59,166</u>
Total operating revenue	10,553,808
OPERATING EXPENSES	
Salaries, wages and benefits	1,421,479
Purchased professional and technical services	197,137
Utilities	346,187
Materials and supplies	99,157
Water and electric purchases	5,176,010
Franchise fees	387,288
Depreciation	871,458
Repairs and maintenance	696,458
Bad debt expense	<u>41,976</u>
Total operating expenses	<u>9,237,150</u>
Operating income	1,316,658
NONOPERATING REVENUES (EXPENSES)	
Transfers in	506,507
Transfers out	(1,030,497)
Fiscal agent fees and debt issue costs	(83,530)
Interest and investment income	15,630
Interest and amortization expense	<u>(177,384)</u>
Total nonoperating revenues (expenses)	<u>(769,274)</u>
Change in net position	547,384
NET POSITION, beginning of year - as previously reported	13,193,940
Adjustments	<u>(99,504)</u>
NET POSITION, beginning of year - as restated	<u>13,094,436</u>
NET POSITION, end of year	<u><u>\$ 13,641,820</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Water, Sewer, and Electric Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 10,646,024
Cash paid to employees	(1,400,773)
Cash paid to suppliers	<u>(7,074,605)</u>
Net cash provided by operating activities	2,170,646
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers in	506,507
Transfers out	<u>(1,030,497)</u>
Net cash used in non-capital financing activities	(523,990)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(687,334)
Proceeds from issuance of long-term debt	4,054,941
Capital expenditures	(297,072)
Interest and fees paid on debt issuance	<u>(292,653)</u>
Net cash provided by capital and related financing activities	2,777,882
CASH FLOWS FROM INVESTING ACTIVITIES	
Reinvested interest	(5,535)
Proceeds on maturity of investments	349,683
Interest on investments	<u>15,630</u>
Net cash provided by investing activities	<u>359,778</u>
Net change in cash	4,784,316
CASH AND CASH EQUIVALENTS, beginning of the year	<u>3,333,081</u>
CASH AND CASH EQUIVALENTS, end of the year	<u><u>\$ 8,117,397</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

**CITY OF SANGER, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2013
(CONTINUED)**

	<u>Water, Sewer, and Electric Fund</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET ASSETS	
Cash and investments	\$ 1,709,541
Restricted cash and cash equivalents	<u>6,407,856</u>
Cash and cash equivalents - ending	<u><u>\$ 8,117,397</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,316,658
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	871,458
Decrease in accounts receivable	70,374
Increase in inventory	(13,461)
Increase in accounts payable and accrued liabilities	226,925
Decrease in due to other funds	(263,811)
Decrease in other liabilities	(59,339)
Increase in customer deposits	<u>21,842</u>
Net cash provided by operating activities	<u><u>\$ 2,170,646</u></u>

The Notes to Basic Financial Statements are an integral part of this statement.

CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sanger (the City) was incorporated in 1886. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, public safety, streets and sanitation, culture and recreation, water and wastewater operations and electricity operations.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. The more significant accounting policies of the City are described below.

New Pronouncements

Effective October 1, 2012, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

In addition, effective October 1, 2012, the City elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement reclassifies certain items that were previously reported as assets and liabilities, as deferred outflows or inflows of resources, and recognizes these items as outflows or inflows of resources.

Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other 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.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate

CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government.

The following entities were found to be component units of the City and are included in the accompanying financial statements:

Blended Component Unit (4A) - The Sanger Texas Industrial Development Corporation (STIDC) 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 STIDC 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 STIDC is to promote economic development within the City of Sanger.

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

Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity within the governmental and business-type activities columns has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted to signify the amounts that are restricted exclusively for debt service expenditures.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements – Continued

Capital Projects Fund

The Capital Projects Fund is used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets and drainage improvements in the City and construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

4A and 4B Funds

The 4A and 4B Funds are used to account for sales tax revenues collected for the purposes set forth by the Sanger Economic Development Corporation.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water, Sewer and Electric Fund

The Water, Sewer and Electric Fund is the primary operating fund for water, sewer and electric. It also accounts for all financial resources of the City concerning water, sewer and electric sales. Its activity is financed with debt secured by a pledge of the net revenues and has the requirement that the cost of providing services, including capital costs, be recovered by user fees and charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and wastewater services, which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the related fund liability is incurred.

However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash and investments are available upon demand. The City considers pooled and other cash and investments amounts that are purchased with a maturity of ninety days or less to be cash equivalents.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds and certificates of deposits within established criterion.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Restricted Resources

If both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and unrestricted resources as needed.

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. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. Personal property taxes not collected by April 1 are forwarded for collection proceedings. Real property taxes not collected by July 1 are forwarded for collection proceedings.

Inventories and Prepaid Items

Inventories, which are recognized as expenses as consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies for the Proprietary Fund. Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Transactions between Funds

Interfund services provided and used are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund reimbursed. All other interfund transactions are recorded as transfers.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	5-50 years
Machinery and equipment	3-20 years
Infrastructure	10-30 years

Accumulated Vacation, Compensatory Time and Sick Leave

The amounts owed to employees for unpaid vacation and sick leave liabilities, including the City's share of employment-related taxes, are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements and in the enterprise activities of the fund financial statements. The liabilities and expenditures are reported on the modified accrual basis in the governmental fund financial statements.

Nature and Purpose of Reservations and Designations of Fund Equity

The City implemented Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) during the year ended September 30, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances in its financial statements as follows:

1. Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Nature and Purpose of Reservations and Designations of Fund Equity – Continued

2. Spendable Fund Balance

- a. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
 - i. The aggregate fund balance of the debt service fund is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated.
 - ii. The fund balance of the capital projects fund reflects an amount restricted for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of bonds, which primarily have restricted use.
 - iii. The proceeds of specific revenue sources which are restricted to expenditures for specified purposes as designated by grantors, contributors, by vote of citizens, or governmental entities over state or local program grants.
- b. Committed Fund Balance – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. Examples include, but are not specifically limited to, council action regarding construction, claims, and judgments, retirement of loans/notes payable, and capital expenditures. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
- c. Assigned Fund Balance – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. The City has delegated to the City Manager the ability to determine and define the amounts of those components of fund balance that are classified as Assigned. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Nature and Purpose of Reservations and Designations of Fund Equity – Continued

- d. Unassigned Fund Balance – Includes the residual classification of the General Fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Estimates

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

NOTE 2. CASH AND INVESTMENTS

Cash and investments as of September 30, 2013 consist of the following:

Deposits with financial institutions	\$ 11,272,068
Certificates of deposit	<u>2,463,715</u>
	<u><u>\$ 13,735,783</u></u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in certificates of deposit which purchase a combination of shorter term investments with an average maturity of less than 30 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Certificates of deposit	\$ 2,463,715	181 days

As of September 30, 2013 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2013</u>
Certificates of deposit	\$ 2,463,715	N/A	N/A

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2013, other than certificates of deposit, the City did not have 5% or more of its investments with one issuer.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

At September 30, 2013, the carrying amount of the City's cash on hand and deposits was \$11,272,068 and the bank balance was \$11,251,634. The full bank balance was covered by \$250,000 in depository insurance under the FDIC and \$15,319,958 in pledged securities in the City's name.

NOTE 3. RESTRICTED ASSETS

Restricted assets are held for the following purposes in accordance with bond ordinances or other legal restrictions for the Proprietary Fund as follows:

Debt service - interest and sinking fund	\$ 1,222,245
Capital improvements	6,107,025
Refundable utility deposits	<u>337,603</u>
	<u><u>\$ 7,666,873</u></u>

Restricted assets are held for the following purposes in accordance with bond ordinances or other legal restrictions for the Governmental Funds as follows:

Debt service	\$ 56,567
Capital improvements	715,176
Economic and community development	<u>1,444,388</u>
	<u><u>\$ 2,216,131</u></u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	Balance October 1, 2012	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2013
Governmental activities				
Capital assets not being depreciated				
Land	\$ 862,307	\$ 44,000	\$ -	\$ 906,307
Construction in progress	272,385	144,891	(374,505)	42,771
Total capital assets not being depreciated	1,134,692	188,891	(374,505)	949,078
Capital assets being depreciated				
Infrastructure	10,550,634	-	368,791	10,919,425
Buildings and improvements	7,120,825	167,227	(213,569)	7,074,483
Machinery and equipment	2,493,539	145,868	(129,208)	2,510,199
Total capital assets being depreciated	20,164,998	313,095	26,014	20,504,107
Less accumulated depreciation				
Infrastructure	3,886,045	623,408	-	4,509,453
Buildings and improvements	937,297	322,649	(219,283)	1,040,663
Machinery and equipment	1,502,725	238,964	(129,208)	1,612,481
Total accumulated depreciation	6,326,067	1,185,021	(348,491)	7,162,597
Total capital assets being depreciated, net	13,838,931	(871,926)	374,505	13,341,510
Net governmental activities capital assets	<u>\$ 14,973,623</u>	<u>\$ (683,035)</u>	<u>\$ -</u>	<u>\$ 14,290,588</u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS – CONTINUED

	Balance October 1, 2012	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2013
Business-type activities				
Capital assets not being depreciated				
Land	\$ 323,164	\$ -	\$ -	\$ 323,164
Construction in progress	291,414	153,355	(312,464)	132,305
Total capital assets not being depreciated	614,578	153,355	(312,464)	455,469
Capital assets being depreciated				
Infrastructure	22,112,636	-	298,471	22,411,107
Buildings and improvements	860,132	-	-	860,132
Machinery and equipment	1,599,309	143,717	(31,174)	1,711,852
Total capital assets being depreciated	24,572,077	143,717	267,297	24,983,091
Less accumulated depreciation				
Infrastructure	10,959,709	707,046	(13,993)	11,652,762
Buildings and improvements	216,804	52,239	-	269,043
Machinery and equipment	1,221,109	112,173	(31,174)	1,302,108
Total accumulated depreciation	12,397,622	871,458	(45,167)	13,223,913
Total capital assets being depreciated, net	12,174,455	(727,741)	312,464	11,759,178
Net business-type activities capital assets	<u>\$ 12,789,033</u>	<u>\$ (574,386)</u>	<u>\$ -</u>	<u>\$ 12,214,647</u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS – CONTINUED

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities	
General government	\$ 76,283
Public safety	100,289
Streets and sanitation	645,988
Fire and rescue	114,710
Court	385
Culture and recreation	<u>247,366</u>
Total governmental activities	<u>\$ 1,185,021</u>
Business-type activities	
Water	\$ 272,720
Sewer	229,781
Electric	351,051
Other	<u>17,906</u>
Total business-type activities	<u>\$ 871,458</u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. LONG-TERM DEBT

At September 30, 2013, the City's bonds and notes payable consisted of the following:

	<u>Governmental</u>	<u>Business-type</u>
\$6,500,000 Series 2006, Combination Tax and Revenue Certificates of Obligation, dated August 7, 2006, due in annual installments through 2022, bearing interest rates of 4% to 5%.	\$ 1,812,400	\$ 2,127,600
\$1,750,000 Series 2007, Combination Tax and Revenue Certificates of Obligation, dated June 15, 2007, due in annual installments through 2027, bearing interest at 4.4%.	469,200	910,800
\$3,200,000 Series 2009, Combination Tax and Revenue Certificates of Obligation, dated July 30, 2009, due in annual installments through 2026, bearing interest rates of 3% to 4.75%.	2,615,000	-
\$3,495,000 Series 2012, General Obligation Refunding, dated March 20, 2012, due in annual installments through 2021, bearing interest rates of 2% to 3%.	1,331,000	1,694,000
\$4,260,000 Series 2013, Combination Tax and Revenue Certificates of Obligation, dated June 17, 2013, due in annual installments through 2033, bearing interest rates of 2% to 3.7%.	511,200	3,748,800
Note payable to a financial institution in monthly installments of \$5,106 including interest at 4.6%, due June 5, 2024, secured by property financed.	516,816	-
Premium on bonds	74,582	335,281
Discount on bonds	(21,209)	(21,209)
	<u>\$ 7,308,989</u>	<u>\$ 8,795,272</u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. LONG-TERM DEBT – CONTINUED

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2013:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due within One Year
Governmental activities					
Compensated absences	\$ 110,404	\$ 84,064	\$ (99,400)	\$ 95,068	\$ 48,593
Notes payable	553,391	-	(36,575)	516,816	38,294
Certificates of obligation	6,768,800	511,200	(541,200)	6,738,800	575,000
Capital leases	340,119	-	(102,755)	237,364	99,163
Premium on bonds	39,503	41,746	(6,667)	74,582	6,667
Discount on bonds	(23,860)	-	2,651	(21,209)	(2,652)
Total governmental activities	7,788,357	637,010	(783,946)	7,641,421	765,065
Business-type activities					
Compensated absences	67,973	95,214	(98,652)	64,535	39,014
Revenue bonds	5,221,200	3,748,800	(488,800)	8,481,200	635,000
Capital leases	370,401	-	(198,534)	171,867	94,748
Premium on bonds	50,277	306,141	(21,137)	335,281	21,136
Discount on bonds	(23,860)	-	2,651	(21,209)	(2,652)
Total business-type activities	5,685,991	4,150,155	(804,472)	9,031,674	787,246
Total primary government	<u>\$ 13,474,348</u>	<u>\$ 4,787,165</u>	<u>\$ (1,588,418)</u>	<u>\$ 16,673,095</u>	<u>\$ 1,552,311</u>

The City issues general obligation bonds, which are direct obligations of the City and pledge the full faith and credit of the City.

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund.

General obligation bonds issued for governmental activity purposes are liquidated by the debt service fund. Notes payable issued for governmental activity purposes are liquidated by the General Fund. Revenue bonds and notes payable issued for business-type activities are repaid from those activities.

As of September 30, 2013, the City had \$3,080,000 of bonds outstanding that are considered defeased.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. LONG-TERM DEBT – CONTINUED

The annual requirements to amortize all debts outstanding as of September 30, 2013, are as follows:

Revenue Bonds Due Fiscal Year Ending September 30	Business-Type Activities		Total
	Principal	Interest	
2014	\$ 635,000	\$ 325,546	\$ 960,546
2015	664,700	298,289	962,989
2016	681,600	279,055	960,655
2017	663,600	254,352	917,952
2018	678,900	232,536	911,436
2019-2023	2,636,200	817,039	3,453,239
2024-2028	1,289,200	481,562	1,770,762
2029-2033	1,232,000	190,520	1,422,520
	<u>\$ 8,481,200</u>	<u>\$ 2,878,899</u>	<u>\$ 11,360,099</u>

Certificates of Obligation Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2014	\$ 575,000	\$ 261,548	\$ 836,548
2015	595,300	241,929	837,229
2016	613,400	222,888	836,288
2017	601,400	199,221	800,621
2018	616,100	176,997	793,097
2019-2023	2,538,800	537,802	3,076,602
2024-2028	1,030,800	149,440	1,180,240
2029-2033	168,000	25,980	193,980
	<u>\$ 6,738,800</u>	<u>\$ 1,815,805</u>	<u>\$ 8,554,605</u>

Notes Payable Due Fiscal Year Ending September 30	Governmental Activities		Total
	Principal	Interest	
2014	\$ 38,368	\$ 22,898	\$ 61,266
2015	40,171	21,094	61,265
2016	42,058	19,209	61,267
2017	44,034	17,233	61,267
2018	46,103	15,164	61,267
2019-2023	265,114	41,221	306,335
2024	40,968	672	41,640
	<u>\$ 516,816</u>	<u>\$ 137,491</u>	<u>\$ 654,307</u>

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. CAPITAL LEASE OBLIGATIONS

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total capitalized cost of approximately \$948,989 and an amortized value of approximately \$670,201 at September 30, 2013. Amortization expense has been included in depreciation expense for the year ended September 30, 2013.

The following is a schedule of future minimum payments under the capital leases together with the present value of the net minimum lease payments as of September 30, 2013:

2014	\$	211,451
2015		187,149
2016		36,946
		435,546
Less amount representing interest		26,315
Present value of net minimum lease payments	\$	409,231

NOTE 7. PENSION PLAN

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. The report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. PENSION PLAN – CONTINUED

Plan Description – Continued

in the statutes. Plan provisions for the City are as follows:

Deposit rate	6%
Matching ratio (City to employee)	2-1
A member is vested after	5 years
Updated service credit	100% repeating, transfers
Annuity increase (to retirees)	0% of CPI repeating

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, and City-financed monetary credits, both with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions.

In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are 5 years at 60 years of age or 20 years at any age.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. PENSION PLAN – CONTINUED

Contributions – Continued

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2012 valuation is effective for rates beginning January 2014). The annual pension cost is \$196,672 for the year ended September 30, 2013, and there is no net pension obligation as of September 30, 2013.

Trend information for the past three years for TMRS is as follows:

Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Actual Amount of APC Contributed	Net Pension Obligation
2011	\$ 217,754	100%	\$ 217,754	\$ -
2012	191,163	100%	191,163	-
2013	196,672	100%	196,672	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	22.7 years; closed period	21.8 years; closed period	21.1 years; closed period
Amortization Period For New Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at cost of living adjustments	3.0% 0.0%	3.0% 0.0%	3.0% 0.0%

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. PENSION PLAN – CONTINUED

Contributions – Continued

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a percentage of Covered Payroll
12/31/12	\$ 5,179,812	\$ 5,465,145	94.8%	\$ 285,333	\$ 2,626,335	10.9%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

NOTE 8. COMMITMENTS

The City entered into a three year contract in 2009 with the AEP Energy Partners, Inc. for the delivery of electricity. During 2012, this contract was extended for an additional seven years to expire in 2019. Payments under this contract are based on meter readings charged per month.

The City had outstanding encumbrances totaling \$863,218 as of September 30, 2013.

At September 30, 2013, the City was committed to several long-term design and construction projects. The General Fund and Enterprise Fund were contractually committed to \$259,127 and \$300,961, respectively, under these contracts.

NOTE 9. RENTAL INCOME

On March 1, 2012, the City entered into a non-cancelable lease agreement with a corporation of which a city council member is a principal member of management. The leased property is owned by the 4A Fund and has a cost \$1,083,797 with accumulated depreciation of \$138,065 as of September 30, 2013. The lease provides for a base rent and an adjustment each year related to excess operating expenses (if any) incurred annually. During the year ended September 30, 2013, the City received \$78,677 in rental

**CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. RENTAL INCOME – CONTINUED

revenue. Minimum future rentals on non-cancelable tenant operating leases at September 30, 2013 are as follows for fiscal years ending September 30:

2014	\$	78,667
2015		45,889
Future minimum rentals	\$	124,556

NOTE 10. INTERFUND BALANCES AND TRANSFERS

The 4A Fund owes the General Fund \$20,518 at September 30, 2013. The interfund balance is related to a budgeted transfer for payment of administrative costs, and is to be repaid or collected in the normal course of business, within one year of the fiscal year-end.

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Transfers In	Transfers Out	Amount
General fund	4A fund	\$ 20,500
General fund	4B fund	20,500
General fund	Debt service fund	110,000
General fund	Enterprise fund	392,000
Capital projects fund	Enterprise fund	638,497
Capital projects fund	4B fund	4,500
Debt service fund	4B fund	180,000
Enterprise fund	4A fund	300,000
Enterprise fund	Capital projects fund	206,507
		\$ 1,872,504

Transfers are primarily used to move funds from:

- 4A and 4B funds to the general fund for payment of administrative costs.
- Debt service fund to the general fund for reimbursements of lease payments made by the fire department for an ambulance and brush truck.
- Enterprise fund to the general fund budgeted to support ongoing operations.
- Enterprise fund to the capital projects fund budgeted to support ongoing capital projects and for bond reserves released by 2012 refunding.
- 4B fund to the capital projects fund for reimbursement of reconstruction of a brick sidewalk in a downtown park.
- 4B fund to the debt service fund to service the debt related to the 4B fund.
- 4A fund to the enterprise fund to reimburse for project costs.
- Capital projects fund to the enterprise fund to transfer the sewer CIP reserve.

CITY OF SANGER, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 11. 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; injuries to employees; and natural disasters. The City insures its buildings and contents, law enforcement liability, public officials' liability, general liability and auto liability under a renewable one year policy with the Texas Municipal League. The City insures its workers compensation risk by participating in the Texas Municipal League Intergovernmental Risk Pool which is a self-insurance policy mechanism for political subdivisions in Texas. Rates are set by the State Insurance Board. Each participant's contribution to the pool is adjusted based on its workers' compensation history. The City is responsible only to the extent of premiums paid and contributions made to Texas Municipal League and the Intergovernmental Risk Pool. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in each of the past three fiscal years.

NOTE 12. CONDUIT DEBT

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

The total amount outstanding on all of the notes payable is \$228,307,732 as of September 30, 2013. 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.

NOTE 13. PLEDGED REVENUES

The City has pledged revenues derived from the operation of the utility system, net of operating and maintenance expenses, to repay \$8,970,000 in utility revenue bonds. The total amount of outstanding principal as of September 30, 2013 was \$8,481,200. Proceeds from the bonds provided financing for improvements to the utility system, as well as refunding \$1,900,000 in bonds. The bonds are payable solely from the net earnings of the utility system and are payable through 2033. The total principal and interest remaining to be paid on the bonds is \$11,360,099. Principal and interest paid for the current year and net utility system revenues were \$674,326 and \$1,316,658, respectively.

NOTE 14. PRIOR PERIOD ADJUSTMENT

As discussed in Note 1, the City has elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In accordance with this statement, the City has written off all previously capitalized debt issue costs and adjusted the impact through beginning net position as shown on the Statement of Activities and the Statement of Revenues, Expenses, and Changes in Net Position. These costs total \$296,960 in the governmental activities and \$99,504 in the business-type activities. All current and future debt issue costs will be expensed in the period incurred.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SANGER, TEXAS
 SCHEDULE OF FUNDING PROGRESS FOR
 PARTICIPATION IN TEXAS MUNICIPAL RETIREMENT SYSTEM
 YEAR ENDED SEPTEMBER 30, 2013**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/10	\$ 4,202,344	\$ 4,663,669	90.1%	\$ 461,325	\$ 2,454,429	18.8%
12/31/11	4,691,607	5,122,534	91.6%	430,927	2,662,684	16.2%
12/31/12	5,179,812	5,465,145	94.8%	285,333	2,626,335	10.9%

CITY OF SANGER, TEXAS
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amount	Variance with Final Budget Over / (Under)
	Original	Final		
Revenues				
Property taxes	\$ 1,815,000	\$ 1,815,000	\$ 1,755,838	\$ (59,162)
Sales taxes	603,500	603,500	631,812	28,312
Licenses and permits	86,210	86,210	94,934	8,724
Charges for services	676,900	676,900	785,922	109,022
Fire and rescue	466,500	466,500	530,810	64,310
Court	248,112	248,112	168,666	(79,446)
Franchise taxes	582,600	582,600	554,782	(27,818)
Intergovernmental revenues	120,600	120,600	133,427	12,827
Interest	5,500	5,500	1,200	(4,300)
Miscellaneous revenues	11,300	11,300	23,435	12,135
Total revenues	4,616,222	4,616,222	4,680,826	64,604
Expenditures				
Current				
General government	770,445	770,445	658,870	(111,575)
Public safety	1,059,591	1,239,591	1,478,058	238,467
Streets and sanitation	879,563	879,563	899,067	19,504
Fire and rescue	917,110	917,110	816,965	(100,145)
Court	210,193	210,193	201,942	(8,251)
Culture and recreation	709,985	709,985	434,364	(275,621)
Principal	-	-	102,755	102,755
Interest and other	-	-	4,240	4,240
Capital outlay	410,530	410,530	357,095	(53,435)
Total expenditures	4,957,417	5,137,417	4,953,356	(184,061)
Excess (deficiency) of revenues over expenditures	(341,195)	(521,195)	(272,530)	248,665
Other financing sources (uses)				
Proceeds on sale of assets	-	-	31,028	31,028
Operating transfers in	351,000	531,000	543,000	12,000
Operating transfers out	-	-	-	-
Total other financing sources (uses)	351,000	531,000	574,028	43,028
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	9,805	9,805	301,498	291,693
FUND BALANCE, beginning of year	773,397	773,397	773,397	-
FUND BALANCE, end of year	\$ 783,202	\$ 783,202	\$ 1,074,895	\$ 291,693

CITY OF SANGER, TEXAS
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2013

Annual budgets are legally adopted for the General Fund.

The City adopts an “appropriated budget” of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

SUPPLEMENTARY INFORMATION

**CITY OF SANGER, TEXAS
COMBINING SCHEDULE OF REVENUES AND EXPENSES
PROPRIETARY FUND BY DEPARTMENT
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Water</u>	<u>Sewer</u>
OPERATING REVENUES		
Charges for services	\$ 1,257,688	\$ 1,091,208
Connection fees	-	-
Tap fees	170,300	226,000
Miscellaneous	-	-
	<u>1,427,988</u>	<u>1,317,208</u>
OPERATING EXPENSES		
Salaries and wages	268,930	124,606
Purchased professional and technical services	19,293	5,034
Utilities	155,975	165,261
Materials and supplies	13,136	11,752
Water and electric purchases	246,913	-
Franchise fees	-	-
Depreciation	290,627	229,780
Repairs and maintenance	314,312	167,145
Bad debt expense	8,976	5,292
	<u>1,318,162</u>	<u>708,870</u>
Operating income (loss)	109,826	608,338
NONOPERATING REVENUES (EXPENSES)		
Transfers in	-	-
Transfers out	-	-
Fiscal agent fees and debt issue costs		
Interest and investment income	-	-
Interest and amortization expense	(57,983)	(33,729)
	<u>(57,983)</u>	<u>(33,729)</u>
Total nonoperating revenues (expenses)	<u>(57,983)</u>	<u>(33,729)</u>
CHANGE IN NET POSITION	<u>\$ 51,843</u>	<u>\$ 574,609</u>

<u>Electric</u>	<u>Fleet Services</u>	<u>Administration</u>	<u>Data Processing</u>	<u>Total</u>
\$ 7,685,974	\$ -	\$ 945	\$ -	\$ 10,035,815
62,527	-	-	-	62,527
-	-	-	-	396,300
-	-	59,166	-	59,166
7,748,501	-	60,111	-	10,553,808
496,341	51,338	229,456	250,808	1,421,479
55,781	1,594	56,291	59,144	197,137
10,754	4,239	4,857	5,101	346,187
28,841	4,677	11,219	29,532	99,157
4,929,097	-	-	-	5,176,010
387,288	-	-	-	387,288
351,051	-	-	-	871,458
181,005	7,314	7,804	18,878	696,458
27,708	-	-	-	41,976
6,467,866	69,162	309,627	363,463	9,237,150
1,280,635	(69,162)	(249,516)	(363,463)	1,316,658
-	-	506,507	-	506,507
-	-	(1,030,497)	-	(1,030,497)
-	-	(83,530)	-	(83,530)
-	-	15,630	-	15,630
(85,672)	-	-	-	(177,384)
(85,672)	-	(591,890)	-	(769,274)
<u>\$ 1,194,963</u>	<u>\$ (69,162)</u>	<u>\$ (841,406)</u>	<u>\$ (363,463)</u>	<u>\$ 547,384</u>

**CITY OF SANGER, TEXAS
ANALYSIS OF PROPERTY TAXES RECEIVABLE
YEAR ENDED SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR
FOUR YEARS PRIOR**

	Fiscal Year				
	2013	2012	2011	2010	2009
Adjusted tax roll	\$ 2,467,788	\$ 2,311,086	\$ 2,330,034	\$ 2,256,987	\$ 2,308,903
Less collections	<u>2,443,986</u>	<u>2,280,947</u>	<u>2,276,461</u>	<u>2,216,114</u>	<u>2,256,275</u>
Current year property taxes receivable	23,802	30,139	53,573	40,873	52,628
Prior year property taxes receivable	<u>101,158</u>	<u>111,435</u>	<u>86,871</u>	<u>79,796</u>	<u>74,407</u>
Total property taxes receivable, gross (1)	<u>\$ 124,960</u>	<u>\$ 141,574</u>	<u>\$ 140,444</u>	<u>\$ 120,669</u>	<u>\$ 127,035</u>
Total assessed property value	\$ 385,693,484	\$ 365,072,180	\$ 359,484,787	\$ 364,030,183	\$ 341,028,251
Tax rate per \$100	\$ 0.63305	\$ 0.63305	\$ 0.63305	\$ 0.62000	\$ 0.62000
Percent of current taxes collected to billed	99.04%	98.70%	97.70%	98.19%	97.72%

(1) before deducting allowance for doubtful accounts