

OFFICIAL STATEMENT

Dated: June 28, 2019

NEW ISSUE: Book-Entry-Only

**S&P Rating “AA”
(See “RATINGS” herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS.”

**THE BONDS HAVE BEEN DESIGNATED
AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.**

**\$1,535,000
CITY OF SANGER, TEXAS
(Denton County)
General Obligation Refunding Bonds, Series 2019**

Dated Date: July 1, 2019

Due: August 1, as shown on inside cover

PAYMENT TERMS... Interest on the \$1,535,000 City of Sanger, Texas, General Obligation Refunding Bonds, Series 2019 (the “Bonds”), will accrue from their delivery date to the underwriter listed below (the “Underwriter”) and will be payable February 1 and August 1 of each year, commencing on February 1, 2020. The Bonds will be issued only in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable to the registered owner (the “Owner”) at maturity or prior redemption upon presentation at the principal corporate office of the paying agent/registrar (the “Paying Agent/Registrar”), initially UMB Bank, N.A., Austin, Texas. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interests in the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

PURPOSE... Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the “Refunded Obligations”) for debt service savings and to pay the costs associated with the issuance of the Bonds. See “THE BONDS – Sources and Uses of Funds” herein.

REDEMPTION... The Bonds are not subject to redemption prior maturity. See “THE BONDS – Optional Redemption” herein.

SECURITY AND SOURCE OF PAYMENT... The Bonds will constitute direct obligations of the City of Sanger, Texas (the “City”), payable from ad valorem taxes levied against all taxable property within the City within the limits prescribed by law as provided in the ordinance authorizing the Bonds.

See Principal Amounts, Maturities, Interest Rates, and Prices on the Inside Cover Page

LEGALITY... *The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and Orrick, Herrington & Sutcliffe LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed upon for the Underwriter by its counsel, Naman Howell Smith & Lee, PLLC, Austin, Texas.*

DELIVERY... *The Bonds are expected to be available for delivery to the Underwriter through DTC on or about August 1, 2019.*

OPPENHEIMER & CO.

MATURITY SCHEDULE

\$1,535,000 General Obligation Refunding Bonds, Series 2019

CUSIP No.^(c) Prefix 800876

Maturity (8/1)^(a)	Principal Amount	Interest Rate	Initial Yield^(b)	Price^(b)	CUSIP^(c)
2020	\$200,000	2.000%	1.470%	100.524	GK4
2021	200,000	4.000%	1.520%	104.867	GL2
2022	210,000	4.000%	1.590%	107.033	GMO
2023	220,000	4.000%	1.640%	109.100	GN8
2024	225,000	4.000%	1.710%	110.929	GP3
2025	235,000	4.000%	1.820%	112.338	GQ1
2026	245,000	2.000%	1.900%	100.652	GR9

(a) The Bonds are not subject to redemption prior to maturity. (See “THE BONDS – Optional Redemption”).

(b) The initial yields and prices are established by, and are the sole responsibility of the Underwriter and may subsequently be changed.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by Standard and Poor’s Financial Services LLC on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the City, the Financial Advisor, nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF SANGER, TEXAS

CITY COUNCIL

Thomas Muir	Mayor
Marissa Barrett	Councilmember, Place 1
Gary Bilyeu	Councilmember, Place 2
Dennis Dillon	Councilmember, Place 3
Allen Chick	Councilmember, Place 4
David Clark	Councilmember, Place 5

ADMINISTRATIVE OFFICERS

Alina Ciocan	City Manager
Cheryl Price	City Secretary
Robert Dillard III, Esq. Nichols Jackson Dillard Hager & Smith Dallas, Texas	City Attorney

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Orrick, Herrington & Sutcliff LLP, Houston, Texas	Bond Counsel
Brooks Watson & Co., Houston, Texas	Independent Auditor
Government Capital Securities Corporation, Southlake, Texas	Financial Advisor

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USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPTED FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Underwriter, Oppenheimer & Co., has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Neither the City, the Financial Advisor nor the Underwriter make any representation as to the accuracy, completeness or adequacy of the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the schedules and appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Appendices hereto.

The Issuer	The City of Sanger, Texas (the “City”), is located in Denton County, Texas. For information regarding the City, see Appendices A and B.
The Bonds	\$1,535,000 General Obligation Refunding Bonds, Series 2019, dated July 1, 2019, maturing on the dates and in the amounts set forth on the inside front cover of this Official Statement. Interest on the Bonds will accrue from their date of delivery and will be paid semiannually on February 1 and August 1, commencing February 1, 2020, until maturity or prior redemption.
Purpose of Bonds	Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the “Refunded Obligations”) for debt service savings and to pay the costs associated with the issuance of the Bonds. See “THE BONDS – Sources and Uses of Funds” herein.
Authorization and Security	The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds and a pricing certificate executed pursuant thereto. The Bonds are payable from ad valorem taxes to be levied, within the limits prescribed by law, on all taxable property within the City as provided in the ordinance authorizing the Bonds.
Optional Redemption	The Bonds are not subject to redemption prior to maturity. See “THE BONDS – Optional Redemption” herein.
Tax Exemption	In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.
Qualified Tax Exempt Obligations	The City will designate the Bonds as “qualified tax-exempt obligations”. (See “TAX MATTERS – PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS” herein.)
Ratings	S&P Global Ratings, a Standard and Poor’s Financial Services LLC business (“S&P”) has assigned a rating of “AA” to the Bonds. An explanation of the significance of such rating may be obtained from S&P. See “RATINGS” herein.
Book-Entry-Only System	The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.
Payment Record	The City has never defaulted on the payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION
(Unaudited)

2018 Certified Taxable Assessed Valuation..... (100% of Market Value as of January 1, 2018)	\$642,998,443 ^(a)
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City Debt:

Outstanding Tax Supported Debt (as of June 1, 2018).....	\$23,240,000 ^(b)
Plus: The Bonds.....	\$1,535,000
Less: The Refunded Obligations.....	\$1,575,000
Total Tax Supported Debt.....	\$23,200,000

Debt Service Fund Balance (as of Sept. 30, 2018).....	\$455,935
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	% of 2018 Assessed <u>Valuation</u>	2018 Per Capita <u>(3,684)</u>
Debt Ratios:		
Direct Tax Supported Debt.....	3.61%	\$6,296

2018 Tax Rate (per \$100 of Assessed Valuation)

Maintenance and Operation.....	\$0.5710
Debt Service	\$0.1081
Total	\$0.6791

Estimated Annual Debt Service Requirements.....

Average.....	\$ 1,781,186
Maximum (2022).....	\$ 2,626,795

Tax Collections

Tax Year 2017 (fiscal year ending September 30, 2018).....	99.49%
Total Collections.....	99.49%

- (a) Provided by the Denton County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to changes as additions, corrections and deletions are made to the tax roll.
- (b) Includes self-supporting debt.

**OFFICIAL STATEMENT
RELATING TO

\$1,535,000
CITY OF SANGER, TEXAS
(Denton County)
General Obligation Refunding Bonds, Series 2019
INTRODUCTORY STATEMENT**

This Official Statement, which includes the cover page, the schedules and the appendices hereto, provides certain information regarding the issuance by the City of Sanger, Texas (the “City”) of \$1,535,000 General Obligation Refunding Bonds, Series 2019 (the “Bonds”).

The Bonds will be authorized to be issued, sold and delivered by an ordinance enacted by the City’s governing body (the “City Council”) and the pricing certificate executed pursuant thereto (collectively the “Ordinance”). Capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Ordinance, except as otherwise indicated herein.

The City is a political subdivision of the State of Texas (the “State”) and a municipal corporation organized and existing under the laws of the State. For information regarding the City, see Appendices A and B of this Official Statement.

All financial and other information presented in this Official Statement has been provided by the City, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue to be repeated in the future.

THE BONDS

Purpose

Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the “Refunded Obligations”) for debt service savings and to pay the costs associated with the issuance of the Bonds. See “THE BONDS – Sources and Uses of Funds” herein.

Authorization

The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds and a pricing certificate executed pursuant thereto.

Security for the Bonds

The Bonds are payable from ad valorem taxes to be levied and collected, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance.

Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:

Par Amount of the Bonds	\$1,535,000.00
Plus: Original Issue Premium	100,753.25
Total Sources of Funds	<u>\$1,635,753.25</u>

Uses of Funds

Deposit with the Paying Agent for Refunded Obligations	\$1,575,196.18
Underwriter's Discount and Issuance Costs ^(a)	57,213.00
Deposit to Interest and Sinking Fund	<u>3,344.07</u>
Total Uses of Funds	<u>\$1,635,753.25</u>

GENERAL INFORMATION REGARDING THE BONDS

General Description

The Bonds will be dated July 1, 2019 (the "Dated Date"), and will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest from the date of delivery to the underwriter listed on the cover page hereof (the "Underwriter"), and interest will be paid semiannually on each February 1 and August 1, commencing February 1, 2020. Interest will accrue on the Bonds on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as book-entry only securities pursuant to arrangements made with The Depository Trust Company, New York, New York. See "BOOK-ENTRY-ONLY SYSTEM."

Principal of the Bonds will be payable to the registered owners (the "Owners") at maturity or prior redemption upon presentation and surrender of such Bonds at the principal corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially UMB Bank, N.A., Austin, Texas. Interest on the Bonds will be payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to Owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment" herein), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on a Bond shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will mature on the dates, in the amounts and bear interest at the rates as set forth on inside cover page of this Official Statement.

Legality

The Bonds are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel. (See "LEGAL MATTERS" and Appendix C – "Form of Opinion of Bond Counsel").

Defeasance

The Ordinance provides that the City may defease the Bonds and discharge its obligation to the holders of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including

by depositing with the Registrar or with the Comptroller of the State of Texas either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity or redemption; or (b) pursuant to an escrow or trust agreement, cash and/or (i) direct noncallable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, which, in the case of (i), (ii), or (iii), may be in book entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Ordinance. Any surplus amount not required to accomplish such defeasance shall be returned to the City.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

Amendments to the Ordinance

In the Ordinance, the City has reserved the right to amend such Ordinance without the consent of any holder of the Bonds in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, defect or omission therein.

The Ordinance further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

OWNERSHIP

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

OWNER'S REMEDIES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Ordinance. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor, and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct

Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest, and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will

be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities depository). In that event, physical Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only System and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

UMB Bank, N.A., Austin, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank; a trust company organized under applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal, interest, and redemption payments on the Bonds will be made as described in "BOOK-ENTRY ONLY SYSTEM" above.

Future Registration

In the event the book-entry only system should be discontinued, printed Bonds will be delivered to the Owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the

new registered Owner at the Owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered Owner or assignee of the Owner after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be of like kind and in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in the settlement and transfer of the Bonds.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date is the close of business on the 15th day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least 5 days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond, or any portion thereof, called for redemption prior to maturity within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement of Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfactory to them that such Bond has been destroyed, stolen or lost and proof of the ownership thereof and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the City is the responsibility of the Denton County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a resident homestead to be based solely on the property's value as a resident homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value for the most recent tax year in which market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, plus (b) the property's appraised value for the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review

the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the Texas Constitution ("Article VIII") and Texas law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Under Article VIII and State law, the city council of a City may take action to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled persons or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the City chose to establish the above referenced limitation. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. Such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

In addition to any other exemptions provided by the Texas Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Texas law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse and children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; Section 11.131 of the Texas Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. A partially disabled veteran or certain surviving spouses of partially disabled veteran are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization; this exemption also applies to a residence homestead that was donated by a charitable organization at some costs to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm, ranch or wildlife management purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Tangible personal property not producing income, except for manufactured homes, is exempt from ad valorem taxation unless the governing body of the political subdivision elects to tax such property. In addition, an individual is entitled to an exemption from taxation of one passenger car or light truck used in the course of the individual's occupation or profession if it is also used for personal activities that do not produce income.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit". Section 11.253 of the Texas Tax Code defines "goods-in-transit" as personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. Section 11.253 of the Texas Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the Freeport property exemptions or the goods-in-transit exemptions for items of personal property.

The City may create tax increment financing zones, under which the tax values on property in the zone are “frozen” at the value of the property at the time of creation of the zone. Tax revenues collected on values above the “frozen” value must be deposited in a tax increment fund for the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn exempts from taxation all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code (“Chapter 380”) to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public funds for economic development purposes; however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual’s spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The City can make no representations or predictions concerning the impact such tax limitation would have on the City’s tax rate, financial condition or ability to make debt service payments.

Effective Tax Rate And Rollback Tax Rate

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate.” Effective 2005, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“Effective tax rate” means the rate that will produce last year’s total tax levy (adjusted) from this year’s total taxable values (adjusted). “Adjusted” means lost values are not included in the calculation of last year’s taxes and new values are not included in this year’s taxable values.

“Rollback tax rate” means the rate that will produce last year’s maintenance and operation tax levy (adjusted) from this year’s values (adjusted) multiplied by 1.08 plus a rate that will produce this year’s debt service from this year’s values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

2019 Legislation Affecting Ad Valorem Taxation

The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda. The Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda.

During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District's operations and financial condition.

SB 2 was signed into law by the Governor on June 12, 2019.

SB 2 includes provisions that address the following goals as described by the Texas Senate Research Center: (1) lowering the rollback rate for maintenance and operations taxes from the existing 8.0% for the largest taxing units in the State (but this provision does not apply to school districts); (2) requiring a tax ratification election if the rollback rate is exceeded, eliminating the petition requirement in current statute; (3) making information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) making it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted.

The District cannot predict whether the Governor will call one or more special sessions to address other property tax reforms not included in SB 2.

The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The District can make no representations or predictions regarding legislation that may pass during future sessions of the Legislature.

Property Assessment And Tax Payment

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

Penalties And Interest

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

City Application of Property Tax Code

The City grants an exemption of \$30,000 of the market value of the residence homestead for persons 65 years of age or older and an exemption of \$20,000 of the market value of the residence homestead for persons that are disabled. See Appendix A – Table 1 for a listing of the total amount of these exemptions.

The City does not grant an additional exemption for residence homesteads.

The City taxes only business personal property.

The County Tax Collector collects property taxes for the City. The County does not permit split payments and does not allow discounts.

The City grants the Article VIII, Section 1-j ("freeport property") and does have Article VIII, Section 1-j property.

The City has adopted an abatement policy and has two outstanding abatement agreements which were executed in 2018. Both projects are ongoing and abatements will begin upon successful completion. Each agreement provides for the abatement of a percentage of real and personal property taxes for a period of seven years after completion of the respective projects.

Municipal Sales Tax

The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales tax revenues to be generated in the current year. Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$1.50 per \$100 taxable assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 for all general obligation debt service, as calculated at the time of issuance.

RETIREMENT PLAN

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System, an agent multi-employer public employee retirement system. For a discussion of the Retirement Plan, see Appendix D “Audited Financial Statements for the Fiscal Year Ended September 30, 2018.”

INVESTMENT POLICIES

Accounting Principles Generally Accepted in the United States

The City policy is to adhere to accounting principles generally accepted in the United States (see Appendix D “Audited Financial Statements for the Fiscal Year Ended September 30, 2018”).

Legal Investments

Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) Bonds of deposit and share Bonds meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that has its main office or a branch office in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in Bonds of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the Bonds of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the Bonds of deposit issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined

termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from City Council.

Additional Provisions

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

As of September 30, 2018, the City's investment portfolio was invested in the following categories. As of such date, the market value of such investments was approximately 100% of their book value.

<u>Type of Investment</u>	<u>Amount</u>
Certificates of Deposit	\$1,255,091
Total	\$1,255,091

RATINGS

S&P Global Ratings, a Standard and Poor's Financial Services LLC business, ("S&P") has assigned a rating of "AA" to the Bonds. An explanation of the significance of such ratings may be obtained from S&P. The rating reflects only the view of S&P and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Neither the Underwriter nor the City has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

PENDING LITIGATION

The State of Texas' Environmental Agency (TCEQ) is pursuing an enforcement action against the City of Sanger to address wastewater compliance issues related to the City of Sanger's discharge permit. At present, the TCEQ is reviewing the City of Sanger's counterproposal that seeks to secure credit for the City's proactive response to previous wastewater compliance issues. The City anticipates resolution of the enforcement action without substantial ordering provisions in light of the City's ongoing commitment to compliance efforts and its substantial investments to improve and maintain the City's wastewater infrastructure.

Other than as set forth above, there is no material litigation currently pending against the City.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel to the effect that (i) the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding obligations of the City and (ii) the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions (see “TAX MATTERS”). Bond Counsel has not been engaged to investigate the financial resources of the City or its ability to provide for payment of the Bonds, and the opinion of Bond Counsel will make no statement as to such matters, or any other information that may have been relied on by anyone in making the decision to purchase the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will be printed on or attached to the definitive Bonds.

Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions “THE BONDS” (except the subcaption “Sources and Uses of Funds”), “GENERAL INFORMATION REGARDING THE BONDS,” “REGISTRATION, TRANSFER AND EXCHANGE,” “TAX INFORMATION – Tax Rate Limitations,” “LEGAL MATTERS,” “TAX MATTERS,” “LEGAL INVESTMENTS IN TEXAS,” “REGISTRATION AND QUALIFICATION OF ISSUE FOR SALE” and “CONTINUING DISCLOSURE OF INFORMATION” (except the subcaption “Compliance With Prior Undertakings”) fairly summarizes the procedures and documents referred to therein and is correct as to matters of law. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy, completeness, or fairness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy, completeness, or fairness of any of the information contained herein.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be

reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt Bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of Bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

LEGAL INVESTMENTS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality

by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF ISSUE FOR SALE

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration and qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included this Official Statement in Appendix A - Financial Information Regarding the City of Sanger, Texas (Tables 1-5) and in Appendix D. The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The City will also provide timely notices of certain events to the MSRB (not in excess of ten (10) days after the occurrence of the event). The City will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting

financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. (Neither the Bonds nor the Ordinance make any provision for debt service reserves, liquidity enhancement, or credit enhancement). In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and opening data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The City has complied in all material respects with its continuing disclosure agreements pursuant to the Rule during the past 5 years.

OTHER INFORMATION

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the City for certain information concerning the City and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Audited Financial Statements

Brooks Watson & Co., the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Brooks Watson & Co. relating to City's financial statements for the fiscal year ended September 30, 2018 is included in this Official Statement in APPENDIX D; however, Brooks Watson & Co. has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

Underwriting

Oppenheimer & Co., the Underwriter, has agreed to purchase the Bonds from the City for \$1,618,325.25 (being the principal amount of the Bonds, plus a net premium of 100,753.25, less an Underwriter's discount of \$17,428.00).

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligations to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Concluding Statement

The information set forth herein has been obtained from the City's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates

contained herein will ever be realized. All of the summaries of the statutes, documents and the Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The City has reviewed and approved the Official Statement and said instrument has been authorized for use and distribution by the Underwriter for the purpose of offering the Bonds.

/s/ Thomas Muir -
Mayor, City of Sanger, Texas

ATTEST:

/s/ Cheryl Price
Secretary, City of Sanger, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Series to be Refunded	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Combination Tax & Revenue Certificates of Obligation, Series 2009					
SERIAL	8/1/2020	4.000%	195,000	8/1/2019	100.000
TERM22	8/1/2022	4.375%	420,000	8/1/2019	100.000
TERM24	8/1/2024	4.500%	460,000	8/1/2019	100.000
TERM26	8/1/2026	4.750%	500,000	8/1/2019	100.000
			<u>\$1,575,000</u>		

APPENDIX A
FINANCIAL INFORMATION REGARDING
THE
CITY OF SANGER, TEXAS

FINANCIAL INFORMATION FOR THE CITY

ASSESSED VALUATION

TABLE 1

2018 Total Value of Taxable Property		\$727,031,047
Less Exemptions:		
Local, Optional Over-65 and/or Disabled Homestead Exemptions	\$ 13,046,031	
Disabled and Deceased Veterans' Exemptions	3,365,659	
Productivity Value Loss	34,634,612	
Homestead 10% Cap Adjustment	10,159,558	
Abatement	0	
Freeport	9,185,243	
Other	13,641,501	84,032,604
2018 Net Taxable Assessed Valuation (100% of Actual) ^(a)		<u>\$642,998,443</u>

^(a) See "TAX INFORMATION - City Application of the Property Tax Code" in the Official Statement for a description of the City's taxation procedures.

Source: Denton County Appraisal District

PRINCIPAL TAXPAYERS

TABLE 2

<u>Name</u>	<u>Type of Business</u>	<u>2018 Net Taxable Assessed Valuation</u>	<u>% of Total 2018 Assessed Valuation*</u>
Walmart Stores East, L.P.	Distribution	\$62,160,593	9.67%
Walmart Stores East, L.P.	Distribution	31,939,969	4.97%
DCM Sanger Property LLC	Real Estate	18,249,954	2.84%
Altec Capital Services, LLC	Financial Services	8,888,419	1.38%
Sam's East, Inc.	Distribution	6,216,110	0.97%
Maccamp LTD	RV Sales and Service	3,145,468	0.49%
Sam's Cross Dock	Distribution Center	3,099,896	0.48%
Springer Family Rentals LLC	Real Estate	3,043,738	0.47%
Springer Properties LLC	Real Estate	3,034,437	0.47%
Stonewood Resorts, LLC	Real Estate	<u>2,868,740</u>	<u>0.45%</u>
Total		<u>\$142,647,324</u>	<u>22.19%</u>

* Based on 2018 Net Taxable Assessed Valuation of \$642,998,443.

Source: Texas Comptroller of Public Accounts and Denton Central Appraisal District

PROPERTY TAX RATES AND COLLECTIONS^(a)TABLE 3

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Collection %		Fiscal Year Ended
			Current	Total^(a)	
2009	\$363,053,298	\$0.620000	97.78%	99.73%	9-30-10
2010	365,706,678	0.633049	97.70%	99.74%	9-30-11
2011	358,015,773	0.633049	98.69%	99.78%	9-30-12
2012	389,390,028	0.633049	99.20%	99.81%	9-30-13
2013	415,503,377	0.665000	99.80%	99.84%	9-30-14
2014	435,573,587	0.679500	99.27%	99.75%	9-30-15
2015	465,804,829	0.679500	99.21%	99.69%	9-30-16
2016	525,934,493	0.679500	99.23%	99.54%	9-30-17
2017	578,538,702	0.679100	99.49%	99.49%	9-30-18
2018	642,998,443	0.679100	In progress		9-30-19

^(a) See "TAX INFORMATION - The City Application of the Property Tax Code" in the Official Statement for a description of the City's taxation procedures.

^(b) Excludes interest and penalties.

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Denton County Appraisal District, and the City's 2018 Annual Financial Statements.

Note: Assessed Valuations may change during the year due to various supplements and protests, and valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

TAX RATE DISTRIBUTIONTABLE 4

	2018-19	2017-18	2016-17	2015-16	2014-15
Maintenance & Operations	\$0.57100	\$0.563531	\$0.513353	\$0.433353	\$0.418751
Dedicated for Street Maintenance	0.00000	0.00000	0.00000	0.080000	0.080000
I & S Fund	0.108100	0.115569	0.166147	0.166147	0.180749
TOTAL	\$0.679100	\$0.679100	\$0.679500	\$0.679500	\$0.679500

Source: The City

PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 5

Fiscal Year	Total	Less			
<u>30-Sept</u>	<u>Outstanding</u>	<u>Refunded</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>
	<u>Debt Service</u>	<u>Obligations</u>			<u>Service</u>
		<u>Debt Service</u>			
2019	\$ 2,358,570	\$ 268,225	\$ -	\$ -	\$ 2,626,795
2020	2,358,735	265,625	200,000	52,500	2,371,860
2021	2,356,380	267,825	200,000	48,500	2,375,705
2022	1,649,661	268,856	210,000	40,500	1,668,017
2023	1,648,685	269,450	220,000	32,100	1,666,035
2024	1,651,095	269,325	225,000	23,300	1,672,120
2025	1,646,205	268,750	235,000	14,300	1,665,655
2026	1,646,307	267,112	245,000	4,900	1,663,519
2027	1,649,345	-	-	-	1,649,345
2028	1,651,125	-	-	-	1,651,125
2029	1,646,200	-	-	-	1,646,200
2030	1,648,444	-	-	-	1,648,444
2031	1,648,200	-	-	-	1,648,200
2032	1,645,938	-	-	-	1,645,938
2033	1,646,456	-	-	-	1,646,456
2034	1,649,713	-	-	-	1,649,713
2035	1,648,656	-	-	-	1,648,656
2036	1,650,344	-	-	-	1,650,344
2037	1,648,400	-	-	-	1,648,400
TOTAL	\$33,448,459	\$2,995,168	\$1,535,000	\$216,100	\$33,842,527

APPENDIX B

**GENERAL INFORMATION REGARDING
THE CITY OF SANGER, TEXAS**

General

The City of Sanger, Texas (the “City”) is a residential community located on Interstate Highway 35 northeast of the Dallas-Fort Worth industrial area. The City’s close proximity to both Dallas and Fort Worth has been a significant factor in the City’s growth. According to the 2010 U.S. Census, the City’s 2010 population was 6,916. U.S. Census estimates indicate an estimated population of 7,747 as of September 30, 2016. The area continues to see a large influx of new residents each year and this trend is expected to continue for the foreseeable future. In addition to the City’s close proximity to Interstate Highway 35, the City also provides ready access to both rail transportation and developable industrial land.

The City offers access to several financial institutes, churches of various denominations and a wide variety of retail outlets. The public school system offers a low student to teacher ratio and the City currently has three daycare centers. The City is also located within minutes of Lake Ray Roberts, which provides a variety of sporting and outdoor activities. The local economy is gaining strength and the City has recently seen increases in both construction and sales tax.

Education

The City is served by the Sanger Independent School District. The District covers approximately 42 square miles in Denton County and serves the City and its surrounding rural areas. The District is comprised of one early childhood center for grades pre-kindergarten through kindergarten, one elementary school for grades first through third, one intermediate school for grades fourth through sixth, one junior high school for grades seventh through eighth, and one high school for grades ninth through twelfth. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level and are equipped with computers and cafeteria service.

Denton County

Denton County is located in north central Texas, encompassing 911 square miles, and was created in 1846 from Fannin County. The County is the third largest county of the nine counties comprising the Dallas-Fort Worth Consolidated Metropolitan Statistical Area. The County is traversed by Interstate Highway 35, US Highways 77, 377 and 380 and State Highways 114 and 121. The economy is diversified by manufacturing, state supported institutions and agriculture. According to the 2010 U.S. Census, the County’s 2010 population was 662,614.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

August 1, 2019

City of Sanger, Texas
General Obligation Refunding Bonds, Series 2019

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Sanger, Texas (the “City”) in connection with the issuance of \$1,530,000 aggregate principal amount of bonds designated as “City of Sanger, Texas General Obligation Refunding Bonds, Series 2019” (the “Bonds”). The Bonds are authorized by an ordinance adopted by the City Council (the “City Council”) on May 20, 2019 (the “Ordinance”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

In such connection, we have reviewed the Ordinance, the tax certificate of the City dated the date hereof (the “Tax Certificate”), certificates of the City, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice.

Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding obligations of the City.
2. The City Council has power and is obligated to levy an annual ad valorem tax, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

ANNUAL FINANCIAL REPORT

of the

City of Sanger, Texas

**For the Year Ended
September 30, 2018**

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City of Sanger, Texas

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September 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sanger, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.G. to the financial statements, due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. Our opinion is not modified with respect to this matter.SA

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
January 18, 2019

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

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City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

As management of the City of Sanger, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

Financial Highlights

- The City's total combined net position is \$40,225,842 at September 30, 2018. Of this, \$19,212,573 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$6,251,457, an increase of \$2,174,302.
- As of the end of the year, the unassigned fund balance of the general fund was \$4,420,906 or 76% of total general fund expenditures.
- The City had an overall increase in net position of \$7,507,345, which is due to revenues exceeding expenses for both governmental and business-type activities.

Overview of the Financial Statements

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

Government-Wide Statements

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

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

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

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2018

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

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

Proprietary Funds

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

Component Units

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Sanger, assets exceeded liabilities by \$40,225,842 as of September 30, 2018, in the primary government.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2018

The largest portion of the City's net position, \$19,494,509, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$1,518,760, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$19,212,573 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current assets of governmental activities as of September 30, 2018 and September 30, 2017 were \$7,224,081 and \$5,153,316, respectively. The increase of \$2,070,765 was primarily due to an increase in cash on hand as a result of revenues exceeding expenses in the current year.

Current assets of business-type activities as of September 30, 2018 and September 30, 2017 were \$16,436,888 and \$23,313,512, respectively. The decrease of \$6,876,624 was primarily attributable to bond proceeds being spent in the current year.

Capital assets of governmental activities as of September 30, 2018 and September 30, 2017 were \$19,178,754 and \$16,264,468, respectively. The increase of \$2,914,286 was a primarily a result of new investments in infrastructure.

Capital assets of business-type activities as of September 30, 2018 and September 30, 2017 were \$27,575,268 and \$18,881,652, respectively. The increase of \$8,693,616 was a primarily a result of the sewer plant expansion.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 7,224,081	\$ 16,436,888	\$ 23,660,969	\$ 5,153,316	\$ 23,313,512	\$ 28,466,828
Capital assets, net	19,178,754	27,575,268	46,754,022	16,264,468	18,881,652	35,146,120
Total Assets	26,402,835	44,012,156	70,414,991	21,417,784	42,195,164	63,612,948
Deferred Outflows of Resources	228,061	96,605	324,666	465,880	178,853	644,733
Other liabilities	1,664,933	3,801,444	5,466,377	1,716,929	2,788,037	4,504,966
Long-term liabilities	4,022,808	20,726,451	24,749,259	5,119,582	21,787,140	26,906,722
Total Liabilities	5,687,741	24,527,895	30,215,636	6,836,511	24,575,177	31,411,688
Deferred Inflows of Resources	229,125	69,054	298,179	97,970	29,526	127,496
Net Position:						
Net investment						
in capital assets	14,712,198	4,782,311	19,494,509	10,968,978	4,262,005	15,230,983
Restricted	1,518,760	-	1,518,760	855,795	-	855,795
Unrestricted	4,483,072	14,729,501	19,212,573	3,124,410	13,507,309	16,631,719
Total Net Position	\$ 20,714,030	\$ 19,511,812	\$ 40,225,842	\$ 14,949,183	\$ 17,769,314	\$ 32,718,497

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

Statement of Activities:

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

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,946,040	\$ 12,722,292	\$ 14,668,332	\$ 1,810,697	\$ 12,180,291	\$ 13,990,988
Grants and contributions	3,846,351	475,000	4,321,351	1,718,787	725,000	2,443,787
General revenues:						
Property taxes	3,953,836	-	3,953,836	3,584,390	-	3,584,390
Sales taxes	872,250	-	872,250	883,562	-	883,562
Franchise and local taxes	261,611	-	261,611	236,082	-	236,082
Investment income	5,012	25,558	30,570	4,372	21,875	26,247
Other revenues	396,025	-	396,025	210,949	-	210,949
Total Revenues	11,281,125	13,222,850	24,503,975	8,448,839	12,927,166	21,376,005
Expenses						
General government	1,808,163	-	1,808,163	1,800,480	-	1,800,480
Public safety	2,517,223	-	2,517,223	2,400,720	-	2,400,720
Public works	1,061,776	-	1,061,776	1,084,065	-	1,084,065
Culture and recreation	737,343	-	737,343	797,033	-	797,033
Interest and fiscal charges	173,032	718,056	891,088	186,772	741,243	928,015
Water, sewer, & electric	-	9,981,037	9,981,037	-	9,780,833	9,780,833
Total Expenses	6,297,537	10,699,093	16,996,630	6,269,070	10,522,076	16,791,146
Change in Net Position Before Transfers	4,983,588	2,523,757	7,507,345	2,179,769	2,405,090	4,584,859
Transfers	781,259	(781,259)	-	865,224	(865,224)	-
Total	781,259	(781,259)	-	865,224	(865,224)	-
Change in Net Position	5,764,847	1,742,498	7,507,345	3,044,993	1,539,866	4,584,859
Beginning Net Position	14,949,183	17,769,314	32,718,497	11,904,190	16,229,448	28,133,638
Ending Net Position	\$ 20,714,030	\$ 19,511,812	\$ 40,225,842	\$ 14,949,183	\$ 17,769,314	\$ 32,718,497

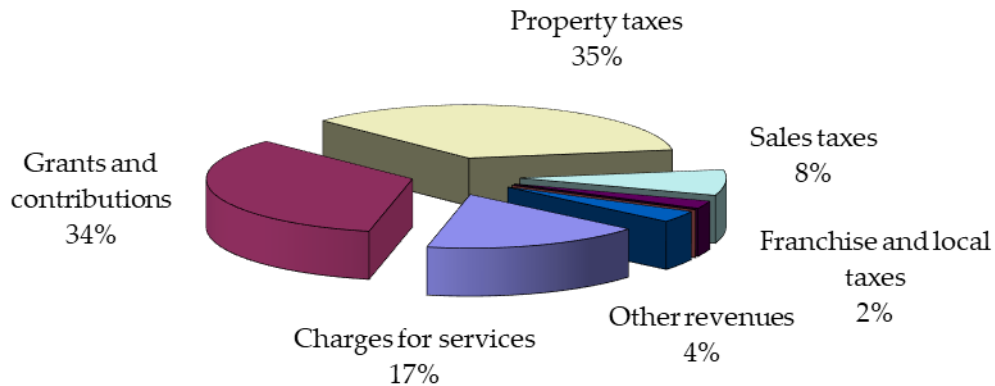
City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

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

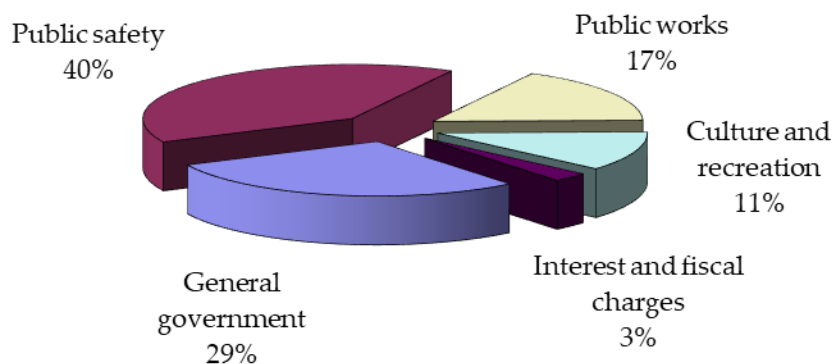
Governmental Activities - Revenues



For the year ended September 30, 2018, revenues from governmental activities totaled \$11,281,125. Property tax, charges for services, and grants and contributions are the City's largest revenue sources. Property tax increased by \$369,446 or 10% due to higher property values. Sales taxes decreased \$11,312 or 1% due to a slowdown in the local economy. Charges for services increased \$135,343 or 7% primarily due to increases in EMS services and sanitation service revenue. Grants and contributions increased by \$2,127,564 due to funds received from an interlocal agreement with Denton County for street construction. Other revenues increased by \$185,076 or 88% mainly as a result of the recognition of roadway impact fee revenue in the current year. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2018, expenses for governmental activities totaled \$6,297,537. This represents an increase of \$28,467 from the prior year. The City's largest functional expense is public

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

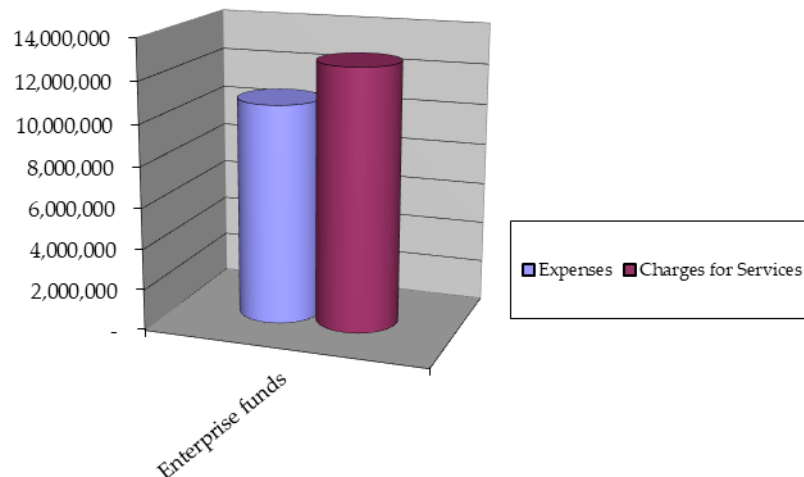
September 30, 2018

safety of \$2,517,223, which primarily includes costs for the police department, animal control, fire department, and EMS services. Culture and recreation expenses decreased by \$59,690 or 7% primarily due to a reduction in contract services and professional fees. All other expenditures remained relatively consistent with the previous year.

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

For the year ended September 30, 2018, charges for services by business-type activities totaled \$12,722,292. This is an increase of \$542,001, or 4%, from the previous year. The increase was due to the increase in utility consumption in the current year.

Business-Type Activities - Revenues and Expenses



Total expenses increased \$177,017 or 2% compared to the prior year, which is considered minimal.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$4,928,737. Of this, \$8,853 is restricted for municipal court, \$36,899 is restricted for tourism, \$102,024 is restricted for library improvements, \$40,202 for public safety, \$8,062 is restricted for parks, and \$281,279 is restricted for

City of Sanger, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2018

roadway impact fees. In addition, \$30,512 is committed for employee benefits. Unassigned fund balance totaled \$4,420,906 as of yearend. The general fund increased by \$1,551,813 mainly as a result of revenues exceeding expenditures and other financing uses.

The capital projects fund reflected an ending balance of \$866,785, an increase of \$625,849. This increase is attributed to greater intergovernmental revenues and transfers in compared to capital outlay expenditures in the current year.

There was an increase in governmental fund balance of \$2,174,302 over the prior year. The increase was primarily due to revenues and other financing sources exceeding current year expenditures.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$1,499,410 in the general fund. This is a combination of a positive revenue variance of \$732,927 a positive expenditure variance of \$739,260, and a positive variance of \$27,223 in other financing sources and uses. The most significant revenue variances were for property taxes, licenses and permits, intergovernmental revenue, and other revenues.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$19,178,754 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$27,575,268 in a variety of capital assets and infrastructure, net of accumulated depreciation. Expenditures exceeded appropriations in the public works department. In addition, debt service principal and interest and capital outlay expenditures exceeded the appropriated amount.

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

- Investment in the McReynolds road construction in the amount of \$3,299,713.
- Investments in street department infrastructure totaling \$100,122.
- Investments in infrastructure for electric department totaling \$140,788.
- Sewer plant expansion for \$7,645,875.
- Purchase of public safety vehicles for \$91,286.
- Acquisition of building improvements and machinery and equipment for parks department for \$307,948.

City of Sanger, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2018

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$23,725,000 and capital leases of \$406,305. During the year, the City had principal payments on bonds and capital leases of \$1,557,133. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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City of Sanger, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2018

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 5,896,344	\$ 5,383,382	\$ 11,279,726
Restricted cash	-	8,255,967	8,255,967
Investments	535,538	419,553	955,091
Restricted investments	-	300,000	300,000
Receivables, net	890,289	1,541,732	2,432,021
Inventory	-	438,164	438,164
Internal balances	(98,090)	98,090	-
Total Current Assets	7,224,081	16,436,888	23,660,969
Capital assets:			
Non-depreciable	7,678,570	12,042,358	19,720,928
Net depreciable capital assets	11,500,184	15,532,910	27,033,094
	19,178,754	27,575,268	46,754,022
Total Assets	26,402,835	44,012,156	70,414,991
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	19,287	33,702	52,989
Pension contributions	168,737	50,854	219,591
OPEB contributions	217	65	282
OPEB gains (losses)	6,197	1,851	8,048
Pension assumption changes	33,623	10,133	43,756
Total Deferred Outflows of Resources	228,061	96,605	324,666

See Notes to Financial Statements.

Component Units	
Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ 980,949	\$ 726,120
-	-
94,806	279,693
-	-
68,595	68,595
-	-
-	-
1,144,350	1,074,408
-	-
774,584	-
774,584	-
1,918,934	1,074,408
-	-
-	-
-	-
-	-
-	-
-	-
-	-

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2018

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and			
accrued liabilities	\$ 684,544	\$ 2,131,567	\$ 2,816,111
Accrued interest payable	39,782	246,910	286,692
Customer deposits	-	437,865	437,865
Long term debt due within one year	940,607	985,102	1,925,709
Total Current Liabilities	1,664,933	3,801,444	5,466,377
Noncurrent liabilities:			
Debt due in more than one year	3,421,704	20,545,511	23,967,215
OPEB liability	82,518	24,648	107,166
Net pension liability	518,586	156,292	674,878
	4,022,808	20,726,451	24,749,259
Total Liabilities	5,687,741	24,527,895	30,215,636
<u>Deferred Inflows of Resources</u>			
Pension (gains) losses	52,854	15,929	68,783
Pension investment earnings	176,271	53,125	229,396
Total Deferred Inflows of Resources	229,125	69,054	298,179
<u>Net Position</u>			
Net investment in capital assets	14,712,198	4,782,311	19,494,509
Restricted for:			
Debt service	455,935	-	455,935
Capital projects	866,785	-	866,785
Parks	8,062	-	8,062
Economic development	-	-	-
Other purposes	187,978	-	187,978
Unrestricted	4,483,072	14,729,501	19,212,573
Total Net Position	\$ 20,714,030	\$ 19,511,812	\$ 40,225,842

See Notes to Financial Statements.

Component Units	
Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ 3,865	\$ 45,459
-	-
-	-
48,176	-
52,041	45,459
260,319	-
-	-
-	-
260,319	-
312,360	45,459
-	-
-	-
-	-
466,089	-
-	-
-	-
-	-
1,140,485	1,028,949
-	-
-	-
\$ 1,606,574	\$ 1,028,949

City of Sanger, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 1,808,163	\$ 1,221,002	\$ 6,795	\$ 9,023
Public safety	2,517,223	725,038	134,424	18,047
Public works	1,061,776	-	-	3,465,562
Culture and recreation	737,343	-	-	-
Interest and fiscal charges	173,032	-	212,500	-
Total Governmental Activities	6,297,537	1,946,040	353,719	3,492,632
Business-Type Activities				
Water	1,573,190	2,258,067	-	475,000
Sewer	1,057,399	2,163,664	-	-
Electric	7,335,966	8,226,907	-	-
Fleet services	219	-	-	-
Utility administration	732,319	73,654	-	-
Total Business-Type Activities	10,699,093	12,722,292	-	475,000
Total Primary Government	\$ 16,996,630	\$ 14,668,332	\$ 353,719	3,967,632
Component Units				
4A	631,390	-	-	-
4B	479,760	-	-	-
	\$ 1,111,150	\$ -	\$ -	\$ -

General Revenues:

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

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Sanger Industrial Dev. Corp. (4A)	Sanger Texas Dev. Corp. (4B)
\$ (571,343)	\$ -	\$ (571,343)	\$ -	\$ -
(1,639,714)	-	(1,639,714)	-	-
2,403,786	-	2,403,786	-	-
(737,343)	-	(737,343)	-	-
39,468	-	39,468	-	-
(505,146)	-	(505,146)	-	-
-	1,159,877	1,159,877	-	-
-	1,106,265	1,106,265	-	-
-	890,941	890,941	-	-
-	(219)	(219)	-	-
-	(658,665)	(658,665)	-	-
-	2,498,199	2,498,199	-	-
(505,146)	2,498,199	1,993,053	-	-
			(631,390)	-
			-	(479,760)
			(631,390)	(479,760)
3,953,836	-	3,953,836	-	-
872,250	-	872,250	433,193	433,193
261,611	-	261,611	-	-
5,012	25,558	30,570	-	1,709
385,431	-	385,431	28,135	-
10,594	-	10,594	-	-
781,259	(781,259)	-	-	-
6,269,993	(755,701)	5,514,292	461,328	434,902
5,764,847	1,742,498	7,507,345	(170,062)	(44,858)
14,949,183	17,769,314	32,718,497	1,776,636	1,073,807
\$ 20,714,030	\$ 19,511,812	\$ 40,225,842	\$ 1,606,574	\$ 1,028,949

City of Sanger, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General	Capital Projects Fund	Nonmajor Debt Service
<u>Assets</u>			
Cash and cash equivalents	\$ 4,454,701	\$ 791,390	\$ 454,999
Investments	535,538	-	-
Receivables, net	467,498	408,720	14,071
Due from other funds	8,520	-	-
Total Assets	\$ 5,466,257	\$ 1,200,110	\$ 469,070
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 287,276	\$ 333,325	\$ -
Due to other funds	106,610	-	-
Total Liabilities	393,886	333,325	-
<u>Deferred Inflows of Resources</u>			
Unavailable revenue			
Property taxes	49,826	-	13,135
EMS revenue	93,808	-	-
Total Deferred Inflows of Resources	143,634	-	13,135
<u>Fund Balances</u>			
Restricted for:			
Municipal court	8,853	-	-
Tourism	36,899	-	-
Library	102,024	-	-
Public safety	40,202	-	-
Debt service	-	-	455,935
Capital projects	-	866,785	-
Parks	8,062	-	-
Roadway impact fees	281,279	-	-
Committed for:			
Employee benefits	30,512	-	-
Unassigned reported in:			
General fund	4,420,906	-	-
Total Fund Balances	4,928,737	866,785	455,935
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 5,466,257	\$ 1,200,110	\$ 469,070

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	5,701,090
	535,538
	890,289
	8,520
\$	<u>7,135,437</u>

\$	620,601
	106,610
	<u>727,211</u>

	62,961
	93,808
	<u>156,769</u>

	8,853
	36,899
	102,024
	40,202
	455,935
	866,785
	8,062
	281,279
	30,512
	4,420,906
	<u>6,251,457</u>

\$	<u>7,135,437</u>
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City of Sanger, Texas

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

September 30, 2018

Fund Balances - Total Governmental Funds	\$ 6,251,457
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	7,678,570
Capital assets - net depreciable	11,459,507
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	62,961
EMS receivable	93,808
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.	
Deferred charge on refunding	19,287
Pension contributions	125,858
OPEB contributions	161
Pension investment earnings	(131,478)
Pension gains (losses)	(39,423)
Pension assumption changes	25,079
OPEB gains (losses)	4,587
Internal service funds are used by management to charge the cost of internal services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Net position - governmental activities	(30,704)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(39,782)
Compensated absences	(164,899)
Bond premium	(94,410)
Net pension liability	(386,805)
OPEB liability	(61,085)
Non-current liabilities due in one year	(752,289)
Non-current liabilities due in more than one year	(3,306,370)
Net Position of Governmental Activities	\$ 20,714,030

See Notes to Financial Statements.

City of Sanger, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General	Capital Projects Fund	Nonmajor Debt Service
<u>Revenues</u>			
Property tax	\$ 3,275,548	\$ -	\$ 675,212
Sales tax	872,250	-	-
Franchise and local taxes	261,611	-	-
License and permits	322,230	-	-
Charges for services	898,772	-	-
Fire and rescue	629,461	-	-
Contributions and donations	6,795	-	-
Intergovernmental	134,424	3,465,562	212,500
Fines and forfeitures	95,577	-	-
Investment income	4,898	-	114
Other revenue	385,431	-	-
Total Revenues	6,886,997	3,465,562	887,826
<u>Expenditures</u>			
Current:			
General government	1,527,438	-	1,500
Police department	1,443,548	-	-
Municipal court	170,058	-	-
Fire and EMS	968,738	-	-
Parks and recreation	566,197	-	-
Public works	802,759	-	-
Debt service:			
Principal	114,356	-	606,900
Interest	14,995	-	174,787
Capital outlay	194,017	3,299,713	-
Total Expenditures	5,802,106	3,299,713	783,187
Excess of Revenues Over (Under) Expenditures	1,084,891	165,849	104,639
<u>Other Financing Sources (Uses)</u>			
Transfers in	889,258	460,000	-
Transfers (out)	(460,000)	-	(107,999)
Proceeds from sale of capital assets	27,070	-	-
Insurance recoveries	10,594	-	-
Total Other Financing Sources (Uses)	466,922	460,000	(107,999)
Net Change in Fund Balances	1,551,813	625,849	(3,360)
Beginning fund balances	3,376,924	240,936	459,295
Ending Fund Balances	\$ 4,928,737	\$ 866,785	\$ 455,935

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	3,950,760
	872,250
	261,611
	322,230
	898,772
	629,461
	6,795
	3,812,486
	95,577
	5,012
	385,431
	<hr/>
	11,240,385
	<hr/>

	1,528,938
	1,443,548
	170,058
	968,738
	566,197
	802,759
	721,256
	189,782
	3,493,730
	<hr/>
	9,885,006
	<hr/>
	1,355,379

	1,349,258
	(567,999)
	27,070
	10,594
	<hr/>
	818,923
	<hr/>
	2,174,302
	4,077,155
	<hr/>
\$	6,251,457
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City of Sanger, Texas

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

For the Year Ended September 30, 2018

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

Net changes in fund balances - total governmental funds	\$ 2,174,302
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,847,784
Depreciation expense	(934,439)

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

EMS receivable	3,281
Property tax receivable	(205)

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

Compensated absences	(20,547)
Accrued interest	(2,349)
Pension expense	(10,747)
OPEB expense	(6,797)

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

Deferred charges on refunding	(7,250)
Premium on debt	26,349
Principal payments	721,256

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

(25,791)

Change in Net Position of Governmental Activities	\$ 5,764,847
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See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUND
September 30, 2018

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 5,383,382	\$ 195,254
Restricted cash	8,255,967	-
Investments	419,553	-
Restricted investments	300,000	-
Receivables, net	1,541,732	-
Inventory	438,164	-
Due from other funds	106,610	-
Total Current Assets	16,445,408	195,254
<u>Noncurrent Assets</u>		
Capital assets:		
Non-depreciable	12,042,358	-
Net depreciable capital assets	15,532,910	40,677
Total Noncurrent Assets	27,575,268	40,677
Total Assets	44,020,676	235,931
<u>Deferred Outflows of Resources</u>		
Pension contributions	50,854	42,879
OPEB contributions	65	56
Pension assumption changes	10,133	8,544
OPEB (gains) losses	1,851	1,610
Deferred charge on refunding	33,702	-
Total Deferred Outflows of Resources	96,605	53,089

City of Sanger, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUND
September 30, 2018

	<u>Water, Sewer & Electric</u>	<u>Governmental Activities Internal Service</u>
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts payable and accrued liabilities	2,131,567	63,943
Accrued interest	246,910	-
Customer deposits	437,865	-
Due to other funds	8,520	-
Compensated absences - current	124,156	39,909
Bonds and capital leases payable-current	860,946	-
Total Current Liabilities	<u>3,809,964</u>	<u>103,852</u>
<u>Noncurrent Liabilities</u>		
Compensated absences	13,795	4,434
Net pension liability	156,292	131,781
OPEB liability	24,648	21,433
Bonds and capital leases payable	20,531,716	-
Total Liabilities	<u>24,536,415</u>	<u>261,500</u>
<u>Deferred Inflows of Resources</u>		
Pension (gains) losses	15,929	13,431
Pension investment earnings	53,125	44,793
Total Deferred Inflow of Resources	<u>69,054</u>	<u>58,224</u>
<u>Net Position</u>		
Net investment in capital assets	4,782,311	40,677
Unrestricted	14,729,501	(71,381)
Total Net Position	<u>\$ 19,511,812</u>	<u>\$ (30,704)</u>

See Notes to Financial Statements.

City of Sanger, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2018

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Operating Revenues</u>		
Charges for services	\$ 12,135,488	\$ 1,176,603
Connection fees	59,000	-
Tap fees	454,150	-
Other revenue	73,654	3,548
Total Operating Revenues	12,722,292	1,180,151
<u>Operating Expenses</u>		
Salaries and wages	1,929,946	1,043,489
Contracted services	364,923	364,958
Utilities	326,977	101,449
Materials and supplies	117,506	70,999
Water and electric purchases	5,613,500	-
Repairs and maintenance	733,663	107,788
Depreciation	894,522	4,134
Total Operating Expenses	9,981,037	1,692,817
Operating Income (Loss)	2,741,255	(512,666)
<u>Nonoperating Revenues (Expenses)</u>		
Investment income	25,558	-
Intergovernmental	475,000	-
Interest expense	(718,056)	-
Total Nonoperating Revenues (Expenses)	(217,498)	-
Income (Loss) Before Transfers	2,523,757	(512,666)
Transfers in	-	504,258
Transfers (out)	(781,259)	-
Change in Net Position	1,742,498	(8,408)
Beginning net position	17,769,314	(22,296)
Ending Net Position	\$ 19,511,812	\$ (30,704)

See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 1 of 2)
For the Year Ended September 30, 2018

	Water, Sewer & Electric	Governmental Activities Internal Service
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	\$ 12,802,296	\$ 1,180,151
Payments to suppliers	(6,262,169)	(626,192)
Payments to employees	(1,889,776)	(1,031,812)
Payments/receipts for other	5,485	-
Net Cash Provided by (Used) by Operating Activities	4,655,836	(477,853)
<u>Cash Flows from Noncapital Financing Activities</u>		
Operating transfers in	-	504,258
Operating transfers (out)	(781,259)	-
Net Cash Provided by (Used) by Noncapital Financing Activities	(781,259)	504,258
<u>Cash Flows from Capital and Related Financing Activities</u>		
Capital purchases	(9,588,138)	(5,075)
Capital contributions	475,000	-
Principal paid on debt	(835,877)	-
Interest paid on debt	(793,327)	-
Net Cash (Used) by Capital and Related Financing Activities	(10,742,342)	(5,075)
<u>Cash Flows from Investing Activities</u>		
Purchases of investments, net	(2,352)	-
Interest on investments	25,558	-
Net Cash Provided by Investing Activities	23,206	-
Net Increase (Decrease) in Cash and Cash Equivalents	(6,844,559)	21,330
Beginning cash and cash equivalents	20,483,908	173,924
Ending Cash and Cash Equivalents	\$ 13,639,349	\$ 195,254

See Notes to Financial Statements.

City of Sanger, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 2 of 2)
For the Year Ended September 30, 2018

	<u>Water, Sewer & Electric</u>	<u>Governmental Activities Internal Service</u>
<u>Reconciliation of Operating Income</u>		
<u>to Net Cash Provided by Operating Activities</u>		
Operating Income	\$ 2,741,255	\$ (512,666)
Adjustments to reconcile operating income to net cash provided:		
Depreciation	894,522	4,134
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable	80,565	-
Inventory	(51,633)	-
Due from/to other funds	(3,035)	-
Deferred outflows of resources - pension contributions	(2,589)	(2,183)
Deferred outflows of resources - OPEB contributions	(2)	(2)
Deferred inflows of resources - pension investment earnings	123,653	104,261
Deferred inflows of resources - pension (gains) losses	(13,597)	(11,465)
Deferred inflows of resources - OPEB (gains) losses	(1,851)	(1,610)
Deferred outflows of resources - pension assumption changes	3,436	2,897
Increase (Decrease) in:		
Accounts payable and accrued liabilities	946,033	19,002
Due to other funds	8,520	-
Compensated absences	33,085	5,633
Customer deposits	(561)	-
Net pension liability	(106,560)	(89,850)
OPEB liability	4,595	3,996
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,655,836</u>	<u>\$ (477,853)</u>

See Notes to Financial Statements.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

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

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

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

Discretely Presented Component Units

Sanger Industrial Development Corporation (4A)

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

Sanger Texas Development Corporation (4B)

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

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

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

The government reports the following major governmental funds:

Governmental Funds

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

General Fund

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

Capital Projects Fund

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

The government reports the following nonmajor governmental fund:

Debt Service Fund

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Proprietary Fund Types

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

The government reports the following major enterprise fund:

Water, Sewer, & Electric Fund

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

Additionally, the government reports the following fund type:

Internal Service Fund

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

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

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

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

1. Deposits and Investments

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

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

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

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

2. Fair Value

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

3. Receivables and Interfund Transactions

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

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

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

4. Property Taxes

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2018

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

5. Inventories and Prepaid Items

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

6. Capital Assets

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

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

7. Deferred Outflows/Inflows of Resources

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

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

8. Net Position Flow Assumption

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2018

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

11. Compensated Absences

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

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

12. Long-Term Obligations

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

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

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

13. Estimates

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

14. Pensions

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

15. Other Postemployment Benefits (OPEB")

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

The appropriated budget is prepared by fund, function, and department. The legal level of control is the fund level. No funds can be transferred or added to a

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 1,255,091	0.51
Total fair value	<u>\$ 1,255,091</u>	
Portfolio weighted average maturity		0.51

As of September 30, 2018, the 4A Component Unit had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 94,806	0.01
Total fair value	<u>\$ 94,806</u>	
Portfolio weighted average maturity		0.01

As of September 30, 2018, the 4B Component Unit had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Certificates of deposit	\$ 279,693	0.42
Total fair value	<u>\$ 279,693</u>	
Portfolio weighted average maturity		0.42

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

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

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

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

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

B. Receivables

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

	General	Debt Service	Capital Projects	Water, Sewer & Electric	Total
Property taxes	\$ 86,107	\$ 25,216	\$ -	\$ -	\$ 111,323
Sales tax	137,190	-	-	-	137,190
Franchise & local taxes	38,982	-	-	-	38,982
Intergovernmental	-	-	408,720	-	408,720
EMS	321,491	-	-	-	321,491
Accounts	112,842	-	-	1,702,307	1,815,149
Other	6,283	-	-	352	6,635
Allowance	(235,397)	(11,145)	-	(160,927)	(407,469)
	<u>\$ 467,498</u>	<u>\$ 14,071</u>	<u>\$ 408,720</u>	<u>\$ 1,541,732</u>	<u>\$ 2,432,021</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

	4A	4B	Total
Sales tax	\$ 68,595	\$ 68,595	\$ 137,190
	<u>\$ 68,595</u>	<u>\$ 68,595</u>	<u>\$ 137,190</u>

C. Inventory

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

Inventory type	Cost
Electric Department	\$ 379,553
Water Department	58,611
Total	<u>\$ 438,164</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

D. Capital Assets

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

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 1,044,933	\$ -	\$ -	\$ 1,044,933
Construction in progress	3,333,924	3,299,713	-	6,633,637
Total capital assets not being depreciated	4,378,857	3,299,713	-	7,678,570
Capital assets, being depreciated:				
Infrastructure	11,987,688	100,122	-	12,087,810
Buildings and improvements	6,568,909	229,131	-	6,798,040
Machinery and equipment	3,840,335	223,893	(53,710)	4,010,518
Total capital assets being depreciated	22,396,932	553,146	(53,710)	22,896,368
Less accumulated depreciation				
Infrastructure	6,137,617	323,043	-	6,460,660
Buildings and improvements	1,978,729	296,472	-	2,275,201
Machinery and equipment	2,394,975	319,058	(53,710)	2,660,323
Total accumulated depreciation	10,511,321	938,573	(53,710)	11,396,184
Net capital assets being depreciated	11,885,611	(385,427)	-	11,500,184
Total Capital Assets	\$ 16,264,468	\$ 2,914,286	\$ -	\$ 19,178,754

Depreciation was charged to governmental functions as follows:

General government	\$ 72,767
Public safety	117,797
Public works	362,387
Culture and recreation	281,721
Fire and rescue	99,767
Internal service	4,134
Total Governmental Activities Depreciation Expense	\$ 938,573

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 496,857	\$ -	\$ -	\$ 496,857
Construction in progress	7,894,804	9,348,068	(5,697,371)	11,545,501
Total capital assets not being depreciated	<u>8,391,661</u>	<u>9,348,068</u>	<u>(5,697,371)</u>	<u>12,042,358</u>
Capital assets, being depreciated:				
Infrastructure	23,655,730	208,470	5,697,371	29,561,571
Buildings and improvements	865,245	-	-	865,245
Machinery and equipment	2,176,615	31,600	(38,769)	2,169,446
Total capital assets being depreciated	<u>26,697,590</u>	<u>240,070</u>	<u>5,658,602</u>	<u>32,596,262</u>
Less accumulated depreciation				
Infrastructure	14,251,284	738,250	-	14,989,534
Buildings and improvements	471,423	51,737	-	523,160
Machinery and equipment	1,484,892	104,535	(38,769)	1,550,658
Total accumulated depreciation	<u>16,207,599</u>	<u>894,522</u>	<u>(38,769)</u>	<u>17,063,352</u>
Net capital assets being depreciated	<u>10,489,991</u>	<u>(654,452)</u>	<u>5,697,371</u>	<u>15,532,910</u>
Total Capital Assets	<u><u>\$ 18,881,652</u></u>	<u><u>\$ 8,693,616</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,575,268</u></u>

Depreciation was charged to business-type activities as follows:

Water	\$ 371,775
Sewer	309,642
Electric	198,623
Other	14,482
Total Business-type Activities Depreciation Expense	<u><u>\$ 894,522</u></u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

	Beginning Balances	Additions	Retirements/ Reclassifications	Ending Balances
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,080,797	\$ -	\$ -	\$ 1,080,797
Furniture and fixtures	40,950	-	-	40,950
Total capital assets being depreciated	<u>1,121,747</u>	<u>-</u>	<u>-</u>	<u>1,121,747</u>
Less accumulated depreciation				
Buildings and improvements	291,505	38,360	-	329,865
Furniture and fixtures	12,935	4,363	-	17,298
Total accumulated depreciation	<u>304,440</u>	<u>42,723</u>	<u>-</u>	<u>347,163</u>
Net capital assets being depreciated	<u>817,307</u>	<u>(42,723)</u>	<u>-</u>	<u>774,584</u>
Total Capital Assets	<u><u>\$ 817,307</u></u>	<u><u>\$ (42,723)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 774,584</u></u>

The 4A Component Unit recognized depreciation expense of \$42,723 during the year ended September 30, 2018.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

E. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Amortization/ Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	\$ 1,574,300	\$ -	\$ (377,000)	\$ 1,197,300	\$ 392,800
Certificates of Obligation	2,740,300	-	(229,900)	2,510,400	241,600
Less deferred amounts:					
For issuance premiums	120,759	-	(26,349)	94,410	-
	<u>4,435,359</u>	<u>-</u>	<u>(633,249)</u>	<u>3,802,110</u>	<u>634,400</u>
Other liabilities:					
Capital leases payable	465,315	-	(114,356)	350,959	117,889
Compensated absences	183,062	209,242	(183,062)	209,242	188,318
Total Governmental					
Activities	<u>\$ 5,083,736</u>	<u>\$ 209,242</u>	<u>\$ (930,667)</u>	<u>\$ 4,362,311</u>	<u>\$ 940,607</u>
Long-term liabilities due in more than one year				<u>\$ 3,421,704</u>	

Business-Type Activities:

General Obligation Bonds	\$ 1,910,700	\$ -	\$ (458,000)	\$ 1,452,700	\$ 477,200
Certificates of Obligation	18,889,700	-	(325,100)	18,564,600	328,400
Less deferred amounts:					
For issuance premiums	1,421,602	-	(101,586)	1,320,016	-
	<u>22,222,002</u>	<u>-</u>	<u>(884,686)</u>	<u>21,337,316</u>	<u>805,600</u>
Other liabilities:					
Capital leases payable	108,123	-	(52,777)	55,346	55,346
Compensated absences	104,866	104,866	(71,781)	137,951	124,156
Total Business-Type					
Activities	<u>\$ 22,434,991</u>	<u>\$ 104,866</u>	<u>\$ (1,009,244)</u>	<u>\$ 21,530,613</u>	<u>\$ 985,102</u>
Long-term liabilities due in more than one year				<u>\$ 20,545,511</u>	

Component Units (4A Fund)

Notes payable	\$ 352,814	\$ -	\$ (44,319)	\$ 308,495	\$ 48,176
Compensated absences	5,206	-	(5,206)	-	-
	<u>\$ 358,020</u>	<u>\$ -</u>	<u>\$ (49,525)</u>	<u>\$ 308,495</u>	<u>\$ 48,176</u>
Long-term liabilities due in more than one year				<u>\$ 260,319</u>	

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

	Governmental Activities	Business - Type Activities	Component Unit 4A Fund	Total
General Obligation Bonds:				
\$3,495,000 General Obligation Refunding Bond, Series 2012, due in installments through 2021, interest at 2% to 3%	\$ 477,400	\$ 607,600	\$ -	\$ 1,085,000
\$2,535,000 General Obligation Refunding Bond, Series 2016, due in installments through 2021, interest at 2% to 4%	719,900	845,100	-	1,565,000
Total General Obligation Bonds	\$ 1,197,300	\$ 1,452,700	\$ -	\$ 2,650,000
Certificates of Obligation:				
\$1,750,000 Certificates of Obligation, Series 2007, due in annual installments through 2027, interest at 4.4%	\$ 333,200	\$ 646,800	\$ -	\$ 980,000
\$3,200,000 Certificates of Obligation, Series 2009, due in annual installments through 2026, interest at 3% to 4.75%	1,765,000	-	-	1,765,000
\$4,260,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2% to 3.7%	412,200	3,022,800	-	3,435,000
\$5,870,000 Certificates of Obligation, Series 2015, due in annual installments through 2035, interest at 3.4% to 5.5%	-	5,655,000	-	5,655,000
\$9,240,000 Certificates of Obligation, Series 2017, due in annual installments through 2035, interest at 3% to 4%	-	9,240,000	-	9,240,000
Total Certificates of Obligation	\$ 2,510,400	\$ 18,564,600	\$ -	\$ 21,075,000
Less deferred amounts:				
Issuance premium	\$ 94,410	\$ 1,320,016	\$ -	\$ 1,414,426
Total Deferred Amounts	\$ 94,410	\$ 1,320,016	\$ -	\$ 1,414,426
Notes Payable:				
\$660,000 Notes payable to a financial institution, due in monthly installments of \$5,106 through June 2024, including interest at 4.6%	\$ -	\$ -	\$ 308,495	\$ 308,495
Total Notes Payable	\$ -	\$ -	\$ 308,495	\$ 308,495
Capital Leases Payable:				
\$435,000 Capital lease payable to financial institution, due in annual installments of \$51,535 through 2024, interest at 3.346%	\$ 275,370	\$ -	\$ -	\$ 275,370
\$500,000 Capital lease payable to financial institution, due in annual installments of \$134,279 through 2019, interest at 2.947%	75,589	55,346	-	130,935
Total Capital Leases Payable	\$ 350,959	\$ 55,346	\$ -	\$ 406,305
Compensated Absences	209,242	137,951	-	347,193
Total Long-term Liabilities	\$ 4,362,311	\$ 21,530,613	\$ 308,495	\$ 26,201,419

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

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

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

General Obligation Bonds

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 392,800	\$ 41,908	\$ 477,200	\$ 50,492
2020	410,900	27,824	499,100	33,476
2021	393,600	13,929	476,400	16,746
	<u>\$ 1,197,300</u>	<u>\$ 83,661</u>	<u>\$ 1,452,700</u>	<u>\$ 100,714</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Combination Tax and Revenue Certificates of Obligations

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 241,600	\$ 110,391	\$ 328,400	\$ 715,779
2020	248,900	100,919	331,100	706,516
2021	261,200	91,050	408,800	694,655
2022	273,500	79,919	616,500	679,742
2023	286,400	68,258	633,600	660,427
2024	297,000	55,768	658,000	640,327
2025	309,300	42,686	675,700	618,519
2026	323,900	28,194	701,100	593,113
2027	71,800	13,024	998,200	566,321
2028	28,800	9,768	1,086,200	526,357
2029	30,600	8,400	1,124,400	482,800
2030	31,800	6,870	1,173,200	436,574
2031	33,600	5,280	1,221,400	387,920
2032	35,400	3,600	1,269,600	337,338
2033	36,600	1,830	1,323,400	284,626
2034	-	-	1,420,000	229,713
2035	-	-	1,475,000	173,656
2036	-	-	1,535,000	115,344
2037	-	-	1,585,000	63,400
	<u>\$ 2,510,400</u>	<u>\$ 625,958</u>	<u>\$ 18,564,600</u>	<u>\$ 8,913,125</u>

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Capital Leases

Year ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 117,889	\$ 11,463	\$ 55,346	\$ 1,616
2020	43,716	7,819	-	-
2021	45,179	6,357	-	-
2022	46,690	4,845	-	-
2023	48,252	3,283	-	-
2024	49,233	1,668	-	-
	<u>\$ 350,959</u>	<u>\$ 35,435</u>	<u>\$ 55,346</u>	<u>\$ 1,616</u>

The City has entered into capital lease agreements. The leased property under capital leases is classified as machinery and equipment with a total carrying value as of yearend for governmental activities and business type activities of \$443,230 and \$441,014, respectively.

Note Payable for Component Unit – 4A

Year ending September 30,	Component Unit - 4A Fund	
	Principal	Interest
2019	\$ 48,176	\$ 13,091
2020	50,439	10,828
2021	52,809	8,458
2022	55,290	5,977
2023	57,887	3,380
2024	43,894	3,063
	<u>\$ 308,495</u>	<u>\$ 44,797</u>

F. Conduit Debt

Before the current year, the City issued notes payable totaling \$230,461,407 for the purpose of assisting with financing needed by not-for-profit organizations to promote their cause. The final maturities on notes payable range from March 2019 through December 2041. The notes are secured by various assets of the borrower. The City has no liability for the notes payable in the event of default by the borrowers. Accordingly, the bonds are not reported as liabilities in the City's financial statements.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

G. Deferred Charge on Refunding

Deferred charges resulting from the issuance of the 2012 and 2016 general obligation refunding bonds have been recorded as a deferred outflow of resources and are being amortized to interest expense over the terms of the respective refunded debts. Current year balances for governmental and business-type activities totaled \$19,287 and \$33,702, respectively. Current year amortization expense for governmental and business-type activities totaled \$7,250 and \$12,726, respectively.

H. Interfund Transactions

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

Transfer out:	Transfer In			Total
	General	Capital Projects	Internal Service Fund	
General	\$ -	\$ 460,000	\$ 504,258	\$ 964,258
Debt Service	107,999	-	-	107,999
Enterprise	781,259	-	1,176,603	1,957,862
	<u>\$ 889,258</u>	<u>\$ 460,000</u>	<u>\$ 1,680,861</u>	<u>\$ 3,030,119</u>

The internal service fund provides administrative services to the general and water, sewer, & electric funds. Below is a summary of the amounts paid from these funds to the internal service fund for the year ended September 30, 2018:

Received by:	
Paid by:	Internal Service
General	\$ 504,258
Enterprise	1,176,603
	<u>\$ 1,680,861</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The compositions of interfund due to/from balances as of the year ended September 30, 2018 were as follows:

	Receivable fund:	
Payable fund:	Enterprise	General
General	\$ 106,610	\$ -
Enterprise	-	8,520
	<u>\$ 106,610</u>	<u>\$ 8,520</u>

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

I. Fund Equity

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

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

	Restricted	Committed
Municipal court	\$ 8,853	\$ -
Tourism	36,899	-
Library	102,024	-
Public safety	40,202	-
Debt service	455,935	-
Capital projects	866,785	-
Parks	8,062	-
Streets	281,279	-
Employee benefits	-	30,512
	<u>\$ 1,800,039</u>	<u>\$ 30,512</u>

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2018

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

C. Construction commitments

The government has active construction projects as of September 30, 2018. The projects include street construction and improvements, sewer plant and the construction of additional water lines and repairs. At year end the government's commitments with contractors are as follows:

Project	Vendor	Remaining Commitment
McReynolds Road Reconstruction	Pacheco Koch, LLC	\$ 4,735
McReynolds Road Reconstruction	HRM Land Acquisition	397
McReynolds Road Reconstruction	Pavecon	205,686
McReynolds Road Reconstruction	D&S Engineering	4,110
	Project Total	214,928
Server Consolidation	Austin Lane Technology	20,166
Railroad Lift Station	Perkins Engineering	19,332
E35 WWL to Lois	Pacheco Koch LLC	25,790
E35 WWL to Lois	D&S Engineering	4,630
	Project Total	30,420
New Sewer Plant	Alan Plummer Associates	32,791
New Sewer Plant	Felix Construction	2,807,957
	Anixter, Inc.	285
	Project Total	2,841,033
	Total	\$ 3,125,879

D. Arbitrage

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

E. Defined Benefit Pension Plans

1. Plan Description

The City of Sanger, Texas participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

2. Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

	<u>Plan Year 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	27
Active employees	65
Total	110

3. Contributions

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

Employees for the City of Sanger were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Sanger were 7.63% and 7.79% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$287,348, and were equal to the required contributions.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate:

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/16	\$ 8,635,174	\$ 7,500,161	\$ 1,135,013
Changes for the year:			
Service Cost	438,324	-	438,324
Interest (on the Total Pension Liab.)	590,632	-	590,632
Difference between expected and actual experience	38,794	-	38,794
Contributions – employer	-	276,169	(276,169)
Contributions – employee	-	217,171	(217,171)
Net investment income	-	1,040,205	(1,040,205)
Benefit payments, including refunds of emp. contributions	(208,451)	(208,451)	-
Administrative expense	-	(5,387)	5,387
Other changes	-	(273)	273
Net changes	859,299	1,319,434	(460,135)
Balance at 12/31/17	\$ 9,494,473	\$ 8,819,595	\$ 674,878

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 2,206,315	\$ 674,878	\$ (572,864)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

For the year ended September 30, 2018, the City recognized pension expense of \$306,098.

At September 30, 2018, the City reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between projected and investment earnings	\$ -	\$ (229,396)
Changes in actuarial assumptions	43,756	-
Differences between expected and actual economic experience	-	(68,783)
Contributions subsequent to the measurement date	219,591	-
Total	\$ 263,347	\$ (298,179)

The City reported \$219,591 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2018	\$ (5,085)
2019	(20,734)
2020	(114,767)
2021	(114,102)
2022	265
Thereafter	-
	\$ (254,423)

F. Postemployment Benefits Other Than Pensions

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected,

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	7
Active employees	65
Total	83

The City's retiree contribution rates to the TMRS SDBF for the years ended 2018, 2017 and 2016 are as follows:

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City's contributions to the TMRS SDBF for the years ended 2018, 2017, and 2016 were \$371, \$355 and \$322, respectively, which equaled the required contributions each year.

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
\$ 130,438	\$ 107,166	\$ 88,684

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	\$ 87,186
Changes for the year:	
Service Cost	7,601
Interest	3,432
Changes of assumptions	9,310
Benefit payments	(363)
Net changes	19,980
Balance at 12/31/17	<u>\$ 107,166</u>

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$12,295.

City of Sanger, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ 8,048
Contributions subsequent to measurement date	282
Total	<u><u>\$ 8,330</u></u>

The City reported \$282 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019.

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

Year ended December 31:	
2018	\$ 1,262
2019	1,262
2020	1,262
2021	1,262
2022	1,262
Thereafter	1,738
	<u><u>\$ 8,048</u></u>

G. Restatement

Due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government-wide level for both governmental and business-type activities.

City of Sanger, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City has restated net position as follows:

	Proprietary Fund	
	Water, Sewer & Electric	
Prior year ending net position, as reported	\$	17,789,304
Impact of implementation of GASB 75		(19,990)
Restated beginning net position	\$	<u>17,769,314</u>

	Governmental Activities	Governmental Internal Service Fund
Prior year ending net position, as reported	\$ 14,998,723	\$ (4,913)
Impact of implementation of GASB 75	(49,540)	(17,383)
Restated beginning net position	<u>\$ 14,949,183</u>	<u>\$ (22,296)</u>

H. Subsequent Events

There were no material subsequent events through January 18, 2019, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Sanger, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

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

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues</u>				
Property tax	\$ 3,181,000	\$ 3,181,000	\$ 3,275,548	\$ 94,548
Sales tax	905,000	905,000	872,250	(32,750)
Franchise and local taxes	221,100	221,100	261,611	40,511
License and permits	206,070	206,070	322,230	116,160
Charges for services	843,600	843,600	898,772	55,172
Fire and rescue	585,000	585,000	629,461	44,461
Contributions and donations	-	-	6,795	6,795
Intergovernmental	-	-	134,424	134,424
Fines and forfeitures	112,000	112,000	95,577	(16,423)
Investment income	4,000	4,000	4,898	898
Other revenue	96,300	96,300	385,431	289,131
Total Revenues	6,154,070	6,154,070	6,886,997	732,927
<u>Expenditures</u>				
Current:				
General government	1,672,736	1,604,944	1,527,438	77,506
Police department	1,601,752	1,624,442	1,443,548	180,894
Municipal court	223,715	227,155	170,058	57,097
Fire and EMS	1,143,961	1,152,701	968,738	183,963
Parks and recreation	609,977	588,008	566,197	21,811
Public works	838,590	876,003	802,759	73,244
Debt service:				
Principal	94,208	94,208	114,356	(20,148)
Interest	13,790	13,790	14,995	(1,205)
Capital outlay	345,304	360,115	194,017	166,098
Total Expenditures	6,544,033	6,541,366	5,802,106	739,260
Revenues Over (Under) Expenditures	(389,963)	\$ (387,296)	\$ 1,084,891	\$ 1,472,187

City of Sanger, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

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

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Other Financing Sources (Uses)</u>				
Transfers in	899,699	\$ 899,699	\$ 889,258	\$ (10,441)
Transfers (out)	(460,000)	(460,000)	(460,000)	-
Sale of capital assets	-	-	27,070	27,070
Insurance recoveries	-	-	10,594	10,594
Total Other Financing Sources (Uses)	439,699	439,699	466,922	27,223
Net Change in Fund Balance	49,736	\$ 52,403	1,551,813	\$ 1,499,410
Beginning fund balance			3,376,924	
Ending Fund Balance			\$ 4,928,737	

Notes to Required Supplementary Information

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

City of Sanger, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years ended December 31,

	2017	2016	2015
Total pension liability			
Service cost	\$ 438,324	\$ 408,943	\$ 369,950
Interest (on the Total Pension Liability)	590,632	545,333	521,853
Changes in benefit terms	-	-	-
Differences between expected and actual experience	38,794	(78,516)	(89,808)
Changes of assumptions	-	-	47,847
Benefit payments, including refunds of participant contributions	(208,451)	(230,245)	(260,514)
Net change in total pension liability	859,299	645,515	589,328
Total pension liability - beginning	8,635,174	7,989,659	7,400,331
Total pension liability - ending (a)	\$ 9,494,473	\$ 8,635,174	\$ 7,989,659
Plan fiduciary net position			
Contributions - employer	\$ 276,169	\$ 240,177	\$ 231,097
Contributions - members	217,171	202,113	195,568
Net investment income	1,040,205	461,955	9,831
Benefit payments, including refunds of participant contributions	(208,451)	(230,245)	(260,514)
Administrative expenses	(5,387)	(5,214)	(5,988)
Other	(273)	(281)	(296)
Net change in plan fiduciary net position	1,319,434	668,505	169,698
Plan fiduciary net position - beginning	7,500,161	6,831,656	6,661,957
Plan fiduciary net position - ending (b)	\$ 8,819,595	\$ 7,500,161	\$ 6,831,655
Fund's net pension liability - ending (a) - (b)	\$ 674,878	\$ 1,135,013	\$ 1,158,004
 Plan fiduciary net position as a percentage of the total pension liability	 92.89%	 86.86%	 85.51%
Covered employee payroll	\$ 3,619,524	\$ 3,368,554	\$ 3,259,471
 Fund's net position as a percentage of covered employee payroll	 18.65%	 33.69%	 35.53%

Notes to schedule:

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

2014 ¹

\$ 340,004
476,571
-

47,610
-

(204,026)
660,159
6,740,172
\$ 7,400,331

\$ 211,283
187,821
350,203

(204,026)
(3,656)
(301)
541,324
6,120,633
\$ 6,661,957
\$ 738,374

90.02%
\$ 3,130,346

23.59%

City of Sanger, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u> ¹
Actuarially determined employer contributions	\$ 287,348	\$ 266,753	\$ 247,432	\$ 225,111
Contributions in relation to the actuarially determined contribution	\$ 287,348	\$ 266,753	\$ 247,432	\$ 225,111
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered employee payroll	\$ 3,706,912	\$ 3,549,724	\$ 3,475,512	\$ 3,130,346
Employer contributions as a percentage of covered employee payroll	7.75%	7.51%	7.12%	7.19%

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.0% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.

City of Sanger, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM Years ended December 31,

	2017	¹
Total OPEB liability		
Service cost	\$ 7,601	
Interest (on the Total Pension Liability)	3,432	
Changes in benefit terms	-	
Differences between expected and actual experience	-	
Changes of assumptions	9,310	
Benefit payments, including refunds of participant contributions	(363)	
Net changes	19,980	
Total OPEB liability - beginning	87,186	
Total OPEB liability - ending (a)	\$ 107,166	²
 Covered employee payroll	 \$ 3,619,524	
Total OPEB Liability as a percentage of covered employee payroll	2.96%	

Notes to schedule:

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

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

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OTHER SUPPLEMENTARY INFORMATION

City of Sanger, Texas

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

PROPRIETARY FUNDS - BY DEPARTMENT

For the Year Ended September 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Fleet Services</u>
<u>Operating Revenues</u>				
Charges for services	\$ 2,059,917	\$ 1,907,664	\$ 8,167,907	\$ -
Connection fees	-	-	59,000	-
Tap fees	198,150	256,000	-	-
Other revenue	-	-	-	-
Total Operating Revenues	<u>2,258,067</u>	<u>2,163,664</u>	<u>8,226,907</u>	<u>-</u>
<u>Operating Expenses</u>				
Salaries and wages	598,666	282,088	1,049,192	-
Contracted services	41,151	42,991	280,781	-
Utilities	177,536	147,011	2,430	-
Materials and supplies	24,517	33,723	59,266	-
Water and electric purchases	84,752	-	5,528,748	-
Repairs and maintenance	274,793	241,944	216,926	-
Depreciation	371,775	309,642	198,623	219
Total Operating Expenses	<u>1,573,190</u>	<u>1,057,399</u>	<u>7,335,966</u>	<u>219</u>
Operating Income (loss)	<u>684,877</u>	<u>1,106,265</u>	<u>890,941</u>	<u>(219)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	-	-	-	-
Intergovernmental	475,000	-	-	-
Interest expense	-	-	-	-
Nonoperating Revenues (Expenses)	<u>475,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income Before Transfers	1,159,877	1,106,265	890,941	(219)
Transfers (out)	<u>-</u>	<u>-</u>	<u>(92,000)</u>	<u>-</u>
Change in Net Position	<u>\$ 1,159,877</u>	<u>\$ 1,106,265</u>	<u>\$ 798,941</u>	<u>\$ (219)</u>

<u>Administration</u>	<u>Total</u>
\$ -	\$ 12,135,488
-	59,000
-	454,150
73,654	73,654
<u>73,654</u>	<u>12,722,292</u>
-	1,929,946
-	364,923
-	326,977
-	117,506
-	5,613,500
-	733,663
14,263	894,522
<u>14,263</u>	<u>9,981,037</u>
59,391	2,741,255
25,558	25,558
-	475,000
(718,056)	(718,056)
<u>(692,498)</u>	<u>(217,498)</u>
(633,107)	2,523,757
<u>(689,259)</u>	<u>(781,259)</u>
<u>\$ (1,322,366)</u>	<u>\$ 1,742,498</u>

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